Risks of super

VicSuper FutureSaver Member Guide

Date prepared 1 July 2020

The information in this document forms part of the *VicSuper FutureSaver Product Disclosure Statement* (PDS) dated 1 July 2020. It is based on laws that were current at 1 June 2020.

Understanding risk

Super is a tax-effective way to save for your retirement. Superannuation is an investment and all investments carry some risk.

You should make yourself aware of and consider all risks, having regard to your own personal circumstances, before making decisions about your super. In particular, you should note that the value of your investment in VicSuper FutureSaver may rise or fall. If you leave VicSuper FutureSaver, you may get back less money than the amount of contributions paid in, because of the level of investment returns earned by the Fund, the Fund's fees and costs, insurance premiums (if applicable) and the impact of tax.

Under exceptional circumstances (such as the closure of a major sharemarket) and in the interests of all members, we may temporarily suspend transactions and/or the calculation and application of unit prices in the Fund.

Common investment risks that may affect your super investment include:

Counterparty risk

There is a risk of loss where the counterparty to a contract cannot meet its payment obligations. For example, in the case of a fixed income security such as a bond, this includes the risk that the issuer doesn't pay back the money borrowed when it is due. This risk is mitigated by appointing investment managers with appropriate credit assessment skills and by imposing limits on individual counterparties.

Currency risk

The value of our offshore investments may decrease because the currencies of the countries in which we invest decrease in value relative to the Australian dollar. We mitigate this risk by managing the currency exposure.

Derivatives risk

Investing in derivatives can involve additional risks. These include the possibility that the derivative does not perform as expected or that parties do not perform their obligations under the contract. As using derivatives may involve leverage, losses can be significant. We mitigate this risk by having limitations and controls in place and monitoring the use of derivatives.

Financial risk due to climate change

Climate change and environmental issues pose both risks and opportunities for the long-term performance of our members' investments.

We are working with our external fund managers, and with the listed companies in which we invest, to address these impacts. Our Climate Change Adaptation Plan outlines how we will do this by:

- weather-proofing our investment portfolio by assessing asset specific climate change risks and looking at options to build resilience,
- engaging with corporate boards and senior executives to proactively assess and manage climate change risk, and
- finally, by seeking new investment in renewable energy assets and other sectors that benefit from climate change adaptation.

Gearing risk

Gearing can be achieved by using loans (borrowing to invest), or investing in certain derivatives such as futures. Gearing amplifies the potential gains and losses of an investment which means fluctuations in the value of a geared investment will be larger compared to the same investment which is not geared. We mitigate this risk by limiting and regularly monitoring the amount of gearing in the investment options.

Illiquidity risk

The risk that an investment cannot be easily sold (converted to cash) without a substantial loss in value due to difficult or abnormal market conditions (such as in the event of a pandemic). This risk is greatest for investments that are inherently illiquid such as real property and infrastructure assets, as well as unlisted equity interests. We mitigate this risk through limiting investment in illiquid investments and regular monitoring of liquidity.

Interest rate risk

Changes in interest rates can have a negative effect on an investment's value or returns. For example, the cost of a company's borrowings can increase, reducing its profitability, or the income from a cash or fixed interest investment may be lower than expected.

Investment manager risk

Although we carefully research and monitor the investment managers we partner with, there is a risk that a particular manager will underperform compared to similar managers or their return objective. This could be because their view on markets is inaccurate, they lose key investment personnel, or because the environment is not favourable for their investment style.

Inflation risk

While your investment may produce a positive return, there is a risk that your savings do not keep up with the rising cost of living over time (inflation). One way you can help manage this risk is by investing in assets that are expected to generate returns in excess of inflation over the medium to long term. Each of our pre-mixed options have been designed to generate returns above inflation as measured by the Consumer Price Index (CPI).

Market risk (systemic risk)

Market risk is the risk of loss due to the factors that affect an entire asset class or market such as the Australian share market. This includes economic conditions, government policy and investor sentiment. Maintaining a well-diversified portfolio across a range of asset classes can reduce, but not eliminate, the impact of market risk.

Security/asset risk

Individual investments such as shares, bonds and property assets are affected by risks specific to the investment. For example, the value of a company's shares may be impacted by a change in strategy, operations, or business environment, as well as merger and acquisition activity.

Sequencing risk

The timing and order of returns can be nearly as important as the size of the returns, making the sequence of returns a significant determinant of outcomes. Sequencing risk refers to the risk of poor investment returns at the wrong time, for example just before or at the start of retirement when your account balance is at its greatest.

Short selling risk

Short selling may be used when an investment manager believes an asset's price will fall. The manager borrows the asset from a lender, usually a broker, and sells it with the intention of buying it back at a lower price. If the price of the asset increases, the loss could be significant. This is different to investing directly in a security without borrowing where losses are generally limited to the value of the investment made. We mitigate this risk by restricting and monitoring the use of short selling by the managers we partner with.

Specific risk

Specific risk refers to the non-market risk exposure of assets. Individual assets can fall in value for many reasons. For example, changes in the internal operations or management of a fund or company, or in its business environment.

Each of our investment options is exposed to these investment risks to different degrees, depending on the assets that are allocated to the option.

For example, investment risk may be slightly higher for the Socially Conscious investment option because the portfolio is not as well diversified and has fewer underlying investment managers compared to our standard investment options. Investment risk may also be higher due to the exclusion of specific industries including fossil fuels, alcohol and gambling.

You can find further information about the risks of each option on our website under our investment policy and investment options.

Timing risk

There is a risk that, at the date of investment, your money is invested at higher market prices than those available shortly afterwards. Similarly, there is risk that, at the date you withdraw funds your investments are sold at lower prices than those that were recently available or would have been available shortly afterwards. Timing risk can also relate to trying to predict future prices in making investment decisions, for example when switching investment options.

The risk/return trade off

All investments involve some level of risk. Typically, to grow your account over the long term, you need to take some risk. The key short-term risk is market volatility and the impact this can have on your account balance.

The two main risks over the long term are that your savings are not enough to last your whole retirement, or don't keep up with the rising cost of living over time.

In general, investments that are volatile over short periods of time, such as Australian and international shares, grow more over longer periods.

By contrast, investments like cash and fixed interest tend to produce more stable returns, but may not generate the returns you need to reach your retirement goals.

This is often called the risk/return trade off and is a key thing to keep in mind when choosing an investment option. If you are unsure about the level of risk appropriate to your needs and circumstances, you should seek financial advice.

The importance of diversification

Generally speaking, you can reduce the risk of your investment by spreading your money across a range of asset classes. This is called diversification.

Diversification can reduce investment risk because asset classes tend to perform differently at different times in the economic cycle.

By spreading your money across a range of asset classes, you also spread the risk of loss should a particular asset class or investment perform poorly.

You can diversify your investment by either investing in the pre-mixed investment options, which have a mixed portfolio of assets, or by investing in a variety of single asset class Investment options. However, you should keep in mind that by investing in the single asset class investment options, your super may not be as well diversified compared to our pre-mixed options.

This is because not all asset classes are available as single asset class options (e.g. infrastructure or private equity). Before choosing an investment option(s), you should assess your risk/return profile and the level of diversification you require.

If you are unsure about the level of risk appropriate to your needs and circumstances, you can seek advice from a financial planner.

Get in touch – we're here to help

Call our Member Centre

1300 366 216 (from outside Australia **+61 3 9667 9875**)
and speak to a super consultant between
8.30am and 5pm, Monday to Friday

To make an appointment to see one of our
financial planners call **(03) 9667 9200**

Send us a fax

(03) 9667 9610

Write to us

VicSuper Team
First State Super
GPO Box 89
MELBOURNE VIC 3001

Browse our website

vicsuper.com.au

Download our app

vicsuper.com.au/mobileapp

Manage your account online

Simply visit our website to login

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VicSuper FutureSaver was previously a product in the Victorian Superannuation Fund. It is now offered by the Trustee as a result of the transfer of all members and assets in the Victorian Superannuation Fund to the Fund on 1 July 2020. The Victorian Superannuation Fund no longer exists as a separate fund.

This publication contains general information only and does not take into account your specific objectives, financial situation or needs. Seek professional financial advice, consider your own circumstances and read the VicSuper FutureSaver product disclosure statement before making a decision about investing in the VicSuper FutureSaver product. Contact us to make an advice appointment. Advice is provided by State Super Financial Services Australia Limited (ABN 86 003 742 756, AFSL 238430) ('StatePlus'), our financial planning business which is wholly owned by us. You should read the StatePlus Financial Services Guide before making a decision. For more information call the Member Centre on **1300 366 216**.

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