Prime Super

Investment Policy Statement

April 2011

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1 INTRODUCTION

1.1 PURPOSE

This Investment Policy Statement establishes the principles that the Trustee will follow in managing Prime Super's investments. These principles reflect the Trustee's consideration of Prime Super's circumstances and the nature of investments and investment markets.

1.2 BACKGROUND

1.2.1 CIRCUMSTANCES

Superannuation represents the investment of savings during a member's working years to provide retirement income. Increasingly, superannuation is seen to include management of the drawdown of retirement savings as well as its accumulation.

Prime Super is an accumulation superannuation scheme. Member benefits are the accumulation of member contributions plus each member's share of investment earnings less their share of applicable taxes and expenses.

The degree to which superannuation savings will generate retirement wealth is dependent on the member's decisions on the level of contributions, the exercise of investment choice and the Trustee's success in investing members' balances within the specified risk parameters of each investment choice. Prime Super's ultimate investment objective is to optimise the growth in the real value of members' benefits subject to a prudent level of risk.

Prime Super has elected to be a regulated superannuation fund under the Superannuation Industry Supervision Act ("SIS"). This election confers certain tax benefits but also imposes certain duties, including the requirement to:

- act in the best interests of all members (a long term duty which may not always accord with members' short term preferences);
- formulate an investment strategy having regard to risk, return, diversification, liquidity and Prime Super's prospective liabilities; and
- report at least annually to members on Prime Super's management and investment performance.

The activities of the Trustee must also follow the directives and restrictions set out in the Trust Deed and conform to general trustee and directors' duties under the Corporations Law, Securities Law, the Trade Practices Act and common law in general.

1.2.2 MEMBERS' PERCEPTIONS AND ATTITUDES

In formulating the Investment Policy Statement, the Trustee is also aware of the perceptions and attitudes of members towards superannuation in general and Prime Super in particular. The Trustee believes that the retention of member confidence is important to maintaining stability and consistency in the investment management of Prime Super. While the directives of SIS, the Trust Deed and other legislation override individual member preferences, the Trustee, in setting Investment Policy, has considered member expectations as follows:

- members expect the Trustee to have an investment plan, take professional advice and invest prudently;
- members will judge Prime Super's performance by comparing Prime Super's returns with bank interest rates and other superannuation products (in this regard, the measurement criteria of members may have a shorter time frame than the Trustee's);
- negative crediting rates or substantial investment losses are likely to unsettle members' confidence (again, members may take a short-term view of risk in contrast to the Trustee's long-term objective to maximise return); and
- members are becoming more aware of their superannuation investments and this awareness will tend to grow in line with their balances, and the community's general awareness of the importance of superannuation as a retirement savings product.

1.2.3 MEMBER INVESTMENT CHOICE

As noted earlier, members' benefits are the accumulation of contributions paid into their accounts plus investment returns thereon, less any applicable expenses and tax. Members, therefore, bear the investment risks and rewards. Prime Super has introduced member investment choice to allow members to select their own risk profile.

Prime Super members can choose from the following investment options:

- three based on diversified investment strategies:
  - Default Option;
  - Conservative Option; and
  - Managed Growth Option;
- six which allow members to invest in specific asset strategies:
  - Cash;
  - Fixed Interest;
  - Property;
  - Australian Equities;
  - International Equities; and
  - Target Return.

Members have the choice to invest in either the superannuation or allocated pension versions of the above choices. Both approaches are invested in an identical way; with differences in return reflecting different tax rates.

In terms of exercising their investment options, members may:

- change their investment option or combination of investment options at the end of each month;
- invest in more than one investment option; and
- invest their account balances and future contributions in different investment options or combinations of investment options.

Members who do not exercise investment choice are automatically placed in Prime Super's Default Option.

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 accept investment risk. Risk free investments will not generate sufficient returns to deliver the desired growth in the real value of 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);
- consideration of Prime Super's liquidity position;
- the ability to capture market and excess returns with confidence and to achieve the targeted returns on unlisted investments;
- maintaining 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 the Trustee's policy that each diversified investment choice is carefully formulated and periodically reviewed.

The Trustee believes that it is possible to achieve greater investment returns than that of the broad market through direct investing and the accompanying acceptance of specific, business and liquidity risks. Therefore, it is Trustee policy to invest directly to achieve these higher returns, subject to the other policies set out in this Statement and other related polices, such as Prime Super's Liquidity Policy Statement.

The Trustee believes that effective diversification is the investor's primary protection against the risk of material investment loss. The Trustee accepts that it is inevitable that some investments will fail and, therefore, has established diversification rules in respect of individual investment exposures and groups of exposures.

The Trustee believes that the second line of protection against risk is to ensure adequate assessment of potential investments and ongoing monitoring of the investment portfolio. Accordingly, the Trustee has employed professional advisers and managers, and set rules about the supervision of the investment portfolio.

The Trustee considers the third line of protection against risk is to ensure the investments are supported by excellent recording and accounting systems, are held through good custodial arrangements, and are subject to proper valuation compliance and audit procedures. Here, too, the Trustee has established rules.

Finally, the Trustee considers that clarity of accountability between the Trustee and its various service providers is critical to the proper management of the investment program. Therefore, this Investment Policy Statement also establishes a framework of delegations that will be used in the investment management program.

2.2 INVESTMENT OBJECTIVE

Section 52 of the Superannuation Industry (Supervision) Act 1993 (SIS Act) sets out governing rules for trustees of complying superannuation funds. Section 52 (2) (f) of the SIS Act, refers to the formulation of a superannuation fund's investment strategy. In essence, this section of the SIS Act requires a fund's investment strategy to reflect the fund's objectives and appropriate assessment of risks and expected returns of investments. In particular, Section 52 (2) (f) of the SIS Act highlights the need for appropriate levels of diversification and consideration of liquidity risk[1].

Noting the requirement to formulate an investment strategy, Prime Super recognises that 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.

While the investment horizon of members and impact of cumulative returns suggest 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. In doing so, attention must 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.

For the diversified Member Investment Choice (MIC) options, Prime Super's overarching aim is to maximise the real rate of return, while holding risk to an appropriate level, for the purpose of providing for members' retirement income. The prudent management of members' funds involves ensuring a high level of confidence in obtaining the desired return, and recognising the need for liquidity and equity among members over intermediate time periods.

[1] Prime Super's Liquidity Policy Statement records the principles and strategy in managing the liquidity of Prime Super.

2.3 PRIME SUPER'S INVESTMENT APPROACH

The stated investment objective for the Default Option is to outperform (after fees and taxes) CPI by at least 4% per annum over the medium term, while limiting the likelihood of a negative return to approximately four in 20 years.

In order to achieve this goal, Prime Super's investment strategy involves investing in a diverse range of listed and unlisted assets through the use of two distinct investment portfolios:

- ***The Market Portfolio*** – consists of listed sectors, such as cash, fixed interest and shares.
- ***The Target Return Portfolio*** – consists of alternative investments which represent a diversified portfolio of unlisted assets, comprising of infrastructure, direct property, private equity, natural resources and credit opportunities.

Market Portfolio investments are measured against the relevant market index (benchmark). This portfolio seeks to outperform moderately the relevant listed market indices, with high conviction, minimal risk and low management costs.

Prime Super analyses the demographics of its member base, noting there is a long investment horizon for a significant portion of Prime Super's members. This allows Prime Super to adopt a long-term view of investment which enables Prime Super to take advantage of investing in unlisted assets. However, Prime Super is aware that a long investment horizon is not universal, and that the long term investment strategy needs to be balanced against the risk of short term movements.

Each asset within the Target Return Portfolio is measured against an absolute return target that is set by Prime Super's Trustee and reflects the expected return of the Market Portfolio plus additional return premia that is expected to adequately compensate members for the risks inherent of investing in that asset. Overall, the Target Return Portfolio consists of a diversified portfolio of these investments and is designed to deliver:

- attractive total returns in light of the risks taken;
- returns that are driven by long-term annuity cash flows; and
- a relatively low correlation with the performance of listed shares in most market cycles.

These characteristics mean that assets within this portfolio often help cushion members' returns against short term fluctuations in listed markets, while providing returns that may be in line with or higher than listed equities over the long run. In this manner, Prime Super's relatively high strategic allocation to alternative assets (that is, the Target Return Portfolio), allows Prime Super to diversify, across the whole of the portfolio, its exposure to listed share markets.

2.4 ALLOCATION BETWEEN THE TWO PORTFOLIOS

Quantitative optimisation and liquidity analysis are used to determine the total allocation to the Target Return Portfolio, taking into account expected returns, absolute risk, business risk and liquidity risk. Liquidity stress testing helps identify a maximum desired allocation to illiquid assets (that is, the Target Return Portfolio) for the Default Option. This analysis is designed to ensure that under most conceivable liquidity shocks, the Default Option's Target Return Portfolio allocation remains below a pre-defined maximum level.

Within the Target Return Portfolio, targeted allocations to low, medium and high risk categories are developed in light of the objectives for this portfolio. In addition, risk management frameworks guide the composition of the Target Return Portfolio.

Having set the total allocation, investment in the Target Return Portfolio is not undertaken by participating in the broad market, but by careful analysis of individual investment opportunities as they present themselves.

Target Return Portfolio investment opportunities may not always be available. Even where investment opportunities are on offer, prospective returns may not meet the investor's hurdle rates. In addition, the Trustee recognises that the Target Return Portfolio has a far higher resource requirement to establish and maintain it. There are practical limits on how much any fund can do at any one time and still maintain good governance practices. Accordingly, the general precept of constant exposure in the Market Portfolio does not apply to the Target Return Portfolio.

One consequence of the disciplined yet opportunistic approach to the Target Return Portfolio is that the actual allocation to the Target Return Portfolio will differ from strategic targets depending on the ebb and flow of opportunities. It is in this sense that the two portfolios compete for use of Prime Super's capital. The management of deviations from strategic asset allocations for the Target Return Portfolio is discussed below.

2.5 MANAGING DEVIATIONS FROM STRATEGIC ASSET ALLOCATIONS FOR THE TARGET RETURN PORTFOLIO

The Trustee has developed a strategy for addressing deviations from strategic asset allocations, whereby the Default Option is the "balancing option" for net investment performance rate purposes. The Managed Growth, Conservative, Target Return, Property, Cash, Fixed Interest, Australian Equities and International Equities each receive their strategic asset allocations. Prime Super's rebalancing strategy ensures that actual holdings of the asset classes are sufficient to meet the requirement of these MIC options.

The Default Option (which acts as a bank for all other MIC options) receives the residual exposures that remain for each asset class. As such, the Default Option's actual asset allocation may vary from its strategic asset allocation within the ranges that are determined by the Trustee and that have been disclosed to members.

Within the Default Option, the Target Return Portfolio allocation, as a percentage of total funds, can experience material movements. To help manage the impact of this on the Default Option's asset allocation, any under/overweight allocation to the Target Return Portfolio is pro-rated across the Market Portfolio. Expected fluctuations in the allocation to the Target Return Portfolio are influenced by:

- movements in the equity market; for example, sharp falls in listed equity markets increase the allocation to the Target Return Portfolio;
- movements in value of the Australian dollar. In particular, a depreciation in the Australian dollar will increase the Australian dollar value of overseas currency denominated investments and, hence, increase the allocation to the Target Return Portfolio. In addition, the funding of currency hedge losses will reduce exposure to liquid assets;
- members switching out of options with Target Return Portfolio exposure into options with a lower or no Target Return Portfolio exposure;
- the revaluation of Target Return Portfolio assets; and
- significant changes in the returns received from investments, for example sharp declines in cash dividends received.

As such, the Trustee, as part of its investment management processes, recognises that the Default Option's allocation to the Target Return Portfolio can generally be expected to fluctuate through time. Given this, the Trustee reviews the actual asset allocation of the Default Option each month via the monthly reports.

The Trustee also recognises the importance of ensuring that the level of exposure to Target Return Portfolio assets is consistent with maintaining the capacity to meet its liabilities, in a range of prevailing investment conditions. Accordingly, the Trustee has developed, as part of the Liquidity Policy Statement, a menu of potential responses to assist the Trustee with the most appropriate course of action based on the prevailing circumstances at the time.

2.6 STRESS TESTING

The Trustee recognises the importance of stress testing in order to understand the risks inherent in Prime Super's portfolio under differing investment environments. Accordingly, stress testing of both Prime Super's asset allocation and liquidity position is undertaken on a quarterly basis as part of the Target Return Portfolio quarterly reports, as well as part of the annual Strategic Review and annual Liquidity Review. The outcomes of this testing feed into the Trustee's decision making, as appropriate, with regards to the setting of the strategic asset allocation of each MIC option.

Scenario analysis of Prime Super's asset allocation is undertaken on two levels to examine:

- the expected risk and return outcomes for Prime Super's portfolio under a number of conceivable investment environment scenarios; and
- the impact on the expected risk and return outcomes for Prime Super's portfolio from altering the risk and return assumptions input into the modelling framework.

The illiquid nature of Target Return Portfolio assets necessitates active management of the liquidity position of this portfolio and its broader impact on the liquidity position of Prime Super. Recognition of this concern is a key driver of the strategic allocation to the Target Return Portfolio. That is, the strategic allocation is set by reference to a level of investment in illiquid assets which can withstand severe and combined liquidity shock scenarios. This approach seeks to ensure that the level of exposure to less liquid assets is consistent with the ability of Prime Super to meet its current and prospective liabilities within a range of market conditions, including the severe downside scenarios reflected in a combined shock scenario. As such, liquidity stress testing is undertaken on:

- the Default Option's Target Return Portfolio allocation to member inflow sensitivities and isolated member balances; and
- the Default Option's Target Return Portfolio allocation to a suite of meaningful and correlated liquidity shocks.

The application of this stress testing of liquidity to the strategic asset allocation model for Prime Super is explained in greater detail in Prime Super's Liquidity Policy Statement.

2.7 MANAGING ACTIVE RISK

The long-term trend of equity markets generally reflects positive growth, such that, the Market Portfolio (which is dominated by exposure to listed equity) is expected to increase wealth reliably over the long term. Having said this, equity markets are volatile and can experience significant downturns over the short term, driven by market specific events and the economic cycle. Accordingly, it is important to strike an appropriate balance between risk and return through investment in defensive assets, like cash and fixed interest, which help to limit the impact of unfavourable investment environments on portfolio performance.

In terms of active returns, the Market Portfolio's strategy is focussed on providing moderate after-fees excess returns with confidence (high information ratio) through a highly liquid, tax efficient and low cost diversified Market Portfolio. This is underpinned by the general philosophy that it is better for the Fund to spend more of its risk budget seeking outperformance in the Target Return Portfolio rather than in the more efficient listed markets.

To appropriately assess the Market Portfolio configuration, it is important to have clear objectives. To this end, Prime Super targets a medium-term (three year) outperformance (gross of fees) for the Market Portfolio of 0.5% to 1.0% per annum. This objective provides an absolute reference point for considering attractive opportunities for inclusion in the Market Portfolio, whereby an expected improvement in the likelihood of the Market Portfolio achieving its objective becomes the relevant hurdle for investment. The performance of incumbent managers is also assessed on an on-going basis against the performance of the relevant market index as well as the performance of similar active managers within the sector.

The Target Return Portfolio inherently involves taking active risk. 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 Portfolio investments means their drivers of return are to a relative degree somewhat independent of the price performance of the broad listed markets and, in some cases, of economic conditions. This characteristic will vary between Target Return Portfolio assets, for example some Target Return Portfolio assets will have a greater exposure to economic growth and general equities and credit market performance than others.

The skills required in the construction of a balanced Target Return Portfolio include the ability to negotiate investments that offer contractual entitlements and benefits superior to those of ordinary share or debt holders. Contractual rights are the means by which the investor manages the higher outcome (default) risks associated with those alternative assets. In addition to investment acquisitions, Prime Super maintains an on-going divestment review for its investments – primarily through the assessment of whether the prospective returns of existing assets provide sufficient compensation for the expected risk profile of each investment. Where such compensation is not apparent, Prime Super will instigate an orderly sale process of the relevant investment.

It also follows that the Target Return Portfolio requires a higher degree of involvement in the on-going risk management process than does the Market Portfolio, which simply requires careful monitoring. As such, Prime Super has developed a multi-faced risk management framework for Target Return Portfolio investments, which is intended to ensure that:

- Prime Super is appropriately compensated, in terms of expected returns, for risks taken;
- the Target Return Portfolio is appropriately diversified. This includes ensuring that Prime Super's exposure to common risk factors across Target Return Portfolio investments, such as economic growth, interest rates, equity risk premia, inflation and regulation, is consistent with the goals and objectives of the Trustee; and
- the Target Return Portfolio has characteristics consistent with those assumed in the strategic modelling which underpins Prime Super's strategic asset allocation decisions.

Furthermore, Target Return Portfolio assets require the on-going application of skills through the updating of financial models, participation in Board strategy and decisions or Management Committees; negotiation of rent reviews; and refinancing opportunities; ensuring valuations occur and generally keeping abreast of developments affecting the investments. The illiquid nature of Target Return Portfolio assets also necessitates active management of the liquidity position of this portfolio and its broader impact on the liquidity position of Prime Super. This detailed level of supervision of Target Return Portfolio investments ensures that investors are always in a position to exercise their contractual rights, if necessary, to defend their interests.

2.8 RETURN BENCHMARKS

The benchmark indices used to evaluate the performance of Prime Super's Market Portfolio assets are detailed in Table 1. Generally, these are also the benchmark indices used to assess the manager's performance.

TABLE 1: BENCHMARK RATES OF RETURN FOR MARKET PORTFOLIO INVESTMENTS

Asset Class	Benchmark
Cash	UBS Australian Bank Bill Index
Australian Fixed Interest	UBS Australian Composite Bond Index (All Maturities)
International Fixed Interest	Barclays Capital Global Aggregate Index (hedged into Australian dollars)
Australian Listed Equity	S&P/ASX 300 Accumulation Index Gross of Franking Credits
Developed Markets Overseas Equity[(a)]	MSCI World (ex Australia) Index Expressed in $A Terms with net Dividends Reinvested
Emerging Markets Equity	MSCI Emerging Markets Free Index Expressed in $A Terms with net Dividends Reinvested

(a) The benchmark returns for Developed Markets Overseas Equities incorporates a hedge ratio for major currencies (that is, USD, Euro, GBP and JPY) which is subject to periodic review.

For Target Return Portfolio assets, the benchmark rates of return reflect the hurdle rates for each asset cluster as detailed below in Table 2 in section 3.1.

2.9 ASSET CLUSTERS FOR THE TARGET RETURN PORTFOLIO

To provide a sensible framework for policy setting, Target Return Portfolio assets are grouped into five broad clusters: unlisted property, infrastructure, natural resources, credit opportunities and private equity investments.

- *Unlisted property* describes investments in securities outside of listed markets with significant exposure to property. These investments may be via direct investment in real property or via investments in unlisted funds. Returns on individual property investments are generally dependent on factors other than broad market movements. For most property investments, returns come in the form of contractual annuity (rental) income streams, with re-valuations undertaken from time to time. Included in this asset cluster are investments in property development opportunities. These investments have a higher risk profile than investments in established properties;

- *Infrastructure* investments are generally of a capital-intensive and special purpose nature and include unlisted equity investment in infrastructure, resources or other industries. Infrastructure investments generally deliver annuity returns which are underpinned by on-going public use and often exhibit monopoly characteristics. This asset cluster includes both investment in existing facilities and the development of new assets; *Credit opportunities* include both senior and subordinated debt investments as well as collateralised loan opportunities (CLOs). Debt opportunities include investments within property, infrastructure or infrastructure-like opportunities offering security higher in the capital structure than the traditional (above mentioned) infrastructure and property asset clusters. CLOs involve investment (either debt or equity) in an underlying pool of corporate fixed interest securities;

- *Private equity* is investment in unlisted equity. Private equity includes venture capital, expansion capital and management or leveraged buy-outs. Private equity returns are generally realised upon capital sale of the investment, although revaluations may occur in the interim.
- *Natural resources* involve investing in renewable and non-renewable assets, which are naturally occurring and sold largely unmodified, in their natural form. Potential investments in this asset cluster may include timberland, solar energy, wind energy, oil, gas and carbon credits;

Some Target Return Portfolio investments may not fit neatly into these groupings (or equally could be included in more than one grouping). This does not preclude their part in the portfolio; however, it does indicate a need to take additional care in profiling their investment characteristics as part of the investment analysis.

3 INVESTMENT POLICY

3.1 DECISIONS AND DELEGATIONS

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

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

Decisions of the Management 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 SCOPE OF INVESTMENT AND ASSET ALLOCATION

The Trustee will either directly invest and manage or use the services of professional investment advisers and managers for the management of Prime Super's assets.

Prime Super's assets will be held:

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

Managers may use derivatives including futures contracts, options and currency forwards 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 the fund. Use of derivatives should be in accordance with the relevant Derivatives Risk Statement.

Whilst maintaining an appropriate allocation to a 37.5% Target Return Portfolio asset allocation for the Default Option, the Trustee recognises that Target Return Portfolio assets will be sold if the proceeds can be invested so as to better achieve Prime Super's investment objectives.

The Trustee takes a long term view towards asset allocation and does not typically alter these allocations according to short term market movements.

Style and sector tilts within asset classes may be adopted to take advantage of medium term market developments where material mispricing occurs. Similarly investment decisions will be tilted to reflect current views on the risk and return trade off.

3.3 FOREIGN CURRENCY HEDGING

Prime Super currently manages its foreign currency exposure at the total portfolio level, in a manner that aims to balance the associated risks, including business risk (the risk of underperforming peer funds), absolute risk (the volatility of total portfolio returns) and liquidity risk (the risk of insufficient liquidity in the portfolio).

Prime Super's targeted level of foreign currency exposure is monitored on an on-going basis and adjusted from time to time in accordance with any meaningful changes in business risk estimates or assessments regarding the medium-term outlook for the Australian dollar.

Under circumstances where Prime Super places a high degree of confidence in the likely direction of the Australian dollar over the medium term, the targeted level of foreign currency exposure may be adjusted moderately to express this view. This is done in a risk controlled manner to limit the potential for an active currency view to have a large adverse impact on the overall performance of the portfolio, reflecting the difficulty associated with timing such views.

The required level of foreign currency hedging under this approach is implemented through Prime Super's foreign currency manager as a passive overlay that aims to limit the cash flow (liquidity) implications associated with foreign currency hedging.

3.4 MONITORING BUSINESS RISK

Stated simply, business risk is the risk that Prime Super underperforms its peers. The single largest component of business risk is the difference between the asset allocation of Prime Super's Default Option and the asset allocation of peer funds.

In order to measure accurately the level of business risk assumed by Prime Super, it is necessary to monitor the strategic asset allocations and the changes in allocations of peer funds. This is done by reference to a "Benchmark Fund". Prime Super's investment adviser subscribes to the SuperRatings survey which reports on the asset allocations of Australian superannuation funds on a quarterly basis. The Benchmark Fund allocations to the major asset classes are based on the average of peer funds within the Balanced universe component of the SuperRatings' asset allocation survey data. To place this data in context, the distribution of peer fund asset allocations and expected risk/return profiles are also measured.

3.5 EXERCISE OF VOTING RIGHTS ATTACHING TO EQUITIES

The Trustee recognises that there is widespread community consideration of the prudent and diligent exercise of voting rights attaching to equities held by superannuation funds.

The Trustee considers Best Practice Guidelines issued by relevant associations (e.g. the Australian Shareholders Association) and Australian superannuation industry associations (e.g. the Association of Superannuation Funds of Australia, the Australian Institute of Superannuation Trustees, the Australian Council of Superannuation Investors and the Industry Funds Forum).

The Trustee has ensured the voting rights of collective equity investments and directly held equity investments (through separately managed investment arrangements) are being monitored and appropriately utilised by its investment managers. In doing so, the Trustee has reviewed the proxy voting policies of each investment manager to ensure that proxy voting decisions taken on its behalf are appropriately informed, including through the services of a major proxy voting service provider. For Target Return Portfolio investments, Prime Super's policy is to seek the right (including jointly with closely aligned co-investors) to appoint a nominee to the Board of each investee company or to the advisory board in the case of managed funds. Where direct representation on an investee Board is not secured, Prime Super will look to seek Board papers and minutes of Board meetings.

4 ADVISERS AND MANAGERS

It is the Trustee's policy to take professional advice in the formulation of investment strategy and the selection, implementation and monitoring of its investments.

Prime Super will only invest in directly owned assets on the basis of favourable full risk analyses and appropriate due diligence reports conducted by professionally qualified advisers who are highly regarded for their expertise. The activities of these entities will be monitored on an on-going basis to ensure legal compliance and expected performance.

All investment managers selected by the Trustee will operate on a basis that complies with the Federal Government's plan to ensure that superannuation benefits are safe, secure and profitable. They will be independently audited each year and will publish their financial statements. Prime Super requires its' investment managers to comply with prudent standards of judgement, as would be compatible with the skill and expertise of a professional in the business of portfolio management.

The Trustee recognises that, for some classes of investment such as venture capital, the nature of the investment process may result in the potential for conflicts of interest between an investment manager and companies in which the investment manager invests funds on behalf of Prime Super. For such investments, it is the Trustee's policy for the investment manager to have a clear policy for dealing with potential conflicts of interest that is acceptable to Prime Super. Prime Super's investment services providers (e.g. an investment manager, an investment adviser, a custodian) are monitored on an on-going basis. Appointments may be terminated, particularly following a period of sustained underperformance, or if the reasons for selection no longer apply.

4.1 MONITORING OF INVESTMENT MANAGERS

In this section, Investment Managers refers to both third party wholesale investment managers, as well as any direct investments the Trustee may enter into.

The Trustee recognises the importance of an on-going process of monitoring the investment managers to ensure they continue to demonstrate a sufficient level of skill to meet Prime Super's objectives. The Trustee, together with the investment adviser, will monitor the extent to which the managers give effect to the policies set out in this Statement.

Each manager is required to provide regular information on its investment performance and asset allocation (required on a monthly basis). In addition to the regular review of each manager's performance and suitability of investment processes, the monitoring of managers includes an annual compliance review that incorporates consideration of firm wide developments and the appropriateness of each managers systems, risk management, legal and compliance functions.

Prime Super's investment adviser also undertakes regular meetings with Prime Super's investment managers. This ensures appropriate assessment of the on-going competency and skill of the investment manager and confidence in their ability to successfully manage Prime Super's funds in line with the stated objectives.

4.1.1 Performance Objectives

The Trustee will assess the performance of its investment managers and review each manager's suitability for Prime Super on a regular basis. Performance is assessed against a set of measurable medium term performance objectives for each investment manager and sector and reported on by Prime Super's investment adviser on a quarterly basis.

4.1.2 Selection Criteria

The Trustee has identified criteria by which managers should be selected (or deselected). These include:

- the manager's ownership structure and financial position;
- the manager's current client base and level of funds under management;
- the alignment of interests between the manager, its staff and Prime Super;
- the investment philosophy and process for selecting investments;
- the investment credentials of the manager's investment team;
- the manager's medium term performance and how this has been generated;
- the manager's risk management framework;
- the manager's operational systems; and
- the manager's fee structure.

The Trustee's policy is that the extent to which social, environmental or ethical considerations and issues may have a financial impact on the portfolio, these will be taken into account by the active investment managers in the exercise of their delegated duties.

4.1.3 Alternative Investments

Prime Super may invest in alternative investments. Each alternative investment will be undertaken once the Directors are satisfied that the investment is in the interest of the members of Prime Super, and is expected to provide a positive contribution to the investment returns of Prime Super over the long term.

4.2 TERMINATION OF INVESTMENT MANAGERS

Prime Super considers that there are a number of issues which may provide grounds for the termination of an investment manager. Issues to be considered when contemplating terminating an investment manager include the following:

- the mandate has changed due to a shift in Prime Super's strategic objectives or risk tolerance;

- prolonged poor performance relative to objectives;
- the manager has persistently violated the mandate or breached risk control parameters;
- the manager is engaged in fraud or has displayed poor integrity;
- portfolio reporting has been erroneous;
- there has been a serious breakdown in the client/manager relationship;
- there has been an excessive increase in the fees charged;
- the manager's investment capability has been adversely affected, for example by the departure of key personnel;
- the manager is demonstrating "style drift" whereby the manager's portfolio differs meaningfully from the intended mandate;
- an alternative manager has been identified which is believed to offer superior performance on an after fee and risk adjusted basis;
- the manager has lost focus on the product (for example has focused on growth in funds under management at the expense of performance);
- the manager's risk management practices are no longer of an acceptable standard; and
- the manager's on-going viability is questionable posing untenable business risks.

5 REPORTING AND MONITORING

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

- performance of each Prime Super investment manager against its relevant index, benchmark rate of return or peers;
- performance of directly owned assets against expectations and relevant alternatives; and
- performance of individual asset classes against appropriate indices or benchmark rate of return.

Performance will be reported monthly, supplemented with relevant analysis. In addition, quarterly reports covering Prime Super's Market Portfolio managers and the Target Return Portfolio (with each asset generally covered in detail every six months) will be provided to Prime Super.

5.1 CREDITING RATE POLICY

Prime Super's crediting rate policy is to ensure that Prime Super's net assets and earnings are shared equitably and applied among Prime Super's members in accordance with the rules and investment guidelines that govern Prime Super.

The Trustee's policy is to declare monthly crediting rates for each investment option, distinguished by superannuation and pension products. The crediting rates for the investment options are set on a monthly basis once their related earning rates have been determined.

Until the crediting rates for a particular month have been set, interim crediting rates will apply to ensure equity among members. The Trustee reserves the right to review the interim crediting rates at any time to take into account significant changes in Market Portfolio returns or large Target Return Portfolio asset revaluations.

5.2 RESERVING

The Trustee maintains two reserves as follows:

- *The Investment Reserve* is a reserve maintained to manage the crediting of interest earned to members. The balance of this reserve represents investment returns generated during the financial year to provide for any unknown elements at the date of setting crediting rates, such as tax credits and distributions; and
- *Administration Reserve* – this reserve is maintained to meet all operational expenses incurred by Prime Super. 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.

5.3 CUSTODY AND VALUATION

Prime Super's investments are held by the custodian, who is accountable for the collection and recording of income and sale proceeds and the disbursement of funds for investment under valid instructions by the Trustee (or the Trustee's delegates), and for the proper recording of these transactions. The custodian is also responsible for the appropriate recording of Prime Super's investment values.

The Trustee has set down its policies for the valuation of investments in its Valuation Manual.

5.4 COMPLIANCE AND AUDIT

The Trustee through its Investment Committee, is responsible for monitoring all investments including making recommendations on investment strategies. The guidelines and responsibilities of the Investment Committee are set down in the Investment Committee Charter.

The investment portfolio will be subject to annual external audit according to the principles laid down by regulation and as may be required from time to time by the Board through the Audit Committee.

5.5 DERIVATIVES RISK STATEMENTS

The Trustee has approved Part A and Part B Derivatives Risk Statements, as required by regulatory authorities. These statements are reviewed on an annual basis or updated more regularly, as required. As part of this process and through the annual compliance review of listed managers (undertaken by Prime Super's investment adviser) the Trustee annually reviews the Part B Derivatives Risk Statements of its investment managers.

5.6 LIQUIDITY POLICY STATEMENT

The Trustee has produced a Liquidity Policy Statement. This statement is reviewed on an annual basis or updated more regularly, as required.

6 UPDATES AND CHANGES TO THIS STATEMENT

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.

This Statement is intended to be effective for an indefinite period. However, changes may need to be made and should be considered if:

- there is a major change in the circumstances of Prime Super;
- benefit design changes are made to Prime Super;
- changes are made to Government Regulations relating to Prime Super's investments;
- new investment vehicles are launched, that the Trustee considers are suitable substitutes for Prime Super's existing investments; or
- fundamental long term social, political or economic restructuring occurs.

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