Australian Eagle – Standard Risk Measure (SRM)

The Australian Eagle Trust Long-Short Fund (the Fund) is not a superannuation fund; however we recognise that a SRM may be useful to potential clients and trustees as a simplified risk measure that will readily distinguish the characteristics of competing investment strategies relative to the relative likelihood of a negative return across a 20 year period.

The Australian Eagle – SRM has been formulated using the guidance of the 'Standard Risk Measure Guidance Paper for Trustees-July 2011' issued under the auspices of the FSC and ASFA.

The Australian Eagle SRM uses a 7 level classification which shows the number of expected annual negative periods over any 20-year period for the Fund. Based on the assumptions and methodology listed below, the Fund SRM falls in Risk Band 7.

Risk Band	Risk Label	Estimated number of negative annual returns of 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**

Table 1: Risk Band Classification

The following assumptions, intended to have a conservative bias, are made in order to prepare the SRM of Table 1:

1. The Fund invests only in Australian listed equities, over 95% of which by weight have a capitalisation sufficient to be within the top 150 stocks within the S&P/ASX 300.
2. The Fund has an average beta ranging between 0.9 and 1.1.
3. The Fund, to be conservative, will generate zero alpha going forward.
4. The future return of the Australian Equity market will be consistent with historical return since the inception of the S&P/ASX 100 accumulation index (June 1992).
5. The future volatility of the Australian Equity market will be consistent with historical volatility since the inception of the S&P/ASX 100 accumulation index.
6. Any cash holdings will earn zero return.
7. No fees, administrative charges or taxes are included in the analysis.
8. Correlation to other asset classes can be ignored as the Fund is a single asset class fund.

Given the assumptions above the SRM methodology is as follows:

1. The historical gross 20 year return is calculated on a rolling basis on each financial year end for the Australian Equity market since the inception of the S&P/ASX 100 accumulation index.
2. The 20 year return standard deviation is calculated on a rolling basis for the Australian Equity market since the inception of the S&P/ASX 100 accumulation index.
3. The worst case (lowest) 20 year return from Step 1 and the worst case (highest) 20 year standard deviation from Step 2 are extracted.
4. A Monte Carlo simulation using the lowest return and highest standard deviation of Step 3 is run 10000 times using an assumed log normal distribution to create a range of outcomes for forward 20 year periods.
5. The ex ante probability of a negative year is extracted from the data.
6. The ex ante probability of a negative year is multiplied by 20.
7. The resulting figure for the likely number of negative years in the next 20 years is compared to the ranges in Table 1 to indicate a conservative anticipated risk band.

It should be noted that the Australian Eagle SRM is in no way a complete risk assessment as it precludes numerous important risks such as the size of potential negative returns, possible underperformance by the Fund relative to benchmarks and the complexity inherent in any fund that uses gearing. Further, the SRM does not account for other issues such as the impact of administrative fees; base, incentive and cost recovery fees; taxation effects and other risks as outlined in the PDS.

All potential investors should seek professional advice and ensure that they are comfortable with the risks and potential losses in the case of their own personal circumstances.