

NULIS Annual Member Meeting Transcript

Thursday, 3 March 2022

Q&A Session

Genevieve (Gen) Frost: Welcome everybody to our members Q&A session of tonight's program. Now, Lindsay, we have quite a few questions coming through, and I'm sure you'll agree that we are joined with the rest of the world with our hearts and eyes on the unfolding situation in Ukraine. Lindsay, we have had a few questions coming through on our take on this.

Lindsay Smartt: Yes Gen, look, first thing to say is our hearts are incredibly moved to the devastation impacting the people just going about their lives in the Ukraine and this is having an enormous impact globally, on politics and economies and, of course markets. Jonathan, what's your take on this?

Jonathan Armitage: Thanks, Lindsay, and I just echo your comments that very much our thoughts are with the people of Ukraine and in fact, all the people are impacted by the fighting that's going on in that part of the world. If we look at the financial markets, this has been sort of casting a shadow over global share prices and making investors a lot more cautious. In terms of the impacts on markets, investors are likely to start looking for safe haven assets such as cash, gold and some of the currency, such as the Swiss Franc.

The major impact, we think, is likely to be focused from an economic perspective in Europe. If you look at some of the analysis that's been done on the energy markets in particular, Russia provides about 40% of European natural gas supply and about 30% of its oil supply. So the disruptions that you're seeing there, it's part of the fighting, but also because of the sanctions is going to be sort of quite material, and that's already on top of rising energy prices in that part of the world.

It's going to be very difficult to be precise on working out how the timing is going to impact in terms of the incursion into, invasion into Ukraine and the sort of longer lasting impacts of that. If we look at history, there's some precedents. Russia's invasion of Afghanistan lasted a decade from 1979 to 1989. The scale and the timetable of the current Russian-Ukraine conflict is actually much more difficult to predict I think.

There are going to be a number of factors that we'll be looking at in terms of President Putin's strategy, the Russian population's tolerance for the fighting and obviously as casualty numbers increase, that tolerance is going to be tested. And then obviously the Ukrainian population's resistance, as well as the economic and military responses from Europe and the United States, are all going to be elements that will have to take into consideration.

Gen Frost: Thank you very much, Jonathan. Now, Lindsay, we have had quite a lot of interest in the recent ownership change. Andrew one of our members has asked how the ownership change will make it better for him to keep his superannuation invested with Plum? Similarly, our member Catherine wants to know how the takeover by IOOF has benefited the fund? We've also had a question from our member, Emily and she's asking what will happen to our superannuation products as a result of this takeover?

Lindsay Smartt: Thanks, Gen, and these are really important questions and very current. Insignia Financial, the group formerly known as IOOF, has a successful track record of integration and simplification when bringing other funds under its ownership.

Now NULIS is the trustee for MLC and Plum, and I'm the Chair of NULIS and a strategic priority for NULIS as well as Insignia Financial is to radically simplify the product and the administration environment and to unlock economies of scale.

This will be a benefit for members. NULIS recognises that member benefits are likely to be driven by this longer-term consolidation of platforms, products, operations and investment structures and deploying these economies of scale to improve Plum member outcomes is a strategic priority of Insignia Financial as well as for NULIS.

On a more tactical level, we have a program also to simplify the investment menu for the MLC Super Fund and to optimise the investment structures there are sitting below this and by streamlining these investment structures and simplifying the menus, we believe we can deliver better financial outcomes to our members.

Gen Frost: Thanks, Lindsay. Next up, we have a question from our member, Jonathan. Now Jonathan's asking if we have any concerns about the investment performance of the Fund and the Fund's place on the recent APRA heatmaps?

Lindsay Smartt: Thanks Gen. Okay, Jonathan, this one's for you on the APRA heatmaps.

Jonathan Armitage: Thanks Lindsay and thanks, Jonathan for the question. 2021 was the first time that APRA's heatmap had applied to a wider range of multi-sector investment options outside the default MySuper fund offerings. This gives us a bit of an indication about how multi-sector funds will be placed in APRA heatmaps for the next 12 months or so. We believe the APRA heatmap is actually a positive initiative, which is good for members. It allows people to compare funds a lot more easily.

There are some challenges, though, and we think that with the heatmap one of the main challenges is that in trying to simplify things, arguably it oversimplifies in some areas, particularly around benchmarking, risk and also diversification. So overall, we see the heatmaps as a really positive start, but it's an area that needs more debate and discussion.

If we look at performance at the end of December 2021, the vast majority of our investment options were meeting or exceeding their stated investment objectives. However, we always evaluate our investment performance and the design of our products to make sure that they continue to offer competitive outcomes to all our members. So as part of that process, we're continuing to assess investment objectives, asset allocation and the fees that we pay externally as well.

Gen Frost: Thanks very much Jonathan. Lindsay the next question is coming through from our member, Larissa. Now, Larissa is asking if the companies that her superannuation are invested in are given a rating as per their sustainability and the global location of the investments?

Lindsay Smartt: Thanks Gen. Steve, passing this one to you to answer Larissa's question. Thanks.

Steve Black: Thanks Lindsay, thanks Gen and thanks, Larissa, for your question. The short answer is yes, we do access ESG and sustainability ratings through our investment consultants that we use as part of our investment process and also our research providers that also fit into that investment process. So what we do is we run our portfolios through several different ESG scoring systems as one particular company may actually get a very different score on sustainability or ESG measures from a different ESG research company. We use multiple ESG scores.

Look, there's also publicly available sustainability and ESG ratings on companies and listed companies, and through organisations such as Sustainalytics.com so you can have a look at some of those yourself.

Gen Frost: Thank you Steve. Lindsay, our next question has come through from our member, Robert and he is asking if we can provide an explanation as to why the investment fees have increased from approximately 0.33% to 0.78% during the last financial year?

Lindsay Smartt: Thanks Gen, and well done, Robert on being engaged and aware of your investments. Mark, what do you have to say on this one?

Mark Oliver: Yes look, it's a great pick up Robert, and you know the good news is that with some of our products there are what we call performance fees. So the investment fee component has an element where the fees may go up if the performance is strong, so they will vary with investment performance. The better the option performs, the higher the fee and vice versa. Given the strong investment performance for the year

ended in June 2021 the associated investment performance-based fees have been higher in some of those options as a result.

Now, those changes were communicated to members as part of what we call a significant event notice. So that should have dropped through your letterbox around about November 2021.

But this also included a few details about how some of the fees and costs such as investment fees are disclosed following a bit of regulatory change from the regulator, ASIC so I hope this answers your question Robert.

Gen Frost: Thanks very much Mark. Lindsay, this is a really popular topic and this is centred around the performance of our fund, particularly around our performance against competitors, specifically industry funds. We've received a lot of questions, so I am going to reference a few here, if I may.

Lianne, Tom and Darrel have asked if investment returns with MLC are comparable to competitors and specifically industry funds and if that takeover from IOOF has decreased returns? We've had our member John specifically ask about a comparison to HESTA and Hostplus and member Frank asking about the same comparison against Australian Super. Our members Andrew and Eshwar asking why returns are lower compared to other super products in the market? Could I ask you to try and address some of these please?

Lindsay Smartt: Gen, thanks very much. There's a lot in there. Jonathan, I hope you've got all that because I'm passing to you to respond to this one.

Jonathan Armitage: Thank you Lindsay. There is quite a lot in there. In order to answer those questions, I'm going to focus on the MySuper Growth Portfolio as this is actually where the large bulk of our members' super is invested.

The MySuper Growth Portfolio returned 20.3% to the year to the end of June 2021 and 15.6% for the 12 months to the end of December last year. Now, both of those performance figures are calculated, taking out both investment fees and also taxes.

So, I think by any measures, those are very strong returns and of themselves, but they are also strong when we compare them against returns across the super industry. MLC's MySuper Growth return was actually ranked 6th in the SuperRatings Top 50 MySuper Funds Survey over the last 12 months to the end of December last year.

If we look over the two-year period to the end of 31st of December last year, MLC MySuper Growth was ranked 10th against the same peer group. Returns in this survey are also net of investment fees and taxes and the survey also includes both retail and industry fund peers.

The SuperRatings performance surveys are actually very closely watched, and I think it's very pleasing that our MySuper Growth ranked so highly in that survey. We've got significant respect for our retail and industry fund peers and for that reason I'm not going to comment on the performance of their funds specifically, suffice to say we believe that there are many good superannuation providers across both the retail and industry fund worlds.

One final comment, over 84% of our superannuation portfolios, which are managed by MLC Asset Management, and that includes the MySuper product, the Plum, Pre-Mixed options as well as all our other choice investment options, either met or beat their stated investment objectives over multiple time periods to the end of December last year.

I think overall those are very pleasing results. With regard to the coming together of MLC and IOOF this has I think deepened and broadened the capability of our investment team looking after our members' super.

MLC Asset Management's investment team now work very closely with our colleagues at IOOF leveraging their additional range of expertise to strengthen the outcomes for your investments with us.

Just as an example, MLC brings very deep knowledge over a number of unlisted asset classes such as private equity. So those are investments in companies which aren't listed on stock exchanges as well as unlisted infrastructure and this experience really supplements IOOF's existing investment skill sets.

In the same way IOOF's strengths in fixed income, for example, is being very much harnessed by the MLC Asset Management's investment team. The combination of MLC and IOOF's investment teams are now one of Australia's largest investment groups overall - we've got over 50 professionals averaging over 20 years of experience.

Our team comes from all walks of life. They've worked in many different countries and bring lots of global experience and hold a broad range of qualifications and so I think one of the real strengths is the diversity and depth of that experience of the combined team.

What's clear is that as we grow as a team, we've got one very singular purpose, which is to help all Australians secure their financial future. In terms of looking ahead, we want to continue to provide a broad suite of investment choices to our members, but we also are aware that we need to simplify parts of our offer. Working together to streamline those product offerings we think will allow us to drive much better value for members using our improved scale of the combined organisations.

Gen Frost: Thank you Jonathan. A big question and appreciate the detailed response. Lindsay, the next question has come through from our member Neil, and he's asking if there is a program that will give incentive bonuses for long-term members?

Lindsay Smartt: Thanks Gen and Mark, I think you've got some good news to share.

Mark Oliver: Indeed, very timely, Neil. Actually, we're pleased to announce that MLC actually introduced a one-off Pension Bonus. Since 21st February 2022, eligible members, when they transfer their super through to an MLC MasterKey Super account into an MLC MasterKey Pension Fundamentals account, get that bonus to start their retirement pension.

Now the Pension Bonus represents a tax saving which is passed onto members who have had their contribution on the superannuation account with MLC and are commencing a pension. Again, I think that's really just recognising the loyalty moving from super into pension.

Gen Frost: Thanks very much Mark, great news. Lindsay, next question coming through from our member, Danai and he's asking how MLC is going to contribute to sustainable and affordable housing? He's especially keen in the regional areas which tend to get overlooked.

Lindsay Smartt: Thanks Gen, and thanks Danai, a great question. As ESG covers social, community issues, as much as the more commonly considered environmental concerns over to you Steve.

Steve Black: Thanks Lindsay, and thanks Danai for your question. It's certainly a really, you know, burning issue in the social space of ESG. Yes, we do have a number of holdings in companies now that operate in affordable housing and, you know, our investment managers in Jonathan's team again, consistently looking for opportunities to invest in companies that support affordable housing, where it makes sense in terms of the returns also to our members and creating positive societal outcomes.

To give you a few examples and firstly, I guess a global example that we can talk about in our Global Real Estate Investment Trust, we call that a G-REIT portfolio and we've invested in a company called Invitation Homes, which recently committed \$250 million to launch Pathway Homes and Pathways Mission to create more homeowners by providing new options for people who are currently being shut out of the housing

market, particularly to those where affordability is a really key issue. Looking locally, we own an investment in Mirvac through our Australian equities portfolio.

Mirvac has a dedicated 'Build to Rent' platform, BTR it's called, which seeks to bring down the cost of living in Australia. So, the thinking behind 'Build to Rent' is that it removes some of the barriers to entry to home ownership in Australia via a low-cost rental, but it's also an option that still provides stability, flexibility for that community.

We also own an investment in Lendlease through our Australian equities portfolio as well, and some of the projects Lendlease has undertaken in the last 12 months actually include the delivery of 11 Gibbons Street in Redfern and that project has created 160 new apartments for mixed use, social and affordable housing for the St George community.

Gen Frost: Thanks so much Steve. Lindsay, we're having a few questions flow through specifically from our valued Plum members. Now amongst others, Victoria is asking what markets Plum is invested in and what the performance achieved? And Rekha would like to know what has been done or is planned to bring Plum into the top 10 superannuation funds?

Lindsay Smartt: Thanks Gen and Jonathan, can you help with these please?

Jonathan Armitage: Certainly, so I think to start off with, Plum invests in a variety of asset classes and markets, both listed and unlisted. If you look at our current asset allocation for the Plum MySuper Growth Portfolio, it's actually detailed on our website in a fair amount of detail around that as you'd expect in a growth portfolio.

We've got exposure to domestic and international equities, and we complement this with global and domestic fixed income assets. One of the things that we've been quite focused on over the last three years has been actively increasing the exposure in Plum portfolios to unlisted property, unlisted infrastructure, private equity and also growth alternatives for members.

Given the sort of current macroeconomic environment, we believe that a number of these asset classes are going to provide members with inflation protection for their portfolios. If we look in our unlisted infrastructure, we're seeing I think a lot of excitement around the future for renewables and we've invested in a range of solar, wind and battery storage assets both here in Australia but also internationally as well.

I'm pleased to say that actually since we redesigned the MLC Plum MySuper strategy in March 2019, you've seen I think a very considerable improvement in investment performance relative to our peers over that time.

We're now ranked well into the top quartile of MySuper peers over the last one- and two-year periods. Now I talked about this a little bit earlier for the year ending 31st of December last year, MySuper Growth, which is the default fund which most Plum members are investors was ranked 6th in the SuperRatings Top 50 MySuper Funds Survey. And over the two-year period we ranked 10th against the same peer group and the returns in those surveys are net of investment fees and taxes for both the retail and industry funds.

The reason why this is important is that SuperRatings performance surveys are very closely watched, and I think it's a very good measure of how we're performing and it's very pleasing to see how our MySuper Growth Portfolios are being ranked so highly.

Gen Frost: Thanks very much Jonathan. Lindsay, this is another popular question. Geordie, one of our members has asked what MLC is doing to move towards carbon neutrality?

Lindsay Smartt: Thanks Gen. Steve, could you please help with this one for Geordie?

Steve Black: Yes sure. Thanks for the question, Geordie, so what we're currently doing within our portfolios is we do measure the carbon footprint for an increasing number of our investment managers. And then what we do is once we measure, we engage with those funds or those investment managers and or companies that they invest in where appropriate, just to understand their emission reduction plans.

As I said in my speech earlier, we believe that engaging with companies and asset managers to understand and encourage their decarbonisation approach gives us more leverage to deliver better outcomes in the decarbonisation of our economy, which is, I think, something that we all aspire to.

As mentioned earlier also as an organisation being Insignia Financial, we do measure the impact of our own operations have on the environment. And this year, we'll be reporting on that and full greenhouse gas emissions in our annual reporting period. As part of that report, we'll also be outlining how we're going to further reduce our environmental impact as an organisation.

Gen Frost: Thanks very much Steve. Lindsay, another topic we've received quite a few questions about is really centred around our risk and how we mitigate that. So amongst others, members Tom and Charles are asking what key risks we're seeing in the year ahead for MLC and Plum and how we're planning to mitigate those risks as well as how much will this positioning decrease performance and where do we see the efficient market frontier sweet spot in our diversification?

Lindsay Smartt: Okay, thanks, Gen. Jonathan, this one has you written all over. Yes, it's a very, very good question. Particularly important given more recent events. I think the negative market reactions we've seen in recent periods outside the events that we talked about earlier in Ukraine, have very much been driven by the likelihood of higher official interest rates.

We think that those are probably one of the sorts of larger risks emerging over the next 12 months or so. Investors have become very used to unusually low interest rates really since the global financial crisis in 2008-2009.

I think that there's likely that you could see quite a sort of sharp reaction to a rising interest rate cycle. Those sorts of jitters that we saw in January and also into February have stemmed very much from that unease. If we think about higher interest rates, they've probably got varying impacts on investments.

They tend not to be very positive for bond and fixed income markets but do create both opportunities and challenges for share markets. Now our thoughts about inflation and our concerns about inflation are nothing new, something we've been talking about for some time. That's why we've been moving away from fixed income assets and directing members' funds towards more alternative assets with different return patterns to traditional assets such as shares and bonds.

We strongly believe that those alternative assets will also react differently to a rising interest rate cycle. If we look at our MySuper portfolios, they've got exposures to alternative investments with income streams from a number of different sources, such as legal, government and corporate receivables. We think that those cash flows from those sources tend not to move in lockstep with those from listed companies. Importantly, we think that those are a strong contributor to overall portfolio diversification.

Again, just looking at my MySuper portfolios, we've got substantial exposure to unlisted asset classes like private equity, real estate and infrastructure. And again, we think that those are less effective by short-term market volatility.

One other thing that I think is important to mention is that we've got a number of derivative strategies in place for MLC's MySuper portfolios. What that allows those portfolios to do is actually participate in the upside of share market movements while also providing some cushioning when markets slip back. To be honest, there are no shortcuts to delivering strong, long-term returns or managing near-term risks.

The principles of diversification, active management and risk control very much anchor our investment approach and have done for a long period of time. Diversification we think is very important because it means we are not dependent on good performance from really any one single asset or type of asset to drive returns for our members. Instead, we think those longer-term accumulations come from many different assets in different countries and regions.

We also think that active management of our members' funds empowers us to look out for dangers and also helps avoid them. Through both active management and diversification, we're able to deploy our members' funds towards assets where the changing return opportunity may be higher and then actually lower the weighting to those where we think future returns are likely to be less positive.

Sticking by those principles really has helped to steer our clients' portfolios through a number of changing investment cycles, and those include the GFC and more recently the March 2020 COVID crash and we think that focus on diversification, active management and a strong focus on risk is going to help us navigate members' funds through whatever may lie ahead.

Gen Frost: Thank you Jonathan. We have covered an incredible amount and unfortunately, Lindsay, we are out of time. So, I really want to assure members that any of the questions that we haven't been able to get through this evening will be added to our AMM website, which will be live in the coming weeks.

We really want to thank you for submitting such wonderful questions. May I also thank, Steve, Lindsay, Jonathan and Mark, for your contribution to tonight's panel. Alongside the answers to your unspoken questions today on that AMM site, there will also be a recording of tonight's session and the minutes. There will also be access to those really valuable resources that I mentioned earlier tonight - well worth a read.

Lindsay, can I hand to you for close, please?

Lindsay Smartt: Yes sure, Gen, and thank you very much. As chair of NULIS Nominees Australia Limited, your trustee, I would like to thank each and every one of you for joining us. We really appreciate your questions and being so engaged with us tonight, especially in light of the extreme weather and floods across the country. And our thoughts are with everyone impacted. Most of all, thank you for trusting us to look after your superannuation.

Wishing you all a good evening. Goodbye everyone.