
Derivative Risk Statement

Sinclair Family Super Fund

1. Responsible party

- 1.1 The Sinclair Family Super Fund (**Fund**) was established by deed (**Trust Deed**). The current trustees of the Fund (**Trustees**) are:

Rowen Sinclair

Dorothy Sinclair

- 1.2 This Derivative Risk Statement (**DRS**) has been issued by the Trustees of the Fund.

2. Objective of DRS

This DRS identifies the circumstances when Derivatives may be used, and summarises the policies and controls in place in relation to use of Derivatives by the Trustees and the processes for assessing compliance by the Trustees within existing risk management controls. This DRS is subject to periodic review and will be updated as necessary to ensure ongoing suitability and sufficiency of policies, controls and the compliance monitoring process. The DRS must be read and understood by all persons involved in managing, monitoring or implementing the Fund's Derivative investment process.

3. Definitions of Derivatives

- 3.1 A Derivative is a financial contract or instrument that derives its value from other underlying securities, or other assets or indices.
- 3.2 Examples of Derivatives include swaps, options, forwards, futures, warrants, contracts for difference and other related instruments.

4. Fund's Investment Strategy

- 4.1 The Fund's Investment Strategy is regularly reviewed and, if necessary, updated by the Trustees.
- 4.2 The use of Derivatives must comply with the Fund's Investment Strategy. Derivatives should not be considered in isolation but as part of the Investment Strategy of the Fund as a whole, having regard to the risk/return characteristics of all assets in the investment portfolio. Derivative exposure combined with physical exposure should not result in a net exposure which is inconsistent with the Fund's Investment Strategy. If, for example, the Investment Strategy sets a minimum exposure to Australian equities of 25% and a maximum exposure of 50%, then the net exposure taking account of both physical and derivative exposure, should remain within these limits.
- 4.3 The Fund's Investment Strategy states that Derivatives may be used to:
- 4.3.1 leverage returns;

- 4.3.2 reduce volatility by hedging investments against the risk of adverse movements in market prices;
- 4.3.3 achieve diversified exposure through market indices; and
- 4.3.4 achieve transactional efficiency through reducing the cost of achieving a required exposure.

5. Relationship to the Fund's Investment Strategy

The use of Derivatives by the Fund must be consistent with:

- 5.1 the objectives of the Investment Strategy and the Investment Strategy more generally; and
- 5.2 the Fund's Trust Deed.

6. Purpose of the use of Derivatives

The use of Derivatives will depend on the Fund's Investment Strategy and its objectives. Derivatives may be used by the Fund for the following purposes:

6.1 Hedging:

- 6.1.1 manage risk, reduce volatility or help to minimise the impact of fluctuations in market values; and
- 6.1.2 hedge against changes in foreign currency values.

6.2 Transaction efficiency and cost reduction:

- 6.2.1 achieve transactional efficiencies that cannot be obtained through the use of underlying assets, by reducing transaction costs;
- 6.2.2 obtain better prices that may not be available in the underlying assets market; and
- 6.2.3 alter investment holdings quickly and at low cost.

6.3 Investment tactical reasons:

- 6.3.1 adjust security or asset class exposures within the parameters set in the Fund's Investment Strategy;
- 6.3.2 enhance yields or adjusting the yield curves;
- 6.3.3 control the impact of significant transactions on portfolio valuations;
- 6.3.4 adjust the duration of fixed income portfolios;
- 6.3.5 manage credit risk;
- 6.3.6 manage asset allocation in a controlled manner;
- 6.3.7 take advantage of market imperfections;

- 6.3.8 obtain prices that may not be available in the cash market; and
- 6.3.9 control the impact on portfolio valuations of market movements caused by significant transactions.

7. Restrictions on the use of Derivatives

- 7.1 The Trustees will at all times carry out the Derivative transactions in accordance with the Trust Deed, the Fund, the Investment Strategy and this DRS. All Derivative transactions must be approved by the Trustees, who are responsible for evaluating issues from a risk management perspective.
- 7.2 The Trustees will ensure that Derivative transactions are governed by formal legal agreements, comprehensively documented and subject to regular reconciliation and reporting processes. The Trustees will ensure that Derivative transactions do not breach any legal or contractual obligations and at all times comply with all applicable legislation, rules, guidelines or directions in respect of the use and restrictions in the use of Derivatives, the Investment Strategy of the Fund, leveraging or charging of Fund assets, and that:
 - 7.2.1 Derivatives will not be used for speculation. Speculation may include:
 - (a) the net exposure of the Fund to an asset class exceeding the limits set out in the Fund's Investment Strategy (net exposure taking account of both physical and derivative exposure);
 - (b) the Fund's portfolio being outside the risk limit specified in the Fund's Investment Strategy;
 - (c) the Fund holds uncovered derivatives; or
 - (d) the Fund's portfolio being 'geared up' through derivatives to circumvent the borrowing limitations imposed by section 67 (Borrowing) of the *Superannuation Industry (Supervision) Act 1993 (Cth) (SIS Act)*.
 - 7.2.2 There is adequate underlying asset cover to meet any obligations arising from use of Derivatives; and
 - 7.2.3 Proper consideration is given to liquidity management.
- 7.3 The Fund may use Derivatives only for the purposes set out in this DRS issued for the Fund. The Fund is limited in the total amount of Derivatives held by the Fund to 75% of the total asset base of the Fund. This limit is closely monitored by the Trustees and new investments made in Derivatives are only made after review of existing Derivative investments.

8. Risk analysis

The key risks associated with the use of derivatives and the relevant controls which the Trustees have in place to monitor and managing these risks are set out below.

8.1 *Market risk*

Market risk represents the risk of adverse movements in markets (including asset prices, volatility, changes in yield curve, implied option volatility or other market variables) for the Derivatives or underlying security, assets or indices to which the Derivatives relate. Such risk is created by holding any security or Derivative which creates exposure to movements in prices of a security or market.

A related form of market risk is 'basis risk', namely the risk that a Derivative position will not move in line with a physical position.

Market risk must be assessed continually to ensure that exposure by any factor remains within the limits set out in the Investment Strategy, such that:

- 8.1.1 the Fund's total portfolio is not being leveraged (or 'geared'). A portfolio would be geared if the level of market exposure exceeds the market value of the Fund. Derivatives cannot be used to circumvent the borrowing limitations imposed by section 67 of SIS Act;
- 8.1.2 the net exposure of the Fund to an asset class, including the delta weighted exposure of Derivative investments, does not go outside the range that set out in the Investment Strategy; and
- 8.1.3 ensuring that the Fund does not hold uncovered Derivatives, where "cover" is:
 - (a) in the case of Derivative positions to achieve exposure – assets that in the Trustees' professional judgment, are equivalent to cash and can be converted to cash within the settlement period. Those assets must be sufficient to meet all potential obligations arising from the underlying asset exposure represented by the Derivative position. Short dated, fixed interest securities may well be equivalent to cash, but equities are not. Synthetic cash (for example, derived by selling ten year bond futures against physical bonds) is also acceptable. Net derivative positions can be considered where relevant.
 - (b) in the case of Derivative positions to remove exposure – assets in request of which in the Trustees' professional judgment the Derivative(s) are considered a reasonable hedge. Net Derivative positions can be considered where relevant.

Breaching the restrictions set out above for the Fund would be construed as speculation, which is not allowed.

8.2 *Liquidity risk*

Liquidity risk in the context of Derivatives trading includes risk that the Trustees:

- 8.2.1 may not be able to, or cannot easily, unwind or offset a particular position at or near the previous market price, because of inadequate market depth or because of disruptions in the market place; and
- 8.2.2 will not be able to meet its future financial obligations resulting from its derivative activities, such as meeting margin calls or obligations under futures contracts.

The Trustees will monitor liquidity risk to ensure that the Fund can always unwind or offset its particular position at or as near as possible to the previous market price. The Trustees will assess and evidence the liquidity of the Derivative position before an investment is made. The Trustee will ensure that the Fund has sufficient capacity to meet its obligations.

8.3 *Counterparty risk*

Counterparty risk is the risk that a counter party (the other party with whom a Derivatives contract is made) will fail to perform its contractual obligations. This is sometimes referred to as 'credit risk'. The Trustees will assess the counterparty credit risk of Derivative before executing transactions and review for potential market and credit risks. The Trustees have processes in place that address the following issues:

- 8.3.1 assessing creditworthiness and approval of counterparties;
- 8.3.2 establishing limits for approved counterparties;
- 8.3.3 monitoring total exposure to counterparties against limits;
- 8.3.4 legal power of counterparty to enter into the contract;
- 8.3.5 sufficient or enforceable legal documentation;
- 8.3.6 compliance with regulatory requirements; and
- 8.3.7 safe storage of documentation.

9. Operational risk

Operational risk relates to deficiencies in the effectiveness and accuracy of the information systems or internal controls that may result in material loss. This risk is associated with human error, system failures, inadequate procedures and internal management controls. Procedures used by the Trustees to assess, monitor and control operation risk include:

- 9.1 personnel are authorised to only carry out duties within their designated expertise and delegation;
- 9.2 the valuation standard for Derivatives should be consistent with current industry market practice and the sources of valuations will be appropriately independent;
- 9.3 proper separation of dealing and management functions and administration and settlement functions;
- 9.4 a clear delineation between portfolio management and trading;
- 9.5 Derivative positions are valued and reconciled frequently on a marked to market basis; and
- 9.6 there are appropriate disaster recovery systems and sufficient backup systems and procedures in place to prevent the potential loss of data.

10. Currency risk

Foreign currency exposure will arise naturally from investments in overseas assets. Where the Fund is exposed to currency risk, the Investment Strategy will provide guidance as to where currency strategies can be utilised. These strategies will be subject to similar principles and controls as apply to Derivatives risk.

11. Personnel management

The Trustees will ensure that all personnel involved in Derivative transactions:

- 11.1 are familiar with the contents and requirements of this DRS;
- 11.2 cannot initiate or implement transactions outside their designated area of expertise;
- 11.3 undertake ongoing education and training;
- 11.4 are not rewarded for taking risk in excess of that specifically documented and authorised by the client; and

11.5 are properly qualified and have appropriate expertise in their area of responsibility.

12. Assessment

The Trustees acknowledge that appropriate procedures are in place to address the review and reporting of the investments of the Fund, including Derivatives. These procedures will ensure that any material problems will be promptly reported and appropriate action taken.

13. External audit

Independent external auditors are required to annually sign off that a DRS exists and procedures and policies stated in the DRS have adhered to. Also, independent external auditors must confirm that all changes have been authorised.

14. Reporting

14.1 Where applicable, the Trustees must have access to regular and comprehensive reporting on both exposures and adequacy of systems. Reports should also be provided where a significant event occurs in relation to the use to Derivatives.

14.2 Alterations to this DRS need to be approved by the Trustees and must comply with the Investment Strategy as stated.

15. Additional SIS Act requirements

The Trustees acknowledge that:

15.1 if a charge is created over assets of the Fund in relation to a Derivatives transaction on an Australian or International exchange, the charge must be in relation to the Derivatives contract for the purpose of securing the Trustees' obligations to the exchange; and

15.2 it will report to members at the end of the reporting period if at any time during the reporting period the Derivative charge ratio should exceed 5%. The Derivative charge ratio must be expressed as a percentage and is determined by the following formula:

$$\frac{\text{the value of the assets of the fund that are subject to a charge in relation to a Derivatives contract}}{\text{the value of all the assets of the fund}}$$

16. Trustee authorisation of the use of Derivatives

The Trustees have approved the Investment Strategy of the Fund including the use of Derivatives. The Trustees have determined that the use of Derivatives as stated by the Trustees in this DRS is permitted by the Fund's Trust Deed. The Trustees are also satisfied that the use of Derivatives as set out in this DRS is consistent with the Investment Strategy of the Fund and the implementation of that strategy as stated by the Trustees.


17. Date of authorisation by Trustees


This DRS is issued, approved and authorised by the Trustees of the Fund with effect from 01/07/2019.

By authority of the Trustees:

Dated: 30/06/2020


Signed sealed and delivered by Rowen Sinclair, in the capacity of trustee, in the presence of:



Signature of witness


Signature of individual

VERONICA F. DONNAN
Name of witness (please print)

Signed sealed and delivered by Dorothy Sinclair, in the capacity of trustee, in the presence of:


Signature of witness


Signature of individual

VERONICA F. DONNAN
Name of witness (please print)

Self-Managed Superannuation Fund Investment Strategy

Sinclair Family Super Fund

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Investment Strategy of the Sinclair Family Super Fund

This investment strategy of the Sinclair Family Super Fund (**Fund**) (as amended to from time to time), is created in compliance with the *Superannuation Industry (Supervision) Act 1993 (Cth) (SIS Act)* and *Superannuation Industry (Supervision) Regulations 1994 (Cth) (SIS Regulations)*. In developing this investment strategy, the Trustees have considered the needs and circumstances of the Fund's members including age and retirement needs.

This investment strategy revokes any earlier investment strategies created for this Fund.

1. Investment objectives

The Fund has the following investment objectives:

- 1.1 to protect and enhance the members' retirement benefits;
- 1.2 capital growth by maximising returns on investments for the members taking into account associated investment risks;
- 1.3 a pre-tax investment return for the Fund equal to the Consumer Price Index (All Groups Weighted Average);
- 1.4 to hold assets in a form which will enable the Fund to discharge its existing and future liabilities;
- 1.5 that the Trustees have and must continue to have proper regard to the risks associated with the investments given the Fund's objectives and cash flow requirements;
- 1.6 that the Trustees have and must continue to invest to ensure sufficient liquidity is retained within the Fund to meet benefit payments and other liabilities as they fall due;
- 1.7 that the Trustees have and must continue to consider the composition of the Fund's investments as a whole, including the extent to which its investments are diverse or involve the Fund in being exposed to risks from inadequate diversification;
- 1.8 that the Trustees have and must continue to consider their ability to discharge the Fund's existing and prospective liabilities;
- 1.9 that the Trustees have and must continue - before investing in a particular asset - to have proper regard to the balance between the risk and return, so as to maximize the rate of return on members' entitlements subject to an appropriate level of risk; and
- 1.10 that the Trustees have and must continue to consider whether the Fund should hold a contract of insurance that provides insurance cover for the members.

2. Compliance with laws and advice to Trustees

- 2.1 The Fund is compliant with current superannuation laws and regulations and the governing rules of its trust deed.
- 2.2 Set out in Annexure 1 is a summary of relevant trustee investment obligations under the SIS Act and SIS Regulations.

3. Investment policies

The Trustees will comply with the following investment policies in giving effect to this investment strategy:

- 3.1 to regularly monitor the performance of the Fund's investments including the spread of those investments and the expected cash flow requirements of the Fund; and
- 3.2 to consider market volatility and its potential impact of the Fund's current investments at any given time.

4. Investment considerations

The Trustees will take into account the following investment considerations:

4.1 *Diversification*

- 4.1.1 To ensure diversity of the Fund's investments, the Trustees may invest in a number of different investments but, in doing so, will consider this investment strategy as a whole. The Trustees acknowledge that diversification of investments avoids the risk of the Fund relying on the rates of return (whether income return or capital growth), from one or a small number of investments which ultimately may not be as profitable as the Trustees anticipated.
- 4.1.2 The Trustees will consider diversification in light of the size and maturity of the Fund. The Trustees acknowledge that where the Fund has a larger sum of money to invest, it is easier to achieve diversification.
- 4.1.3 The Trustees may at any given time change the mix of investments in order to give effect to those investment considerations.
- 4.1.4 The Trustees must when formulating, and when conducting future reviews of, this investment strategy consider the factors set out in item 1 of Annexure A of this investment strategy.
- 4.1.5 The Trustees have considered the level of risk associated with its current investment portfolio, and will continue to do so, by reference to the extent to which the Fund is exposed to risks from concentration of the Fund's investments in a particular asset class (**concentration risk**).

4.2 *Single Asset Investment Strategy*

A single asset strategy may be adopted by the Fund if the asset proposed to be invested in is considered by the Trustees to satisfy the investment objectives and provided that the Trustees have considered the relevant concentration risk.

4.3 *Risk*

- 4.3.1 The Trustees acknowledge that there is a strong correlation between risk and return on investments.
- 4.3.2 The Trustees acknowledge and agree that they will:
 - (a) from time to time, determine the acceptable level of risk and volatility of returns in the light of the Fund's circumstances; and
 - (b) give priority to an overall objective of preserving the Fund's capital.

- 4.3.3 The Trustees will, consistent with paragraph 4.3.2, separately review the risk profile of each member as member risk profiles may vary depending upon the member's age and other circumstances.
- 4.3.4 The Trustees acknowledge that in order to maximise returns in appropriate circumstances, the Trustees may invest the Fund's assets in volatile investments if the Trustees have appropriately balanced the Fund's investment portfolio. Volatile investments may be profitable for the Fund in the long term.

4.4 *Liquidity*

The Trustees will ensure that there are enough liquid investments in the Fund at any one time which may be quickly and easily converted to cash, in order to meet the payment of member benefits and Fund expenses, having regard to the Fund's expected cash flow requirements.

4.5 *Asset allocation*

The Trustees acknowledge the need to have a diversified investment mix and a balanced investment portfolio and will adopt a strategic asset allocation in accordance with the percentage ranges described below:

Asset Class	Range (%)
Cash	0 - 100
Australian Equities	0 - 75
International Equities	0 - 25
Australian Fixed Interest	0 - 50
International Fixed Interest	0 - 25
Managed investments and associated products	0 - 75
Real Estate	0 - 75
Artworks and Collectibles	0 - 25
Any other investment that is legal under the laws of the Commonwealth of Australia and its States and Territories (which the Trustees will consider from time to time on a case by case basis)	0 - 75

4.6 *Investment costs*

The Trustees acknowledge that they will at all times aim to minimise investment costs. Despite this, if the Trustees consider that it is in the best interests of the Fund and its members to invest in a product that has upfront costs, then they may do so provided that the investment is in accordance with this investment strategy. Exit costs and penalties may also be part of the cost of carrying out this investment strategy.

4.7 *Borrowing*

The Trustees acknowledge that:

- 4.7.1 from time to time, they will consider undertaking borrowing on a case by case basis:
- (a) at a loan to valuation ratio for the asset of 0 – 75% for any specific asset; and
 - (b) at a LVR for the fund of 0 - 75%; and
- 4.7.2 any borrowing will be considered in light of consistency with the overall investment strategy.

4.8 *Taxation*

The Trustees will:

- 4.8.1 take all steps as are reasonably necessary to ensure that the Fund continues to obtain concessional taxation status on the income; and
- 4.8.2 consider the tax consequences of all investments made on behalf of the Fund.

4.9 *Payment of benefits to members and other costs*

The Trustees acknowledge that to the extent they are required to pay tax, expenses and benefits, then they will do so promptly on or before the due date for those payments, and will take all steps as are reasonably necessary to ensure that there is sufficient cash to meet such obligations.

4.10 *Insurance*

- 4.10.1 The Trustees will from time to time, consider life, total permanent disability and income protection insurance for the members of the Fund.
- 4.10.2 The Trustees will continue to evaluate available insurance in consultation with the members, and where insurance is in place, the continued suitability of that insurance.

5. **Guidance on investments**

5.1 *Authorised investments:*

The following are the types of investment in which the assets of the Fund may be invested:

- 5.1.1 Investments in which it is permissible to invest trust funds under the law of any jurisdiction in Australia.
- 5.1.2 Securities in any company incorporated anywhere, whether carrying on business in Australia or not.
- 5.1.3 Deposits (whether secured or not) with a bank, friendly society, building society, credit co-operative, trustee company, or other registered financial institution.
- 5.1.4 Real or personal property, including an improvement to that property.
- 5.1.5 Units (including sub-units) in a unit trust established or situated anywhere in the world by subscription or purchase (including joint subscription or purchase). Whether the units are fully paid or partly paid, and whether their issue involves a contingent or reserve liability is irrelevant.
- 5.1.6 Futures, options or any other synthetic investment.

- 5.1.7 Hedging, swapping or any similar arrangement, even though it is not linked to any property of the Fund.
- 5.1.8 Deposits (whether secured or not) with, or loan (whether secured or not) to, any person (including an employer) on any terms the Trustees think reasonable. The fact that the Trustees have a direct or indirect interest in the deposit or borrowing or may benefit directly or indirectly from it is irrelevant.
- 5.1.9 A policy or annuity with an insurer, whether by proposal or purchase.
- 5.1.10 Instalment warrants or receipts.
- 5.1.11 By way of a limited recourse borrowing arrangement.
- 5.1.12 Any other investment allowed by superannuation law that the Trustees think appropriate.

5.2 *Forbidden investments*

The Trustees acknowledge that they will not invest any investment that is forbidden by superannuation law and will not make an investment in the form of a loan or other financial assistance to a member or a relative of a member of the Fund.

5.3 *Australian securities*

After research and due diligence, these include investments directly or indirectly in listed and unlisted securities and interests in managed funds (whether or not registered as managed investment schemes) including shares and warrants.

5.4 *International securities*

After research and due diligence, these include investments directly or indirectly in listed and unlisted securities and interests in managed funds (whether or not registered as managed investment schemes) from around the world including shares, warrants, derivatives, derivatives securities and managed funds.

5.5 *Property*

This includes both direct and indirect investments in physical property, in listed and unlisted property trusts and property securities funds.

5.6 *Derivatives*

The Trustees are permitted to invest in derivatives.

Derivatives may be used to:

- 5.6.1 leverage returns;
- 5.6.2 reduce volatility by hedging investments against the risk of adverse movements in market prices;
- 5.6.3 achieve diversified exposure through market indices; and
- 5.6.4 achieve transactional efficiency through reducing the cost of achieving a required exposure or position.

The Trustees will review and comply with the Derivate Risk Statement set out in Annexure 2.

5.7 *Currency risk*

The Trustees may invest in overseas assets in the form of, for example, international securities. In this regard, the Trustees will consider whether a foreign currency hedge is appropriate to guard against fluctuations in exchange rates.

6. Professional advice

The Trustees may from time to time seek advice from a professional advisor being either an accountant, solicitor or financial planner, to discuss any aspect of this strategy or any future strategy and its implementation.

7. Review

The Trustees may review and, when considered necessary, amend this investment strategy. The Trustees acknowledge that circumstances where it would be appropriate for the Trustees to conduct a review include where:

- 7.1 acquisition or disposal of a material fund asset;
- 7.2 a new member is added to the Fund;
- 7.3 a member commences, or is about to commence, a pension;
- 7.4 the death or incapacity of a member;
- 7.5 where the members of the SMSF enter into a marriage or domestic relationship, a breakdown of that arrangement;
- 7.6 where there is a change in the financial needs of the members of the SMSF;
- 7.7 there has been significant market volatility; or
- 7.8 the Trustees wish to undertake new investment activities not permitted by the current investment strategy.

Signed by the Trustees

Dated: 10/5/2021

Signed sealed and delivered by Rowen Sinclair, in the capacity of trustee, in the presence of:

Veronica F. Donnan
Signature of witness

RS
Signature of individual

VERONICA F. DONNAN
Name of witness (please print)

Signed sealed and delivered by Dorothy Sinclair, in the capacity of trustee, in the presence of:

Veronica F. Donnan
Signature of witness

DSino
Signature of individual

VERONICA F. DONNAN
Name of witness (please print)