

# Standard Risk Measure – Challenger Guaranteed Personal Superannuation

Dated: 1 July 2013

## Background

Challenger Retirement and Investment Services Limited ABN 80 115 534 453, AFS 295642 (CRISL) is the trustee of Challenger Guaranteed Personal Superannuation. The Australian Prudential Regulation Authority (APRA) in conjunction with The Association of Superannuation Funds of Australia (AFSA) and The Financial Services Council (FSC) has developed industry guidance for the disclosure of investment risk for superannuation funds, based on a consistent methodology (the 'Standard Risk Measure'). The measure is based on the likely number of negative annual returns over a 20 year period.

## Purpose

The purpose of the Standard Risk Measure is to provide you with a descriptor for Challenger Guaranteed Personal Superannuation to assist in comparing investment options, both within and across superannuation funds, utilising a simplified risk measure.

## Standard Risk Measure

Risk band	Risk label	Estimated number of negative annual returns over any 20 year period
1	Very Low	Less than 0.5

The risk band applies to both the Guaranteed Fixed Rate and the Guaranteed Cash investment options within Challenger Guaranteed Personal Superannuation.

The Standard Risk Measure is based on industry guidance to allow members to compare investment options that are expected to deliver a similar number of negative returns over any 20-year period.

The Standard Risk Measure 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 potential for a positive return to be less than a member may require to meet their 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.

## Methodology

The estimate above is based on both the Guaranteed Fixed Rate and the Guaranteed Cash investment options of the Challenger Guaranteed Personal Superannuation investing into a life policy issued by Challenger Life Company Limited (Challenger Life) under which Challenger Life contractually undertakes and guarantees to pay Challenger Retirement and Investment Services Limited (as trustee of Challenger Guaranteed Personal Superannuation) the balance of any sub-account and any guaranteed earnings rate.

As a result of the contractual obligations and guarantees provided by Challenger Life, the investment options within the Challenger Guaranteed Personal Superannuation have a very low risk rating on the Standard Risk Measure. The Standard Risk Measure is based on your contribution remaining invested for the term agreed at commencement. If you choose to break the term there may be costs involved for the withdrawal.

## Information relating to the guarantees provided by Challenger Life

Challenger Life is regulated under the Life Insurance Act 1995 (Cth) (Life Act) (which governs the provision of life insurance in Australia) and the prudential standards made under it, which prescribe minimum capital and solvency requirements for Challenger Life. APRA actively supervises Challenger Life's compliance with these requirements with a view to ensuring that they are able to meet their obligations to investors. For example, Challenger Life is required to hold enough capital to withstand a 1 in 200-year shock event. Even so, unforeseen and extreme circumstances that might impact our ability to make payments to you can never be completely ruled out.

When the trustee (in this case CRISL) invests your money into a life policy issued by Challenger Life, it is invested into a statutory fund which is regulated under the Life Act. All payments in respect of the Guaranteed Cash and Guaranteed Fixed Rate investment options are made from the statutory fund, even if the fund suffers poor investment return. If the fund falls below the minimum level needed to make all current and future payments, Challenger Life can be required to top up the fund with its own money. APRA actively supervises this requirement and has extensive powers to intervene to ensure payments can be met despite volatile or adverse movements in the broader financial markets.

Challenger Guaranteed Personal Superannuation investors can take comfort in knowing their investment is in a statutory fund and:

- unlike many other investments where investors incur the risk and impact of any market falls, the balance of any sub-account and any guaranteed earnings rate is protected, even if market returns are lower;
- Challenger Life invests its own money to provide a buffer for investors;
- the statutory fund is prudently invested, to ensure that investment return is sufficient to cover all payments due to investors;
- there are strict rules in place to ensure they receive the full benefit of their investment, even during periods of market volatility.

Challenger Life will invest the statutory fund, subject to investment restrictions in the Life Act. Generally, the fund will be invested in cash, shares, corporate bonds, convertible notes, debt instruments, geared and ungeared property investments, infrastructure investments and other assets. The investment objectives for the fund include to achieve consistent returns on investment and to match the cash flow in from investment return with cash flow out to investors so that all present and future guaranteed payments can be made to all investors. When investing the statutory fund, Challenger Life does not generally take into account labour standards or environmental, social or ethical considerations, although sometimes these matters can affect the economic factors that influence investment decisions.

The name of Challenger Life's statutory fund that your money will go to when you invest into Challenger Guaranteed Personal Superannuation is Challenger's Statutory Fund No. 2. All references to guarantees refer to payments being guaranteed from the available assets of that statutory fund (which Challenger Life can be required to top up).