PERPETUAL SMALL APRA FUND SERVICE

(SAFs)

INVESTMENT POLICY STATEMENT

September 2017

Preamble

The Directors of Perpetual Superannuation Limited, the Trustee of the Small APRA Funds and Approved Deposit Funds (SAFs) marketed as the **Perpetual Small APRA Fund Service** (the Service), have adopted this Investment Policy Statement. In this statement key information concerning the management of the Service's investment arrangements is documented.

The Directors recognise that the investment environment in which the Service operates changes rapidly. Accordingly, this document is reviewed regularly to ensure that it remains relevant to contemporary needs and that any 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. The investment policy statement forms part of and should be read in conjunction with the Perpetual Superannuation Limited Investment Governance Framework.

Adopted by the Directors of Perpetual Superannuation Limited

On **2017**

Signed:

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(Chairperson/Director)

Date:

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Contents

1. BACKGROUND

1.1. The Trustee

Perpetual Superannuation Limited (PSL/Trustee) is the registrable superannuation entity (RSE) licensee and Trustee of the Small APRA Funds (**SAFs / the 'Funds'**).

Each SAF is governed by a Deed dated at the commencement of each SAF as amended by any Supplemental Deeds (collectively, the Trust Deed). The Trust Deed confers the Trustee with wide powers with respect to investment of the SAF. The SAF's Trust Deed allows the Trustee to invest "all money which is not required to meet current payments" in a broad range of investments, including those investments which the Trustee could make if acting individually rather than as trustee. The Trust Deed also specifically allows the Trustee to "accept and act upon a direction from a member in respect of investments" (clause 9.9), however the Trust Deed prohibits the Trustee from making any investments that would not comply with the Relevant Law (clause 9.5).

The Board currently consists of 5 directors, three of whom are independent directors. All directors are chosen and appointed by the parent company and must comply with the Trustee's *Fit and Proper Policy*.

The Trustee has ultimate responsibility for the investments of the SAFs.

1.2. Membership Profile

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

PSL acts for more than 500 SAFs in the Service. Each SAF has its own distinct membership profile. The member age range is between ages 14 and 93 years of age. Nevertheless there is a significant weighting of members to the over 50 age group (average SAF member age is 66). Many SAFs consist of married couples, with a smaller sub-group also including their children.

The following outlines the approximate age profile of SAF members:

- 9% of SAF members are aged 49 and under
- 23% of SAF members are aged 50 to 64
- 68% of SAF members are aged 65 and older

The average SAF balance is approximately $1.7 million.

The Service is targeted at members with a superannuation balance of $400,000 or more to invest, who are advised, engaged with their superannuation and wish to take a very active role in their investment decisions.

1.3. Investment Arrangements

A SAF Fund is a 'do it yourself' superannuation fund with less than five members and a professional trustee. They provide members with a high level of input into their superannuation investment portfolio. Members are able to invest in a wide variety of assets including shares and real estate and can tailor their investments to meet their particular needs and circumstances.

Members can select a single Investment Strategy for the SAF as a whole. Alternatively, each SAF member may select a different Investment Strategy for their individual account within the SAF. In these cases the assets for each member account are administered on a segregated basis.

Given the diverse range of members by age and FUM the Trustee have determined it is appropriate to provide a range of Investment Strategies so that investors may select the underlying investments that best suit their needs.

The SAF service currently offers five Investment Strategies and access to numerous investment vehicles or asset types of direct ASX securities, approved direct international securities, fixed income securities, cash deposits, bank bills, managed funds, term deposits, life insurance policies, real estate, private unlisted or closely held unit trusts, private or unlisted companies, private business premises and derivatives with limited investment risk (listed instalment warrants).

The Service has been designed and promoted as a platform which offers 'wrap accounts' suitable for investment by the typical members as described above. PSL has outsourced the administration and custody of the Investment Wrap (an Investor Directed Portfolio Service or IDPS) through which the Service accesses its investments to Perpetual Trustee Company Limited (PTCo). PTCo has in-turn appointed two Macquarie Group entities, Macquarie Investment Management Limited (MIML) as the administrator and Bond Street Custodians Limited (BSCL) as the sub-custodian of the Investment Wrap.

While choice of investments in each SAF is directed by the members i.e. there is not an investment manager in place making these decisions, PSL as Trustee is required to ensure investment compliance with the law.

Investment Related Delegations

PSL has delegated oversight of the investment arrangements to the management committees noted below:

Perpetual Private Product Committee

The Perpetual Private Product Committee (PPPC) has been formed under delegation from PSL and its responsibilities include formulating, reviewing, implementing and monitoring compliance with this IPS on behalf of the PSL Board.

The Terms of Reference for the PPPC are set out in the PSL Charter of Delegations.

In fulfilling their responsibilities the PPPC rely on certain recommendations from the Perpetual Trustee Company Limited Investment Committee.

Perpetual Trustee Company Limited Investment Committee

As noted above, the service accesses its investments through the Perpetual Private Investment Wrap which is issued by PTCo.

The Perpetual Trustee Company Limited Investment Committee (PTCoIC) is a delegated committee of PSL.
The PTCoIC is responsible for conducting regular reviews of the performance of the model portfolios of PP private clients that align to the five strategies offered under the SAF Service as well as the managed funds on the Perpetual Private Approved Product List (APL.

The Terms of Reference for the PTCoIC are set out in the PSL Charter of Delegations.

1.4. Overriding Responsibility

The overriding responsibility of the Trustee is to invest the assets of each SAF in the best interests of members. Given the self-directed nature of the SAF Service the Trustee seeks to fulfil this responsibility by providing a framework which ensures that members invest prudently. Through due diligence requirements for new investments and diversification guidelines, the Trustee balances the need for Trustee oversight with allowing members a wide investment universe.

1.5. Purpose of this Investment Policy Statement

The purpose of this Investment Policy Statement (IPS or Statement) is to document the process that is undertaken to develop the Investment Strategies of the SAFs.

This IPS also outlines the formulation of Investment Strategy for the SAFs, including:

- return (and risk) objectives for each Investment Strategy;
- appropriate asset allocation ranges;
- stress testing program;
- systems for measuring and monitoring compliance with investment limits or guidelines; and
- a process for reviewing new underlying investments; and
- a process for reviewing the Investment Strategy.

The IPS also establishes the requirements for selecting investment strategies and monitoring the investment arrangements to ensure that the objectives remain appropriate and that the strategies deliver against the respective objectives.

The monitoring processes include ongoing monitoring of performance against objectives, monitoring of diversification limits as well as the stress testing program and the liquidity management plan. Each of these elements is discussed further below.

2. SETTING THE INVESTMENT STRATEGY

2.1. Introduction

Setting the Investment Strategy is a continual process that aims, first and foremost, to ensure alignment between the agreed investment objectives for the SAFs and the range of Investment Strategies and underlying investments offered by the SAF service. In doing so, the interests of the underlying members remain at the forefront of the Trustee's mind.

This section outlines the process that is undertaken by the Trustee to develop the Investment Strategy.

2.2. Investment Covenants

In formulating and reviewing the Investment Strategy for the SAF's, the Trustee will have regard to the overall circumstances of the members using the SAF service, as well as the particular circumstances pertaining to each of its Investment Strategies and those of the Investments, and will comply with all applicable legislative requirements. This includes the investment covenants set out in Section 52(6) of the SIS Act:

- risk and return relative to objectives;
- overall composition of investments including adequacy of diversification;
- liquidity of investments having regard to expected cash flow requirements;
- ability to discharge existing and prospective liabilities;
- availability and reliability of valuation information;
- expected tax consequences; and
- associated costs and any other relevant matters.

2.3. Investment Philosophies

The Trustee recognises that the majority of SAF members will be Perpetual Private clients and are therefore provided with advice to invest in a particular Investment Strategy with allocation to a wide variety of assets based on a model portfolio that matches the underlying investments with investment objectives and risk tolerance attached to each Investment Strategy. The Trustee has taken this relationship into consideration in forming the Investment Strategies and making available Investments.

Individual members are empowered to achieve suitable diversification within their investment selections by selecting a combination of underlying investments as their requirements dictate. For a number of investments, a very high level of diversification exists, with multiple asset classes and multiple managers. Even in single asset class investments, diversification at the asset level is generally significant.

The Trustee may decide that a single investment made by the member adversely affects their diversification or liquidity. In such cases the Trustee has guidelines, see Appendix 4 Diversification Limits, on the amount or proportion a member can invest in those Investments.

The PPPC has the discretion to approve investments that fall outside of the investment policy guidelines in certain circumstances.

2.4 **Overarching Investment Objective**

The investment objective for the SAF service is to offer members a diverse and comprehensive range of investment strategies to choose from. Each strategy offers different levels of risk and generates investment returns in different ways, over different time frames and from different asset classes. This enables members to choose a strategy based on their own particular needs and circumstances.

2.5 **Overarching Investment Strategy**

The overarching Investment Strategy is to invest the assets of each SAF in investments which provide the range of investment opportunities consistent with the investment objective for each Investment Strategy.

2.6. Investment Objectives for the Strategies

Each Investment Strategy has specific references, including:

- objective;
- specific investment strategy;
- risk objective / standard risk measure; and
- representative asset allocation range.

Standard risk measures

In July 2011, the Association of Superannuation Funds of Australia (ASFA) and the Financial Services Council (FSC) issued guidance for Trustees regarding the calculation, and consistent labelling, of the level of investment risk inherent in investment options. These are referred to as Standard Risk Measure (SRM) labels and are based on the likely number of negative annual returns over a 20-year period. This measure allows members to compare investment options to find the best fit for their risk tolerances in a consistent manner and has been adopted by the

Trustee as the primary basis for determining appropriate risk objectives for each strategy. Details of the SRM for each Investment Strategy are included in Section 2.7 below.

2.7. Strategies

The Trustee endorses the appointment of each Investment Strategy based on confirmation from the PPPC that the Trustee's Investment Process has been followed. It may take advice from an external consultant and the PTCoIC.

The specific strategy for each Investment Strategy is formulated with reference to the pre-specified risk and return objectives and in a manner that promotes diversification within and between asset classes. These strategies do not define a Strategic Asset Allocation (SAA), however the ranges are based on the Perpetual Private (PP) private clients profiles of the same name that have a SAA within the ranges. It is expected that with these SAA decisions dominate investment outcomes for the SAFs given the majority of SAFs are advised by PP.

The strategies offered by the Service are set out in the table below. Each strategy is available under both the accumulation and pension division.

A comparison of the asset allocation ranges to the SAA of both the Perpetual Private client strategies and those of our preferred investment researchers are included in Appendix 3.

INVESTMENT STRATEGIES

	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. 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. 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. 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	**Asset sector / Min / Max** Growth assets 0% 10% Defensive assets 90% 100%	**Asset sector / Min / Max** Growth assets 10% 50% Defensive assets 50% 90%	**Asset sector / Min / Max** Growth assets 40% 80% 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. 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. 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** Growth assets 60% 90% Defensive assets 10% 40%	**Asset sector / Min / Max** Growth assets 80% 98% 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, as follows.

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

The SRM is not a complete assessment of all forms of investment risk, for instance it does not detail what the size of the negative return could be or the potential for a positive return to be less than a member 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.

Since the investment strategies provide ranges for allocations between growth and defensive assets, the trustee has based the SRM for each investment strategy on its highest potential allocation to growth assets. This approach has contributed to an SRM of '5 – Medium to high' for the 'Conservative' investment strategy, with an estimated 3 to less than 4 negative annual returns over any 20-year period, irrespective of its title. The actual risk within each investment strategy may vary depending on actual allocation between growth and defensive assets and choice of investments for each Fund.

The SRMs for the investment strategies may change over time for various reasons, including as a result of reviews of the underlying capital market assumptions that are used in their calculation and future changes to asset allocations.

2.8. Risk Factors

As part of the Investment Strategy process the PTCoIC reviews the degree of diversification embedded in each Investment Strategy using risk factor analysis provided by Perpetual Investment Management Limited.

This analysis is important because common risk factors tend to drive returns across multiple asset classes. As a result diversification is often less effective than can appear to be the case when viewing asset allocation analysis in isolation. Understanding this allows the portfolios to avoid unintended concentrations of risk and so develop portfolios that are more effectively diversified.

In reviewing the risk factor analysis, the PPPC considers how the following risk premia / sources of return are expected to interact and the likely variability in these interactions under different market conditions.

The following risk premia are examined:

- *Equity Risk Premium* – the premium expected from investing in developed large cap equities above the risk-free rate.

- *Small Cap Premium* –the additional return expected from investing in small cap companies compared to developed large cap companies.

- *Emerging Markets* – the additional return expected from investing in emerging markets relative to developed market equity.

- *Term Premium* – the premium expected from investing in government bonds (fixed terms bonds) relative to the risk-free rate.

- *Credit Spread Premium* – the premium expected from exposure to credit risk (for example of investing in high yield bonds compared to government bonds).

- *Unexpected inflation* – the difference between the long term average expected inflation and short term unexpected inflation.

- *Liquidity Factor* – higher rates of return expected to compensate for the disadvantages of holding less liquid assets.

- *Non-Corporate GDP Growth* – returns on assets such as property will be partially explained by GDP growth that is not directly linked to the corporate sector.

- *Alpha* - in addition to the factor-driven returns, modelling allows for "alpha" in asset classes that cannot be managed passively to capture stock specific risks and other unique premia. This reflects alpha that is embedded into beta returns, rather than alpha generated through manager skill.

The Trustee is aware that equity risk tends to dominate the growth orientated investment options, but considers this is required to achieve higher return targets and is appropriate given the longer investment horizon of these Investment Strategies.

The Trustee is also aware that while certain single sector investments will contain a dominant risk premia it is common that they contain multiple sources of risk.

2.9. Diversification and Liquidity

In formulating the Investment Strategy for the SAFs and as part of the Trustee's fiduciary obligation to members the Trustee has considered diversification and liquidity.

In particular, risk, diversification and liquidity have been considered when establishing restrictions on the amount which can be invested in particular securities within these Investment Strategies. These restrictions are termed 'diversification limits' and are outlined in Appendix 4 to this IPS. They are designed to mitigate potential losses as a result of over concentration of members' assets to a particular asset type where over exposure and/or the occurrence of a single trigger event has the capacity to result in significant and rapid changes in valuation or liquidity issues for the member.

To ensure diversification limits remain appropriate, they are reviewed annually on the conservative basis that Members invest their entire superannuation/pension assets through the SAF. The diversification limits are guided by the following framework:

- the inherent diversification, liquidity and volatility of each asset class;
- general industry practice in making allocations to asset classes within a diversified portfolio; and
- the breadth of strategies and securities available within the SAF which would enable an investor to build an appropriately diversified portfolio.

Each SAF's investments will be managed with a view to ensuring that each SAF will have sufficient liquidity to meet expected cash flow requirements. The Trustee has established a Liquidity Management Plan which sets out the broad processes and framework for the monitoring and management of liquidity (refer to Section 5).

The Trustee may determine to impose a diversification limit that is more restrictive for an individual investment than the applicable limit outlined in Appendix 4.

2.10. Diversification and Strategy monitoring

On a monthly basis any Member with holdings above the prescribed guidelines or with an asset allocation outside of the ranges specified in their chosen strategy are highlighted and reported via a diversification monitoring process which involves reporting to investment advisers so that they may take corrective action. Corrective action (including updates if applicable) is required on a monthly basis by the investment advisers in order to return the fund to a position within the approved limits.

Given the value of investments can fluctuate over the short term; the PPPC will generally allow investments to exceed exposure limits by a maximum of 5% without requiring rectification action to be taken. Where a fund or a member balance exceeds the 5% tolerance, action will be required to return the fund to a position within the respective exposure and or asset allocation limit/s.

All members both within and outside the 5% tolerance level are reviewed each month to determine appropriate action to be taken. Actions may include, but are not limited to, requesting that a member, via their adviser (where appropriate) gives consideration to their selected investment strategy and / or the sale of assets to return their account to a position which does not exceed the trustees exposure limits. Where a member does not respond or take corrective action after a period of time, the PPPC will be required to take action on behalf of the member which may include the sale of assets as noted above.

2.11. Valuation

The following summarises the valuation methodology used by the SAFs. The valuation methodology is driven by specific classes of assets (and also covers the Investment Wrap) as follows:

Asset group	General	Source	Frequency	Areas where judgement may be exercised
Managed investments	Valuations of managed investments are generally set by the individual investment managers, who provide a market in their investment product at which they will redeem investments and issue units. The unit price reflects the value of the investment's underlying assets and is determined according to the investment managers pricing policies. The Macquarie Wrap platform sets the price as the withdrawal price provided by the fund manager. The last redemption price for	Ausmaq (primary)/Investment Manager (secondary)	Daily / Non-Daily	Judgment may be exercised to use an alternative price where the investment manager is no longer providing an active market to redeem units in their product.

Asset group	General	Source	Frequency	Areas where judgement may be exercised
	a particular day may not be known until 2 or 3 working days after this day (for funds that offer a daily unit price). On those days where the price is not yet known, the last redemption price will be applied to those holdings. There are certain managed investments where the investment manager may only offer unit pricing on a non-daily basis, typically a frequency of weekly, monthly or quarterly. Similar to the approach taken for daily priced managed investments, where the price is not known the last available redemption price will be applied. The above methodology is considered a reasonable and acceptable approximation of net market value, and excludes consideration of disposal costs as they are considered immaterial.			
ASX listed securities (excluding instalment warrants)	Listed securities are generally valued at their last available closing price on the ASX. If no trades have occurred for a security during the day, the last traded price will be used. The above methodology is considered a reasonable and acceptable approximation of net market value, and excludes consideration of disposal costs as they are considered immaterial.	Golden Source (primary) / Interactive Data (secondary)	Daily	If a security becomes suspended from normal trading for a significant period of time, judgment may be exercised to apply an alternative price if the last traded price is not considered to be reflective of net market value.
International Listed Securities (common stock and exchange traded funds)	Latest available market close price on the relevant exchange on which the security trades.	Interactive data (primary) / Bloomberg (secondary)	Daily	If a security becomes suspended from normal trading for a significant period of time, judgment may be

Asset group	General	Source	Frequency	Areas where judgement may be exercised
				exercised to apply an alternative price if the last traded price is not considered to be reflective of net market value.
ASX listed securities (instalment warrants)	The valuation price is used for an instalment warrant. The valuation price is a price released by the ASX on a daily basis and is calculated as follows: • for warrants with market makers, the highest end of day bid price is the valuation price. If there were no bids by the market maker on the day the previous days valuation price is used. • for warrants without market makers (i.e. price traded stocks) the valuation price is the last price except if: a) there is a higher closing bid price, then this is used OR; b) there is a lower asking price (then this is used). Similar to other ASX listed securities the methodology excludes consideration of disposal costs as they are considered immaterial.	Golden Source (primary) / Interactive Data (secondary)	Daily	-
Foreign currency	Exchange rates are received from Bloomberg using WM/Reuters London 4pm close mid. Exchange rates used are all marked against AUD.	Bloomberg (primary)	Daily	
Fixed income securities (domestic over-the-counter)	Latest available evaluated market bid price inclusive of accrued interest (i.e. “dirty”).	Interactive Data (primary) / Bloomberg (secondary)	Daily	Asset-class specific considerations are detailed below.

<table>
<tr><th>Asset group</th><th>General</th><th>Source</th><th>Frequency</th><th>Areas where judgement may be exercised</th></tr>
<tr><td rowspan="4"></td><td><u>Floating Rate Note Securities</u>
Priced daily and sourced from Interactive Data that derive prices for these securities using its “Evaluation Methodology”, see ‘Notes’ below.</td><td rowspan="4">*

*Note this is a manual check only</td><td rowspan="3"></td><td rowspan="2">In the event IDC cannot provide a capital price, independent market providers (Westpac, Macquarie and ABN AMRO), may be used to provide a valuation.</td></tr>
<tr><td><u>Asset-Backed Securities</u>
Priced daily and sourced from Interactive Data that derive prices for these securities using its “Evaluation Methodology”, see ‘Notes’ below.</td></tr>
<tr><td><u>Fixed Interest & Discount Securities</u>
Prices and market yields are received from Interactive Data (IDC) using the various market closes.</td><td rowspan="2">Where a reliable and consistent price cannot be sourced from an exchange by IDC a reference / evaluated price will be provided. Data is sourced from various participants in the Australian fixed – income market.</td></tr>
<tr><td><u>Index Driven Securities CPI Linked Bonds & Indexed Annuities</u>
Prices and market yields are received from Interactive Data (IDC) using the various market closes.
Upon announcement of the CPI in the third week following the quarter end both index linked bonds and annuities are updated with new Kt factors and the CPI respectively which effects the following quarter’s valuations. Kt factor is the factor with which the original face value of an indexed bond is adjusted in order to reflect the cumulative capital accretion owing to changes in inflation.</td><td>Quarterly</td></tr>
<tr><td>Term Deposits</td><td>Currently term deposits on the platform are for terms no greater than 1 year with interest paid on maturity.</td><td>Internal / Individual Issuers</td><td>Daily</td><td>-</td></tr>
</table>

Asset group	General	Source	Frequency	Areas where judgement may be exercised
	These are currently valued at cost.			
Cash account	The respective cash account for super and/or IDPS pay interest at a frequency of either monthly or quarterly, with interest credited on the last day of the month/quarter. Similar to the term deposits these accounts are valued at cost.	Internal / Treasury	Daily	-
Direct Property	Prices are determined using information provided by license/certified valuers.	License/ certified valuers	Bi- annually	-
Other assets	Varies depending on the type of asset, full details can be found in the Perpetual Private Other asset pricing policy.	Various	Varies as appropriate usually at least annually	

2.12. Liabilities

The Service provides benefits based on the accumulation of the contribution with net investment returns for which the investor bears the investment risk. As such liabilities of the SAFs correspond with members accumulated benefits.

2.13. Impact of Taxation

The structure of the taxation of the SAFs is efficient for members in the way it is applied at an individual member account and specifically:

- members have direct access to franking credits associated with any dividends on ASX listed securities they hold;
- members are able to transfer from super to pension and vice versa without realising assets and triggering capital gains tax event; and
- the Trustee invests in managed investment schemes which combine assets from superannuation, pension and non-superannuation investors. This approach improves the operational efficiency and lowers the costs of managing members' assets through scale efficiencies. As the member invests in a unit trust that passes through all tax this is generally more efficient that a unitised superannuation fund that incorporates average tax rates and capital gains at a fund level within its unit price.

An annual end of year tax process is undertaken to determine the tax impact of investments to each individual member account. The Trustee considers the expected tax consequences of individual investments covered by each Investment Strategy by ensuring they can be included in the annual end of year tax process. The tax consequences of a particular investment will vary depending on the relevant member. Relevant information regarding tax considerations for individual members is set out in the disclosure documents relating to the investment where applicable.

2.14. Costs Incurred

The cost of investing in an Investment Option is passed onto each member. The exact cost incurred by the member depends on the specific investments they select.

2.15. Derivatives

The Trustee has considered the Australian Prudential Regulation Authority Superannuation Practice Guide SPS220 *Risk Management*. Among other things, this guide covers the use of derivatives by superannuation funds.

Derivatives are financial instruments whose value and marketability are derived from the value of an underlying asset, liability or index which represents either the direct ownership of an asset or the direct obligation of an issuer. Derivatives include financial instruments that trade on an organised exchange or “over-the-counter” (OTC) and which include, but are not limited to, futures, swaps, forwards, warrants and options.

Investment managers appointed to manage the SAFs managed fund investment options may use derivatives in managing the assets. Derivative usage is managed through the funds own investment strategies.

Derivatives are an integral part of the implementation of the investment strategy and may be used, but not limited to:

- *hedging* – to protect an asset or cash flow against fluctuations in market value or foreign currency exposures; and
- *transactional efficiency* – a cost effective and practical means of implementing investment strategies or managing risks associated with the investment strategy.

More specifically, derivatives may be used to:

- protect the value of an investment;
- protect the return on an investment;
- achieve an indirect exposure to a financial asset; and
- achieve transactional efficiency.

Derivatives may not be used for speculation or leverage.

Appropriate contracts (as an example, ISDA Master) must exist between the manager and counterparties.

The Trustee mitigates the risk to members by setting more restrictive diversification limits on managed funds which may use derivatives extensively as part of the investment management of the managed fund. The Service allows investors to hold instalment warrants traded on the ASX and the Trustee has set diversification limits on these to ensure members do not take excessive risks in their portfolio.

2.16. Tactical Asset Allocation (TAA)

For investments in diversified managed funds the SAA may be altered through a TAA strategy, taking into account the prevailing market environment and expectations over a one to three year horizon. The use and implementation of any TAA strategies is at the discretion of the investment managers as long as allocations remain within the ranges set in the investment strategies for each investment option.

2.17. Responsible Investment

The Trustee does not impose any specific requirements 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 SAFs or the Investment Options. However the Trustee expects these items to be considerations in the selection of investment managers.

2.18. Guarantees

PSL does not guarantee a return of invested capital, future investment performance or returns.

3. INVESTMENT SELECTION AND STRATEGY IMPLMENTATION PROCESS

3.1 Process

The Trustee is ultimately responsible for ensuring the Investment Strategies and underlying investments available on the Service are suitable to be offered to members.

To meet this responsibility the Trustee has a framework to ensure that effective due diligence is undertaken commensurate with the nature of the investment before selection. The PPPC has developed this framework to be applied by the PP management team to each investment before approving it for inclusion on the Service.

A key feature of the design of the Service is that the majority of members are required to invest through an adviser who assists them to select investments based on the member's individual needs and circumstances.

In selecting Investments for inclusion on the SAFs, the Trustee requires confirmation that:

- due diligence that is appropriate to the nature and characteristics of the investment/s in question has been undertaken;
- consideration has been given to any material risks, including factor and liquidity risks, which could impact the ability of the Investment to achieve its objectives; and
- the investment is able to be administered in a pooled custody environment.

3.2. Questionnaire for Potential Investments

The Service is an on-line administration service where advisers generally perform on-line trading in investments. Investments available on the Service must have certain characteristics to enable electronic processing.

To confirm an investment is suitable for the Service's administrative environment and to assist the due diligence process, a questionnaire may be sent to managers and promoters of potential investments. Managers and promoters are asked to respond to questions concerning:

- the frequency with which pricing is struck and investments or redemptions may be made;
- confirmation that valuation policies and procedures are in place; and
- details of the availability of audited accounts and taxation reports as applicable.

3.3. Related Party Investments

The Trustee will consider approving investments that have a relationship with a related party to itself. These investments are subject to the same selection and monitoring processes as the external managers.

3.4. Investment Selection Due Diligence

The Trustee has established criteria which are designed to ensure that the Trustee has sufficient knowledge of the investment, including factors that may have a material impact on achieving the investment objective, before they can be added to the SAF.

Criteria for Managed Funds, Listed Australian Securities, Approved International Direct Securities on supported exchanges, Domestic Fixed Income, Direct Property, Other Assets and Cash and Term Deposit products are outlined below:

Managed Funds- Listed on the PP APL

The Trustee recognises that ratings from the many research houses are quantitatively determined based on past performance. Thus while regard will be given to a minimum rating from a research house as outlined below, it requires evidence from PTCoIC that the current processes, approach and management engender confidence in a high probability that the investment will achieve its objective going forward. Thus, managed funds with a research rating below the minimum rating guide may be approved for inclusion on the menu on the basis of more extensive research.

Factors which may be considered in this research process include:

- organisational competency;
- experienced investment staff;
- performance track record with similar mandates;
- risk control procedures;
- information technology systems;
- quality member reporting and unit pricing updates;
- liquidity of investment; and
- administration process including buy and sell turnaround times.

Minimum research rating matrix guide:

Institution	Rating scale						Trustee minimum rating
Morningstar		1 Star	2 Star	3 Star	4 Star	5 Star	2 Star
Lonsec	Redeem	Watch	Hold	Investment Grade	Recomm-ended	Highly Recomm-ended	Investment Grade
Zenith	Redeem	Under Review	Under Review	Approved	Recomm-ended	Highly Recomm-ended	Approved

The PTCoIC reviews the matrix on an annual basis to ensure it remains appropriate.

Managed Funds- Not Listed on the PP APL

In recognition of the self-directed nature of the Service we have placed a diversification limit on any managed funds in total either not on the PP APL or where appropriate research has not been provided by the member. However the Trustee will allow the member to invest up to these diversification limits provided it can be administered by the Investment Wrap.

Listed Australian Securities

Listed securities are approved, in principle, if they are listed within the S&P/ASX Index.

For securities outside the S&P/ASX200 and within industry categories, i.e. Global Industry Classification System (GICS), additional diversification limits apply due to reduced liquidity and higher risks associated with securities of this size.

Listed Interest Rate Securities

In addition to the considerations for listed Australian securities, for listed interest rate securities the Trustee may also consider:

- securities that have a minimum company and/or security rating from Standard & Poor’s of BBB, where applicable;
- securities where the underlying investment exposure is within the S&P/ASX300 Index; or
- details of the limits are contained in the diversification limits.

Listed International Securities

Listed ordinary securities on supported international exchanges are approved, in principle, if they are listed within the relevant Index. Exchanges are only approved where the disclosure and listing rules are considered adequate, e.g. the London Stock Exchange (LSE) or New York Stock Exchange (NYSE). A diversification limit of 20% of the total of a members account or 15% in any single security also applies.

Cash and Term Deposits

These may include:

- Term Deposits on the panel based on the Approved Product List of PTCoIC (a condition of this is that they can be broken early subject to the provider’s relevant notice period); and
- the Perpetual Cash Account that acts as a cash hub for the Service backed by a deposit with Macquarie Bank Limited.

Direct Property and Other Investments

For details of further due diligence conducted on direct property and other investments please refer to Appendix 2.

3.5. Investment Status Amendments

Managed Funds

MIML will notify PTCO of the change in the status of a managed fund available through the Investment Wrap that the Service uses to access underlying investments, MIML advises of changes which include:

- managed funds that notify of closure to new applications will have their status amended to 'Open – sell only', prohibiting any new investment into the fund but allowing existing holders to sell their units;
- when a managed fund is suspended the status will be amended to 'Inactive', preventing all investors from investing into or withdrawing from the suspended Managed Fund; and
- if a Managed fund becomes available to purchases after coming 'Open – sell only' or 'Inactive' it will be reviewed by the Trustee prior to being make available for purchases.

Communication of Investment Status Changes

The Trustee ensures members and advisers are kept up to date with developments concerning a managed fund or Investment Manager that is suspended, closed or in administration. If necessary, the Trustee will contact the responsible entity and/or Investment Manager concerned. This is primarily communicated via the adviser and member websites in a section on product updates.

4. STRESS TESTING PROGRAM

4.1. Introduction

The Trustee's Stress Testing program aims to assess the likely impact on each Strategy from a range of factors that can create extraordinary loss or make the control of the investment difficult.

The Trustee's stress testing program is designed to be comprehensive, taking into account the following features of the SAF and the Trustee's business operations:

- members have a beneficial interest in their investments limited to the units/number of securities that they hold within their account;
- certain stress scenarios affecting one investment within a Strategy may have no direct impact on the ability of a member to redeem from another investment within the Strategy; and
- there are a very large number of investments offered with a diverse range held by members.

4.2. Assumptions and Frequency

Stress tests on the Strategies are undertaken by the PTCoIC on an annual basis. An external consultant may be engaged. A range of tests may be undertaken to appropriately cover the Investments in the Strategies. All assumptions used in the testing have been approved by the Trustee and are detailed below. Any change to the assumptions must be approved by the Trustee prior to the testing being undertaken.

Before implementing a new Strategy the Trustee will consider the impact of the determined stress scenarios.

4.3. Role of Diversification Limits

Diversification limits play an integral role in the Trustee's stress testing process. For example, lower limits are set on more volatile or less diversified investments and these enable the Trustee to assess an investor's maximum loss under a stressed situation.

4.4. Stress Testing Scenarios

Stress testing analysis is undertaken in two parts:

1. Historical analysis

2. Simulation analysis

- *Historical analysis* – is used to determine the likely impact on investment option returns from a selection of historic distressed market events. These may include the:
  - 1987 Share Market Crash;
  - 1994 Bond Market Correction;
  - Asian Financial Crisis and LTCM outcomes;
  - TMT Bust; and
  - Global Financial Crisis.

Each historic shock is assessed on a peak to trough basis to identify the potential for extraordinary loss, comparing return outcomes for each Investment Strategy to its objectives. Potential implications for portfolio management are also considered, such as the likelihood of breaching SAA ranges.

Although PSL does not expect history to repeat itself, historic stress tests do provide powerful insights that are factored into the investment strategy process. A key benefit of this type of stress test is that it is objective in nature and inherently captures the complex interrelationships between markets and asset classes during periods of market stress.

- *Simulation analysis* – these stress tests provide a forward looking assessment of the potential for extraordinary loss. The approach is employed in recognition that the structure of markets can change over time and that it can be difficult to assess new asset classes using historic data.

More detailed scenario analysis is conducted for investment options which are exposed to multiple risk factors. Scenario analysis allows for the use of judgement in the creation of path specific scenarios. This analysis is not subject to the same level of model risk as stochastic processes. However, PSL acknowledges that by its nature this process is highly subjective and the scenarios conceived may not play out in reality.

These may include:

- **Globally synchronised higher inflation**: Excessive global liquidity flows through to higher inflation. Monetary policy needs to be tightened, impacting equity and bond markets negatively.
- **Global depression**: Protracted period of poor growth and deleveraging.
- **China Bad Loan Crisis**: Banking crisis in China. Impacts Australian equities, EM equities and commodities due to link with China. Impacts developed equities, albeit less. Falling AUD would cushion unhedged returns. Australian cash rates would fall dramatically,

impacting floating rate investments. Falling rates would also cause bonds to rally, albeit the extent of this is limited given low starting yields.

- **Australian housing / banking crisis**: Correction in Australian housing market. Major impact on Australian financial institutions, AUD bonds rally, AUD falls, AUD credits perform badly.
- **Reverse Stress Testing**: Illustrates the circumstances that would lead to an adverse liquidity event, such as breaching investment constraints or moving to an undesired portfolio position. The benefit of this approach is that it can illustrate to the point at which an investment option classification would become illiquid, and how likely this is to occur.

From time to time, PSL may engage an independent party to conduct *stochastic* simulations of the portfolios to determine the expected loss during periods of market stress. This is modelled as the average loss across the worst five percent of simulation outcomes and is commonly referred to as conditional value-at-risk (CVaR).

4.5. Review of Modelling

The Trustee will review the results of modelling giving consideration to liquidity and diversification and whether any changes are required to the Strategies.

A change to the diversification limit of an investment may be recommended by the PPPC and presented to the Board for approval.

5. LIQUIDITY MANAGEMENT PLAN

The purpose of this section is to outline a Liquidity Management Plan (LMP) to manage and monitor liquidity on an on-going basis in a manner that is consistent with the nature of the Service. The management of liquidity is critical to ensure that PSL is able to meet its obligations, to pay in full and on time. The policy forms part of the Service's investment governance framework and assists PSL to consider liquidity when making investment strategy decisions and in other aspects of the Service's operations.

5.1. Definition of Liquidity

In a superannuation context, liquidity refers to the ability of an RSE licensee to meet benefit payments, rollover or transfer requests as well as intra-SAF investment switching requests from beneficiaries in accordance with the requirements of the SIS Regulations and the governing rules of the RSE.

Liquid assets, for the purposes of this document are those assets that can be redeemed in 30 days[1] in "normal" conditions without materially moving the price. This is consistent with APRA's guidance on liquidity management.

5.2. Significant Liquidity Events

A significant liquidity event is an event which requires the redemption of a significant proportion of a SAF (or a specific investment, i.e. ASX listed security, managed fund or term deposit) investments in a short space of time. This could be as a result of a number of scenarios including (but not limited to):

- a crisis of confidence in investment markets causing a wholesale switch out of risky assets into defensive investments such as the cash investments;

[1] The 30 day limit is consistent with period suggested by APRA publications on liquidity

- a loss of confidence by members in the SAF (or a specific investment) causing an exit of all the individual members in a short space of time;
- possible market events that may result in previously liquid investments becoming illiquid, and/or in a proportionate increase in the holding of illiquid assets as the value of liquid assets fall; or
- unforeseen cash flow needs for the potential for a cash call by the investment manager of certain underlying assets within a managed fund within the investment options.

Significant holdings in illiquid assets could potentially expose a SAF to the risk of not being able to raise sufficient cash flow to meet payments out of the SAF (or a specific investment) in a timely and efficient manner.

5.3. Roles and Responsibilities

The PPPC is responsible for oversight of the LMP which is carried out by the Perpetual Private Investment Research Team.

5.4. Liquidity Management Overview

In line with APRA's expectations under SPS 530, PSL seeks to understand the sensitivity of the asset allocation of each Strategy to any changes in market or member sentiment which may trigger members to exercise their right to change Strategy or move to another superannuation fund and therefore lead to an increased need for liquidity.

The Trustee's exposure to liquidity risk is created by each investment's cash flow commitments and its obligation to meet them as they fall due. The Trustee has a conservative approach to liquidity risk. The majority of investments involve either direct or indirect investment in listed securities or more defensive fixed interest assets. Relatively modest allocations to less liquid assets are held in a number of multi-sector managed funds. Investments in a small number of fixed interest managed funds may also prove illiquid in stressed conditions. Investors are fully advised of any potential for illiquidity in specific investments through the Product Disclosure Statement (PDS) where applicable when investing in that product.

The Trustee does not have full visibility of the cash flows affecting investments or control over the underlying investments or Investment Manager. It therefore relies on understanding and monitoring market conditions which might give rise to a liquidity event. To this end, the Trustee receives regular updates on the economic environment and will review the Trustee liquidity position as required. Where necessary it will recommend additional processes.

Liquidity management is also about ensuring each SAF maintains sufficient liquidity to withstand unforeseen events. All members of the Service are required to maintain a Cash Account with a minimum $2,500 or 2% of their interest in the funds (whichever is the greater), as most investors are generally advised into the SAF their advisers will normally plan with members their ongoing liquidity requirements especially for pension category members, ensuring they have sufficient cash holdings to meet their ongoing needs.

The majority of managed funds generally invest in liquid investments, listed securities and more defensive fixed interest assets, and price daily. ASX listed securities outside the S&P/ASX300 that can be held by members are limited by the trustee diversification limits to limit exposure to illiquid stocks with limited daily trading volume.

Some investments are 'illiquid investments' as defined in Sub-regulation 6.31(3) of SIS. Where this is the case an investment is deemed to be 'illiquid' if a member's holding:

- cannot be converted into cash within 30 days; or

- converting to cash within 30 days would cause significant impact on the value of the investment.

Upon joining the Service, members acknowledge that the Trustee's obligation to process transfers within 30 days does not apply if a member holds an illiquid investment, as defined above. The Service PDS makes clear to members that it may take up to 30 days to finalise a withdrawal request, or longer where the investment manager delays investment requests beyond that period. Finalisation depends on the redemption restrictions of the illiquid investment. Where this is the case the Trustee will rollover the maximum amount available from other realised investments within 30 days with the remainder to be forwarded once the illiquid investment is able to be realised.

5.5. Liquidity Management Procedures

The Trustee manages liquidity risk by:

Daily updates of unit prices

Ensuring unit prices for all managed funds are updated daily using the latest available price from the fund manager means the Trustee's obligations are matched with the asset values. Note some funds may price less frequently.

Stress testing

The PPPC will report as part of its annual liquidity review, (refer Section 5.6 below), on how the liquidity of each Strategy is likely to be affected by unforeseen circumstances such as:

- a material withdrawal;
- adverse market conditions; and
- a combination of the above.

Event procedures

The Trustee considers that a 'liquidity event' occurs where a previously liquid investment becomes illiquid as defined in SIS. Where this occurs, the Trustee communicates the change to advisers and Members through the product update section of the Investment Wrap website and the investment's status is changed to 'Suspended' investment.

The Trustee completes a monthly liquidity monitoring process which gives advisers a notice period prior to the sell down of any assets on a monthly basis otherwise the Trustee will sell down assets in the following order:

1. daily transacting managed funds;
2. ASX listed securities;
3. non daily transacting funds; then
4. term deposits.

Adviser reviews

Advisers regularly review asset allocation including liquidity required to meet ongoing expenses and payments, in particular regular pension payments, to ensure as part of their client reviews that the SAF has sufficient liquidity to meet its ongoing obligations.

5.6. Liquidity Diversification Limits

To ensure each SAF can meet its liabilities when it is required to, and as required by SIS, we require that the maximum total exposure to 'illiquid' assets for each member account be no more than 50% of the portfolio.

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/promoter will make a market for trading the asset; or
- an asset where the manager/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 provide for the redemption of interests in over 70 days; or
- an asset with:
  - no recognised market for trading of the asset:
  - no means of redemption or trading; or
  - no requirement on scheme promoter to redeem or transfer assets.

Perpetual will only allow an illiquid asset (as defined previously) if there is a mechanism to transfer the asset to another owner.

5.7. Due Diligence

The Trustee acknowledges that many factors can influence the liquidity and price of assets that need to be realised at short notice. Prior to appointing an investment, appropriate due diligence shall be carried out in respect to the liquidity and saleability of assets and the expected impact the proposed investments may have on the overall liquidity of the SAF.

6. INVESTMENT STRATEGY MAINTENANCE AND REVIEW

6.1. Asset Allocation Rebalancing

On a monthly basis any Member with holdings above the prescribed guidelines or with an asset allocation outside of the ranges specified in their chosen strategy are highlighted and reported via a diversification monitoring process which involves reporting to investment advisers so that they may take corrective action.

Where a member does not respond or take corrective action after an extended period of time the Trustee will advise the client of a new Investment Strategy that will be applied to their interest that reflects their current investment holdings.

As many of the members invested in the SAFs are PP private clients, their asset allocation is regularly monitored through a review process with their investment adviser on a 6 monthly basis.

6.2. Performance Monitoring Process

The Trustee’s monitoring process aims to proactively identify any potential issues or areas of concern, investigate any issues and take action where appropriate.

The performance of the model portfolios of PP private clients that align to the 5 strategies and for managed funds within the APL is conducted on a continuous basis by the PTCoIC.

Performance monitoring

As investments are highly self- directed by Members and the majority of SAF members are advised clients of PP the Trustee does not currently conduct monitoring of the performance of individual investments held by SAFs outside of that outlined above.

Breach notifications

Investment managers of managed funds typically have an obligation under their PDSs to report breaches of their investment guidelines, including asset allocation. These managers generally set very wide allowable asset allocation ranges. Consequently, the Trustee expects that notifications of breaches of investment ranges will occur infrequently.

Notwithstanding these circumstances, the PPPC will collate and review any mandate breaches advised by Investment Managers and report to the Trustee noting where breaches have been corrected and recommending any action.

Monitoring Investment Managers

For funds within the PP APL the PTCoIC will consider an Investment Manager’s role on the performance of the managed fund where manager specific matters arise. These may include, but are not limited to:

- key staff departures at the manager organisation;
- organisational change;
- process change or style drift;
- change in portfolio strategy / investment objectives; and
- operational concerns.

Any of these factors may give rise to concerns about the on-going suitability of the Investment Manager. The PTCoIC may remove the fund from its APL which will result in Perpetual Private Clients being sold out of the fund and all other investors being limited to 20% total holding in all funds of this nature.

6.3. Annual Investment Strategy Review

On an annual basis, or more frequently, the Trustee will review the Strategies to determine whether they remain appropriate to be offered to Members. They will also review the diversification limits in relation to the investments that can be held to ensure that they remain appropriate.

In carrying out the review on behalf of the Trustee, the PPPC will address those issues necessary to enable the Trustee to ensure that:

- the Strategies are appropriate in the current environment, accurately reflect current market conditions and cover the broad range of investments currently offered through the Service; and
- the diversification limits and asset allocation of each investment remain appropriate in the current environment.

The Investment Selection Policy (Section 3) will form the framework for the review of the suitability of the Investments. In particular performance monitoring and external research house ratings will be key tools used to screen investment options together with performance monitoring conducted by PTCoIC on its model portfolios and APL.

The PTCoIC may use the services of an external investment consultant. The Trustee will consider the PTCoIC report of the review and any recommendations flowing from it.

7. Protocol for amending this Investment Policy Statement

This policy will be reviewed at least annually by the Trustee or more frequently if:

- significant changes are made to the investment process; or
- relevant legislation or regulation requirements change.

A revision history for this Statement is provided in Appendix 1.

Appendix 1: Revision History

Version	Reason for amendment	Date approved by Board
1.	Update requirements under Prudential Standard SPS 530 Investment Governance	June 2014
2.	Annual IPS review	25 June 2015
3.	Annual review of IPS. Review takes into account APRA's Prudential Review Findings and the results of the Triennial Review on the IGF.	TBD
4.		
5.		
6.		
7.		
8.		
9.		
10.		

Appendix 2 - Summary of due diligence requirements for investment types

Investments we will not accept:

- the family home;
- mortgages where the family home is security;
- futures contracts;
- real estate that is not located within Australia;
- derivatives that have a charge over assets or that have unlimited investment risk;
- direct residential or contributing mortgages;
- commodities trading;
- investments in a business with 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; and
- collective (managed) investments, registered in accordance with provisions of the Corporations Act whose constitutions do not require the responsible entity to redeem or transfer interests in the scheme.

The following table contains investments we will accept subject to a due diligence process.

Investment Type	Due Diligence Procedure	Rationale
Cash and Fixed Interest		
Cash management trust (must be a registered managed investment scheme)	Confirm registered managed investment scheme	Rely on ASIC's requirements for Responsible Entity.
Bank bills and bank accounts	Confirm issued by licensed Australian bank	Rely on RBA's requirements for Banking Licence.
• Australian government and semi-government bonds • Bank offered fixed interest securities and debentures • Deposits with an Approved Deposit taking institution (ADI) • Credit union products • Other fixed interest products not listed above (e.g. hybrid securities and unsecured notes)	Confirm investment rating of issuer or issue at least BBB^-	Trustee will need to confirm investment rating, which has regard to the credit security of the investment.
Shares		
Direct shares & REIT's – Australian Listed Investment Companies and Exchange Traded Funds.	Confirm listed on ASX	Rely on ASX's listing and disclosure requirements.
Direct shares – international	Confirm listed on a recognised international exchange as determined by the trustee, or follow due diligence rules for a private company	Trustee to determine whether exchange listing and disclosure rules are satisfactory. For example, NYSE or LSE. If not, then will conduct detailed due diligence.
Managed funds	Confirm registered managed	• Rely on ASIC's requirements

	investment scheme Confirm diversification of investments	for Responsible Entity. • Appropriate diversification of investments – minimum of 10 underlying investment holdings with no investment holding greater than 25% (except cash).
Other Assets		
• Existing company or trust • New company or trust	Confirm company or trust is solvent with positive earnings via the latest set of audited accounts (within last 2 years), and confirm ownership structure via ASIC search Review offer document to confirm nature of company or trust and projected earnings position	Detailed due diligence.
• Listed domestic security not on the ASX • Shareholding in private or unlisted domestic company – without diversified investments • Private or closely held unit trust – without diversified investments	See private company or private trust asset assessment form Existing company or trust – confirm company or trust is solvent with positive earnings via the latest set of audited accounts (within last 2 years), and confirm ownership structure via ASIC search New company or trust – review offer document to confirm nature of company or trust and projected earnings position	Detailed due diligence.
• Shareholding in private or unlisted domestic company – with diversified investments • Private or closely held unit trust – with diversified investments	As above, plus confirm appropriate diversification of investments	Appropriate diversification of investments – minimum of 10 underlying investment holdings with no investment holding greater than 25% (except cash).
Traded life insurance whole of life or endowment policies	Confirm issued by licensed Australian life insurance company	Rely on APRA's requirements for Life Insurance Licence.
Warrants	For on-market warrants – confirm listed on ASX For off-market or pre-market warrants – the Committee, or a delegate of the Committee, to review offer document	Rely on appropriate broker and clearing house arrangements, plus SFX or ASX listing and disclosure rules, or review of offer document.
Direct property	See property asset assessment form	Detailed due diligence as per Property Policy.

Appendix 3 - Asset Allocations Comparisons

SAF - Cautious			**PP Private Clients– Cautious**		**Morningstar - Conservative**		**Lonsec - Secure**	
Asset Sector	Min %	Max %	Asset Sector	%	Asset Sector	%	Asset Sector	%
Growth Assets	0	10	Growth Assets	0	Growth Assets	0-20	Growth Assets	0
Defensive Assets	90	100	Defensive Assets	100	Defensive Assets	80-100	Defensive Assets	100

			PP Private Clients - Conservative		**Morningstar - Moderate**		**Lonsec – Conservative**	
Asset Sector	Min %	Max %	Asset Sector	%	Asset Sector	%	Asset Sector	%
Growth Assets	10	50	Growth Assets	35	Growth Assets	20-40	Growth Assets	40
Defensive Assets	50	90	Defensive Assets	65	Defensive Assets	60-80	Defensive Assets	60

SAF – Balanced			**PP Private Clients– Balanced**		**Morningstar – Balanced**		**Lonsec – Balanced**	
Asset Sector	Min %	Max %	Asset Sector	%	Asset Sector	%	Asset Sector	%
Growth Assets	40	80	Growth Assets	65	Growth Assets	40-60	Growth Assets	60
Defensive Assets	20	60	Defensive Assets	35	Defensive Assets	20-40	Defensive Assets	40

SAF – Growth			**PP Private Clients– Growth**		**Morningstar – Growth**		**Lonsec – Growth**	
Asset Sector	Min %	Max %	Asset Sector	%	Asset Sector	%	Asset Sector	%
Growth Assets	60	90	Growth Assets	80	Growth Assets	60-80	Growth Assets	80
Defensive Assets	10	40	Defensive Assets	20	Defensive Assets		Defensive Assets	20

SAF – High Growth			**PP Private Clients– High Growth**		**Morningstar - Aggressive**		**Lonsec – High Growth**	
Asset Sector	Min %	Max %	Asset Sector	%	Asset Sector	%	Asset Sector	%
Growth Assets	80	98	Growth Assets	95	Growth Assets	80-100	Growth Assets	100
Defensive Assets	2	20	Defensive Assets	5	Defensive Assets	0-20	Defensive Assets	0

Appendix 4 - Diversification Limits

NOTE: The diversification limits are applied to each 'member account'. A member account is defined as follows:

Where there is more than one member in a fund:

- if assets are segregated – the member account is the aggregation of all sub-accounts relating to each member; and
- if assets are unsegregated – the member account is the aggregation of all sub-accounts within the fund.

Where there is only one member in a fund:

- the member account is the aggregation of all sub-accounts within the fund

Asset Grouping	Definition	Exposure Limit	Rationale
Cash & Fixed Interest	Cash management trust (must be a registered managed investment scheme) Bank bills and Bank accounts Government and Semi-Government Bonds Bank offered fixed interest securities and debentures Deposits with an Approved Deposit taking Institution (ADI)	Maximum 98% of a total member account permitted in any single investment holding of this type.	These types of products are generally low risk/low volatility. Note that the 98% holding limit does not apply to holdings in the Perpetual Cash Account. There is a 2% minimum required in each fund's bank account at any time, and such amounts are invested in the Perpetual Cash Account. (i.e. up to 100% may be held in Perpetual Cash Account).
	Credit Union products	Maximum 50% of a total member account in any individual holding.	
	Other fixed interest products not listed above (e.g. hybrid securities and unsecured notes)	Maximum 20% of a total member account in all securities of this type.	There is a higher level of risk associated with these types of products and institutions; to reduce the risk associated with an institution failing we have imposed a maximum exposure limit.
Direct Shares & REITs - Australian	a) ASX listed securities: • within the S&P/ASX 100 • within the S&P/ASX 200 (& not in the S&P/ASX 100) • outside the S&P/ASX 200	25% 15% 10%	Portfolio management theory research suggests that by diversifying across a range of securities, the impact of any one investment adversely affecting portfolio performance is diminished. A portfolio of 7 stocks can reduce stock specific risk to a reasonable level.
	b) All securities outside the S&P/ASX 200 index (in total).	40%	We regard the risk of losses in shares outside of the S&P/ASX 200 index as being higher, justifying a proportionally lower exposure.
	c) Any single S&P/ASX (GICS)	50%	We regard a limit of 50% exposure to any single GICS industry group to be appropriate to ensure adequate

Asset Grouping	Definition	Exposure Limit	Rationale
Listed investment companies (LICs) & Exchange Traded Funds (ETFs) Direct Shares - International	industry group d) A LIC operating as a company, which has shares that can be traded on the stock market e) ETFs on the ASX e) International Shares	Maximum 30% of a total member account to be held in any single security. Maximum 15% of a total member account to be held in any single security AND Maximum 20% of a total member account overall to be invested in all securities of this type.	diversification of ASX listed securities. We regard the diversification in LICs and ETFs due to their investment in a number of underlying securities to be greater than that of a single listed security. This justifies a higher exposure than to a single listed Australian share. ETFs are based on a range of indices. To maintain simplicity in the policy and to make implementation practical a standard rule of in line with that for LIC's has been used. As Trustee, we have limited information on the quality of individual international share holdings. In addition exchange rate risk makes individual international share investments more risky for members.
Direct Property	'Business Real Property' as defined in SIS – must satisfy the requirements of our Property Policy. Direct Property is only available for Balanced, Growth or High Growth investment strategies	Maximum 50% of a total member account to be invested in direct property.	We will allow significant investment in accordance with the member's investment strategy on the basis that some of the specific risks are mitigated via detailed due diligence, plus the requirement for building and pest inspections, and insurance.
Managed Funds	ASIC registered managed investment schemes (including Hedge Funds, Infrastructure Funds, Private Equity Funds) Solicitors Mortgage Fund (must be a registered managed investment scheme), Life insurance investment linked or investment account policies, Trustee Company Common Funds	i) Maximum 98% permitted in an individual managed fund with an acceptable research house rating, and ii) Maximum 50% of a member account may be held in any single sector geared managed investment scheme iii) Maximum 20% of a member account to be invested in all managed funds that do not have an acceptable research rating	Depending on their type, managed funds offer various levels of diversification, through exposure to different investments, investment types, asset sectors and managers. We will limit exposure to managed funds that do not have an acceptable rating from our preferred research providers as determined by the Perpetual Private Product Committee from time to time.

Asset Grouping	Definition	Exposure Limit	Rationale
Other Assets	- Traded life insurance whole of life or endowment policies - Private or closely held unit trust - Shareholding in private or unlisted domestic company - Derivatives without a charge over assets	Maximum 50% of a member account may be invested in ‘other’ assets with a limit of 15% in any single holding.	This group encompasses product types that do not fall within the mainstream asset types listed above and have their own specific risks, which justify an overall limit on the exposure we will permit.

All other assets types not listed above will be considered on a case by case basis by the Perpetual Private Product Committee (PPPC).

Notes:

Liquidity

To ensure each SAF can meet its liabilities when it is required to, and as required by SIS, we require that the maximum total exposure to ‘illiquid’ assets for each member account be no more than 50% of the portfolio. 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/promoter will make a market for trading the asset; or
- an asset where the manager/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 provide for the redemption of interests in over 70 days;
- an asset with:
  - no recognised market for trading of the asset; no means of redemption or trading; and
  - no requirement on scheme promoter to redeem or transfer assets.

Perpetual will only allow an illiquid asset (as defined above) if there is a mechanism to transfer the asset to another owner.

Tolerances

Given the value of investments can fluctuate over the short term; the PPPC will generally allow investments to exceed exposure limits by a maximum of 5% without requiring rectification action to be taken. Where a fund or a member balance exceeds the 5% tolerance, action will be required to return the fund to a position within the respective exposure and or asset allocation limit/s.

As outlined in section 6.1 all SAF’s are monitored for compliance on a monthly basis, any Member with holdings above the prescribed guidelines or with an asset allocation outside of the ranges specified in their chosen strategy are highlighted and reported via a diversification monitoring process which involves reporting to investment advisers so that they may take corrective action.

All members both within and outside the 5% tolerance level are reviewed each month to determine appropriate action to be taken, actions may include, but are not limited to, requesting that a member, via their adviser (where appropriate) gives consideration to their selected investment strategy and / or the sale of assets to return their account to a position which does not exceed the trustees exposure limits. Where a member does not respond or take corrective action after a period of time, the PPPC will be required to take action on behalf of the member which may include the sale of assets as noted above.

Appendix 5 – Matrix of Responsibilities

Small APRA Fund

Legend:

Approve	Making the decisions
Generate	Reporting and preparing recommendation for decision / noting
Input	Contributing to the report / recommendation
Note	Being aware of actions being undertaken
Implement	Implementing the decision
Review	Checking the action
Submit	Approving the submission

Board/Committee	PSL Board	PTCo IC	PPPC	Perpetual Staff	Asset Consultant	Investment managers	Custodian
IPS							
1 Investment strategy							
- Investment Strategy / objectives (ri	Approve	Generate	Review	Generate/Input	Note	n/a	Note
- Fees	Approve	Generate	Review	Input	n/a	n/a	Note
2 Annual Review of IPS	Approve	Generate	Review	Input	n/a	n/a	n/a
- Stress testing	Approve	Generate/Review	Review	Generate	n/a	Input/Generate	n/a
- Liquidity	Approve/Review	Note/Review	Review	Input	n/a	Input	Input/Implement/Note
3 Compliance with IPS	Approve	Note	Generate/Review	Input	n/a	n/a	Input