



MLC MySUPER

2020 Annual Outcomes Assessment

Throughout this document, the MySuper product will be referred to as 'MLC MySuper', to avoid confusion with the term 'MySuper' when applied more generally to default superannuation products.

MLC MySuper caters to the needs of members who do not make a specific choice about the investment and insurance arrangements that will apply to their superannuation. The product strives to appropriately balance the competing objectives of achieving appropriate returns for members while keeping investment risk at an acceptable level, providing adequate financial protection against the possibility of death or disability, and providing education and tools to help members better understand and engage with their superannuation.

Members join the MLC MySuper product through their employer, and the product is available to their spouses and family members.

MLC MySuper forms part of the MLC Super Fund, of which NULIS Nominees (Australia) Limited ('NULIS') is the Trustee. NULIS is responsible for all fiduciary, legal and regulatory obligations in relation to running the superannuation fund.

Each year, NULIS is required to conduct an Outcomes Assessment which determines whether it has 'promoted the financial interests' of the members of MLC MySuper.

The Outcomes Assessment is performed by MLC Wealth Limited (MLC) on behalf of NULIS using industry benchmarking, comparative data, in-house data and reviews performed by research houses. The Outcomes Assessment helps us to understand how we are performing on a range of measures. This benefits members since it helps us identify ways to improve the benefits and services we provide to them.

The Outcomes Assessment for the 2020 calendar year concluded that overall, **the MLC MySuper product is promoting the financial interests of members.**

This document provides a summary of the ten factors that were assessed in reaching this conclusion, including what we are doing well, areas identified as requiring improvement and how we intend to enhance the outcomes of members in future.

It should be noted that this document reflects an assessment of product performance based on data collected during the 2020 calendar year. Given the highly competitive nature of the superannuation industry, members can expect the performance of the product, in absolute and relative terms, to vary from year to year. Our members receive yearly updates about the

performance of their own superannuation investment, as well as details about any product changes, in their annual statements and other communications.

Additional information about MLC MySuper, as well as economic, financial and market updates, can be found on mlc.com.au and plum.com.au.

MLC MySuper is the 'default' MySuper product offered to members of the following MasterKey and Plum products:

- MLC MasterKey Business Super and Personal Super
- Plum Super, comprising Plum Corporate Plans and Plum Personal Plan

NULIS is publishing a separate summary for MLC MySuper, rather than including it within the summaries for MLC MasterKey Business Super and Personal Super, and Plum Super. In some cases, the outcomes delivered to members of MLC MySuper will vary depending on the product through which it is offered, or the terms and conditions negotiated by the employer of an employer-sponsored plan. In particular, the Insurance Strategy section highlights differences in insurance offered to members of Plum vs. MasterKey products.

Members of the MLC MySuper product can also exercise 'investment choice' and opt to hold a non-MLC MySuper option (a 'choice' option). Members holding MLC 'choice' options should refer to the relevant MLC Outcomes Assessment for the respective MasterKey or Plum Super product.

Note: in a number of places throughout this document, relative rankings are expressed in terms of 'quartiles'. Quartiles divide a group of peers into quarters, with 1st or top quartile typically referring to the best performing quarter. Similarly for 2nd, 3rd and 4th or bottom quartile.

Product Comparison

Net Returns

The investment needs and objectives of members change as they reach different life stages. In March 2019, we introduced a new 'life stage' investment strategy which varies the mix of growth assets (such as Australian and international shares, and property investments) and defensive assets (such as fixed income and cash) of each member's portfolio, depending on their age.

Younger members are invested in a higher proportion of growth assets (to increase their return prospects). From age 55,

a member's investment in growth assets gradually decreases and their investment in defensive assets gradually increases (to reduce their risk), until they reach age 65, at which point the allocation to growth assets is held constant.

Transition stage

When MLC MySuper was first launched in 2014, the same asset allocation applied to members of all life stages and it reflected a substantially different risk profile to most of the MLC MySuper life stages that were launched in 2019.

Since March 2019, MLC MySuper has been buying and selling assets to achieve a portfolio composition which aligns with the new life stages benchmark asset allocations. This process takes a significant period of time and the portfolio first achieved a composition of asset holdings which aligns with the asset ranges set out in the benchmark asset allocation in March 2020. It is this point in time that represents a meaningful starting point from which to make peer comparisons of net returns.

Short investment time-frame

We are closely monitoring the performance of MLC MySuper and are optimistic about its future prospects for generating appropriate net returns for the level of investment risk members are taking. Given the short tenure of the MLC MySuper life stage strategy, we are currently unable to make a meaningful assessment of its net returns on a peer relative basis. The performance of an investment over 1 year or less is not a good indicator of long-term performance for an investment that has a minimum stated investment timeframe of 7 years, especially when that one year involves the transition to a materially different investment strategy.

Performance isn't predictable, particularly over short time periods. The performance of investments can vary significantly from one year to the next, and these variations can tend to offset over longer time periods. It can take many years for performance to improve after a period of weakness. Equally, an investment could experience many years of positive returns before a negative year occurs.

It is worth noting that in the APRA Heatmaps released in December 2020, investment returns were assessed over 3, 5 and 6 year timeframes.

The challenges associated with seeking to assess the performance of investments over a short time period are illustrated by the variability of 1 year performance outcomes. In the below table, MLC MySuper's net return (which is investment performance minus all fees and costs) was 4th quartile compared to all MySuper providers in the 12 months to June 2020. This reflects a combination of:

- The impact of COVID-19 on some investment sectors that the MLC MySuper product was more exposed to than some peers, such as 'value' style managers. These are managers which typically focus on companies they believe are undervalued,

because in their view the company's price doesn't reflect its earning potential

- The lower growth allocation of the investment strategy for the first 3 quarters of that time period (the transition stage)

The 1 year performance of the product was 2nd and 3rd quartile (depending on life stage) in the September 2020 quarter, which illustrates the volatility that can occur from one quarter to the next.

Relative Performance, MLC MySuper 1 year net return

[Source: JANA Investment Advisers Pty Ltd analysis, based on APRA and MLC data]

Life stage	30 June 2020		30 Sept 2020	
	Net Return (Median)	Rank	Net Return/Median	Rank
Age 55 and below	-2.1% (-0.8%)	4th quartile	-1.4% (-1.3%)	3rd quartile
Age 60	-1.9% (-0.8%)	4th quartile	-1.2% (-1.3%)	2nd quartile
Age 65 and above	-1.6% (-0.8%)	4th quartile	-1.0% (-1.3%)	2nd quartile

Past performance is not a reliable indicator of future performance. The value of an investment may rise or fall with the changes in the market.

Level of investment risk

All investments carry risk, depending on an investment's strategy and asset holdings. Higher returning investments tend to have higher risk which means their investment values tend to rise and fall more often and by greater amounts than lower risk investments.

While risk is a part of investing, we need to ensure the level of risk taken is appropriate, having regard to the targeted level of net returns and the risk profile of the product's membership.

A Standard Risk Measure ('SRM') has been developed which measures risk in terms of the number of years within a twenty year period that the investment can be expected to generate a negative return. A higher SRM means that more frequent annual negative investment returns can be expected during the life of the investment, which means higher risk.

MLC MySuper has been available in its current form since 2019 which means we have insufficient return data to confirm whether the actual SRM is consistent with our expected SRM.

To conduct the assessment, we analysed the expected SRM of all MySuper products in the market, provided by the respective trustees.

The median SRM was found to be 3.8. This means that a 'typical' MySuper product can be expected to deliver a negative annual return slightly less than 4 times in a twenty year period.

The SRM of the different life stages of MLC MySuper are broadly in line with the risk of comparable MySuper products. For members aged under 55, the SRM for MLC MySuper was 4.1 – this means members should expect to experience a negative year just over 4 times in a twenty-year period. This level of risk is only slightly higher than median.

As might be expected, this risk falls as members get older, given the life stage approach discussed earlier. For members aged 60, the SRM is 3.9, and for members aged 65 or older, it is 3.5. For these members, they are exposed to lower risk of negative returns than the median SRM but not the lowest risk in the market.

We concluded that the level of investment risk for each life stage is appropriate, having regard to the targeted net return objectives and the risk profile of members.

Fees and Costs

The assessment of fees and costs involves a peer comparison of both:

- Administration fees
- Total ongoing fees and costs (comprising both administration and investment fees and costs)

Administration fees relate to the administration or operation of the superannuation entity. Investment fees and costs relate to the investment of the assets of the superannuation entity.

The December 2020 APRA Heatmaps provided a comparison of fees and costs for all MySuper options using data as at 1 October, 2020 which showed that both our administration and total fees and costs were higher than the industry median. APRA notes that its fee analysis is based on public data which reflects the highest level of fees that may be charged to members. Some members may pay lower fees, for example due to fee discounts provided as part of some employer-sponsored arrangements.

As a result of these findings, we have concluded that the current fees and costs for some members are not as competitive as they need to be. We are taking steps to increase the competitiveness of our fees and costs:

- On 1 December, 2020 (after the APRA Heatmaps data was collected), we implemented several changes to our administration fee pricing structure. The new pricing is expected to make MySuper administration fees more market competitive
- We are continuing to explore ways to further increase the competitiveness of our fees and costs, particularly investment fees and costs

Product Assessment

Options, benefits and facilities

Options, benefits and facilities include member communications, call centres, intra-fund advice, education, online account information and tools, and reporting services. They are paid for by the administration fees that we charge to members. These benefit the financial interests of members by supporting members in understanding and engaging with their superannuation, which in our view supports improved member outcomes over time.

Research consulting firm Chant West benchmarked our services against those of 60 distinct products offered by the different providers that they rate. It ranked our overall service proposition as being 1st quartile. This was based on:

- Our online education services, which offer educational information, case studies, calculators, and online chat was ranked amongst the best in the industry
- Our secure member online services for both Plum and MLC MasterKey were rated favourably based on the availability of key functionality, and good navigation and responsiveness
- Our member communications were found to provide comprehensive and well-presented information and were ranked above median. It was noted that our communications could be enhanced through tailoring and a greater focus on retirement adequacy
- Most of our advice service was rated favourably, however our overall ranking was lower because we currently only offer general telephone based advice and not scaled financial advice services to members. Scaled financial advice is personal advice that is limited in scope (i.e., to a limited range of issues or member needs). We are currently working to develop a scaled advice proposition for members
- Our digital advice service was rated amongst the best in the industry, noting that at the time of the Chant West review, it was only available to Plum Super members. It has since been made available to MLC MasterKey Business Super and MLC MasterKey Personal Super members as well

Internal surveys indicated that our interactive member education sessions, such as financial wellness webinars and workplace member seminars, were rated highly by members according to a 'Net Promoter Score' metric.

Some other member services, such as our call centre and transaction processing were separately assessed and found to offer a quality service. However, an over reliance on older technology and manual processing was identified which creates challenges in times of significant and unexpected volumes of member enquiries and requests. Despite this, when unusually high volumes of withdrawal requests were made by members under the COVID-19 Early Release of Super scheme in 2020, our

processes were sufficiently resilient to enable the vast majority of members to withdraw their funds within five days.

Members who have insurance and who make an insurance claim are allocated a dedicated claims assessor to help them through the claims process. There is also a dedicated team of rehabilitation consultants that work with the member and their doctor to assist members on their path to recovery and help them to get safely back to work.

These claims services are complemented by additional health focussed services that are provided by the Insurer, MLC Limited, for members and their immediate family including:

- *Best Doctor Service* which provides access to more than 50,000 leading medical specialists from Australia and around the world, for a second medical opinion at no additional cost
- *Mental Health Navigator* which provides a review and second opinion on diagnosis and a treatment plan for mental health conditions

Overall, the options, benefits and facilities offered to members has been assessed as being appropriate.

Investment Strategy

The MLC MySuper life stage investment strategy allows members to benefit from higher growth when they are younger and reduces their risk exposure as they approach retirement. The MLC MySuper investment strategy was described by research provider Chant West as “one of the best lifecycle structures available”, and as reflecting an appropriate risk exposure at each age.

Our investment advisers JANA Investment Advisers Pty Ltd assessed the appropriateness of our investment strategy by conducting forward-looking modelling of the probability of MLC MySuper meeting its investment objective over the stated investment horizon. The findings were that the life stage options each met the criteria, and that it is therefore reasonable to expect they will deliver upon their stated objectives in the longer term.

Overall, we concluded that the investment strategy of the MLC MySuper product is appropriate for our members, considering the membership overall.

Insurance Strategy

Insurance arrangements vary depending on whether the member has accessed MLC MySuper through a Plum or MasterKey product, and can also depend on arrangements that employers have negotiated.

To evaluate the appropriateness of the insurance strategy for MLC MySuper, we assessed the design of the default insurance arrangements, the suitability of optional insurance offerings and the impact of premiums upon retirement benefits. This

assessment relied on analysis provided by consulting firm, The Heron Partnership ('Heron').

Note: Different insurance arrangements exist for MasterKey and Plum members, and in some cases, an employer may have negotiated a tailored insurance plan for their employees.

Default cover

Automatic insurance cover is applied to employee members over age 25 who have an account balance above \$6,000. In some cases, where the employer sponsor has agreed to meet the cost of the premiums for default cover, automatic insurance cover is applied to eligible members irrespective of age or account balance.

This cover is intended to provide a level of insurance deemed as generally being appropriate for the needs of members, noting that members can request additional cover or cancel or reduce their insurance cover, based on their personal needs. Any request to add or increase insurance will be subject to application by the member and underwriting and acceptance by the Insurer.

MasterKey Business Super

Where an employer hasn't selected a specific insurance plan for their employees, MasterKey Business Super members are provided with MLC Lifestage insurance, which generally provides a combination of Death and total and permanent disability ('TPD') insurance with a level of cover that varies by age and reduces for older members.

The Heron assessment concluded that the current default benefits:

- Are adequate and reasonable for members
- Provide an appropriate balance between insurance cost and meeting members' needs
- Do not inappropriately erode retirement benefits when considering the membership as a whole
- Provide comparable terms and conditions with the insurance arrangements of surveyed peers

Overall, the insurance arrangements were assessed as being appropriate for members.

There are, however, opportunities to reduce the risk of account balance erosion where some members are potentially over insured, such as 'tapering' for mature members (where cover is reduced as members get older).

MasterKey Personal Super / Plum Personal Plans

The Heron assessment concluded that it is appropriate and reasonable to maintain member chosen cover and default Death and TPD cover when members transfer into these products.

This happens when a member leaves their employer, at which point members in MasterKey Business Super transfer to

MasterKey Personal Super, and members in a Plum Corporate Plan transfer to Plum Personal Plan.

However, the assessment identified an opportunity to reduce the risk of members holding insurance cover they may not need (or may be higher than their needs), such that it may be appropriate to apply Death and TPD 'tapering' for older members and to only continue Income Protection cover on an 'opt-in' basis.

Employer chosen Default Cover – Plum & MKBS

The assessment concluded that overall, employer chosen default cover is adequate and reasonable and the majority of plans do not inappropriately erode retirement benefits.

Self-Insurance

We reviewed the funding level of the specific Plum Corporate sub-plans that have self-insurance arrangements. Overall, these arrangements were found to be appropriately funded.

Optional cover

Generally, members can increase their cover either through underwriting or using the Life Events insurance increase feature (where eligible). The Life Events feature allows members in certain circumstances to increase their cover when they have a 'life event', such as the birth of a child or taking out a new mortgage.

The assessment concluded that the optional cover offered is appropriate and reasonable when considering the membership as a whole. However, the review identified demand for a level of cover which exceeds the maximum increase in the sum insured currently allowed using Life Events, which we will consider.

With the above findings in mind, we concluded that overall, the insurance strategy for MLC MySuper is appropriate. We have also taken the lessons of the review into consideration and are actively working on insurance enhancements to better accommodate members' differing needs.

Insurance fees

In conducting this assessment, we first examined the level of insurance premiums as a proportion of salary. NULIS is a signatory of the Insurance in Superannuation Voluntary Code of Practice, which sets a target of insurance premiums charged to members, generally being less than 1% of salary. The majority of Plum and MasterKey members are paying less than this amount.

However, older members may be paying more than 1% of salary as insurance because:

- Their employer plan provides higher levels of cover
- Their level of cover is calculated using a fixed salary multiple
- Their default cover includes Income Protection

We also compared the competitiveness of the insurance premiums charged to members against insurance plans with

similar terms and conditions using comparative data provided by research provider, Chant West¹. The majority of members are paying median rates or lower.

Members in heavy duty occupations (less than 2% of members), were paying rates significantly higher than the median.

The assessment concluded that, on balance, the insurance fees being charged to members are appropriate. Opportunities were identified to improve the competitiveness of insurance premiums for some of our members, including the introduction of 'tapering' for older members.

Scale

Scale is important because operating a large business supports the long-term sustainability of our products and our ability to deliver member outcomes.

NULIS operates four superannuation funds including one of the largest in Australia, which includes the MLC MySuper product. Our total funds under management (FUM) was \$96 billion as of 30 June 2020 (#5 in the market), and we had 1.2 million members (#5). The MLC MySuper product is also of significant scale, with \$24.7 billion in FUM and approximately 497,000 members as of 30 June 2020.

We concluded that our large scale permits us to:

- Access a range of investment strategies for members that may not be available to members in smaller funds
- Effectively manage liquidity, for example being able to meet all member requests during periods of economic turbulence
- Reduce investment risk through investment pooling

A large business operating at scale can be expected to be sustainable over the long-term. The APRA Heatmaps measure sustainability of MySuper products via three metrics – total account growth rate, net cash flow ratio and net rollover ratio. For each of these, the MLC MySuper product met the required thresholds in terms of sustainability.

With these factors in mind, we have concluded that the scale of our business operations, and MLC MySuper, is appropriate.

Operating costs

Operating costs refers to the costs to operate our superannuation business. Given the nature of our business we have assessed operating costs at an enterprise level and not specifically for the MLC MySuper product.

Our analysis identified that our costs per member and per dollar of funds under management, are high in comparison to peers, and that these costs have increased over time. The level of member costs is primarily due to the complexity of our business, including the number of products we offer and the number of technology systems we operate. The increase in costs in the last 3 years includes the impact of increased regulatory and product

change, combined with a reduction of members due to inactive member accounts being transferred to the ATO. A number of peer superannuation funds have similarly been impacted.

In the last calendar year, we made significant progress in reducing the complexity of our superannuation business through product and system rationalisation, including moving members in legacy products to more contemporary products. Work continues to further reduce the complexity of our business with a particular focus on simplifying our investment structures and offers. These initiatives are expected to reduce our operating costs.

Dividend payments that were paid to our parent company, NAB, were made in accordance with NULIS' Capital and Dividend Policy, which requires that the amount and timing of any dividend is consistent with NULIS' fiduciary duties and members' best interests.

NULIS has concluded that the operating costs of our business are high and reducing them needs to remain a priority.

Basis of setting fees

We examined the fee and cost structure of MLC MySuper to assess whether it is appropriate. This included an assessment by our internal actuarial team of the split between flat and percentage-based fees, the application of minimum and maximum fee thresholds, the timing of fee charges and fee discounts or rebates. The review considered the reasonableness of the fee structure relative to the provision of services, the relative treatment of members and whether cross-subsidisation occurs and if it is justifiable. It also examined whether the attribution of costs that were passed onto members is appropriate.

This assessment is different to that which examined how competitive the fees and costs of MLC MySuper are relative to peers (see above). Analysis was based on the new pricing that was implemented from 1 December, 2020.

This assessment found that:

- The flat dollar administration fee is appropriate to cover costs that are the same for every member, such as account statements, product maintenance and responding to regulatory change
- The percentage-based administration fee is appropriate to cover costs related to the size of accounts, such as unit pricing and risk
- Administration fees are appropriately capped to ensure members with high balances are not paying disproportionately higher fees than other members, which can't be attributed to higher costs generated by their membership in the fund

- The Trustee levy which is utilised to explicitly recover trustee and regulatory related expenses, is appropriate and transparent
- Other transaction-based fees, and/or product option fees (e.g. optional insurance) are charged on a user-pays basis, and are applicable to the individual member's choice and circumstances
- No cross subsidisation exists between product categories – this is important because it means that fees paid by members holding one product are not used to pay for members holding a different product

With the above findings in mind, we concluded that the basis of setting fees and passing on costs to members of MLC MySuper is appropriate.

The basis of our conclusion

The following factors were found to be supporting NULIS' objective of promoting the financial interests of members:

- *Level of Investment Risk:* The risks undertaken to implement the investment strategy have been assessed as being appropriate and broadly in line with the level of risk estimated by peer superannuation providers
- *Options, Benefits & Facilities:* MLC MySuper provides communication, online tools, education, advice and member engagement services that compare favourably to peers. Members who have insurance can also access additional services to help maintain their health and wellbeing and to provide support when they need medical care
- *Investment Strategy:* The life stage investment strategy is appropriate
- *Insurance Strategy:* MLC MySuper provides insurance with appropriate terms and conditions and overall, balances the need of members for protection from death and disability without unnecessary erosion of member balances
- *Insurance Fees:* On balance, the cost of insurance is appropriate
- *Scale:* The scale of NULIS' operations is substantial, which allows us to invest in strategies that may not be available to members in smaller funds, hold sufficient liquidity in times of unexpected member drawdowns, and reduce risk through investment pooling
- *Basis of Setting Fees:* Fees are charged and costs are attributed to members in an appropriate fashion

Due to the short tenure of the life stage investment strategy, we were not able to assess net returns. However, we remain confident the investment strategy will deliver appropriate risk-adjusted net returns over the longer term.



In terms of areas where NULIS could do better:

- *Fees and costs:* have been assessed as being too high relative to peers. We are committed to ensuring value for money and accordingly reduced administration fees with effect from 1 December, 2020. We are also actively working to identify ways to further increase the competitiveness of our investment fees and costs to members
- *Operating Costs:* We have also identified that our operating costs are too high. We are working to rationalise our products and systems to reduce our operating costs in the longer term

Having regard to all the factors we assessed in performing the Annual Outcomes Assessment for the 2020 calendar year, we concluded that overall, **the MLC MySuper product is promoting the financial interests of members.**

Important information

NULIS Nominees (Australia) Limited (ABN 80 008 515 633 AFSL 236465) (NULIS) is the Trustee of MLC Super Fund (ABN 70 732 426 024) (Fund). You should consider the Product Disclosure Statement (PDS) before making an investment decision in relation to this product. A copy of the PDS is available at mlc.com.au or by calling 132 652. MLC Wealth Limited has conducted the Outcomes Assessment on behalf of NULIS. The Outcomes Assessment is based upon data collected in the 2020 calendar year. The relevant data and assessments reflected in the Outcomes Assessment may change from year to year. This document has been prepared for reporting purposes only and should not be used for the purpose of informing investment decisions. This information is of a general nature only and does not take your specific needs or circumstances into consideration. You should consider the appropriateness of the information having regard to your personal situation before making any financial decisions. Past performance is not a reliable indicator of future performance. The value of an investment may rise or fall with the changes in the market. Returns are not guaranteed and actual returns may vary from any target returns described in this communication. The final authority on any issue relating to members' interests in the Fund is the Fund's Trust Deed, and any relevant insurance policy, that govern members' rights and obligations.

MLC Limited is a different entity from MLC Wealth Limited. MLC Limited uses the MLC brand under licence. MLC Limited is part of the Nippon Life Insurance Group.

(1) Source: Chant West's Benchmarking Report (July 2020) & Chant West's Member Outcomes Dashboard (February 2021). Zenith CW Pty Ltd ABN 20 639 121 403 (Chant West), Authorised Representative of Zenith Investment Partners Pty Ltd ABN 27 103 132 672, AFSL 226872 under AFS Representative Number 1280401. Information provided is subject to copyright and is provided in good faith. No representation or warranty is provided in relation to its accuracy. Except for any liability which cannot be excluded, Chant West does not accept any liability whether direct or indirect, arising from use of this data. For more information, go to www.chantwest.com.au.