

SUMMARY INVESTMENT POLICY STATEMENT

Prime Super

NOTE: This is a short form version of the Investment Policy Statement the full document is available to members upon request.

Dated: September 2007

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Section 1 Introduction

- 1.1 The purpose of this Statement is to document the processes formulated by the Trustee of the Prime Super Fund (the Fund) in relation to the investment of the assets of the Fund.
- 1.2 Under the Fund's Trust Deed, wide ranges of investments are available to the Trustee. Prohibited investments (which are either specifically spelt out in the Trust Deed or are deemed to apply because of legislation) are:
- (a) loans to members;
 - (b) assets acquired from members;
 - (c) 'in-house' assets exceeding 5% of the market value of all Fund assets.
- 1.3 In establishing the investment objectives the Trustee has taken into consideration the various stakeholders and their particular requirements.
- 1.4 In considering the investment objectives and strategy the Trustee should consider various aspects of risk including:
- Negative returns;
 - Volatility (standard deviation of annual returns);
 - Credit risk;
 - Under- performing benchmarks; and
 - Under- performing competitors.
- 1.5 The Fund operates two distinct products, being a Superannuation product and a Pension product. The investment options offered by the Superannuation product and the Pension product are the same, except for the fact that no tax is payable in a Pension product.
- 1.6 The Fund offers a range of investment choices within the superannuation and pension products, including premixed and sector specific options. The investment options offered are:

Premixed options:

- Balanced option;
- Managed Growth option;
- Capital Stable option;

Sector options:

- Australian Shares option;
- International Shares options;
- Property option;
- Fixed Interest option;
- Cash option; and
- Target Return Portfolio.

The balanced option is the default investment option, i.e. where members do not make an investment choice, their investments will be invested in this option. Interest

is allocated to this investment option through a crediting rate that is based on the option's monthly investment return.

Members may choose to invest in one or any combination of the Investment Options, and may invest their future contributions in a different manner to which their account balance is invested. Members have the opportunity to switch their account balance between investment options on a monthly basis.

1.7 The Trustee maintains two reserves as follows:

- The Investment Fluctuation Reserve is a reserve maintained to manage the crediting of interest earned to members. The balance of this reserve represents a conservative allowance for any unknown elements as at the date of setting the crediting rate, such as tax credits, distributions, unlisted investment valuations etc., that ensures the reserve has a balance that is greater than \$0 as at the end of each financial year;
- Administration Reserve – this reserve is maintained to meet all operational expenses incurred by the Fund. Fees deducted from members are accumulated in this reserve, and all operational expenses are deducted from the reserve. All investment related expenses are deducted from the Investment Reserve.

1.8 Any reserves of the Fund are invested in accordance with the actual asset allocation of the Balanced option

Section 2 Investment Strategy

2.1 Overview of Investment Beliefs and Philosophy

The Trustee recognises that the achievement of competitive long-term investment returns commensurate with the retirement income aspirations of members will require that Prime Super accepts investment risk. Risk free investments will not generate sufficient returns to deliver the desired growth in the real value of the members' balances.

In accepting the need to take investment risk, the Trustee recognises that certain factors will have a critical influence on Prime Super's investment performance. These are:

- the setting of investment objectives to reflect the best interests of the members;
- the strategic asset allocation (for the diversified investment choices);
- the ability to capture the available market returns with confidence and to achieve the targeted returns on the direct investments;
- maintaining a regular vigilance over and research into evolving market opportunities and risks; and
- the clarity of the accountability and delegation processes used in the investment program (governance).

The Trustee accepts that investment theory and market experience have demonstrated the importance of asset allocation in influencing long term returns. In particular, the Trustee believes that in the long term, equities (profit participation) will produce higher returns than fixed interest, though the latter will have more stable valuations in the short term. Therefore, it is Trustee policy that each diversified investment choice is carefully formulated and periodically reviewed.

2.2 Investment Objective

The fundamental objective of superannuation investment is to grow the long-term, real value of member contributions for the purpose of providing for retirement income. In formulating investment strategy, it is vital to be clear about the investment time horizon. Given forecasts of increased life expectancy, it is becoming more likely that individuals will have retirement years nearly equal to their working years.

The mathematics of compound returns make clear that the investment return will overwhelm the original contribution in its share of the final benefit. These compound returns are realised through long time horizons.

While these facts demonstrate that investment strategy should recognise this long-term horizon, trustees are faced with a dilemma as investment choice and fund choice create the threat of short-termism in member behaviour.

The Trustee believes the appropriate policy is to adopt a long-term investment plan for building member wealth and not be sidetracked by concern for the short-term behaviour of some members.

Attention can and should be paid to managing the short-term risk but not to the detriment of long-term results. This policy approach is in the best interests of all the members.

2.3 Prime Super's Investment Approach

The overarching aim is to maximise Prime Super's real rate of return, while holding risk to a prudent level, for the purpose of providing for members' retirement income.

Prime Super's internal objective for the Balanced investment option is to achieve a long term real return of 5% per annum over the long term without increasing risk above that of other industry superannuation funds. Even an additional 1% per annum makes a material difference to a member's retirement benefit. In developing a strategy to achieve this goal, a good starting point is to make the following distinction:

- the *core market-based portfolio* (the main listed assets, such as equities, fixed interest and cash). The aim of this part of the portfolio is to achieve a 5% per annum real rate of return over the long term from an appropriately optimised portfolio of listed assets; and
- the *target return portfolio* (non-traditional investments, such as infrastructure, direct property, private equity, hedge funds, timberland and collateralised debt obligations). In the main, these investments will be directly negotiated and confer significant contractual rights and benefits to the investor. These assets will only be acquired if the expected rate of return for each investment *exceeds* a real return of 5% per annum over the long term.

This delineation allows the source of enhanced returns in Prime Super's strategy to become transparent. The two portfolios compete for capital allocation.

Subgroups within the target return portfolio are referred to as *asset clusters*, rather than *asset classes*, as a reminder that target return assets have neither sufficient clarity nor a returns history to enable meaningful conventional optimisation to derive the strategic asset allocation.

2.4 Managing Active Risk

The market portfolio represents a highly reliable long-term means of building wealth. Its reliability stems from the ability of investors to counter outcome (default) risk of individual investments through diversification within asset classes. By buying the market, specific risk can be diversified away. This leaves the market portfolio exposed only to the risk of the health and growth of the economy.

In some asset classes, it may be possible for professional investment managers to consistently outperform the market after taking account of the additional costs compared with indexed management. Reflecting this view, Prime Super's investment approach includes both low risk (passive) and higher risk (active) investment managers in managing the market portfolio.

In contrast, the target return portfolio inherently involves active risk taking. Prime Super's experience suggests that skill can be applied in pricing specific risk to provide confidence that the rewards are commensurate with the risks assumed. The resulting significant specific risk embedded in target return investments means their drivers of return are to a significant degree independent of the price performance of the broad listed markets and, in some cases, of economic conditions.

2.5 Asset Clusters for the Target Return Portfolio

To provide a sensible framework for policy setting, target return assets are grouped into six broad clusters: unlisted property, infrastructure and subordinated debt investments, private equity, hedge funds, timberland and collateralised debt obligations (CDOs) equity investments.

- *Unlisted property* describes investments in securities outside of the listed markets with strong exposure to property. These investments may be via direct investment in real property investments or via investments in unlisted funds.
- *Infrastructure and subordinated debt* investments include unlisted equity or debt investment in infrastructure, resource or other industries, generally of a capital-intensive and special purpose nature. Infrastructure investments generally deliver annuity returns whose reliability is generally underpinned by ongoing public use, often in circumstances having monopoly characteristics.
- *Private equity* is investment in unlisted equity. Private equity includes venture capital, expansion capital and management or leveraged buy-outs.
- *Hedge funds* are target return investments that seek return from dealing in listed or traded securities and contracts but with risk allocated on an absolute return basis so that their returns do not rely on the broad return performance of the associated markets.
- *Timberland* involves investing in timber producing land and/or the trees that are growing on the land.
- *Collateralised debt obligations (CDOs)* are special purpose vehicles (SPVs) established to purchase a diverse pool of corporate fixed interest securities (the collateral portfolio).

Some target return investments may not reside neatly into one of these groupings, and may therefore be a combination of one or more asset clusters.

2.7 Hurdle Rates of Return for Target Return Investments

For each potential investment in the target return portfolio an assessment is required of whether the projected returns from that investment meet or exceed the required hurdle rate of return for that investment. A framework has been developed to derive hurdle rates of return for asset clusters in the target return portfolio.

In establishing a hurdle rate of return for the Target Return Investments the following matters are taken into consideration:

- the expected baseline return;
- any embedded market risk premium;
- any specific risk premium;
- a liquidity risk premium; and
- agency risk premium.

2.15 Portfolio Construction for the Target Return Portfolio

Prime Super's practical approach to the target return portfolio is to set an indicative initial allocation as outlined in the Table 1 below. These ranges reflect the objective of achieving diversification among the investment clusters while controlling Prime Super's exposure to the differing risk levels implicit in the clusters. The breadth of the ranges reflects the market reality that investment opportunities are not uniformly available.

Prime Super has set a medium-term objective for the allocation to target return investments at 42.5% for the Balanced investment choice and this overrides the maximums permitted within individual allocations. Prime Super intends to review the ranges periodically in light of experience and market opportunity.

TABLE 1: TARGET RETURN PORTFOLIO ASSET CLUSTER INVESTMENT RANGES

Investment Cluster	Allocation of Total Portfolio (%)
Private Equity	0.0 – 15.0
Infrastructure Investments	0.0 – 25.0
Hedge Funds	0.0 – 10.0
Direct Property	0.0 – 22.5
Timberland	0.0 – 5.0
Collateralised Debt Obligations	0.0 – 5.0
Total Allocation	42.5

It should be noted that these ranges do not provide specific constraints for investments within each cluster.

Section 3 Investment Policy

3.1 Decisions and Delegations

The Board of Prime Super has ultimate responsibility for the investment decisions of the Fund. The Investment Committee has the following authorities:

- can reallocate money between existing investment managers;
- can allocate new money to existing investment managers;

Decision of the Investment Committee that require approval by the Board are:

- appointment of new investment managers;
- changes to the ranges within a strategic asset allocation; and
- any changes to this Investment Policy Statement.

3.2 Diversification

The Trustee has adopted diversification policies set out below.

In the market –based portfolio, diversification occurs through allocation of investments across a range of asset classes, and to a number of different investment managers.

In the target return portfolio, the primary tools for diversification are:

- diversification of investments across a range of asset clusters, as outlined earlier; and
- the adoption of a 2% limit on drawdown exposure. This limit is set in the expectation that such loss would represent less than three months of the expected investment earnings of Prime Super.

The drawdown exposure for an investment is an estimate of the maximum potential for non-recoverable loss. This exposure is estimated by taking into account the degree of certainty and control that surrounds an individual investment.

3.3 Scope of Investment and Asset Allocation

The Trustee will use the services of professional investment advisors and managers for the management of Prime Super’s assets. Prime Super’s assets may be held in any of the following ways:

- directly (generally by special purpose subsidiaries);
- in individual portfolios managed within agreed mandates;
- through collective investments, for example in Unit Trusts;
- through Pooled Superannuation Trusts or like products offered by Life Offices.

Managers may use derivatives including futures contracts, options and currency hedges to either protect the value of their portfolios or to manage them efficiently within set asset allocation ranges.

Derivatives may not be used to gear Prime Super. Use of derivatives should be in accordance with the relevant Risk Management Statement.

Style and sector tilts within asset classes may be adopted to take advantage of medium term market developments where material mis-pricing occurs.

3.4 Advisors and Managers

It is the Trustee policy to take professional advice in the formulation of investment strategy and the selection, implementation and monitoring of its investments. The Trustee appoints a professional Investment Advisor to advise the Board on all aspects of the investment functions of the Fund. From time to time the Trustee may require the input of a second, or specialist, asset consultant to provide a counter view to the primary Investment Advisor. A secondary Investment Advisor will only be appointed upon the approval of the Board.

The Trustee appoints professional Investment Managers to manage the investments of the Fund. Managers of monies invested within the Target Return Portfolio will be appointed based on their skill in the specific any of investment. All investment managers selected by the Trustee will be independent and publicly known. They will be independently audited each year.

Prime Super will only invest in directly owned assets on the basis of favourable full risk analysis and appropriate due diligence reports conducted by professionally qualified advisers and consultants who are publicly known and highly regarded for their expertise.

3.5 Manager Structure

The Trustee, in consultation with the Investment Advisor, has formed the following broad policy decisions with respect to manager structure:

- to use active specialist (i.e. single asset class) management in sectors where out performance can reasonably be expected;
- to use passive management in situations where the expected value added by active management is low, and/or where risk and fee advantages can be gained;
- to reduce investment risk by investing with a number of separate specialist investment managers; and
- alternative assets can be used to improve the return expectations without significantly affecting the risk profile of the Fund.

3.6 Liquidity

The Trustee recognises the need for adequate liquidity at all times. The rules to govern a fund include taking account of:

1. the risk involved in an investment, having regard to its objectives and cash flow requirements;
2. the composition of the entity's investments as a whole, including the diversification of investments;
3. the liquidity of the entity's investments having regard to cash flow requirements; and
4. the ability to discharge its existing and prospective liabilities.

In this context, it is worth noting that many of the investments in the target return portfolio will be less liquid than market portfolio investments. The overall liquidity requirements of the Fund are determined having taken this reduced level of liquidity in the Target Return Portfolio into account.

3.7 Reporting and Monitoring

The principal goals in monitoring the performance of Prime Super's investment options are to determine the:

- return that would have been earned if the strategic asset allocation had achieved the relevant index performance;
- margin of additional return earned by adopting the current investment approach;
- performance of each of Prime Super's investment managers against its relevant index;
- performance of each of Prime Super's investment managers against its peers;
- performance of directly owned assets against expectations and relevant alternatives; and
- median return that has been earned by comparable investment portfolios.

Performance for the Fund as a whole, individual asset classes, and individual managers, will be measured against appropriate indices and related benchmarks.

3.8 Management of Direct Investments

Direct Investment of the Fund are managed in accordance with the Fund's Direct Investment Policy Statement. Reporting from these managers includes at a minimum;

- monthly reports from the manager;
- maintenance of good corporate governance standards;
- establishment of key performance criteria by which the manager is measured; regular reviews by independent experts to determine the ongoing suitability of the investment to the investment mix of the Fund;

3.9 Custody and Valuation

All investments held by Prime Super will be held by the Master Custodian who will be accountable for the collection and recording of income and sale proceeds and the disbursement of funds for investment under valid instructions by the Trustee to the Trustee's delegates, and for the proper recording of these transactions.

All assets will be regularly valued consistent with Australian Accounting Standard 25 and Australian Venture Capital Association Limited rules and other standards and guidelines, as applicable. Prime Super will establish its policies for the valuation of investments in the *Valuation Manual*.

3.10 Compliance and Audit

The Fund has an established compliance system to apply to the investment program and to report to Prime Super's Audit Committee on the system and its findings.

3.11 Risk Management Statements

The Trustee has an approved Part A Risk Management Statement, as required by regulatory authorities. This statement is updated as required. If in future the trustee wishes to make use of derivatives contracts directly, for example, for currency hedging or tactical asset allocation purposes, the Trustee will establish a Part B Risk Management Statement. The Trustee has reviewed each manager's Part B Risk Management Statements as necessary.

3.12 New Asset Allocation

The Trustee conducted a comprehensive review of investments and the Fund's overall asset allocation, and appointed a new Investment Consultant, during 2006. These changes were aimed at improving the competitiveness of the Fund, in a return sense, with the broader superannuation market.

3.13 Transition to New Asset Allocation

The transition from the existing investment manager line up to the new strategic asset allocation will occur over a three year period. The transition involves a measured increase in business risk as the target return portfolio weighting (and, hence, projected excess return) increases. A basic outline of the transition is set out in Appendix B

Section 4 Updates and Changes to this Statement

- 4.1** This Statement, and the objectives, strategy and policies contained herein, is to be reviewed by the Trustee at least once a year, or as appropriate.
- 4.2** This Statement is intended to be effective for an indefinite period. However, changes may need to be made and should be considered if:
- a) there is a major change in the circumstances of the Fund of the Trustee;
 - b) benefit design changes are made to the Fund;
 - c) changes are made to Government Regulations relating to the Fund's investments;
 - d) new investment vehicles are launched, that the Trustee considers are suitable substitutes for the Fund's existing investments; or
 - e) fundamental long term social, political or economic restructuring occurs.

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Appendix A Target Asset Allocation Strategy

The following table sets out the new target asset allocations as compared to those at 30 September 2006. the transition to the new asset allocation is planned to occur over a three year period with an expected completion date of 30 June 2009.

	Actual Allocation Sep '06	New Strategic Asset Allocation
Target Return Portfolio		42.5%
Property	8.6%	
Private Equity	3.8%	
Absolute Return	9.6%	
Infrastructure	3.2%	
Market Return Portfolio		
Cash	1.0%	1.0%
Australian Fixed Interest	11.2%	0.0%
Overseas Fixed Interest	6.7%	0.0%
Australian Equity	31.0%	31.0%
Developed Markets Overseas Equity	11.2%	15.5%
Developed Markets Overseas Equity (hedged)	11.2%	8.0%
Emerging Markets	2.5%	2.0%
TOTAL	100.0%	100.0%

TRANSITION

- The proposed transition plan for Prime Super's Balanced investment choice takes into account Prime Super's current position, and the desire to manage risk during the transition.
- The transition plan involves a measured increase in business risk as the target return portfolio weighting (and, hence, projected excess return) increases.
- During the transition additional target return investments are funded predominantly by running down cash and fixed interest holdings. This effectively involves the substitution of one defensive asset for another.
- The following table shows the transition plan Access Economics recommends for Prime Super's Balanced investment choice.

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Asset Allocation	Actual Allocation Sep '06	Phase 1	Phase 2	Phase 3	New Strategic
Target Return P'folio	25.2%	27.5%	32.5%	37.5%	42.5%
Market Return P'folio					
Cash	1.0%	8.0%	5.0%	4.0%	1.0%
Aust Fixed Interest	11.2%	5.5%	3.5%	2.0%	0.0%
Overseas Fixed Interest	6.7%	2.5%	1.5%	0.0%	0.0%
Australian Equity	31.0%	31.0%	31.0%	31.0%	31.0%
Developed Markets Overseas Equity	11.2%	15.5%	15.5%	15.5%	15.5%
Developed Markets O/S Equity (hedged)	11.2%	8.0%	8.0%	8.0%	8.0%
Emerging Markets	2.5%	2.0%	2.0%	2.0%	2.0%

The transition from the September '06 asset allocation to the final strategic allocation will occur in phases as outlined above. The transition between phases will be reliant upon deal flows to the target return portfolio, and as such no dates for completion of each phase have been set.

Appendix B Investment Transition Plan

The following sets out a high level transition plan from the existing investment allocation to an allocation with a greater exposure to growth assets.

The Investment Consultant has designed a transition plan for Prime Super's Balanced investment choice (refer to the following table), which takes into account Prime Super's current position, and the desire to protect the risk of the portfolio during the transition.

	Actual Allocation End Sep '06	Phase 1	Phase 2	Phase 3	New Strategic
Asset Allocation					
Target Return Portfolio	25.2%	27.5	32.5%	37.5%	42.5%
Cash	1.0%	8.0%	5.0%	4.0%	1.0%
Australian Fixed Interest	11.2%	5.5%	3.5%	2.0%	0.0%
Overseas Fixed Interest	6.7%	2.5%	1.5%	0.0%	0.0%
Australian Equity	31.0%	31.0%	31.0%	31.0%	31.0%
Developed Markets	11.2%	15.5%	15.5%	15.5%	15.5%
Overseas Equity					
Developed Markets	11.2%	8.0%	8.0%	8.0%	8.0%
Overseas Equity (hedged)					
Emerging Markets	2.5%	2.0%	2.0%	2.0%	2.0%
Expected Returns					
Expected Return	7.97%	8.23%	8.44%	8.74%	9.00%
Expected Excess Return	0.23%	0.49%	0.69%	1.00%	1.25%
Risk Measures					
Tracking Error	1.39%	1.56%	1.81%	2.08%	2.36%
Absolute Standard Deviation	6.78%	6.68%	6.91%	7.16%	7.41%
Probability Measures					
Absolute Risk Probability	11.99%	10.88%	11.10%	11.10%	11.24%
Business Risk Probability	18.92%	17.07%	17.44%	16.83%	17.03%

The transition plan involves a measured increase in business risk as the target return portfolio weighting (and, hence, projected excess return) increases.