

## Investment beliefs, principles & risk

### Governance

- Strong governance will increase the likelihood of WA Super achieving investment success. Having clear decision-making structures with appropriate delegations that promote decisiveness, efficiency and accountability will add value to WA Super.
- While the Trustee will retain decision making on key strategic matters such as determining WA Super's mission, setting the risk budget, the objectives of each investment option and strategic asset allocations, other areas such as portfolio construction, manager selection and dynamic strategic asset allocation will be delegated to the Investment Committee under appropriate policy frameworks.

### Risk and Return Objectives

- There is always a trade-off between risk (regardless of how this is measured) and return. WA Super will generally seek to prioritise its risk objectives over its return objectives.
- For both Super Solutions and Retirement Solutions, WA Super will express its return objectives in terms of a margin over the cost of living, measured over an appropriate timeframe for each investment option.
- For both Super Solutions and Retirement Solutions, WA Super will express its investment risk objectives in terms of both the frequency of negative annual returns, as well the magnitude of negative annual returns. Particular attention will be placed on the potential magnitude of negative annual returns.
- WA Super will be cognisant of peer practice when setting investment strategy, but performance relative to peers is not WA Super's primary definition of success. Peer relative performance will be useful in assessing whether WA Super can improve the implementation of its investment strategy.

### Investment Strategy

- WA Super believes that no one risk measure fully describes the risks inherent in the investment portfolio. As a result, WA Super will use scenario analysis and stress testing to assist with the formulation and implementation of investment strategy.



- WA Super will generally need to take risk in order to achieve its investment objectives. WA Super will seek to ensure that it understands the nature and prospective rewards of these risks, and will set a risk budget for each investment option.
- WA Super's asset allocation decisions are expected to have the greatest impact on investment outcomes, and are therefore more important than dynamic strategic asset allocation or implementation decisions (such as which managers are chosen).
- Successful investing requires consideration of both quantitative and qualitative factors. WA Super endorses the role of quantitative analysis, but not to the exclusion of skilled and experienced qualitative judgement and decision making.
- Diversification will be used as WA Super's primary strategy for managing investment risk. The return on equities will generally be WA Super's major driver of returns above the risk free rate, however the investment portfolio can benefit from other return sources not correlated with the equity risk premium.
- There are occasions when markets become significantly over or under-priced relative to long-term fair value. When WA Super has a high level of conviction that such mispricing exists, WA Super will implement dynamic strategic asset allocation positions to improve expected risk-adjusted returns in accordance with a well-defined framework.

## Liquidity

- WA Super believes there is an expected return premium for holding illiquid investments. We will consider investments in illiquid asset classes if we expect the additional return or diversification benefit to compensate for the lower level of liquidity relative to similar liquid strategies and the additional governance, costs and member equity implications required to invest effectively in illiquid asset classes.
- WA Super will seek to have sufficiently liquid assets to meet expected cash flow requirements.

## Active Management

- Investment markets may exhibit persistent, or at times transient, pricing inefficiencies. WA Super believes that active managers can add value where such market inefficiencies exist.
- In making manager appointments, WA Super will be cognisant of the risk budget, the costs associated with active management, the availability of pooled investment vehicles and the availability of alternatives to active management (e.g. passive management).
- There are a wide range of factors which influence manager outcomes. Past investment performance is not necessarily a reliable indication of future performance (as it is not easy to totally disaggregate between skill, factor exposures, risk budgets and luck). WA Super will seek



to appoint and retain managers which it assesses as having sustainable long term competitive advantages. Both quantitative and qualitative factors will influence such an assessment.

## **Implementation**

- It is easy for good ideas to get lost in complexity and never be implemented. WA Super will focus on doing a few things well, getting big ideas implemented and getting the broad picture right.
- WA Super will seek to avoid unnecessary complexity and cost in its investment arrangements, by engaging a relatively small number of external investment managers.
- WA Super believes it must have an open and honest understanding of its competitive investment position. WA Super can then seek to exploit its competitive strengths to add value, and consider implementing alternate strategies such as skills acquisition or partnering to overcome neutralities or weaknesses.

## **Responsible and Sustainable Investing**

- WA Super will have regard to environmental, social and governance factors in its investment arrangements, but only to the extent that such factors are expected to make an improvement to the risk-adjusted returns for members.