



# Member guide.

## Superannuation and Personal Super Plan

Product Disclosure Statement Additional Information

# **Section 4. Risks of super**

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The information in this document forms part of the Hostplus Superannuation Fund and Hostplus Personal Super Plan Product Disclosure Statement 1 April 2020.

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Your super benefits are subject to investment risks and can change in value. Each investment option has different risk characteristics and volatility. Net investment returns can have a positive or negative effect on your account balance depending on investment performance.

Risks can be divided into the following main categories:

## 4.1 Investment risks

All investments are subject to varying risks and can change in value. There are risks in choosing to invest in superannuation and each investment option has different risk characteristics and volatility.

**See Section 5: How we invest your money - 5.10 Risk versus return**

The most significant risks are:

- Inflation risk - inflation may exceed the return on your investment - inflation is measured by the Consumer Price Index (CPI). Where the CPI increases, money has less purchasing power. When an investment provides a lower return than the increase in inflation, it actually loses value in terms of purchasing power. Therefore, it is important to invest in assets that are expected to generate returns in excess of inflation over the medium to long term.
- Market risks - economic, technological, political or legal conditions and even market sentiment can change and affect the value of investments.
- Changes in interest rates - interest rate changes can have a positive or negative impact on investment returns across asset classes.
- Foreign exchange - if we invest in other countries there is a risk their currencies could change in value relative to our dollar and so, increase or reduce the value of the investment.
- Investment styles - when choosing individual fund managers, varying investment styles will perform differently depending on the markets and other factors.
- Risks associated with each individual investment - including the risk of financial loss. Individual investments can fall in value for many reasons. For example:
  - Australian shares - inflation, interest rates and changes in market conditions will all have an effect on the value of shares, as does the performance of the company itself.
  - International shares - the risks relating to international shares are the same as for Australian shares. There are also additional risks relating to exchange rates and currencies, and political risks associated with investing in that country.

- Property - returns on property rely on general economic factors such as inflation, interest rates and employment, as well as factors unique to the property such as its location and quality.
- Australian fixed income - changes in interest rates in particular will have an impact on fixed income investments so that, if interest rates change during the term of a loan, there could be capital gains or capital losses. Depending on the nature of the issuer of the investment, there is a varying level of risk that the borrower may default on repayment of the loan.
- International fixed income - similar to Australian fixed income but with additional risks associated with exchange rates and currencies, and political developments.

Each asset class and investment option has its own level of risk and return. Typically, the greater an investment risk, the greater its potential return over the long term.

It is wise to seek professional advice when making decisions about selecting and changing your investment options as each option has a different risk/return profile.

**[Find out more at hostplus.com.au/advice](https://hostplus.com.au/advice)**

Other risks may also affect the accessibility or value of your investment with any super fund. These include:

- Liquidity risks - this refers to the ability to convert an investment into cash with little or no loss of capital and minimum delay. Some investments, such as direct property and private equity, are relatively illiquid. As such, the fund makes these investments for the long term and limits the exposure of any investment option to these sectors.
- Security specific risks - where an individual company or asset fails, for example through bankruptcy, fraudulent activity or the business environment in which it operates, the value of the investment can fall sharply.
- Derivatives risks - derivatives are used by the PST for many purposes, including hedging to protect an asset against market fluctuations, reducing costs of achieving a particular market exposure, and specifically using derivative overlays to manage the PST's exposure to foreign currency movements against the Australian dollar. Hostplus has appointed various external investment managers who can directly invest in derivatives in order to assist with the effective management and protection of Hostplus assets. To satisfactorily manage this risk we set appropriate terms, levels of usage and constraints. Hostplus also obtains confirmation from these investment managers that they have the appropriate risk management processes in place in relation to the use of derivatives.
- Market failure - there is a risk of broad market failure or significant financial collapse that affects investments broadly. Such events are outside the control of the trustee. Consequently, even long term investors like superannuation fund members should be mindful of the risk that if such high impact events occur, their benefits may be less than the total amount of contributions invested.

## **4.2 Operational risks**

Operational risks include the possibility of:

- adequacy of resources (Human, Financial and Technological),
- business continuity / disaster recovery,
- fraud and theft,

- administrative errors,
- inappropriate advice,
- unit pricing errors, or
- failure of outsourced providers.

Most operational risks can be controlled by the trustee through their internal control framework.

The trustee has a compliance and risk management program in place to manage these risks. In addition to the Operational Risks that may arise, there is also the possibility for legal or legislative risks to occur. These risks include:

- superannuation legislation changes that may affect your benefit or ability to access a benefit,
- taxation changes that may affect the value of your investment,
- economic or political climate changes,
- Government policy and law changes,
- particular events being excluded from insurance cover,
- insurance terms changes, or
- a fund's termination, the trustee being replaced or investment managers changing.

### 4.3 Investment risk measure

The Standard Risk Measure (SRM) has been adopted to assist members in comparing investment options (both within and across superannuation funds) using a simplified risk measure.

The SRM is based on industry guidance (SRM implementation guidance for Trustees issued by the Financial Services Council 'FSC' & the Association of Superannuation Funds of Australia 'ASFA') to allow members to compare investment options that are expected to deliver similar negative net investment returns over a 20 year period.

The SRM is not a complete assessment of all forms of investment risk; for instance, it does not detail what the size of a negative return could be or the possibility of returns not being adequate to meet a member's investment objectives. Further, it does not take into account the impact of administration fees and tax on the likelihood of a negative return.

Members should still ensure they are comfortable with the risks and potential losses associated with their chosen investment option/s.

#### Risk measures and categories

Relevant risk label	Level of investment risk - estimated number of negative net investment returns over a 20 year period
Very low	Less than 0.5

Low	0.5 to less than 1
Low to medium	1 to less than 2
Medium	2 to less than 3
Medium to high	3 to less than 4
High	4 to less than 6
Very high	6 or greater

This risk measure is applicable to all of our investment options with the exception of **Choiceplus**.

This document does not and is not intended to contain any recommendations, statements of opinion or advice. The information is factual and / or general in nature and does not consider any of your objectives, financial situation or needs. You should consider obtaining advice from a licensed financial and taxation adviser and consider the appropriateness of this information, having regard to your particular investment needs, objectives and financial situation.

Host-Plus Pty Limited ABN 79 008 634 704, AFSL No. 244392, RSEL No. L0000093, MySuper No. 68657495890198, Hostplus Superannuation Fund ABN 68 657 495 890, RSE No. R1000054.



Mail Locked Bag 5046, Parramatta, NSW 2124  
Phone 1300 467 875  
Fax 1800 467 875  
Email [info@hostplus.com.au](mailto:info@hostplus.com.au)  
[hostplus.com.au](http://hostplus.com.au)