Standard Risk Measures

This document provides investors with an explanation of the Standard Risk Measures (SRM) descriptor to assist in comparing investment options based on industry best practice guidance provided by Australian Prudential Authority (APRA).

What is SRM?

SRM is based on industry guidance to give fund members the ability to compare investment options within and across funds by reflecting the expected number of negative annual returns over any 20-year period for each investment option. SRM is not a complete assessment of all forms of investment risk. For instance, it does not detail what size a negative return could be, or that a positive return could still be less than a member requires to meet their objectives. It also does not take into account the impact of administration fees and tax on the likelihood of a negative return.

Methodology

We have engaged an external consultant who has calculated the SRM using a model designed to meet the guidance introduced by the Financial Services Council in July 2011.

The model simulates economic variables and returns for asset classes. The model is run 2,000 times and produces multiple estimated outcomes for many economic variables such as inflation and economic growth. The averages of these outcomes are used to generate risk and return values for each asset class, for example Australian equities.

The asset class risk and return characteristics are applied to a fund's asset allocation and produce both an expected return and a probability of a negative return in 1 year. This is then extended to provide the probability of negative annual returns over 20 years.

These calculations are estimates only and are not guaranteed. Actual outcomes may differ significantly from the estimates.

Labelling

Based on the methodology outlined above we have assigned a risk band number and label to each investment option. The risk band classification is based on the SRM introduced by the Financial Services Council and the Association of Superannuation Funds of Australia in July 2011.

Depending on the number of expected negative years over a 20 year period, each investment option is classified in a risk band. These bands range from very low risk (cash based options, where there are 0.5 or less expected negative annual returns in any 20 year period) to very high risk (high growth options, when there are six or more expected negative years out of 20). The full range of risk bands are:

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

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