

	International Shares	Australian Shares	Property	Australian Fixed Interest	Cash
Yield	2.0	4.0	6.7	4.0	3.5
Growth	7.0	5.5	2.0	0.0	0.0
Valuation Effect	0.0	0.0	0.0	0.0	0.0
Total Return Forecast	9.0	9.5	8.7	4.0	3.5
Standard Deviation Forecast	12.0	11.0	9.0	3.0	0.0

ASSET CLASS FORECAST METHODOLOGY

Zenith has used a conventional approach for forecasting asset class returns and volatility, with an initial forecast period of 10 years (although changes may be made within this period to reflect changing marketing conditions). Expected standard deviation measures were based on 20-year observed volatility, while asset class returns were calculated by combining three separate return components (Yield, Growth and Valuation Effect), as explained below:

- **Yield:** the yield that Zenith considers to be sustainable over the forecast period. In most cases Zenith has used the current asset class yield (as at September 2005), however, where necessary, we have made minor adjustments to incorporate our future expectations;
- **Growth:** the level of growth (earnings or rental yield) that Zenith expects to be sustainable over the forecast period;
- **Valuation Effect:** the impact of a valuation re-rating on overall returns (eg. P/E expansion will provide additional returns above growth and yield). Zenith has not seen sufficient evidence to support a valuation re-rating in any of the major asset classes over the medium-term and has therefore assigned a zero valuation effect.

Details on how the individual return components were derived for each asset class are provided below:

Australian Shares:

- **Yield:** current yield (no adjustment for franking);
- **Growth:** anticipated normal earnings per share (EPS) growth. Based on an assumption of real gross domestic product (GDP) growth of 3-4% pa and inflation of 2-3% pa; and
- **Valuation Effect:** assumed zero.

International Shares:

- **Yield:** slightly higher than historical, based on Zenith's expectations for slight increase in payout ratios over time;
- **Growth:** anticipated nominal EPS growth. Lower payout ratios relative to Australia should lead to higher growth; and
- **Valuation Effect:** assumed zero.

Australian Listed Property:

- **Yield:** current yield (no adjustment for franking);
- **Growth:** expected rental growth, consistent with lower end of inflation range; and
- **Valuation Effect:** assumed zero.

Australian Fixed Interest:

- **Yield:** current 10-Year government bond rate;
- **Growth:** assumed zero; and
- **Valuation Effect:** assumed zero

Cash:

- **Yield:** Aus bond rate less -0.05% pa. This is broadly consistent with the average discount of cash to 10-yr bonds during the "low" inflation environment over the last decade.
- **Growth:** assumed zero; and
- **Valuation Effect:** assumed zero.

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