

Risk & Return

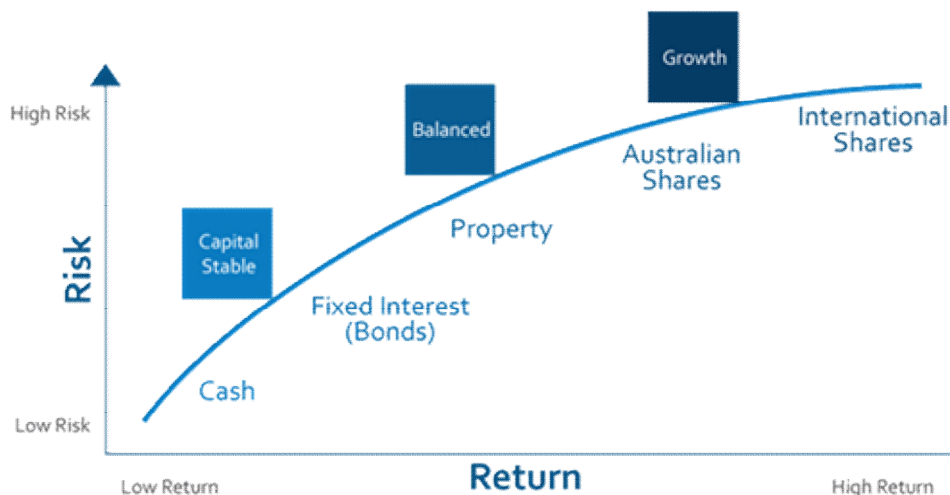
When deciding on an investment, it is important to understand the expected risk and likely returns from the investment and determine how this will fit in with your personal situation and financial needs.

Risk can be described as the chance that you will not achieve the investment returns needed to meet your financial objectives. While some people may be more comfortable with accepting low levels of risk, the potential consequence may be that the returns achieved are insufficient to meet their financial objectives.



All investments are subject to some risk.

The relationship between risk and return is demonstrated in the graph below. By investing into higher risk investments, investors want to be compensated for this risk. As such they require a higher rate of return.



Generally, the more stable the return each year, the lower the risk of a negative return generally over time resulting in a lower return. The longer an investment is held, the greater the likelihood that volatile returns will be evened out.

In essence there are three 'levers' that you can control to assist with your portfolio planning.

Capital Preservation - that is you can choose how much capital you are willing to use over a given time-frame (if any). **Risk** - you can choose the level of capital risk you are comfortable with and **Lifestyle Needs** - you can choose how much you spend to maintain your lifestyle and conversely how much you invest. For example, it may be 'how much do you need to save to achieve your objective within your designated timeframe?' This may mean sacrificing some immediate lifestyle habits to accomplish your agreed savings objectives.

Portfolio Construction, Asset Allocation and Investment Selection come only after you have prioritised your Capital, Risk & Lifestyle needs.

Investment Timeframe

When you are considering the investment mix that is suitable to you, one of the first considerations is time horizon. Once you know how long you want to invest for, you can consider other factors to understand the level of risk you are comfortable taking. This will be partly guided by your investment expectations. Your mix of investments should be based on reasonable returns over your desired timeframe and at an acceptable level of risk.

Short-term investments (1-3 years)

Short-term investors should be looking for investments with:

- Risk - no or little risk of losing your money
- Volatility - very low

Suitable products could be an Online Savings Account or Term deposit.

These products could be suitable because the money is available when you need it.

Ask yourself: How quickly will I be able to get my money when I need it? Is it easy to add more savings? Am I getting a good interest rate?

Medium-term investments (4-6 years)

Medium-term investors should look for investments with:

- Risk - low to medium-level possibility of losing money
- Volatility - medium; capital value could go up or down 20% in a year

A suitable product could be a balanced investment option in a managed fund. If your timeframe is closer to 4 years, a more conservative investment option may be suitable.

This could be suitable because:

- It is expected to provide better returns than a bank account over the same period
- Any short-term periods of negative returns should grow back over the period that you are investing
- It is easy to add money to the investment

Ask yourself: Can I cope with some risk in order to let my money grow over the medium term?

Long-term investments (7 or more years)

Long-term investors are looking for investments with:

- Risk - high, with frequent negative returns
- Volatility - high; capital value could go up or down by 40% in a year

A suitable product could be a growth or high growth option in a superannuation fund or managed fund or direct shares.

This could be suitable because:

- It is expected to provide long-term returns better than a bank account
- Your capital should grow over time making up for short-term periods of negative returns

Ask yourself: What's the best way to make my money grow over the long-term and will I be stressed by short-term fluctuations?



Risk Profile - SECURE					
Appeal:		Investors seeking security above all else or investors needing most of their money within a short timeframe			
Investment Time Horizon:		Generally suitable for short term (less than a year)			
Capital volatility:		Very Low			
Longer Term Return Objective		Cash + 0%			
Return Characteristics*					
Probability of a Negative Return over any 12 months	Frequency of a Negative 12-Month Return	Best 12-Month Return	Worst 12-Month Return	Average 'Real' Return	Average Historical Return
0.00%	never	7.8%	1.12%	1.65%	4.22%


*These percentages are based on historical returns over the past 20.5 years (from 31 Jan 2000 to 31 May 2020). The figures show the potential volatility of the various portfolios. They are estimates only, are not predictions, are in no way guaranteed and are provided for comparative and illustrative purposes only. (Last updated 27 June 2020).

Investment mix	Typical characteristics
<p>Cash</p> <p>■ 100% in deposits with Australian deposit-taking institutions</p>	<p>Investment: \$10,000 after 5 years = \$10,510</p> <p>Expected long-term return: 1.0% pa (gross returns before fees, taxes and other costs)</p> <p>Volatility: Very low</p> <p>Expect a loss: never</p>



Risk Profile - DEFENSIVE					
Appeal:	Investors favouring security but who require some longer-term growth with a small appetite for volatility				
Investment Time Horizon:	Generally shorter to medium term (2 to 3 years or more)				
Capital volatility:	Low				
Longer Term Return Objective	Cash + 0.8%				
Return Characteristics*					
Probability of a Negative Return over any 12 months	Frequency of a Negative 12-Month Return	Best 12-Month Return	Worst 12-Month Return	Average 'Real' Return	Average Historical Return
2.99%	1 year in every 33.43	10.19%	-1.05%	3.34%	5.92%

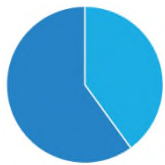
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Investment mix	Typical characteristics
<p>Defensive</p> <ul style="list-style-type: none"> ■ Around 20% in shares and property ■ The rest in cash or fixed interest 	<p>Investment: \$10,000 after 5 years = \$10,932</p> <p>Expected long-term return: 1.8% pa (gross returns before fees, taxes and other costs)</p> <p>Volatility: Low</p> <p>Expect a loss: once every 32 years</p>



Risk Profile - CONSERVATIVE					
Appeal:	Investors seeking security above all else or investors needing most of their money within a short timeframe				
Investment Time Horizon:	Generally suitable for medium term (3 to 4 years)				
Capital volatility:	Medium				
Longer Term Return Objective	Cash + 1.6%				
Return Characteristics*					
Probability of a Negative Return over any 12 months	Frequency of a Negative 12-Month Return	Best 12-Month Return	Worst 12-Month Return	Average 'Real' Return	Average Historical Return
12.39%	1 year in every 8.07	14.24%	-9.26%	3.92%	6.51%

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Investment mix	Typical characteristics
<p>Conservative</p> <ul style="list-style-type: none"> ■ Around 40% in shares and property ■ The rest in cash or fixed interest 	<p>Investment: \$10,000 after 5 years = \$11,369</p> <p>Expected long-term return: 2.6% pa (gross returns before fees, taxes and other costs)</p> <p>Volatility: Low to Medium</p> <p>Expect a loss: once every 7.72 years</p>



Risk Profile - BALANCED					
Appeal:	Investors seeking growth over the medium to longer term and with no need to access a large part of their investment over that time, while at the same time diversifying risk through investing in a spread of asset classes				
Investment Time Horizon:	Medium to longer term (a minimum of 5 years but preferably longer)				
Capital volatility:	Medium to High				
Longer Term Return Objective	Cash + 2.4%				
Return Characteristics*					
Probability of a Negative Return over any 12 months	Frequency of a Negative 12-Month Return	Best 12-Month Return	Worst 12-Month Return	Average 'Real' Return	Average Historical Return
17.95%	1 year in every 5.57	20.76%	-18.21%	4.33%	6.92%

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Investment mix	Typical characteristics
<p>Balanced</p> <ul style="list-style-type: none"> ■ Around 60% in shares and property ■ The rest in cash or fixed interest 	<p>Investment: \$10,000 after 5 years = \$11,819</p> <p>Expected long-term return: 3.4% pa (gross returns before fees, taxes and other costs)</p> <p>Volatility: Medium to High</p> <p>Expect a loss: once every 5.46 years</p>



Risk Profile - GROWTH (Assertive)					
Appeal:	Investors with a long period before they need to access a large part of their investment, who are prepared to accept a high level of volatility but nonetheless want some modest diversification by exposure to lower returning asset classes				
Investment Time Horizon:	Longer term (a minimum of 5 to 7 years but preferably longer)				
Capital volatility:	High				
Longer Term Return Objective	Cash + 3.2%				
Return Characteristics*					
Probability of a Negative Return over any 12 months	Frequency of a Negative 12-Month Return	Best 12-Month Return	Worst 12-Month Return	Average 'Real' Return	Average Historical Return
23.08%	1 year in every 4.33	27.47%	-26.27%	4.72%	7.31%


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Investment mix	Typical characteristics
<p>Growth (Assertive)</p> <ul style="list-style-type: none"> ■ Around 80% in shares and property ■ The rest in cash or fixed interest 	<p>Investment: \$10,000 after 5 years = \$12,283</p> <p>Expected long-term return: 4.2% pa (gross returns before fees, taxes and other costs)</p> <p>Volatility: High</p> <p>Expect a loss: once every 4.23 years</p>



Risk Profile - HIGH GROWTH (Aggressive)					
Appeal:	Investors seeking to maximise growth, with a long period before they need to access a large part of their investment and who are prepared to accept a high level of volatility				
Investment Time Horizon:	Long term (a minimum of 7 years but preferably longer)				
Capital volatility:	Very High				
Longer Term Return Objective	Cash + 4%				
Return Characteristics*					
Probability of a Negative Return over any 12 months	Frequency of a Negative 12-Month Return	Best 12-Month Return	Worst 12-Month Return	Average 'Real' Return	Average Historical Return
26.50%	1 year in every 3.77	34.67%	-33.67%	5.05%	7.64%

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Investment mix	Typical characteristics
<p>High growth (Aggressive)</p> <p>■ Up to 100% in shares and property</p> 	<p>Investment: \$10,000 after 5 years = \$12,762</p> <p>Expected long-term return: 5.0% pa (gross returns before fees, taxes and other costs)</p> <p>Volatility: Very High</p> <p>Expect a loss: once every 3.8 years</p>