Minutes of the Meeting of the Trustees

Name of Self Managed Super Fund (SMSF):

Venue of meeting:

Date of meeting:

Date this Derivatives Risk Statement is effective from:

Present:

Chair:

The trustees have resolved that the following Derivatives Risk Statement be adopted and implemented for the above mentioned SMSF.

DERIVATIVES RISK STATEMENT

INTRODUCTION

The Superannuation Industry Supervision Act (SISA) requires a Derivatives Risk Statement (DRS) to be in effect for Superannuation Funds where a charge is given, in relation to the use of derivatives by the trustee of the fund. This document sets out the DRS of the above mentioned SMSF and has been designed to cover the specific requirements of Regulation 13.15A of the SIS act.

Where the trustees use the services of an Investment Adviser, and that Investment Adviser makes recommendations to the trustee which entail the use of derivatives, the trustees are still responsible for ensuring that the use and implementation of derivatives is in accordance with the aims of this DRS.

1. POLICIES FOR THE USE OF DERIVATIVES, INCLUDING AN ANALYSIS OF THE RISKS ASSOCIATED WITH THE USE OF DERIVATVIES WITHIN THE INVESTMENT STRATEGY OF THE FUND.

The use of derivatives

The trustees consider that as with any investment, derivatives must fulfill the following criteria:

(a) a derivative investment must be intended to support the fund's overall investment strategy.

(b) the purpose of making a specific derivative investment must be consistent with the investment objectives of the fund.

(c) all investment guidelines in respect of each member must be complied with.

More specifically, the trustees may intend to use derivatives for the following purposes:

(a) writing (selling) covered options to produce extra income for the fund;

(b) hedging the portfolio against the risk of adverse movements in market prices and thereby reducing volatility;

(c) achieving diversified exposure to an entire market through market indices;

(d) achieving transactional efficiency through reducing the cost of achieving a required exposure;

Risk analysis

The trustees are responsible for the risk management and investment decisions of the fund, including those relating to derivatives. Although professional advice may be sought, the ultimate responsibility remains with the trustees.

There are various types of risks associated with derivatives. These can be broadly categorized under the headings of market risk, basis risk, liquidity risk, credit risk, and legal risk. These risks are described below.

A. Market Risk

Market risk is the risk of adverse movements in markets. It arises through the holding of any financial instrument, physical or derivative, which creates exposure to movements in prices of a security or market. The market risk associated with the use of derivatives is assessed in the context of the risk profile of the total portfolio.

The predominant market risks involved with derivatives include:

1. For "buy to open" options positions
    1. the inherent higher volatility of derivatives compared to physical positions.
    2. time decay, which reduces the market value of the position over time.
2. For "sell to open" options positions
    1. If not covered by physical stock, losses are potentially unlimited.
    2. If exercised, the fund may not be able to fulfill the contract's obligation
3. For futures contracts
    - the inherent higher volatility of derivatives compared to physical positions.
    - the internal leverage involved can lead to higher than normal losses.
    - Losses can be potentially unlimited

B. Basis Risk

Basis risk is the risk that the value of a derivative will not move in line with the related physical position.

D. Liquidity Risk

There are two types of liquidity risk that arise from investing in derivatives. These are:

Market Liquidity Risk – the risk that the trustees may not be able to, or cannot easily, unwind or offset a particular position due to inadequate market depth or disruptions in the market place.

Funding Liquidity Risk – the risk that the trustees may not be able to meet the future cash flow obligations from the derivative activities such as meeting margin calls on futures contracts.

When you complete this form, please:

- *Use a black pen;*
- *Write clearly in block letters;*
- *Answer all applicable questions;*
- *Ensure it is signed.*

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E. Counter-party (Credit) Risk

Counter-party risk is the risk that a counter-party will fail to perform contractual obligations, that is default either in whole or part, under a contract.

F. Legal Risk

Legal risk is the risk that a derivative contract will not be legally enforceable.

2. RESTRICTIONS & CONTROLS ON THE USE OF DERIVATIVES THAT TAKE INTO CONSIDERATION THE EXPERTISE OF STAFF

With this DRS pertaining to a Self Managed Superannuation Fund, the reference to "staff" will be taken here to be referring primarily to the trustees, and secondarily to other investment personnel that the trustees may engage to execute trades or provide advice.

In order to manage & control the risks in Section 1 above, the trustees undertake to implement the following restrictions, controls, and processes:

- All open derivative positions are monitored closely on a daily basis.
- Ensuring prior to and during all derivative contracts that any and all potential expiry exercise obligations can be fulfilled by the fund, and that the exercise event is still consistent with the fund's overall investment strategy.
- Ensuring that positions in derivatives are covered. For the purposes of this DRS, cover consists of cash, or assets that are equivalent to cash and can be converted to cash within the settlement period. They must be sufficient to meet all potential obligations arising from the underlying asset exposure represented by the derivative position. Cover may also consist of securities in the case of options contracts.
- The setting and execution of a "stop loss" level for all futures and open "sold" option positions, to reduce "unlimited loss" risk on 'cash settled' contracts.
- Asset allocation targets and exposure limits specified in the investment strategy(s) of the fund include both physical and derivative exposures of the portfolio. The trustees must manage portfolios to these target allocations.
- When a derivative contract is entered into, the trustee takes into consideration the likelihood that the price of a derivative will move in line with the underlying physical position and assesses whether the level of basis risk is acceptable.
- The market depth of the derivative will be assessed to control liquidity risk.
- Sufficient cash reserves are maintained in the fund to fund deposits and margin calls equal to the impact of a considered maximum movement of the net (short plus long) derivative position.
- In order to minimize both counter-party and legal risk, the trustees will use exchange traded options and futures, which are subject to market standard documentation and settlement procedures. Participants in the exchange are subject to regulation.

3. COMPLIANCE PROCESSES TO ENSURE THAT CONTROLS ARE EFFECTIVE

The compliance process for the fund includes ongoing monitoring by the trustees to ensure that the above controls and procedures are effective in controlling and managing the identified risks in the use of derivatives. If deficiencies are identified, the trustees will take corrective action. The trustees will review its policies and procedures in an effort to keep current with the evolving derivatives markets and to ensure that they use derivative instruments appropriately and in the best interests of fund members. The trustees will seek advice from an expert investment professional when required to assist with this process.

Member/Director/Trustee 1

Name

Signature X

Date DAY MONTH YEAR

Member/Director/Trustee 2 (if applicable)

Name

Signature X

Date DAY MONTH YEAR

Member/Director/Trustee 3 (if applicable)

Name

Signature X

Date DAY MONTH YEAR

Member/Director/Trustee 4 (if applicable)

Name

Signature X

Date DAY MONTH YEAR

Please return your completed form:

By post to: Sequoia Superannuation Pty Ltd
GPO Box 4350
SYDNEY NSW 2001

OR

Scan and email to: admin@sequoia.com.au

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