

# **ELECTRICITY INDUSTRY SUPERANNUATION SCHEME INVESTMENT POLICY STATEMENT**

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## **1 Purpose**

The purpose of this policy is to document:

1. the Board's investment philosophy, objectives, strategies and policies
2. details of operational matters relating to investments, such as delegations of authority and performance measuring and monitoring.

## **2 Investment Philosophy**

### **2.1 Background**

ElectricSuper has a mix of defined benefit and accumulation liabilities. The sections of ElectricSuper providing defined benefits are closed to new members, and hence the timeframe over which these benefits will be paid is shortening. Cash flow from contributions are monitored to ensure sufficient funds are available to pay benefits and fund expenses.

It is ultimately the Board's responsibility to make all decisions relating to the investments of the scheme.

However, for defined benefit liabilities, the investment risk is carried by the employers. Investment returns directly affect the cost of those liabilities to employers. The Board has sought the employers' views on the investment risk profile for the assets backing the defined benefit liabilities and will seek reaffirmation of employer views every year.

For accumulation liabilities, the investment risk is carried by the member. Investment returns directly affect the value of accumulation benefits. ElectricSuper provides a mix of investment options to allow members to choose the risk profile that best suits their circumstances.

### **2.2 Board Philosophy – Default and Defined Benefit Investment Pool**

In light of its role as custodian for assets supporting benefits for members, the Board considers it appropriate to take an approach to investing the scheme's assets aimed at lowering investment volatility while maintaining an exposure to growth assets.

The Board will diversify investments, both across asset classes and managers, within any constraints imposed by the asset size of ElectricSuper.

### **2.3 Manager Configuration**

The Board has no deliberate bias towards any style of investment management but will select managers on their perceived ability to add investment value. Manager configuration is determined within, rather than across, asset classes having regard to:

1. any decision reached on active vs passive management
2. the merits of using a particular manager
3. the need for adequate manager diversification
4. the managers' particular skills in the asset class in question
5. the ability to monitor managers effectively and efficiently

# ELECTRICITY INDUSTRY SUPERANNUATION SCHEME

## INVESTMENT POLICY STATEMENT

### 2.4 Manager Concentration Risk Framework

Determining appropriate concentration limits involves balancing the risk mitigation benefits of limiting single manager exposure whilst still ensuring that positions are still able to have a meaningful impact on returns. The type of investment, asset class and liquidity profile have been considered when setting the single manager concentration limits.

	Maximum
<b>Listed Markets</b>	
Listed investments – single product – single manager	15% of total Fund
Listed investments – single product – multi manager	40% of total Fund
Asset class greater than 20% of total fund assets:	
- Single manager product	50% of asset class
- Multi manager product	100% of asset class
<b>Alternatives</b>	
Fund of fund hedge funds	5% of total Fund
Single manager – multi strategy hedge fund	4% of total Fund
Single manager – single strategy hedge fund	2.5% of total Fund
Infrastructure fund	10% of total Fund
Single manager private equity fund	4% of total Fund
Fund of fund private equity fund	5% of total Fund
Core unlisted property product	10% of total Fund
Non-core unlisted property product	5% of total Fund

### 2.5 Use of Derivatives

The Board does not intend to invest directly in derivatives. Investment managers employed by ElectricSuper are permitted to use futures, options and other derivative instruments in accordance with their particular Risk Management Statements.

The Board expects that over the longer term the use of these instruments will enhance the returns and/or reduce the risk of ElectricSuper.

# ELECTRICITY INDUSTRY SUPERANNUATION SCHEME

## INVESTMENT POLICY STATEMENT

---

### 2.6 In-house Assets/Related Party Transactions

The 'in-house asset' rule from the SIS Act restricts 'in-house assets' (including investments in related parties such as employers) to 5% of scheme assets. ElectricSuper has adopted a limit of 2% of Scheme assets for 'in-house assets'. This rule will be reviewed in any new investment being considered by ElectricSuper.

### 2.7 Use of Gearing

The Board may invest in funds that use gearing and leverage, where appropriate.

## 3 Delegations

Clause 3(3)(aa) of Division 1 of the Rules allows the Board of ElectricSuper to seek advice from any qualified advisers. The Board has used this power to appoint an asset consultant.

Clause 3(3)(a) of Division 1 of the Rules allows the Board to engage investment managers.

Clause 5 of Division 1 of the Rules allows the Board to delegate powers as it sees fit. The Board has used this power to set up an Investment Sub Committee. The investment committee is delegated to undertake investment matters as authorised in the Investment Committee Charter.

## 4 Investment options

There are currently four investment options:

- High Growth
- Balanced Growth (the default option)
- Conservative Growth
- Cash

Each of the investment options will have its own risk and return objectives. The Board will endeavour to maximise returns within the risk profile on each strategy.

The assets backing defined benefit liabilities will be invested in the Balanced Growth option.

## 5 Investment objectives

### 5.1 High Growth option

#### 5.1.1 Risk profile

Highest volatility, expected higher long term returns. The chance of a negative return: 4-5 negative years in 20 and returns may show large swings in the short term.

#### 5.1.2 Return objective

To achieve investment returns after tax and fees exceeding the increase in the Consumer Price Index (CPI) plus 4% per annum, over rolling 10 year periods.

# **ELECTRICITY INDUSTRY SUPERANNUATION SCHEME INVESTMENT POLICY STATEMENT**

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## **5.1.3 Investment Timeframe**

10 years (or more)

## **5.2 Balanced Growth option**

### **5.2.1 Risk profile**

High volatility, medium growth. The chance of a negative return: 3 to 4 negative years in 20 and returns may show large swings in the short term.

### **5.2.2 Return objectives**

1. To achieve investment returns after tax and fees exceeding the median return in the SuperRatings Survey of Balanced Options over rolling 10 year periods.
2. To achieve investment returns after tax and fees exceeding the increase in the Consumer Price Index (CPI) plus 3% per annum, over rolling 10 year periods.

### **5.2.3 Investment Timeframe**

10 years minimum.

## **5.3 Conservative Growth option**

### **5.3.1 Risk profile**

Low volatility, expected stable but low returns. The chance of a negative return: 1 negative year in 20 and returns are not expected to show large swings.

### **5.3.2 Return objective**

To achieve investment returns after tax and fees exceeding the increase in the Consumer Price Index (CPI) plus 1.5% per annum, over rolling 10-year periods.

### **5.3.3 Investment Timeframe**

3 Years

## **5.4 Cash option**

### **5.4.1 Risk profile**

Very low volatility, lowest rate of growth in long term. Not likely to have a negative return.

### **5.4.2 Return objectives**

Match the return of the Bloomberg AusBond Bank Bill Index before tax and fees over rolling one-year periods.

### **5.4.3 Investment Timeframe**

No Minimum.

# ELECTRICITY INDUSTRY SUPERANNUATION SCHEME

## INVESTMENT POLICY STATEMENT

### 6 Current Strategic Asset Allocations

Specific asset allocations have been developed for each investment option. These have been formed having regard to the risk profile and performance objectives of each option.

	High Growth	Balanced Growth	Conservative Growth	Cash
<b>Australian equities</b>	35%	24.5%	9%	
<b>Overseas equities</b>	40%	26.5%	11%	
<b>Property (unlisted)</b>	10%	13%	10%	
<b>Growth Alternatives</b>	12%	12%	10%	
<b>Defensive Alternatives</b>	3%	11%	22%	
<b>Fixed interest</b>	0%	6%	8%	
<b>Cash</b>	0%	7%	30%	100%
	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

#### 6.1 Performance against indexed portfolios

Performance of the indexed portfolio for each of the options will be measured using the strategic asset allocations and the following indices:

Asset Class	Index
<b>Australian Shares</b>	S&P/ASX 300 Accumulation Index
<b>Overseas Shares</b>	MSCI All Country World Index (ex Aust) (partially hedged)
<b>Fixed Interest</b>	Bloomberg Ausbond Composite Index
<b>Property</b>	MSCI Mercer Australian Property Fund Index
<b>Cash</b>	Bloomberg AusBond Bank Bill Index

# ELECTRICITY INDUSTRY SUPERANNUATION SCHEME INVESTMENT POLICY STATEMENT

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## 7 Monitoring and Review

The review of the investment performance of ElectricSuper is to be considered at three levels.

1. On at least a triennial basis, the investment strategy of the Balanced Growth option and all fund managers are to be formally reviewed by the Board on the following basis:
  - 1.1 To take into account the nature of the benefits and the liability profile of ElectricSuper;
  - 1.2 To determine the acceptable risk/return profile;
  - 1.3 To determine a benchmark asset allocation on the basis of overall exposures in view of current economic and financial conditions;
  - 1.4 To re-examine all fund manager appointments on the basis of:
    - 1.4.1 Changes to corporate structures or ownership.
    - 1.4.2 Significant personnel changes.
    - 1.4.3 Changes to underlying investment style or investment philosophy.
    - 1.4.4 The processes used by the manager in application of the style.
    - 1.4.5 A detailed analysis of past performance based on:
      - 1.4.5.1 overall returns (net)
      - 1.4.5.2 sectoral returns
      - 1.4.5.3 attribution analysis
      - 1.4.5.4 performance against the benchmark and performance targets both in an absolute and relative sense. This review should include the assessment of possible alternative managers and investment products and investment advisers.
2. On an on-going basis, a quarterly review of ElectricSuper's performance -including an assessment of ElectricSuper as a whole and each of the managers against their objectives. Such a review should consider the returns in the light of current financial and economic conditions. Investment managers are to be interviewed by the Investment Committee at least bi-annually.
3. If any of the external investment managers' fails to meet its objectives, the Investment Committee on behalf of the Board will review the manager's performance, including the establishment of future performance criteria and an examination of alternative managers.

## 8 Manager Performance Standard

The performance of ElectricSuper's active managers will be monitored against their own stated investment objectives.

The Board understands that a fund manager's relative performance will vary from time to time, depending on how the manager's style is favoured or disfavoured by the performance of the various investment markets. The Board will regard the investment objectives in this context.

# **ELECTRICITY INDUSTRY SUPERANNUATION SCHEME INVESTMENT POLICY STATEMENT**

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## **9 Asset Consultant**

The Board employs independent asset consultants to assist in the formulation of investment strategies, to monitor the investment managers and to keep the Investment Committee and Board apprised of industry developments.

**Adopted by the Electricity Industry Superannuation Board on 13 December 2019**

**Chairman:**



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