EISS Super

Risks of Super | 1 October 2021

The information in this document forms part of the EISS Super PDS dated 1 October 2021.

Longevity risk

Longevity risk is the risk that the income accumulated in super is not sufficient to last your lifetime; it depends on the initial capital invested and the return from the underlying investments together with life expectancy.

Regulatory risks

There are significant risks that need to be considered when investing in super, including super laws and policies that may change in the future and may affect your benefit, investment strategy or your ability to access your benefit.

Technology risk

To the extent permitted by law, EISS Super accepts no responsibility should your online account be unavailable for transacting. We reserve the right to temporarily change, suspend or to cancel operations in your online account without prior notice.

In the event your online account is not available for transaction requests, we will endeavour to provide an alternative to members who wish to transact. We accept no responsibility for delays caused by the use of any alternative system.

As with any service that uses technology, there is some risk that the administration systems hardware and software may fail, causing a delay in the processing and reporting of your account. We do not accept responsibility if this were to happen. We have sought to address this risk and the risks associated with other unforeseen circumstances by implementing a disaster recovery plan and ensuring that relevant service providers also have disaster recovery and business continuity arrangements in place. This includes manual process and nightly backups of our systems and data.

You should be aware that the internet is not a completely reliable transmission medium. We shall not have any liability for any data transmission errors such as data loss or damage or alteration of any kind, including, but not limited to, any direct, indirect or consequential damage, arising out of the use of the services provided herein.

Investment risks

Investment risk is the risk that the value of your investment and the level of returns that you will receive will vary. It is important to understand that past performance is not an indicator of future performance. Returns are not guaranteed and you may lose some of your money as a result of your investment.

There is a relationship between the amount of risk a person is willing to take and the potential return they may receive on their investment.

In general, investments which potentially earn higher long term returns e.g. equities also carry higher short term risk. Not only may the rate of return of the investment vary but also the value of the investment can rise and fall more sharply than other investments. Typically, investments that potentially earn a lower return over the long term e.g. cash, fixed interest and bonds, are less likely to fluctuate in the short term.

Factors such as interest and exchange rates, government policy and the state of domestic and world economies may have an impact on financial markets and therefore your investment. In the case of listed securities such as shares and listed property trusts, other influences include world political events and the performance of world share markets. It is important to note that the returns from listed investments reflect the market forces of supply and demand and investor sentiment.

The principle of diversification is where you spread your investment between more than one asset class. The intended result is to achieve more stable investment returns, in other words, the total returns of a diversified portfolio should not fluctuate as much as the returns from investing solely in one asset class. Further diversification may be added by spreading money across a group of specialist fund managers within an asset class.

The value of your investment can fall as well as rise. Even where your investment does not fall in value, it may not perform according to your expectations.

Asset class risk

Risks for individual asset classes include:

- **Australian equities** – Specific risks relating to individual companies include profits and dividends being below expectations, adverse management changes or reassessment of the outlook for the company or industry. The market value of equities can also fluctuate.
- **International equities** – Global economic trends, individual country risk factors as well as specific risks relating to individual companies will affect the price. There is also currency risk (except to the extent that the risk is managed by foreign currency hedging). Capital gains may occur when the Australian dollar depreciates against other currencies and capital losses may occur when the Australian dollar appreciates.
- **Infrastructure** – Risks include the construction of new infrastructure projects, locational factors, lack of use of the infrastructure asset, declining asset values and realised losses when infrastructure assets are sold. Infrastructure may also attract some of the risks associated with share market volatility. Other risks include delays in obtaining planning approvals, potential environmental impacts and leasing arrangements.
- **Property** – Risks include vacancies, locational factors, unprofitable property development activities, declining property values and realised losses when properties are sold. Property will also attract some of the risks associated with share market volatility. Other risks include delays in obtaining required approvals, construction, leasing and market risk.
- **Alternative assets** – Alternative assets can involve exposure to all of the risks applying to the traditional asset classes described in this section. In addition, some alternative assets are illiquid and can also involve the use of derivatives.
- **Private equity** – Specific risks relating to individual assets or companies include profits and income distributions being below expectations, changes in management of the underlying companies and a reassessment of the industry or economic outlook. Company re-development and new strategies not being implemented efficiently can also create risk. This asset class is not liquid so accessing funds quickly is not always possible.
- **Fixed income** – Whilst these investments pay a set amount of interest income over time, market value can fluctuate. Overall returns over short-term periods can be negative. The market value will fall if yields rise. Fixed interest investments are also subject to credit risk.
- **Cash** – Whilst it is unlikely that the market value of a cash investment will decline, longer-term returns are generally lower than other assets.

Credit risk

Investment in debt securities or other debt instruments can be subject to default risk. For example, where we buy a bond that has a regular coupon (interest) payment and a capital repayment (the money you get at the end of the period of the bond), there is a risk that the organisation that issued the bond (credit issuer) may default on the interest payments, the capital repayment or both.

Bond investments with a non-investment grade credit rating (that is Standard and Poor's rating of BB+ or lower) are subject to increased risks, compared with investment grade securities.

Currency risk

Generally, a portion of the assets are invested internationally and therefore can be affected by currency movements. This means that the value in AUD of international assets will vary as the value of currencies and exchange rates change.

A currency manager is used to manage our foreign currency exposure. The foreign currency exposure will vary from time to time.

Derivatives risk

We have a policy that is applied when approved investment managers trade in derivatives. Derivatives can be used for many purposes, including hedging to protect an asset against market fluctuations, reducing costs of achieving a particular market exposure and maintaining benchmark strategic asset allocations.

Risks include:

- **Price** – The risk that changes in prices in the market underlying a derivative contract or in the derivative contract itself, are adverse to the position held.
- **Leverage** – The risk that by creating greater exposure to a market than that of the assets backing the position, losses will be magnified.
- **Liquidity** – The risk that a derivative position cannot be reversed.
- **Default** – The risk that the other party does not meet its obligations.

Inflation risk

Although the investment may produce a positive return, when you compare this to the increase in the cost of living, you may find that your return hasn't been able to keep up with inflation, effectively reducing your purchasing power. You need to balance risk against returns in order to achieve your investment goals.

Interest rate risk

Cash, cash-like securities and debt securities investments are affected by interest rate movements. Capital gains can be earned from debt securities investments where interest rates are falling and capital losses can occur when interest rates are rising. The risk of capital gain or loss tends to increase as the term to maturity of the investment increases.

Liquidity risk

Some investment strategies hold assets which are 'illiquid'. If we invest in illiquid assets, we may not be able to sell the investment at short notice or we may need to sell our investment at a discount or a loss if we need to 'cash out' quickly. Examples are property, private equity and infrastructure. Listed investments can also be illiquid where there is not an active market for the securities such as shares in smaller companies.

Diversifying across a range of investments and limiting holdings in potentially illiquid investments may help you manage the risks of illiquid investments.

Market risk

General economic conditions both in Australia and elsewhere in the world affect markets. Changes in government policies, interest rates, inflation, technological developments and demographic changes all affect investment markets as a whole, causing the value of investments to rise and fall. We have no way of accurately predicting what will happen and how this will affect the markets.

How do I understand and manage my investment risk?

Whilst you can never fully eliminate the risk associated with an investment, there are a number of different ways in which you can minimise the potential risk.

Obtain professional advice

Investments are complicated and whilst the risk profile of an investment may be an indication of the risk associated with that investment, it is recommended that you seek professional advice before deciding which investment strategy best suits your needs.

Regularly review your investment

Your individual circumstances may change and as a result your selected investment may no longer be suitable. If you do think that your investment is no longer best serving your needs, you should obtain professional advice to review your investment choice.

Invest for the long-term

Super is a long-term investment and moving between investments on a regular basis may do more harm than good. You should consider remaining in your selected strategy for at least the minimum investment timeframe suggested for the investment strategy.

Please note, investing for the suggested investment timeframe will not eliminate risk.

Read all of the information

It is important that you read all of the information associated with the investment. Risk profiles can be an indicator as to the volatility of an investment, but you should also be aware of where your money is being invested to understand how the various risks may have an impact on your investment.

We're here to help

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