

# Standard Risk Measure

## What is a Standard Risk Measure?

A simple measure to help members compare the risk of investment options in a superannuation fund.

Investment risk is one of many issues that should be considered when making an investment decision. To help members assess investment risk, APRA (the superannuation industry's regulator) requires superannuation trustees to disclose a measure of investment risk. The measure required is "the likely number of negative annual returns over any 20 year period".

So that members can compare this measure across investment options, the industry has agreed guidelines for calculating a "Standard Risk Measure" (SRM). The SRM uses consistent methodology across investment providers, where possible.

## What are the limitations of the SRM?

The SRM is not a comprehensive indicator of risk. In fact it's only one way of measuring the risk of an investment.

For example, the SRM doesn't capture the size of a possible negative return, or the potential for sufficient positive returns to meet your objectives. Also, it doesn't take into account the impact of marketing and administration fees and tax which would increase the chance of a negative return.

Importantly, the SRM is calculated using expectations of long-term returns and volatility. The number of negative years that occur in the next 20 years could be more or less frequent than expected.

There are many ways you, and your financial adviser, can assess the impact of risk on your investment strategy. A financial adviser can create a financial plan to help you manage risk. We've included information on potential risks in the section 'Things to consider before you invest' (in the Product Disclosure Statement) and recommend you seek advice from a qualified financial adviser when making your investment choice.

## How is the SRM calculated?

The methodology used to calculate the 'number of negative annual returns which could be expected over a 20 year period' ie the SRM, is as follows:

### 1. For each asset class in an investment option, we calculate 1 year expected returns, volatility and correlation (of the returns).

This data is based on our investment experts' estimate of long-term returns and volatility in stable market conditions. It doesn't take into account current market conditions.

Judgement, experience, academic research and a conservative bias are important in determining the expected return, volatility and correlation data. We consider:

- relationships between asset classes and
- historical market returns.

We include assumptions about long-term investment market returns, inflation and, where applicable, any additional returns we expect our investment managers to deliver.

We have deducted investment management fees. These are the costs incurred in managing money such as fees we pay our custodian and investment managers. In accordance with the industry guidelines, we haven't deducted administration and marketing costs where we've been able to separate them from the investment management fees.

The industry guidelines also require the calculations to be gross of tax. That means we haven't taken into account franking credits and superannuation tax.

### 2. Neutral asset allocations have been used for diversified portfolios.

Neutral asset allocations are commonly referred to as strategic, benchmark or long-term asset allocations.

Target asset allocations may vary from neutral allocations, and are usually disclosed in the PDS and other material. These take into account current market conditions and can change in response to market movements. Because the

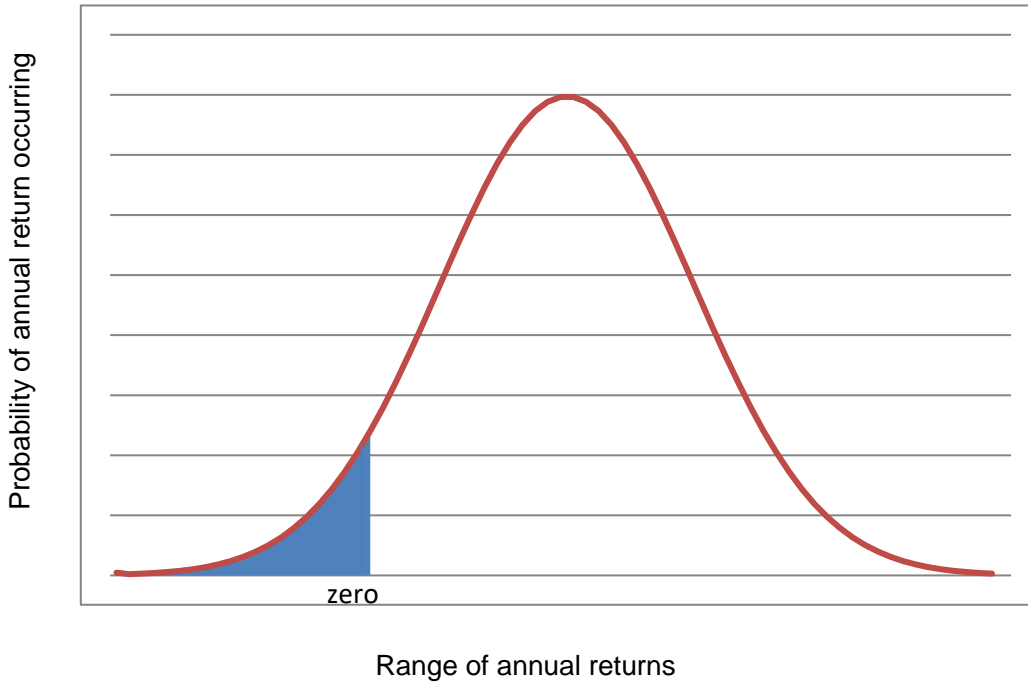
## Standard Risk Measure

target asset allocations may frequently change, neutral allocations are used to calculate the SRM. Our approach is consistent with industry guidelines.

### 3. The distribution of returns for each investment option is calculated using the data from steps 1 and 2.

An illustration of the distribution of returns is shown below. We draw from this distribution, the probability of a negative 1 year return and multiply it by 20. This gives the estimated number of negative annual returns in a 20 year period.

Distribution of returns illustration



### 4. The estimated SRM is then grouped into Risk Bands and Risk Labels.

| Risk Band | Risk Label     | Estimated number of negative annual returns over any 20 year period |
|-----------|----------------|---|
| 1         | Very Low       | Less than 0.5   |
| 2         | Low            | 0.5 to less than 1  |
| 3         | Low to medium  | 1 to less than 2  |
| 4         | Medium         | 2 to less than 3  |
| 5         | Medium to high | 3 to less than 4  |
| 6         | High           | 4 to less than 6  |
| 7         | Very high      | 6 or Greater  |

### Do all Product Disclosure Statements include SRMs?

In July 2011, APRA, the superannuation industry's regulator, recommended superannuation trustees include a SRM for each investment option in Product Disclosure Statements (PDS) issued from 22 June 2012.

## Standard Risk Measure

A superannuation fund PDS issued after 21 June 2012 should include a SRM if the trustee follows APRA's recommendation. However, it's not a legal requirement.

There is no requirement for investments offered outside of superannuation funds to include a SRM in their PDS.

### Is the SRM likely to change?

Members are likely to use the SRM as an input into their long-term investment decisions. That's why the SRM is based on our long-term expectations. Our expectations assume the market environment is stable which means they aren't linked to current market values and won't change in response to market movements.

However, we'll recalculate the SRMs each year based on our latest estimates of long-term return, volatility and correlation data. Small changes may therefore be made to an investment option's SRM. The current PDS includes the SRM available at the time of issue.

The industry or its regulator may also make refinements to the SRM methodology, resulting in changes to the calculated SRM for an investment option.

### Can the SRM for one investment option be compared to others?

Yes, the SRM for each investment option offered in a superannuation fund's PDS has been calculated using the same assumptions and are comparable. However, each superannuation fund will calculate the SRMs in their PDS using their own expectations of returns, volatility and correlations. The SRMs calculated by different super funds will therefore be similar but small differences will occur.

#### Important information

This information is provided by NULIS Nominees (Australia) Limited (ABN 80 008 515 633, AFSL 236465) as trustee of Plum Super the MLC MasterKey Fundamentals Super and Pension and MLC MasterKey Business Super products which are a part of the MLC Super Fund (ABN 70 732 426 024 (together 'MLC' or 'we'), part of the IOOF group of companies (comprising IOOF Holdings Ltd ABN 49 100 103 722 and its related bodies corporate) ('IOOF Group'). The capital value, payment of income, and performance of the Funds are not guaranteed. An investment in the Funds is subject to investment risk, including possible delays in repayment of capital and loss of income and principal invested.

No member of the IOOF Group guarantees or otherwise accepts any liability in respect of any financial product referred to in this communication.

This information may constitute general advice. It has been prepared without taking account of an investor's objectives, financial situation or needs and because of that an investor should, before acting on the advice, consider the appropriateness of the advice having regard to their personal objectives, financial situation and needs.

Investors should obtain the relevant Product Disclosure Statement or other disclosure document relating to any financial product which is issued by MLC, and consider it before making any decision about whether to acquire or continue to hold the product. A copy of the Product Disclosure Statement or other disclosure document is available on [mlc.com.au](http://mlc.com.au) or [plum.com.au](http://plum.com.au).

Past performance is not a reliable indicator of future performance. The value of an investment may rise or fall with the changes in the market. The performance returns in this communication are reported before deducting management fees and taxes unless otherwise stated.

Actual returns may vary from any target return described in this communication and there is a risk that the investment may achieve lower than expected returns.

Any projection or other forward-looking statement ('Projection') in this document is provided for information purposes only. No representation is made as to the accuracy or reasonableness of any such Projection or that it will be met. Actual events may vary materially.

This information is directed to and prepared for Australian residents only.

Any opinions expressed in this communication constitute our judgement at the time of issue and are subject to change. We believe that the information contained in this communication is correct and that any estimates, opinions, conclusions or recommendations are reasonably held or made as at the time of compilation. However, no warranty is made as to their accuracy or reliability (which may change without notice) or other information contained in this communication.

MLC may use the services of any member of the IOOF Group where it makes good business sense to do so and will benefit customers. Amounts paid for these services are always negotiated on an arm's length basis.