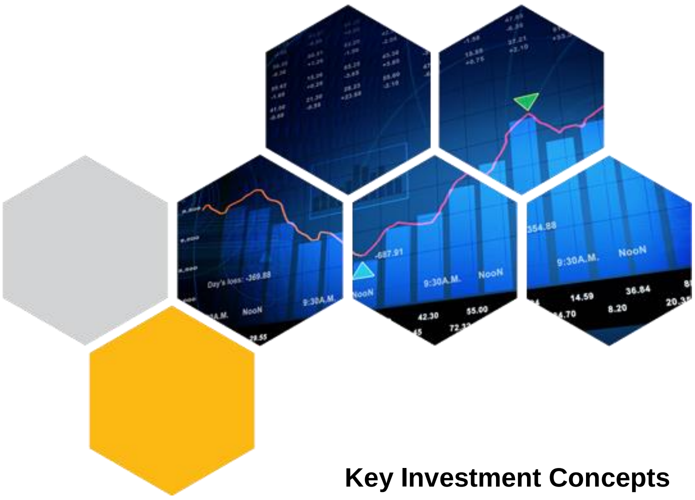

Key Investment Concepts

Asset classes and diversification

Aon Hewitt Financial Education Series

An asset class is a type of investment, with the most common being cash, fixed interest, shares (or equities), property and alternatives. Within each of these asset classes you can invest within Australian or Internationally. Each asset class has a different level of risk and return.

Cash

Investing in cash and term deposits will provide you with a stable, low risk regular income in the form of interest payments. Cash is considered a defensive asset and would usually be held for a short time period, excluding your emergency cash reserve.

Fixed Interest

Fixed interest investments come in many forms including government and corporate bonds, Treasury notes, debentures, fixed interest trusts, bank bills, mortgage and hybrid securities. Fixed interest investments pay you a regular interest payment over a fixed term. The interest rate and level of risk will vary depending on the type of fixed interest investment. Fixed interest is considered a defensive asset and has a one to three year investment time frame.

Australian and International Shares

Purchasing shares gives you part ownership in a company and the right to receive a portion of the profits, commonly referred to as dividends. Returns will usually include capital growth (or loss), and income through dividends which may be franked and contain franking (or imputation) credits. Investing in international shares introduces currency risk.

As the value of shares can go up or down on a daily basis, they are considered to be riskier than cash or fixed interest. Shares are considered a growth asset and it is recommended that you hold shares for at least five to seven years.

Property

Property securities are shares in property investments that are listed on share markets. Sectors include commercial, retail, hotel and industrial property. You can invest in both Australian and International property securities. Property is considered a growth asset and it is recommended that you hold them for at least three to five years.

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Alternative Assets

Alternative investments cover a wide range of investment opportunities. The major categories include private equity, hedge funds, infrastructure, emerging markets, gold and other commodities, materials and Agribusiness (Agricultural Investments).

An investment is usually considered alternative if it has a relatively limited investment history, is considered uncommon in investment portfolios, has clearly differentiated features from any traditional asset class and requires specialist skills to manage.

Depending on the specific asset, alternatives can be considered either a growth or defensive asset.

Diversification

Diversification helps to reduce risk by spreading your investments across a range of asset classes. Diversification is basically avoiding putting all your eggs in one basket.

Diversification can reduce the volatility of your portfolio (the value going up and down). It aims to even out your returns.

You should consider diversifying across the following:

- Income producing assets and assets that grow in value
- Assets you hold for the short term, and those you hold for longer
- The different asset classes explained in this document
- Within each asset class
- Australian and international assets, and also different countries and regions
- Different fund manager styles