

# OnePath and OptiMix diversified investment options – updated disclosure for Alternative Assets

1 July 2013

## Product Update and Continuous Disclosure Notice

This document contains important information for investors in the following investment options (Options) offered by OnePath Custodians Pty Limited (OPC) through Integra Super:

- OptiMix Conservative
- OptiMix Moderate
- OptiMix Balanced
- OptiMix Growth
- OptiMix High Growth
- OnePath Capital Stable
- OnePath Balanced
- OnePath Managed Growth
- OnePath High Growth

Each Option has a level of exposure to Alternative Assets which is achieved through underlying total return swap arrangements provided to OnePath Funds Management Limited (OPFM) by ANZ Wealth Alternative Investments Management Pty Limited (Counterparty). The Options gain their exposure to the underlying swap arrangements through their exposure to various managed investment schemes of which OPFM is the responsible entity. In turn, those managed investment schemes (Funds) invest in two funds (the 'Alternative Investment Funds') of which OPFM is also the trustee.

## Which documents are affected?

This document provides further information to the information contained in the following documents:

- Integra Super Product Disclosure Statement dated 27 February 2012
- Integra Super Investment Choice Guide dated 27 February 2012
- Integra Super Member Guide dated 27 February 2012.

## What are Alternative Assets?

Alternative Assets are assets that behave differently to traditional asset classes such as shares, listed property, fixed interest, bonds and cash.

Generally, the Alternative Assets category may include commodities such as precious metals and gold, hedge funds, derivatives (including swaps which provide economic exposure to underlying assets), exchange traded funds, private equity, currencies and other newer asset classes.

The objective of the Alternative Asset exposure is to provide three key benefits. These include: increased diversification, improved performance and reduced correlation to traditional assets such as world stock markets.

## What has changed?

Until recently, the underlying swap arrangements were provided by a major Australian Bank. Following a review conducted by OPFM, and effective from 1 July 2013, the underlying swap arrangements are now provided by the Counterparty.

## More details concerning the Swaps

The Counterparty, like OPFM and OPC, is a wholly owned subsidiary of ANZ Group. Each of the Funds achieves its alternative asset exposure by investing into one or both of the Alternative Investment Funds, which in turn invest in the underlying fully funded total return swap arrangements provided by the Counterparty (Swaps).

A fully funded total return swap is a derivative contract where one party (in this case OPFM as trustee of the Alternative Investment Funds) makes a lump sum payment to another person (in this case the Counterparty) in return for the Counterparty paying the investment return on an underlying 'basket' or portfolio of investments (in this case the Alternative Assets).

The Swaps are described as 'fully funded' total return swaps because OPFM pays an upfront amount to the Counterparty. In return, the Counterparty makes payments to OPFM that reflect the returns (if any) on the Alternative Assets 'referenced' by the Swaps.

Like any contract, the Swaps are subject to certain early termination events, including:

- failure to make payments when they become due;
- insolvency of either party to the Swap;
- the occurrence of an event that makes part of the Swap agreement unable to be performed due to causes that are outside the control of the parties, such as natural disasters; or
- where a change in law renders the Swaps ineffective or illegal.

The Counterparty will physically invest in the basket or portfolio of Alternative Assets 'referenced' by the Swaps in order to manage the risk that it becomes unable to meet its payment obligations under the Swaps.

## Fees and costs associated with exposure to Alternative Assets

Additional fees and expenses apply in relation to the portion of the Option's exposure to Alternative Assets through the underlying Swaps.

These fees and expenses come from two sources. Firstly, there are fees and expenses (including fees and expenses relating to custody, administration, advice and research) payable to the Counterparty in return for it providing the Swaps (Swap Service Fees). Currently, the Swap Service Fees (depending on the relevant Option and based on current maximum alternative asset allocations) equate to 0.004% to 0.042% p.a. of the value of the underlying Alternative Assets and cash 'referenced' by the Swaps and are reflected in the returns payable under the Swaps.

Secondly, there are transaction charges and management and/or performance fees charged by the managers of the Alternative Assets referenced by the Swaps. These fees and charges are built in to the value of the Alternative Assets referenced by the Swaps and are also reflected in the returns payable under the Swaps. This means that investment returns produced from the Swaps are net of all applicable fees and expenses.

Management fees for alternative assets vary from manager to manager. Typically however these fees range between 0.6% to 2.0% p.a. of the value of the relevant alternative asset.

Performance fees are usually based on a percentage of the relevant alternative asset's out-performance against a particular benchmark. The percentages and benchmarks vary considerably between different assets, and will depend on the individual arrangements with the underlying managers of the assets that are selected by us for inclusion in the 'basket' or portfolio 'referenced' by each Swap.

## Risks of Swaps

The Swaps are complex financial products entered into with a single Counterparty, which, like OPC and OPFM, is a wholly owned subsidiary of the ANZ Group.

Risks of swaps include:

**Liquidity** – this is the risk that the Counterparty may not be able to meet withdrawal requests made from time to time under the Swap. The underlying Alternative Assets will typically have different pricing and withdrawal cycles (for example, daily, weekly, monthly or even quarterly) and this may impact the Counterparty's ability to access liquid funds when required. To minimise this risk the Counterparty will select liquidity strategies or put in place restrictions to minimise any possible illiquidity.

**Valuation risk** – related to liquidity risk is the risk that the withdrawal prices for Alternative Assets are not always up to date. Accurate withdrawal prices are typically only provided for the dates on which withdrawals are permitted from the underlying Alternative Asset. Estimated prices are sometimes (but not always) provided by investment managers on an interim basis. When calculating unit prices for relevant Funds, OPFM will use the most recent pricing information provided by the underlying investment managers. This information may not be up to date or may be based on estimated (rather than actual) valuation data.

**Credit Risk** – this is the risk that the Counterparty is unable to repay the capital on the investment. The Counterparty is required to invest the underlying Alternative Assets in order to manage the risk that it becomes unable to pay returns under the Swaps that are derived from the performance of those Alternative Assets. In addition, OPFM has entered into security arrangements with the Swap Counterparty to address counterparty credit risk.

**Fund Risk** – this is the risk that one of the underlying Alternative Assets is unable to meet its obligations. The underlying Alternative Assets have been selected in accordance with stringent investment requirements, such that in the event that one strategy (or underlying investment) fails there is sufficient diversification to reduce the overall volatility of the portfolio.

**Manager Risk** – this is the risk that an underlying manager may fail to meet its investment objectives, resulting in lower than expected results for an Alternative Asset. This risk is mitigated by diversifying across a range of underlying managers.

**Currency Risk** – this is the risk that currency movements will adversely affect the return in Australian dollars. In order to minimise the impact of adverse currency movements, a currency hedging strategy is in place.

## Any questions?

If you have any questions or require further information, please:

- call Customer Services on 133 665, weekdays between 8.30am and 6.30pm (AEST)
- email [customer@onepath.com.au](mailto:customer@onepath.com.au)
- speak with your financial adviser.

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