

Minutes of AvSuper's Annual Member Meeting

Held 4pm Tuesday 22 November 2022 via Zoom live stream

Presenting:

Ben Firkins, Trustee Chair

Michael Sykes, Chief Executive Officer (CEO)

Lawrie Cox, Investment Committee Chair

Shan Badowski, Executive Manager Governance

Nick Smith, Executive Manager Finance and Risk

Quorum:

Directors: Stuart Brades, Geoff Burgess, Lawrie Cox,

Susan Darroch Michael Farrell, Ben Firkins,

Julie Orr, David Coogan

Secretariat: Shan Badowski, Executive Manager Governance

Apology:

Tim Rothwell - Director

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 the Trustee Directors and discussed the following key points:

- The Fund was assessed as having performed under the Your Future Your Super annual performance assessment to 30 June 2022.
- Short term performance had been disappointing and was reflective of volatile markets across the board but that the default MySuper Growth option had achieved an annualised return of 8.13% after fees and costs over 10 years, and that this was above both its benchmark and objectives for that period.
- Changes to Trustee Directors with the cessation of Ms Julie-Anne Schafer and the appointment of Mr David Coogan.
- The Chair provided a brief introduction to the merger process with CSC.

CEO update

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

- The Fund financials, and statement of changes in net assets for the period ending 30 June 2022.
- Operational improvements including an upcoming reduction in the weekly admin fee from \$1.15 to 0.50c effective 1 December, improvements to the Fund website and changes to Group Life Insurance providers.
- Overview of data security in light of recent data breaches with Optus and Medibank.
- Merger process update noting due diligence was close to completion and that following completion, Government approval will need to be sought by CSC and provided in order to move to the next stage being a Heads of Agreement.
- A summary of the repatriation process in response to the request by Airservices to return a portion of the DB surplus to Airservices.

Executive Manager Governance update

The Executive Manager Governance discussed the following key points:

- Key changes to superannuation legislation including the removal of the work test for people between ages 67 -74, lowering of eligibility age for Downsizer contributions, removal of \$450 income threshold to receive superannuation contributions, and increase in superannuation guarantee contribution rate.
- Increased governance requirements including a “Member Information Summary” that was provided with the notice of meeting and which sets out payments the Fund has made in that financial year as well as other required information.
- Director and executive remuneration, noting that AvSuper does not make payments or donations to political parties, unions or related entities and does not sponsor any events or do any advertising.

Investment Committee Chair update

The Investment Committee Chair discussed the following key points:

- Investment returns for the year ending 30 June 2022 noting that most of the returns had been negative in line with other superannuation funds.
- Global and economic factors that impacted markets in 2021/2022 and the market outlook going forward.

Member questions

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

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| <p>How are our accounts being protected against fraud, (rollovers, withdrawals, detail changes)?</p> | <p>That's a very pertinent question right now.</p> <p>Our administrator Mercer, recently commissioned an independent review of its cyber control framework, and the outcome from that was that Mercer's current control framework is robust.</p> <p>Of course, there's always more than can be done, and we'll continue to liaise closely with Mercer on this issue.</p> |
| <p>When your agent does a Financial Review - what are the charges to the member?</p> <p>And what fees am I paying for my Drawdown Pension?</p> | <p>With regards to personal financial advice, fees generally range from \$300 to \$2,000 depending on the level of complexity. You can have the fees deducted from your super, or you can pay them directly, it's up to you.</p> <p>Regarding income stream accounts, there are two fees – administration and investment fees. On the admin side, you currently pay \$59.80 plus 0.17% of your account balance per year. This is capped at \$1000. We are reducing the dollar amount down to \$0.50c per week from 1 December.</p> <p>The investment fees depend on your choice of investment option, and range from 0.06% per annum for Cash through to 1.03% for the Growth option. This includes any performance fees paid to managers, which are applicable for some options. This is where the investment manager receives additional income if they outperform an agreed benchmark. The Income Stream PDS includes an average of the performance fees paid over the last five years.</p> |
| <p>What does the Fund Manager think will be the performance for the Growth Fund and Cash in 22/23 ?</p> | <p>Usually we would expect cash to be fairly steady, but even that is unknown this year.</p> <p>I would love to tell you that I have an answer, but I don't.</p> |

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| | <p>What I would suggest, especially if you are worried that you're not in the right investment option, is that you speak with one of our financial advisers. They can help you decide the most appropriate investment option for your particular circumstances.</p> |
| <p>In comparison to other funds, AvSuper's returns have been dismal. What improvement strategies are in place?</p> | <p>Given that we received this question before the meeting, we've prepared a slide with some comparison data.</p> <p>To go through what we have, the top line shows the actual performance of the Growth (MySuper) option.</p> <p>The next line shows the industry average for balanced funds.</p> <p>Then the third line, in green, shows that we have outperformed the industry median over all time frames shown.</p> <p>And the last line shows our ranking each year. This year, we were fund 67 out of 140, so in the second quartile. The reason that the second number increases over time is simply that there are more funds included in the comparison.</p> <p>So in summary, as you can see, while our MySuper option had a negative return for 1 year to 30 June 2022, it was still above the median.</p> <p>That being said of course, we are always looking for ways to improve the results that we deliver to you our members.</p> |
| <p>That DB surplus – you say that paying out will have no impact on my benefit – how does this work?</p> | <p>It was identified a few years ago that there was more than enough money in the DB division to fund members projected entitlements, so the employer has had a contribution holiday for a number of years.</p> <p>Based on the actuarial calculations, it was anticipated that the surplus would likely run down,. The surplus has in fact grown, due to a combination of strong market returns, higher contributions over time than required, and more people choosing to close their DB accounts sooner than expected as a result of the Airservices Retirement Incentive Scheme.</p> <p>Given the current projections, Airservices has requested that we return some of the surplus.</p> <p>The Fund Actuary will continue do an assessment every year to determine the contribution rate required from the employer to ensure there are sufficient funds to finance projected liabilities.</p> <p>And as soon as the Actuary determines that the employer needs to restart making contributions, that is exactly what will happen.</p> |

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| <p>As a profit to member fund, how do you justify the fees paid to directors?</p> | <p>Like many aspects of good governance, it's a behind the scenes function.</p> <p>Directors of a super fund are ultimately responsible for the outcomes that are delivered to our members. Part of their compensation is to balance the personal risk that they are taking on as directors, which can include both fines and jail time in the most extreme circumstances.</p> <p>Then there is actual work required. Our directors meet regularly for both Board meetings and various Committees, and are expected to read and absorb numerous reports and memos provided to them by our executive team, actuary, investment consultants and auditor.</p> <p>Lastly, our directors all bring considerable industry and life experience to bear which supports them to make quality decisions on your behalf.</p> |
| <p>What date are you going to merge?</p> | <p>I'll touch first on progress to date. As you may recall, we invited a number of funds to participate in an Expression of Interest program late last year.</p> <p>We were delighted to have an excellent number of responses to that EOI. From there, we considered the EOIs and chose Commonwealth Superannuation Corporation as the fund that we would move forward with</p> <p>The next step was to sign a Memorandum of Understanding, which would allow both parties to proceed with due diligence. The MOU was signed in May.</p> <p>Since then, both funds have undertaken extensive due diligence on each other, in order to determine if a merger would be in the best interest of the members of both funds.</p> <p>We were able to complete the AvSuper DD fairly quickly, as we had already gathered much of the information required in the earlier part of the process.</p> <p>CSC is finalising its DD now.</p> <p>We don't have a definite date yet, but we do have a clear process.</p> <p>Once the due diligence has been completed, there are still a number of steps to be completed, included government approval and legislative change.</p> <p>The other issue with timing is that there are only two windows each year when a merger can take place – roughly Feb/March or October/November. This is because of reporting and other processes that occur around 30 June and 31 December.</p> |

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| | <p>So once we have both government approval and the required legislative change, there could still be a number of months before an actual merger could take place.</p> <p>All this is really a long way of saying that it may well be another year before any merger takes place.</p> <p>While this might sound like a long time, it is pretty typical of super fund mergers. It's certainly not a quick process!</p> <p>Please be assured that we will continue to keep you posted of developments along the way. As well as continuing to run AvSuper with your best interests front and centre. And making positive changes where we can, such reducing the weekly admin fee, and moving to a new insurer.</p> |
| <p>Given the Aust. portfolio has outperformed the international by approx.6.5% over the 5 years to the end of FY 2017- 2018 and by approx. 7.5% in the first half(ish) of this financial year and with the finance pundits forecasting that due to a number of macro economic conditions things will stay the same for some considerable time, isn't there a case for a re-weighting of the relative equity allocation?</p> | <p>The Trustee does review the strategic asset allocation annually, and the tactical asset allocation quarterly. However, given that these are set with a 10-20 year view, they aren't changed often.</p> <p>With regards to the high growth option, and why the international equities allocation is higher than the Australian equity allocation, it's important to remember that Australia makes up just 3% of the global stock market. Of the nearly 9000 stocks included in the MSCI world index, just 261 are Australian. Plus, over the long term, international shares do tend to outperform Australian.</p> <p>Having said all that, if you would prefer that your super has a higher allocation to Australian shares, then please give our members services team a call. They can discuss your options and implement any changes you would like.</p> |

Conclusion of meeting

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