STATE SUPER
SAS Trustee Corporation

The Standard Risk Measures and methodology for calculating the risk of a negative return

The Standard Risk Measures (SRMs) outlined in the table below shows an investment strategy's risk band and risk label. The SRMs are based on industry guidance and allow members to compare investment strategies that are expected to deliver a similar number of negative annual returns over any 20-year period.

Risk band	Risk label	Estimated number of negative annual returns over any 20-year period
1	Very low	Less than 0.5
2	Low	0.5 to less than 1
3	Low to medium	1 to less than 2
4	Medium	2 to less than 3
5	Medium to high	3 to less than 4
6	High	4 to less than 6
7	Very high	6 or greater

Note: Annual negative returns can occur in consecutive years and may exceed the estimated standard risk measure. For example, the Growth Strategy is estimated to experience approximately 3 to 4 negative annual returns in any 20 years. These negative annual returns can occur consecutively. Further negative annual returns may also be experienced after these negative returns and within the same 20- year time frame.

The estimated number of negative annual returns over any 20-year period is calculated using Frontier's (State Super's asset consultant) forward-looking capital market assumptions for each asset class, applied to the strategic asset allocation of the investment strategies.

The SRMs for each investment strategy is shown below:

Strategy	Risk of negative return
Growth	High (Risk band 6: from 4 to less than 6 negative annual returns estimated over any 20-year period).
Balanced	Medium to high (Risk band 5: from 3 to less than 4 negative annual returns estimated over any 20-year period).
Conservative	Medium (Risk band 4: from 2 to less than 3 negative annual returns estimated over any 20-year period).
Cash	Very low (Risk band 1: less than 0.5 negative annual return over any 20-year period).
Trustee Selection	High (Risk band 6: from 4 to less than 6 negative annual returns estimated over any 20-year period).
University Conservative Diversified	Low to medium (Risk band 3: from 1 to less than 2 negative annual returns estimated over any 20-year period).
University Cash	Very low (Risk band 1: less than 0.5 negative annual return over any 20-year period).

The capital market assumptions are forward looking return, risk and correlation assumptions for all of the major asset classes, including unlisted and alternative asset classes. The assumptions are based on Frontier's expectations of asset class performance over the long-term (five plus years) under normalised circumstances. The assumptions do not allow for near term views of the markets as it is difficult to predict short-term returns. The assumptions are on a net of investment management fees and gross of tax and administrative fees basis. A conservative approach is taken in determining these assumptions. Frontier reviews its assumptions annually.