

INVESTMENT POLICY STATEMENT AUGUST 2007

Preamble

The Directors of Perpetual Superannuation Limited, trustee of the **Australian Eligible Rollover Fund (the Fund)**, have adopted this Investment Policy Statement. In this statement certain key information concerning management of the Fund's investment arrangements is documented.

The purpose of the statement is:

- to serve as a working document to facilitate all aspects of the ongoing prudent and efficient management of the Fund's investment arrangements, and
- enhance discipline in the management of the assets.

The Directors recognise that the investment environment in which the Fund operates changes rapidly. Accordingly, this document is reviewed regularly to ensure that it remains relevant to contemporary needs and that the response to the changing environment is disciplined and effective. As well as serving such ongoing operational purposes, this statement is expected to facilitate continuity when Directors change.

Adopted by the Directors of Perpetual Superannuation Limited

On: 2007

Signed:
(Chairperson/Director)

Date:

1. OPERATING ENVIRONMENT

1.1. Legislation

The main legislation affecting the Fund's investments is the Superannuation Industry (Supervision) Act 1993 (SIS) as amended.

Under SIS, the trustee is required to formulate and give effect to an investment strategy (or series of strategies) which has (have) regard to the fund's objectives and circumstances. These include but are not limited to risk and return, expected cashflow, and overall composition of investments including diversification; liquidity of investments having regard to expected cashflow requirements; and the ability to discharge liabilities.

The investment objectives and strategies adopted for the Fund's investment options are set out below. In all cases, the strategies have been designed to be consistent with the objectives. All of the strategies entail an appropriate level of diversification. In most cases, a very high level of diversification exists with multiple asset classes, multiple managers and thousands of underlying securities.

A high level of liquidity is also maintained. Nevertheless, a modest allocation to illiquid assets is held in some strategies as the cashflow outlook for the Fund is positive over the foreseeable future.

Additional requirements under SIS which relate to investments are:

- the so-called Sole Purpose Test must be adhered to;
- borrowing is precluded except in certain limited circumstances;
- investment in in-house assets must be limited to 5% of total assets;
- acquiring assets from or lending to members or their relatives is generally precluded;
- all investments must be made on an arm's length basis; and
- a charge over assets is not to be given.

The Australian Prudential Regulation Authority has issued various Circulars in which its interpretation of these various requirements is set out. In managing investments, the trustee adheres to the requirements and takes into account the intent of the Circulars.

One of these Circulars which have direct and ongoing implications for the Fund's investment arrangements is Circular II D 7 dated February 1997 and an Addendum to that Circular dated October 1998. This circular concerns the use of derivatives by superannuation funds. The trustee does not directly utilise derivative instruments such

as futures and options and does not intend to do so. External managers may utilise derivatives in managing pooled investment vehicles in which the trustee invests and in management of segregated portfolios for the trustee. Where this is the case, the trustee considers the risks and the controls in place by analysing the managers' Derivatives Risk Statements (DRSs). The trustee is not required to produce its own DRS. The managers' compliance with their DRSs is confirmed annually.

1.2. Membership Profile

In formulating an investment policy the trustee has regard to the membership profile.

The Fund's comprises:

- "Lost" members who tend to have relatively small balances. "Lost" members can reasonably be assigned a long term investment horizon.
- exited members who stay in the Fund for less than one year. The proportion of the Fund attributable to these members varies at different points in time.
- members who do not rollover or redeem within one year. These members tend to stay in the Fund for the long term.

The trustee expects the number of "Lost" members to increase over time.

Based on the above observations, the trustee considers that an investment strategy with a bias or tilt to longer term growth assets instead of short term fixed interest or defensive assets is a reasonable fit.

1.3. Trust Deed

The Fund's operations are governed by a Deed dated 20 June 1994 as amended by a series of Supplemental Deeds. The investment powers provided to the trustee are set out in clause 8 of the Deed. The trustee is authorised to invest in a broad range of investments including any investments which the trustee could make if acting individually rather than as trustee. The trustee also has broad powers:

- to enter into transactions including derivatives transactions (clause 8.);
- to appoint any person to administer or manage the Fund (clause 10.2):and
- delegate powers as it sees fit (clause 10.3).

The trustee is restricted to investing in a manner which complies with Superannuation Law.

1.4. Benefit Design

The Fund is an Eligible Rollover Fund (ERF) as defined under SIS. An ERF is a public offer superannuation fund that is able to receive benefits of members from other superannuation funds or retirement savings accounts. For a fund to be an ERF the fund must:

- nominate to be an ERF to the Australian Prudential Regulation Authority (APRA);
- be a Registrable Superannuation Entity (RSE) Licensee; and
- treat every member of the Fund as a protected member at all times and treat the whole of the benefits of every member as minimum benefits.

The Fund is divided into four sub-plans in accordance with the following criteria:

- Sub-plan A
Members are transferred into Sub-Plan A if the original transfer value from their previous fund was less than \$1,000 (and did not originate from a transferring fund which had MLC, National Australia Bank or REST as the trustee or administrator)
- Sub-Plan B
Members are transferred into Sub-Plan B if their original transfer value from the previous fund was more than \$1,000 (and did not originate from a super fund which had MLC, National Australia Bank or REST as the trustee or administrator).
- Sub-Plan M
Members are transferred into Sub-Plan M if their original benefit was transferred from a fund administered by the National Australia/MLC group of companies or where the National Australia/MLC group of companies provided trustee services.
- Sub-Plan REST
Members are transferred into Sub-Plan REST if their original benefit was transferred from the Retail Employees Superannuation Trust (REST).

The Fund provides benefits based on the accumulation of transferred benefits together with net investment returns at the rate earned by each sub-plan after fees and charges and member protection are accounted for.

Returns accruing to members are determined so as to closely reflect the investment returns recorded on the underlying investments. Accordingly, members bear the investment risk in that the investment returns recorded on the strategy are reflected directly in the rates declared for the strategy and hence the members' balances.

As the Fund prices weekly and because the trustee believes that an investment fluctuation reserve creates inter-generations inequities, the trustee has determined that a smoothed investment return is not appropriate and that there will be no investment fluctuation reserve.

Investment choice is not offered by the Fund. All members are invested in a single strategy formulated by the trustee.

1.5. Overriding Responsibility

The overriding responsibility of the trustee is to invest the assets of the Fund in the best interest of members.

2. INVESTMENT GOVERNANCE

2.1. Introduction

The Wealth Management Product Group of Perpetual Investments oversees the Fund's operations and provides the trustee with assistance with the strategic and operational activities of the Fund.

The Directors of the trustee have established the Product Investment Committee (PIC) with a view to enhancing the effectiveness of the development and implementation of the investment strategy. Details of the composition of the PIC, its terms of reference and its meeting arrangements are set out below.

2.2. Composition of Product Investment Committee

The PIC shall comprise appropriately qualified representatives of the Perpetual Group as approved by the Board.

Three members will represent a quorum at least one of whom must have superannuation expertise.

2.3. Role of Product Investment Committee

The Investment Committee will be delegated responsibility by the Board to implement the investment strategies adopted by the Board. In particular;

- maintain the asset allocation within the agreed ranges;
- allocate funds across the investment managers strategies in line with the cash flow policy approved by the Board at least every quarter.
- rebalance the asset allocation to within 10% of the strategic asset allocation at least every quarter or as and when required by cash flow

The Investment Committee will be responsible for making recommendations and providing advice to the trustee Board with respect to:

- formulating, reviewing and maintaining the Fund's Investment Policy and Objectives;
- developing and reviewing the Fund's investment strategy including strategic asset allocation, types of managers and mix of managers utilised;
- the appointment of investment managers consistent with the style and mix of manager envisaged by the investment strategy and consistent with achieving the investment objectives;
- ensuring the Fund's investment strategy remains consistent with the investment policy and objectives;

- monitoring the role and performance of investment managers in relation to their respective designated roles;
- termination of investment managers as necessary;
- potential investment opportunities;
- appointment of specialist advisors or asset consultant as necessary to assist with the formulation and review of the Fund's investment strategy and to help implement the Fund's investment manager arrangements as required.

2.4. Meetings

The Investment Committee will meet as often as necessary to discharge its responsibilities, and no less than monthly.

3. INVESTMENT OBJECTIVES

3.1. Investment Mission

The trustee has established the following investment mission for the Fund:

- to maximise long term risk adjusted returns by offering a single diversified investment strategy suitable to a broad cross section of Fund members, having regard to the fact that the trustee does not have access to information regarding the risk/return preferences of a large proportion of Fund members.
- to take advantage of the Fund's scale to gain access to innovative investment opportunities and to keep fund investment costs at competitive levels.

3.2. Investment Objective

The investment objective is to provide members with long term growth and moderate volatility through investment in a diversified portfolio with exposure to both growth assets (equities and property), alternative assets (hedge funds, private equity, infrastructure) and defensive assets (fixed interest and cash).

The specified return/risk objective of the Fund's diversified investment strategy is quantitatively expressed as follows:

Return	Risk
Aims to target a return (after tax and fees) which will exceed inflation, as measured by CPI increases, by 3.5%pa over rolling five year periods.	To limit the probability of a negative annual return to 1 in every 5 to 6 years (i.e. 17%-20% probability)

4. INVESTMENT STRATEGY

The investment strategy is consistent with the investment objectives adopted for the Fund. It is expressed in the form of a benchmark portfolio and a set of ranges around the benchmark within which the Fund's exposures to the corresponding asset classes will be maintained as follows.

Asset Class	Benchmark %	Ranges %
Australian Shares	24	19-29
International Shares (unhedged)	10.5	8-13
International Shares (hedged)	10.5	8-13
Property (listed, direct and global hedged)	10	5-15
Total Growth	55	
Alternatives (hedge funds, infrastructure and private equity)	15	10-20
Total Alternatives	15	
Australian Fixed Interest	10	7.5-12.5
International Fixed Interest (hedged)	10	7.5-12.5
Cash)	10	5-15
Total Defensive/Income	30	

In setting the investment objective and strategy, the trustee has regard to the historical and future rates of return on various asset classes. It recognises that while growth assets (equities and property) are expected to yield a higher return over the longer term than defensive assets (fixed interest and cash), the associated volatility is higher, increasing the likelihood of poor or negative return over shorter time frames.

The trustee will engage an investment consultant to assist in setting the strategic asset allocation consistent with achieving the Specific Investment Objective.

5. IMPLEMENTATION

Section 52(2)(f) of SIS and regulation 4.09 of the Superannuation Industry (Supervision) Regulations ('SISR') impose requirements on all trustees of Superannuation Funds in relation to the investment strategies of those funds. These requirements are to formulate and give effect to an investment strategy which has regard to the whole of the circumstances of the superannuation entity, including in particular:

- i) the risk involved in making, holding and realising investments, and the likely return from the entity's investments having regard to its objectives and its expected cash flow requirements;
- ii) the composition of the entity's investment as a whole including the extent to which the investments are diverse or involve exposure of the entity to risks from inadequate diversification;
- iii) the liquidity of the entity's investments having regard to its expected cash flow requirements; and

iv) the ability of the entity to discharge its existing and prospective liabilities.

The trustee has ensured that the investment strategy for the Fund complies with the standards set out above.

5.1. A sector specialist structure is superior to a balanced structure

The trustee believes that it is unlikely that single firms will be able to offer 'best of breed' investment management services in all or even a majority of the portfolio categories of relevance to the Fund. Structuring the investment portfolio along sector specialist lines or the appointment of a fund of fund manager which builds the portfolio using sector specialist managers is therefore preferable to a balanced structure.

The investment strategy is therefore primarily implemented by:

- investing in the commingled or pooled funds of sector specialist investment managers tailored to meet the investment objectives of the Fund. The specialist structure allows access to leading talent in each sector of the portfolio, tailoring of the approach to implementation in the various sectors depending on assessment of the potential for enhancing returns, and precise matching of the strategic benchmark; and /or
- investing in a range of single sector strategies offered as commingled or pooled vehicles which have been constructed by a fund-of-fund manager or other promoter using sector investment managers and tailoring the approach to implementation in the various sectors depending on assessment of the potential for enhancing returns.

The choice between these two alternatives is made after considering issues of control, transparency, cost and practicality.

The trustee's current policy does not impose any specific requirements on its investment managers in regard to the extent to which labour standards, environmental, social or ethical considerations are to be taken into account in relation to any investment decision relating to the Fund.

5.2. Appointment of a Custodian

The trustee has appointed Perpetual Trustee Company Limited, to provide the following services:

- safe-keeping of the Fund's assets;
- settlement of transactions undertaken by managers appointed by the trustee;
- allocation of cashflow to managers and funds; and
- reporting, including performance reporting.

6. INVESTMENT MONITORING AND REVIEW

6.1. Principal goals

A comprehensive investment monitoring regime is maintained. The principal goals of monitoring are to:

- assess actual performance against the investment objectives;
- assess actual performance against the a composite index representing the strategic asset allocation ,
- compare the performance of the Fund’s managers against the performance of other relevant professional managers and market indices;
- ascertain the existence of any particular weaknesses in the managers or the strategy; and
- allow the trustee to continually assess the ability of the managers and the strategies to successfully meet the Fund’s objectives.

6.2. Regime

The investment monitoring regime involves:

- examination of monthly performance reports prepared by the administrator;
- examination of monthly and quarterly reports prepared by the managers;
- examination of periodic performance reports, manager reviews and research notes prepared by the Fund’s investment consultant; and
- meetings with managers at the managers’ offices and/or at the trustee’s offices.

6.3. Strategy and Manager Reviews

The appropriateness of the investment strategy is assessed annually.

The structure of the portfolio within each major asset class, including the appointment of all managers, is reviewed thoroughly approximately once every three years. Changes to the structure including manager appointments may be made between triennial reviews however.