Minutes of AvSuper's Annual Member Meeting

Held 4pm Thursday 7 October 2021 via Zoom live stream

Presenting:	Ben Firkins, Trustee Chair Michael Sykes, AvSuper Chief Executive Officer (CEO) Lawrie Cox, Investment Committee Chair	
Quorum:	Directors:	Stuart Brades, Geoff Burgess, Lawrie Cox, Susan Darroch Michael Farrell, Ben Firkins, Tim Rothwell, Julie Orr, Julie-Anne Schafer
	Secretariat:	Shan Badowski, AvSuper Governance Manager

Introduction

The Chair opened the meeting at 4:00pm and welcomed attendees to the AvSuper Annual Member Meeting (AMM). The Chair noted the presence of the Fund Auditor and the Fund Actuary, and also noted the presence of AvSuper Directors online and that a quorum was present.

The Chair provided an Acknowledgement of Country for the meeting and encouraged members to ask questions via the online chat functions, noting that where questions were unable to be answered during the meeting, they would be made available on the AvSuper website within 28 days, together with the minutes of this meeting.

Chair update

The Chair introduced each of the Trustee Directors and discussed the following key points:

- The impact of the COVID19 pandemic on AvSuper's business and members.
- That it has been a year of change with a change of fund administrator, significant regulatory change, a new CEO, and three new directors appointed to the board.
- The regulators continued focus on the size, scale and sustainability of superannuation funds.
- The Chair acknowledged the contribution of outgoing CEO Michelle Wade and welcomed incoming CEO Michael Sykes.

CEO update

The CEO welcomed members in attendance and addressed the following key points:

- The impact of COVID 19 Pandemic on the aviation industry, member wellbeing, and the impact of the COVID 19 early release scheme.

- Significant regulatory change within the superannuation environment including Your Future Your Super, the introduction of the APRA Performance Assessment and fund stapling.
- A push by regulators for small funds to merge, with APRA's view that funds require $30b in funds under management to be sustainable.
- AvSuper's operating position noting an extract of the income statement
- Highlights of operational improvements including the change of administrator, move to daily unit pricing, introduction of new and improved retirement calculator, administration fee reduction in November 2020 and the introduction of a fee cap in September 2021 effective 1 July 2021.
- AvSuper's operational outlook and performance against the APRA performance assessment.

Investment Committee Chair update

The Investment Committee Chair discussed the following key points:

- Changes implemented during the year including the appointment of three new directors to the Investment Committee and a range of new investment managers added to the portfolio.
- An overview of fund performance for the year, noting that it was an exceptional year for equity returns, and that this contributed to AvSuper's highest return in its 30-year history for 2020/2021.
- The Committee Chair provided an overview of the APRA performance assessment, how it was benchmarked and measured, and the reasons for AvSuper's failure of the performance assessment.
- Performance history over 1,3,5,7 and 10 years was addressed, noting that performance ranged from 1st to 4th quartile over these time frames, and that performance over the seven years covered by the APRA performance assessment was the poorest timeframe in terms of relative performance.
- The Committee Chair noted that the Trustee was making improvements as necessary and developing contingencies.
- A general overview of some investment managers within the current portfolio was provided.

Member questions

The following questions were submitted by members either prior to the meeting or via the online chat function at the meeting.

Will AvSuper's fees become competitive with the larger funds?	We have reduced admin fees over the last two years and have recently announced a cap on admin fees of $1,000 plus $1.15 per week for the 2022 financial year. As a comparison CBUS who is a $70bn fund currently has a fee cap of $1000 plus $2.00 a week. While AvSuper's operating costs compared to its overall assets stack up favourably against the larger funds, we acknowledge that we will not always be able to match some of the large funds on a pure fee basis. But there can be other trade-offs; a large volume of members may lead to lower-level personal service than a smaller boutique offering. AvSuper is an all profit to members fund. Our fees are a transfer of either the costs of investing or of running the fund. Our admin fees are used to cover the operating and administration costs of the fund. The Administration fee is the mechanism to split these costs equitably among members. The fee is influenced by the total operating cost of the fund but also the number of members in

	the fund. Some of the larger funds have in excess of 1.5 to 2 million members, whereas AvSuper has around 6,000. Investment fees and Indirect Cost Ratios represent the cost of investing. They cover the Investment Managers we employ, stamp duty, brokerage custody and asset consulting. Our investment fees are listed at the higher end because we use active investment management including private equity and other specialist investments in order to aim for higher returns whilst managing risk. It's important to compare like for like investment options when comparing fees between funds.
CEO said "…if a merger opportunity presents…" That sounds like he has made his decision that merger is good. Please expand further on how a merger could be good.	As outlined in the presentation, we are not currently in any merger discussions and would keep members informed if a decision to merge was made. The presentation outlined that there is broader pressure for small funds to merge with larger funds as part of the push for consolidation in superannuation. This commenced with the Productivity Commission report into Superannuation in 2019 and has progressed with the recent Your Future Your Super legislation. The deputy chairman of APRA (one of the superannuation regulators) presented a view in May that there are too many funds, and that funds with less than $30b should consider merging with larger funds. The Trustee is conscious of the external environment in setting a strategy which will get the best outcomes for its members. Like any two businesses merging, superannuation merger outcomes aren't always guaranteed. They will depend on a lot of factors such as who the merger partner is, the ongoing level of service provided to members by the merged funds, the complexity in operations, overall capability and sustainability of the two merged parties and investment performance for example. Acknowledging this though, where superannuation mergers differ from other industries and businesses is that superannuation Trustees are required under law (through the SIS regulations). • To act in the best interests of beneficiaries at all times and promote the financial interests of the beneficiaries • To ensure that members will have rights in the merged fund equivalent to those rights, in respect of the member's benefits, that the member has in the existing fund. Therefore, the Trustee is required to demonstrate that benefits to members are better or equivalent from a merger.
What is the reg target? Saying "above" isn't sufficient in that I have no comparison	The Trustee maintains an Operational Risk Financial Requirement reserve to cover losses arising from significant operational risks and risk events (not otherwise covered).

The CEO said our reserves are "above" target; this is insufficient as I have no comparison	The minimum regulatory target for the Operational Risk Financial Requirement is at least 0.25 per cent of funds under management (FUM). This translates to approximately $6.75m for AvSuper. The Trustee annually assesses the amount of the reserve and is comfortable with the level provisioned.
Considering the high fees charged and under-performance, please justify why a recent retiree like myself should stay.	Unfortunately, I am unable to answer this question specifically as it is leading into personal advice. What I can say is that all Australians should consider long term investment returns, fees, insurance offerings and any other service offerings a Fund (including AvSuper) may offer. Ultimately it is up to every member to make their own decision. Please get in touch with us directly if you'd like to speak to one of our financial advisers.
Given that AvSuper has been labelled an under performing fund. What are you doing to address this?	Now that the test is in place, we will be managing our strategic asset allocation slightly differently as we believe that the difference between the strategic and the actual asset allocation was a main reason for us not passing the assessment. Other than that, we are continuing to look for ways to deliver greater returns to our members, including the use of different investment approaches like private equity, and also through the careful management of investment fees. Of course, we can't predict the future and how markets will perform, but we are certainly doing our best with the tools and information available.
If I move to another fund say Australian Super for the next 12 months, can I move back to AvSuper at a later stage?	Yes, you can. However, it might impact the insurance that you are able to access. The best thing to do is to speak to a financial adviser about your particular situation. If you'd like to speak with one of our advisers, please get in touch.
I'm particularly interested in hearing the investment strategies to start (continue) divesting from fossil fuel reliant holdings	The Trustee's Investment approach is guided by its Investment beliefs as articulated on the AvSuper website. This includes that Environmental, Social and Governance (ESG) factors and risks impact the achievement of long term investment return objectives and are an important consideration when investing. Rather than specifically excluding fossil fuel companies from the portfolio, the Trustee empowers its investment managers to factor the long term risks associated with these companies into the investment process.

Accepting that it was a difference between saa and actual aa, where was the confusion in the first place of what would happen? (CEO, follow up q)	The Trustee was not fully informed until the finalisation of the legislation in June this year, that it would be assessed for the last seven years on its actual performance against a benchmark for its Strategic Asset Allocation. The Trustee had historically been focussed on achieving its stated Investment Objectives. Prior to the introduction of the APRA Performance Assessment, the difference between the actual AA and SAA for the product was a deliberate tactic used by the Trustee to reduce risk in the portfolio in uncertain market environments. At points of time over the seven-year period the Trustee took less risk than its strategic asset allocation to still achieve its investment objective for the option. The Trustee was focussed on preserving members capital in the case of a downturn in markets.
If a merger became necessary, would there be any priority given to a merger with another 'Industry Fund' V's a 'Retail Fund'?	If a merger became necessary, the Trustee would look to maximise member outcomes from that process. Generally, factors for consideration would include fees, investment returns, insurance, service levels, governance levels, alignment with membership and future sustainability. Given AvSuper is an all profit to members fund, there is alignment with the industry fund approach, but the Trustee would consider all opportunities and always look to act in members best financial interests.
I note some larger funds have an admin cap of $350. Is AvSuper too small to match this level of admin cost?	Yes. Admin fees represent the allocation of admin and operating costs to members. Some of the larger funds have in excess of 1.5 to 2 million members, whereas AvSuper has around 6,000. While AvSuper's operating costs compared to its overall assets stacks up favourably against the larger funds, we acknowledge that we will not always be able to match some of the large funds on a pure fee per member basis. But there can be other trade-offs; a large volume of members may lead to lower personal service than a smaller boutique offering. In addition, some of the larger funds have higher administration fees in the income stream and pension space than their accumulation offerings, so it is important to consider your own circumstances.
Why have two emails concerning the performance test been subject to correction due to missing information? Why are these relatively simple documents being botched by managers supposedly dealing with a very complex superannuation system?	You are correct that this is a complex superannuation system. The Your Future Your Super performance test was a new legislative requirement with the final regulations being issued in August 2021 and AvSuper being notified of the result at the end of August. The notification to members was then required in September. This came at the same time as a number of other significant regulatory changes. For most regulatory change there is substantially more lead time to test and configure systems.

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<tr><td></td><td></td></tr>
<tr><td>Your performance YTD is below other funds, why</td><td>AvSuper’s MySuper Growth option investment performance after fees and taxes was above median for one year in the Rainmaker Workplace MySuper option survey at 30 June 2021 and remains above median at 31 August 2021;
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<tr><th></th><th>One year</th><th>Three years</th><th>Five years</th><th>Seven years</th><th>Ten years</th></tr>
<tr><td>AvSuper Growth (MySuper)</td><td>20.7%</td><td>8.1%</td><td>8.6%</td><td>7.8%</td><td>9.1%</td></tr>
<tr><td>Survey rank</td><td>16th /54</td><td>31st /52</td><td>28/51</td><td>33rd /46</td><td>21st/39</td></tr>
<tr><td>Median</td><td>18.4%</td><td>8.2%</td><td>8.7%</td><td>7.8%</td><td>8.5%</td></tr>
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<tr><td>Once a fund fails, because of the long averaging period is there any chance of Avsuper passing?</td><td rowspan="2">You are right that the maths of the situation makes it tricky, in that next year’s test will include the previous seven-year period where we did not pass the assessment.

APRA has not provided funds with any detail of their relative performance other than pass or fail. However, according to our calculations, we only missed the benchmark by a small amount. We’re doing everything we can to make up the difference this year, while still carefully managing risk. Of course, investment markets, economic conditions and global growth are out of our hands.

Just like this year, we will keep members abreast of the likely outcome once it is known. This will be around August/September 2022.</td></tr>
<tr><td>Will MyGrowth option be failing the new performance criteria for the next 7 years given it's a rolling review?</td></tr>
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Conclusion of meeting

The Chair thanked attendees again for making the time to attend the meeting and declared the meeting closed at 4:45pm.