## Standard Risk Measure Methodology

This document outlines the approach undertaken by Sandhurst Trustees Limited (Sandhurst) to calculating the Standard Risk Measure (SRM) for the investment options offered within its Superannuation plans.

## About the Standard Risk Measure

The SRM is a measurement of risk for each open investment option so members can make a fully informed investment decision. The SRM allows members to compare investment options using an industry wide common risk measure to indicate the likely amount of negative annual returns over a 20 year period. The measure does not consider the likely magnitude of any positive or negative returns and so does not give any indication of potential long term returns of an investment.

## Methodology

Sandhurst has followed the methodology set out by the Financial Services Council (FSC) and the Association of Superannuation Funds Australia (ASFA), also endorsed by the Australian Prudential Regulation Authority (APRA), as guidance to calculating the SRM.

FSC and ASFA have created a seven level risk classification system to allow for granularity in grouping investment options. This classification methodology identifies the bands of estimated number of negative annual returns over any 20 year period. This table is summarised below.

Table 1: The FSC/ASFA classification system

| 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 years |
| 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 |

Sandhurst relies on product issuers to provide SRMs for their products. Product issuers are experts on their products and are best placed to assess the expected frequency of negative returns. Sandhurst requires product issuers to confirm that their own methodology follows the “Standard Risk Measure Guidance Paper for Trustees” issued by the FSC and ASFA.

Where a product issuer has not followed the guidelines or provided a SRM, Sandhurst will assign a SRM based on information available at the time of producing the list of SRMs using the methodology it applies to its own products.

## Risk Disclosure and Risk calculation methodology

Sandhurst is also the responsible entity and issuer of some managed fund investment options available through its Superannuation plans. Sandhurst, in its capacity as responsible entity, assesses the expected frequency of negative returns for these products by undertaking the following steps:

- Sandhurst forms a set of capital market expectations; this includes long term return, risk and correlation assumptions across asset classes. These expectations are linked to index returns and consider long term historical data as well as current market data.
- Sandhurst analyses returns and exposures to assign each investment option an appropriate capital market exposure.
- Sandhurst then performs analysis to determine the range of outcomes for each investment option. If appropriate, a standard statistical distribution is used to describe the range of expected returns.
- Using statistical tools, Sandhurst then identifies the probability of a negative return and multiplies this by 20 to generate the expected frequency of a negative return for each 20 year period.
- Sandhurst will then assign a risk label using Table 1 contained in Page 1.

## Disclaimer

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Standard Risk Measures (SRM) should be used as a guide only. Tthe actual number of negative returns on an investment over a 20 year period may be different to the assigned SRM. You should consider your situation and read the relevant Product Disclosure Statement, available at www.sandhursttrustees.com.au/pds, before making an investment decision.