# Perpetual Small APRA Fund Service

# INVESTMENT POLICY FLYER

2 July 2017

## WHY DO WE HAVE AN INVESTMENT POLICY?

Perpetual, as trustee of your Small APRA Fund Service (the service) are responsible for the management, compliance, administration and custody of your funds' assets.

The purpose of this investment policy is to set clear investment guidelines for members of the service, which outline asset classes and investment strategies deemed acceptable by the trustee. The policy ensures that Perpetual, as trustee, comply with the law.

Our duties as trustee are also specified in:

- trust law
- the trust deed of each Small APRA Super fund
- the Superannuation Industry (Supervision) Act 1993 and Regulations (SIS)
- the current Perpetual Small APRA Fund Service product disclosure statement
- our internal policies and procedures.

The policy also allows Perpetual to make investments on instructions from members provided certain conditions are met.

## OUR INVESTMENT STRATEGY

As trustee, one of Perpetual's primary obligations under the Superannuation Industry (Supervision) Act 1993 (SIS) is to create, implement and monitor an investment strategy for any Small APRA Fund for which Perpetual acts as trustee, that considers:

- the risk involved in making, holding and realising investments and the likely return from these investments based on the fund's objectives and expected cash flow requirements
- the adequate diversification of the fund's investments
- the liquidity of the fund's investments considering its cash flow requirements
- the ability of the fund to discharge its existing and prospective expenses and obligations to members.

We retain the right to change this investment policy at any time.

## CHOOSING AN INVESTMENT STRATEGY

You can choose from one of our five investment strategies. These are detailed on page 5 of this document.

The investments you choose, and ask us as trustee to accept, must be in line with the asset allocation relating to your investment strategy.

We rely on you and/or your financial adviser to ensure all investment recommendations remain appropriate for your individual objectives and financial situation.

All investment recommendations must be provided to us in writing and must remain within the asset classification guidelines which are detailed on pages 4 of this document.

## HOW WE CLASSIFY YOUR ASSETS

We categorise investments as either growth assets or defensive assets. The categorisation of investments in this format determines which investment strategy your account will sit in.

- Growth assets include Australian shares, international shares, property and certain managed investments and alternative assets.
- Defensive assets include cash, term deposits, other fixed income and certain managed investments and alternative assets.

Where an asset exhibits both growth and defensive characteristics, such as alternative investments and some life policies, we will classify the asset as either growth or defensive on an individual basis.



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## WHAT WILL WE DO WHEN YOU RECOMMEND AN INVESTMENT TO US?

As part of our formal due diligence process, we review all investments to ensure they remain appropriate and can be administered effectively by Perpetual.

Details of proposed investments should be provided to your financial adviser and /or account manager, who will ensure your fund remains compliant.

The review should be completed prior to the settlement of any trade or transaction in your fund.

The type of information you may be asked to provide includes:

- product disclosure statement for each managed fund
- ASX listing details for listed securities
- investment rating of issuer or issue
- details regarding diversification of underlying assets in company or trust structures.

Investments that Perpetual will generally accept during the review process include:

- ASX listed securities
- registered managed investment schemes
- cash management trusts
- Australian government bonds
- bank bills
- term deposits
- life insurance policies.

Assets which may require a greater level of due diligence include, but are not limited to, real estate (not the family home), fixed interest securities, unlisted or private companies, unlisted or private trusts, international securities and derivatives.

Please contact your financial adviser or account manager for further information.

## INVESTMENTS THAT DO NOT MEET OUR APPROVAL GUIDELINES

Investment proposals that fall outside the approval guidelines mentioned above and/or our diversification rules (details on page 4) may be examined by our investment committee.

Your financial adviser or account manager will provide you with further details if this happens and if you need to provide any further information.

## INVESTMENTS WE ARE UNABLE TO ACCEPT

Generally, we cannot accept investments that do not meet the sole purpose test or in-house asset restrictions, as defined under superannuation law.

Examples of these types of investments include:

- family home
- mortgages where the family home is security
- real estate that is not located within Australia
- futures contracts
- derivatives with a charge over assets or that have unlimited investment risk
- direct residential mortgages
- commodities
- investments in a business in which the member is associated
- investments in partnerships
- collectables, including art, jewellery or antiques
- motor vehicles or motor vehicle leases
- livestock
- arrangements that might involve the fund running a business
- illiquid assets with no mechanism to transfer to another owner.

## DIVERSIFICATION

Diversification is a key consideration in managing investment risk. To help manage investment risk, the Trustee sets diversification limits on your funds investment portfolio.

We require your fund investment portfolio to remain within the diversification limits at all times. Further information about the Trustee's diversification limits can be found on page 4.

## LIQUIDITY CLASSIFICATION

To ensure your fund can meet its liabilities as required by SIS, you must ensure the maximum total exposure to 'illiquid' assets makes up no more than 50% of the portfolio, as a percentage of total investments held in your fund.

We define assets as being either 'liquid' or 'illiquid' as follows.

Liquid assets are defined as:

- collective (managed) investments, registered in accordance with provisions of the Corporations Act with constitutions that provide for the redemption of interests in under 70 days

- an asset where there is a recognised market for trading of the asset
- an asset where the manager or promoter will make a market for trading the asset
- an asset where the manager or promoter will redeem or transfer title of the asset to another owner.

Illiquid assets are defined as:

- collective (managed) investments, registered in accordance with provisions of the Corporations Act with constitutions that do not provide for the redemption of interests in under 70 days
- an asset with no recognised market for trading of the asset
- an asset with no means of redemption or trading.

We may allow an illiquid asset that falls outside these definitions if the asset can be transferred to another owner.

We will also advise you, both at the time of investing and at the time of benefit payment, if any of your investments cannot be converted to cash within 30 days or if this conversion will adversely impact the value of your investment.

## ONGOING MONITORING OF YOUR INVESTMENT STRATEGY AND DIVERSIFICATION LIMITS

Our responsibility for your investment strategy is not discharged once the investment strategy is approved and assets are purchased.

As trustee, we continue to monitor your fund to ensure that its investments remain within your chosen investment strategy as well as our diversification and liquidity rules.

There may be instances where market movements, contributions or redemptions may cause your asset allocation to move outside your chosen strategy or our diversification and liquidity rules.

If this happens, we will help you change your investments. This may involve buying or selling assets, to ensure your fund remains within your chosen strategy.

If you do not respond within a reasonable timeframe, we may buy or sell appropriate assets to ensure your fund complies with our investment policy.

Assets that would cause your fund to continually fall outside your nominated strategy and/or our diversification or liquidity rules may not receive our approval.

In this situation, we would suggest you reconsider your investment objectives and nominated investment strategy.

## PERPETUAL SMALL APRA FUND TRUSTEE DIVERSIFICATION LIMIT GUIDELINES

| Asset grouping | Description | Exposure limit[1] |
|---|---|---|
| **Cash and fixed income** | Bank bills and bank accounts<br>Deposits with an Approved Deposit taking Institution | Maximum 98% of total member account invested in any single investment holding of this type (100% may be held in your Fund's Perpetual Cash Account). |
| | Cash management trusts that are registered managed investment schemes | |
| | Australian government and semi-government bonds<br>Bank offered fixed income securities and debentures | |
| | Credit union products | Maximum 50% of total member account invested in any individual holding. |
| | Other fixed income products not listed above (e.g. hybrid securities and unsecured notes) | Maximum 20% of total member account invested in all securities of this type. |
| **Direct shares and listed property trusts – Australian** | ASX listed securities within the S&P/ASX 100 Index | Maximum 25% of total member account invested in any single security. |
| | ASX listed securities within the S&P/ASX 200 Index (and not within the S&P/ASX 100 Index) | Maximum 15% of total member account invested in any single security. |
| | Australian shares outside the S&P/ASX 200 Index | Maximum 10% of total member account invested in any single security and maximum 40% of total member account invested in all securities of this type. |
| | Any single S&P/ASX Global Industry Classification System (GICS) industry group | Maximum 50% of total member account invested in any single GICS industry group. |
| **Listed investment companies (LIC) and exchange traded funds (ETF)** | A listed managed investment operating as a company, which has shares that can be traded on the stock market<br>Exchange traded funds on the Australian Securities Exchange | Maximum 30% of total member account invested in any single LIC or ETF. |
| **Direct shares – international** | International shares listed on selected international stock exchanges | Maximum 20% of total member account invested in all securities of this type and maximum 15% of total member account invested in any single security. |
| **Direct property** | Must satisfy the requirements of SIS and our property policy | Maximum 50% of total member account invested in direct property – available for Balanced, Growth or High Growth investment strategies only. |
| **Managed investments** | ASIC registered managed investment schemes (including hedge funds, infrastructure funds, private equity funds and solicitors' mortgage funds)<br>Investment linked or investment account life insurance policies<br>Trustee company common funds | Maximum 98% of total member account invested in an individual managed investment with an acceptable rating by a research provider of our choosing.<br>Maximum 50% of total member account invested in any single sector geared managed investment scheme.<br>Maximum 20% of total member account invested in all managed investments that do not have an acceptable rating by a research provider of our choosing. |
| **Other assets** | Traded life insurance whole of life or endowment policies<br>Private or closely held unit trusts<br>Shareholdings in private or unlisted domestic companies<br>Derivatives without a charge over assets | Maximum 50% of total member account invested in other assets and maximum 15% of total member account invested in any single holding of this type. |

[1]Compliance with exposure limits will be regularly monitored by the trustee.



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## PERPETUAL SMALL APRA FUND INVESTMENT STRATEGY SELECTIONS

| | CAUTIOUS | CONSERVATIVE | BALANCED |
|---|---|---|---|
| **Investment objective** | To provide a consistent level of income and preserve capital over the short term. | To provide a consistent level of income while retaining the ability to achieve some capital growth over the short-to-medium term. | To provide moderate levels of income and capital growth over the medium term. |
| **Strategy** | This investment strategy provides for a substantial investment in defensive assets such as cash and fixed income assets, with little or no investment in growth assets. | This investment strategy provides for the majority of investments in defensive assets whilst providing some scope for investment in growth assets. | This investment strategy provides for a balance of investments in growth and defensive assets. |
| **Standard risk measure[1]** | 2 – Low | 5 – Medium to high | 6 – High |
| **Risk** | The risk profile of this strategy is low over the short term, with emphasis being on generation of income and preservation of capital.<br>This strategy may be suitable for those who seek regular income returns and are prepared to accept lower overall returns over time with lower levels of volatility in order to preserve capital over the short term. | The risk profile of this strategy is lower over the short term, with emphasis being on generation of income with the potential to achieve some capital growth. Investment in growth assets may result in some capital losses but the investments in defensive assets should act to limit losses of the portfolio.<br>This strategy may be suitable for those who seek regular income returns but who are prepared to accept a low level of volatility in capital values from year to year to achieve some capital growth. | The risk profile of this strategy is medium over the short term. While it is possible that some growth assets may provide a loss in the short term, the investments in defensive assets should act to reduce losses of the portfolio.<br>This strategy may be suitable for those who seek a moderate level of income and capital growth over periods of, typically, three to five years with a medium level of volatility in investment returns and asset values in the short term. |
| **Asset allocation[2]** | **Asset sector** / **Min** / **Max**<br>Growth assets 0% 10%<br>Defensive assets 90% 100% | **Asset sector** / **Min** / **Max**<br>Growth assets 10% 50%<br>Defensive assets 50% 90% | **Asset sector** / **Min** / **Max**<br>Growth assets 40% 80%<br>Defensive assets 20% 60% |

| | GROWTH | HIGH GROWTH |
|---|---|---|
| **Investment objective** | To provide higher levels of capital growth over the medium-to-long term. | To maximise capital growth over the long term. |
| **Strategy** | This investment strategy provides for the majority of investments in growth assets whilst providing some scope for investment in defensive assets. | This investment strategy provides for a substantial investment in growth assets such as equities and property assets, with only a small allocation towards defensive assets. |
| **Standard risk measure[1]** | 6 – High | 6 – High |
| **Risk** | The risk profile of this strategy is medium to high over the short term. Growth assets consistent with this strategy exhibit price volatility. It is possible that investments may provide a loss in the short-to-medium term.<br>This strategy may be suitable for those who seek a higher level of overall return over periods in excess of, typically, five years and who are prepared to accept a higher level of volatility in investment returns and asset values in the short-to-medium term. | The risk profile of this strategy is the highest over the short term. Growth assets consistent with this strategy exhibit price volatility. It is possible that investments may provide a loss in the medium term.<br>This strategy may be suitable for those with a long-term investment horizon and who seek higher levels of overall return. Investors need to be prepared to accept higher levels of volatility in investment returns and asset values in the medium term. |
| **Asset allocation** | **Asset sector** / **Min** / **Max**<br>Growth assets 60% 90%<br>Defensive assets 10% 40% | **Asset sector** / **Min** / **Max**<br>Growth assets 80% 98%<br>Defensive assets 2% 20% |

[1]The standard risk measure (SRM) is based on industry guidance to allow members to compare investments that are expected to deliver a similar number of negative annual returns over any 20-year period.

## MORE INFORMATION?

If you have any questions about our investment policy or need any further information, please speak with your financial adviser or account manager.

This document has been prepared by Perpetual Trustee Company Limited ABN 42 000 0001 007 AFSL 236643 as the appointed administrator of the Perpetual Small APRA Fund Services and issued by Perpetual Superannuation Limited ABN 84 008 416 831 AFSL 225246. This contains general information only and is not intended to provide you with advice or consider your objectives, financial situation or needs. You should consider whether the information is suitable for your circumstances and we recommend that you seek professional advice. The information is believed to be accurate at the time of compilation and is provided in good faith. To the extent permitted by law, no liability is accepted for any loss or damage because of any reliance on this information.

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