Standard Risk Measure
Investment Option Risk Descriptions for Superannuation Funds

1 July 2013

About the Standard Risk Measure

The Standard Risk Measure (SRM) is a common risk descriptor used by superannuation funds.

It is based on guidance from the Australian Prudential and Regulation Authority (APRA) to allow investors to compare investment options that are expected to deliver a similar number of negative annual returns over any 20 year period.

AMP has introduced the SRM in accordance with the recommendations from the Financial Services Council (FSC) and Association of Superannuation Funds of Australia (ASFA).

SRM descriptors

Each investment option described in the superannuation trustee’s Product Disclosure Statement (PDS) includes a SRM.

The table below sets out the SRM bands and labels used for each investment option based on the estimated number of negative annual returns that an investment option may experience over any 20 year period. Negative annual returns may not occur in consecutive years.

<table>
<thead>
<tr>
<th>Risk band</th>
<th>Risk label</th>
<th>Estimated number of negative annual returns over any 20 year period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1/</td>
<td>Very Low</td>
<td>Less than 0.5</td>
</tr>
<tr>
<td>2/</td>
<td>Low</td>
<td>0.5 to less than 1</td>
</tr>
<tr>
<td>3/</td>
<td>Low to Medium</td>
<td>1 to less than 2</td>
</tr>
<tr>
<td>4/</td>
<td>Medium</td>
<td>2 to less than 3</td>
</tr>
<tr>
<td>5/</td>
<td>Medium to High</td>
<td>3 to less than 4</td>
</tr>
<tr>
<td>6/</td>
<td>High</td>
<td>4 to less than 6</td>
</tr>
<tr>
<td>7/</td>
<td>Very High</td>
<td>6 or greater</td>
</tr>
</tbody>
</table>

For example, investment options with a risk band/label of “5/ Medium to High” may experience between 3 to less than 4 years of negative annual returns over any 20 year period.

Limitations

The SRM is not a complete assessment of all forms of investment risk. For instance it does not detail what the size of a negative return could be or the potential for a positive return to be less than an investor may require to meet their objectives. Further, it does not take into account the impact of administration fees and tax on the likelihood of a negative return.

The SRM is not a comprehensive account of the risks of investing and investors should consider these risk labels in conjunction with the different risks of investing that apply to their investments. Investors should still ensure they are comfortable with the risks and potential losses associated with their chosen investment option(s).

Methodology

The methodology used for calculating the SRM follows the FSC/ASFA recommendations and is in line with market adopted practices.

For each investment option, the process determines a set of forward looking capital market assumptions by forecasting expected yield and growth outcomes for each asset class.

The assumed return outcomes are gross of administration fees, net of investment management fees, and gross of tax. Generally, alpha (outperformance) has been assumed to offset investment management fees, however for some asset classes (where appropriate) a small amount of alpha in excess of investment management fees is assumed.

For multi sector (or diversified) investment options, a correlation matrix between the asset classes has also been determined using long term historic data. Both the assumptions and correlations are then used to determine a multi sector investment option’s expected risk and return by combining them with its long term strategic asset allocation.

For each investment option, the SRM is calculated by determining the probability of a negative return based on an expected normal distribution of returns multiplied by 20.
Changes to the SRM

For each investment option, any significant changes to market conditions may alter the SRM from time to time. In addition, any changes to the methodology used (including any regulatory changes) may also alter the SRM results.

We will generally review the SRM each year.

Differences between each provider’s SRM

Investors should be aware that the SRM labels used for each investment option is based on the superannuation trustee’s assessment and may differ to similar investment options offered by other providers. The differences are generally due to the methodology used in calculating the SRM.