

# Gale Family Superannuation Fund

## 2020 Investment Strategy

### INVESTMENT OBJECTIVES:

To maximise returns and minimise the risks of investment of the fund's assets in managing and providing superannuation benefits to members and their dependants in meeting their retirement needs. To ensure all investments are consistent with the appropriate Superannuation Legislations and the fund's investment strategy.

### RISK, RETURN AND DIVERSIFICATION

Each investment decision will be made with due regard to the associated, risk and expected return. The trustees(s) will seek financial advice where necessary. To maximise overall returns of the fund's investments and minimise the exposure of risk from any particular investment, the fund will maintain a diversified portfolio. The fund's investment will include but not limited to Cash and cash equivalents, Equities (both Australian and International), Debt securities, direct and indirect property, trusts and managed funds, Indicative asset classes are as set out below:

<u>ASSET CLASS</u>	<u>INDICATIVE RANGES</u>
Cash & Money Market Securities	1% to 100%
Australian Fixed Interest	0% to 90%
Australian Managed Funds	0% to 80%
Direct and Indirect Property	0% to 95%
Australian Shares	0% to 95%
International Shares	0% to 95%
Other Assets	0% to 100%

Additionally the trustees may use derivatives where appropriate as a means of hedging investment risks and maximising investment return. The trustees reserve the right to make any investment that is permitted under the superannuation rules, the fund's trust deed and may amend this investment strategy to ensure such an investment is consistent with the investment strategy of the fund.

**LIQUIDITY**

Each investment decision will be made with due regard to the cash flow requirements of the fund. The trustees will consider the liabilities (current and prospective) of the fund and ensure adequate cash is maintained by the fund to meet its liabilities as they fall due. The fund's liquidity needs will be considered at the time of each investment and also during the regular review of the fund's portfolio and investment strategy. The trustees may borrow money to finance the acquisition of investments as appropriate in accordance with the superannuation laws.

**INSURANCE  
COVER:**

The trustees will assess the need of insurance for all members and will seek insurance advice where necessary to ensure all members are adequately insured. Insurance policies may be held by the fund or by members personally.

**REVIEW:**

The investment strategy will be reviewed regularly and at least once a year at the end of financial year. The investment strategy may be revised as appropriate where the trustees' investment objectives change or to include a particular class or type of investment. The fund's investment portfolio will be reviewed at least quarterly.

*Wayne Gale*

Date: 1 July 2019

Wayne Gale

*Margaret Gale*

Date: 1 July 2019

Margaret Gale

# Gale Family Superannuation Fund (“the Fund”) Derivative Risk Statement

## Introduction

The Superannuation Industry Supervision Act (SISA) requires a Derivatives Risk Statement (DRS) to be in effect for superannuation Funds where a charge is given, in relation to the use of derivatives by the Trustee of the Fund. This document sets out the DRS of the Fund, and has been designed to cover the specific requirements of Regulation 13.15A of the SIS act. The Trustees are responsible for ensuring that the use and implementation of derivatives is in accordance with the aims of this DRS.

## Objectives

The derivative investment is intended to support the Fund’s overall Investment Strategy. The purpose of making this specific Derivative Investment is consistent with the investment objectives of the Fund. Each Member should comply with all investment guidelines.

## Reasons for the use of derivatives

The reason for the derivative investment is to achieve diversified exposure to the entire market through market indices;  
Or to achieve transactional efficiency through reducing the cost of achieving a required exposure;  
Or to hedge the portfolio against the risk of adverse movements in market prices and thereby reducing volatility;  
Or to produce extra income for the Fund by writing/selling covered options.

## Risk Analysis

The Trustee is responsible for the risk management and investment decisions of the Fund, including those relating to derivatives. Although professional advice may be sought, the ultimate responsibility remains with the Trustee. There are various types of risks associated with derivatives. These can be broadly categorized under the headings of market risk, basis risk, liquidity risk, credit risk, and legal risk. These risks are described below.

**Market Risk** - the risk of adverse movements in markets. It arises through the holding of any financial instrument, physical or derivative, which creates exposure to movements in prices of a security or market. The market risk associated with the use of derivative is assessed in the context of the risk profile of the total portfolio.

The predominant market risks involved with derivatives include:

For “buy to open” options position –inherent higher volatility of derivatives compared to physical positions and the time decay, which reduces the market value of the position over time.

For “sell to open” options positions – potential unlimited losses if not covered by physical stock and the Fund may not be able to fulfill the contract’s obligation if exercised.

For future contracts – inherent higher volatility of derivatives compared to physical positions; possible higher losses lead by the involved internal leverage and potential unlimited losses.

**Basis Risk** - the risk that the value of a derivative will not move in line with the related physical position.

**Liquidity Risk** – there are two types of liquidity risk, which are Market Liquidity Risk and Funding Liquidity Risk. Market Liquidity Risk is the risk that the Trustees may not be able to, or cannot easily, unwind or offset a particular position due to inadequate market depth or disruptions in the market place. Funding Liquidity Risk is the risk that the Trustee may not be able to meet the future cash flow obligations from the derivative activities such as meeting margin calls on futures contracts.

**Counter-Party (Credit) Risk** – the risk that a counter- party will fail to perform contractual obligations, that is default either in whole or part, under a contract.

**Legal Risk** – the risk that a derivative contract will not be legally enforceable.

## **Restrictions and Controls on the use of Derivatives**

The Trustee undertakes to implement the following restrictions, controls, and processes, in order to manage and control the above mentioned risks.

-All open derivative positions are monitored closely on a daily basis.

-Ensuring prior to and during all derivative contracts that any and all potential expiry exercise obligations can be fulfilled by the Fund, and that the exercise event is still consistent with the Fund’s overall Investment Strategy.

-Ensuring that positions in derivatives are covered. For the purposes of this DRS, cover consists of cash, or assets that are equivalent to cash and can be converted to cash within the settlement period. They must be sufficient to meet all potential obligations arising from the underlying asset exposure represented by the derivative position. Cover may also consist of securities in the case of options contracts.

-The setting and execution of a “stop loss” level for all futures and open “sold” option positions, to reduce “unlimited loss” risk on ‘cash settled’ contracts.

-Asset allocation targets and exposure limits specified in the investment strategy(s) of the Fund include both physical and derivative exposures of the portfolio. The Trustees must manage portfolios to these target allocations.

-When a derivative contract is entered into, the Trustee takes into consideration the likelihood that the price of a derivative will move in line with the underlying physical position and assesses whether the level of basis risk is acceptable.

-The market depth of the derivative will be assessed to control liquidity risk.

-Sufficient cash reserves are maintained in the Fund-to-Fund deposits and margin calls equal to the impact of a considered maximum movement of the net (short plus long) derivative position.

-In order to minimize both counter-party and legal risk, the Trustees will use exchange traded options and futures, which are subject to market standard documentation and settlement procedures. Participants in the exchange are subject to regulation.

### **Compliance Processes**

The compliance process for the Fund includes ongoing monitoring by the Trustee to ensure that the above controls and procedures are effective in controlling and managing the identified risks in the use of derivatives. If deficiencies are identified, the Trustee will take corrective action. The Trustee will review its policies and procedures in an effort to keep current with the evolving derivatives markets and to ensure that they use derivative instruments appropriately and in the best interests of Fund Members. The Trustee will seek advice from an expert investment professional when required to assist with this process.

Signed:

*Wayne Gale*

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Wayne Gale

*Margaret Gale*

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Margaret Gale

1 July 2019