



MLC WRAP SUPER SERIES 2 MLC NAVIGATOR RETIREMENT PLAN SERIES 2

2020 Annual Outcomes Assessment

The MLC Wrap Super Series 2 and MLC Navigator Retirement Plan Series 2 products (collectively referred to as 'the MLC Wrap and Navigator products') give members the control and flexibility to build a super or pension portfolio that is tailored to their own investment objectives, circumstances and needs. The products offer an extensive range of investments and members can review and manage their investment portfolio, with the assistance of their financial adviser, using our online reporting and transaction functionality. Members with simpler investment needs, can access a smaller suite of investment options at a reduced price. Members of the MLC Wrap and Navigator products can also select an insurance arrangement which suits their needs and arrange for it to be paid from their superannuation savings.

MLC Wrap and Navigator products form part of the MLC Superannuation Fund (the '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 the MLC Wrap and Navigator products.

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 features and services we provide to them.

The Outcomes Assessment for the 2020 calendar year concluded that overall, the MLC Wrap and Navigator products are promoting the financial interests of members.

This document provides a summary of the seven 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. The MLC Wrap and Navigator products were assessed together since they provide access to the same investment list and member services, and share the same fee structure.

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 products, 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 the MLC Wrap and Navigator products, as well as economic, financial and market updates, can be found on mlc.com.au

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 Assessment

Options, benefits and facilities

Options, benefits and facilities include member communications, call centres, 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 were ranked amongst the best in the industry
- Our secure online services offered to Fund members were rated lower, this assessment included online functionality such as super consolidation and information on retirement adequacy that are not usually sought by Fund members since they are typically supported by a financial adviser
- Our online features which are considered more important for Fund members performed well, including:
 - investment returns reporting
 - asset allocation reporting
 - functionality
 - navigation

MLC WRAP SUPER SERIES 2

MLC NAVIGATOR RETIREMENT PLAN SERIES 2

2020 Annual Outcomes Assessment

- 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

Two service omissions identified were the provision of insurance information for accounts with linked retail insurance and a mobile application.

We don't offer a trustee advice service to Fund members since this product is only available to individuals through a licensed financial adviser or their authorised representative.

Members who access insurance through their MLC Wrap or Navigator product using MLC Insurance (for which MLC Limited is the Insurer) have access to MLC Limited's health care support services:

- *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

We offer a large and flexible investment list to cater to members who, typically with the aid of a financial adviser, wish to construct and manage their own superannuation investment portfolio. We believe that overall, the range of options offered currently comprises sufficient diversity of choice to cater to the broad needs of our members.

Our investment adviser, ThreeSixty Research, performed an assessment of the performance of each managed investment and exchange traded fund, relative to their stated investment objective and timeframe. This analysis was supported by additional quantitative and qualitative research to identify the drivers of any underperformance.

Of the 493 investment options examined almost 90% of investments were identified as performing in line with expectations. Where underperformance has occurred, it was identified as being driven by multiple factors including:

- COVID-19, which led to one of the swiftest declines in financial markets in the past century. Certain investment sectors continue to struggle due to the continued difficulties suffered by particular segments of the economy

- A trend away from passive to active style investment management due to these fund managers having the flexibility to pivot where necessary to avoid constrained businesses and industries in the current market environment
- Cash rates and bond yields continue to be at or near record lows across most of the world. In Australia, the official cash rate is now 0.10% p.a.

For these options, an assessment of qualitative factors supports NULIS' view that they are appropriate to remain on the investment list.

Overall, we believe that the investment list is suitable for the needs of members overall and that it is reasonable to conclude that most of the investment options offered to members will likely deliver upon their stated objectives in the longer term.

Accordingly, we have formed the view that the overall investment strategy for the MLC Wrap and Navigator products, taking into consideration the investment strategies of each investment option, is appropriate.

Insurance Strategy

Fund members may apply for a MLC Insurance policy via the Product Disclosure Statement which is issued by MLC Limited (the Insurer) and elect to pay their premiums from their superannuation account (and, in doing so, nominate for NULIS to be the Policy Owner). Any application for MLC Insurance is subject to underwriting.

Members can also apply for an Insurance in Superannuation product offered in the marketplace and rollover money from their MLC Wrap or MLC Navigator account to pay for their insurance premiums. However, these insurance arrangements are not the responsibility of NULIS.

To evaluate the appropriateness of the insurance strategy for MLC Insurance, we assessed the design of the insurance offering and the impact of insurance premiums upon retirement benefits. This assessment relied on analysis provided by consulting firm, The Heron Partnership.

In summary, while there is a wide range of potential benefits and options offered in the retail insurance market, the standard terms and conditions, and insurance cover options of MLC Insurance were found to be broadly consistent with the market. The MLC Insurance on-sale retail insurance product has terms, conditions and pricing that are in line with the current retail market.

Taking all this into consideration, we concluded that overall, the insurance strategy for the MLC Wrap and Navigator products is appropriate.

MLC WRAP SUPER SERIES 2

MLC NAVIGATOR RETIREMENT PLAN SERIES 2

2020 Annual Outcomes Assessment

Insurance fees

We compared the competitiveness of the insurance premiums of MLC Insurance, on a dollar per 'sum insured' basis using data provided by MLC Limited at November 2020. This analysis found that:

- Income Protection premium rates are primarily 1st quartile but some female categories are 2nd quartile
- Death and TPD insurance is competitive for all insured members except males under the age of 35 (who are charged 4th quartile pricing)
- Death only insurance is 3rd quartile for males under 50 and females under 35. All other members are charged 2nd quartile pricing. This category of insurance is much less popular than combined Death and TPD

The assessment concluded that, on balance, the insurance fees being charged to members are appropriate. However, it is acknowledged that a small proportion of members are charged above median pricing. This will be considered as part of MLC Limited's scheduled review later in 2021.

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. 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).

We concluded that our large scale permits us to:

- Access a large range of investments for members that would not typically be available to members in smaller funds
- Effectively meet the liquidity needs of members under normal market conditions,
- Provide members, and their financial advisers, with comprehensive reporting to help them manage their investment portfolios

With all these factors in mind, we have concluded that the scale of our business operations 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 Wrap and Navigator products.

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 which is 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 for setting fees

We examined the fee and cost structure of MLC Wrap and Navigator products 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.

All members have a choice of either the full or Core Investment List offering, each of which has a different fee structure. Members can move between these two offers at any time. No optional product benefits are offered.

For members selecting the full Investment List:

- The percentage based administration fees are appropriate to cover costs related to the size of accounts (e.g. unit pricing, risk), with the tiered structure providing some allowance for scale benefits associated with larger accounts
- The minimum fixed dollar fee, which applies on a per member basis, is considered appropriate for ensuring minimum costs incurred on a per member basis are covered (e.g. member statements, ongoing product maintenance, regulatory change)

MLC WRAP SUPER SERIES 2

MLC NAVIGATOR RETIREMENT PLAN SERIES 2

2020 Annual Outcomes Assessment

- The Administration fee cap ensures members with relatively 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 Cash Account fee is charged to a member's holdings in the Cash Account (which functions as a transaction account). Interest is earned on the daily average balance and credited quarterly to the Cash Account. NULIS considers it appropriate to separately disclose the fee amount charged and interest rate applied to monies held in the Cash Account for transparency purposes
- A Super administration fee is separately charged, to provide transparency of the higher compliance and regulatory costs associated with administering a wrap style platform in a superannuation environment
- Family linking of accounts effectively applies a discount to the administration fees by combining the total account balance across all linked accounts within a family group. This is reflective of the scale benefits of attracting the additional funds under management onto the platform, and is therefore considered appropriate
- Investment management fees are charged by Fund Managers and apply to the proportion of a member's account balance held in each of the selected investment options
- Other fees that are transaction based, in particular brokerage and settlement costs relating to buying and selling of investments, are charged on a user-pays basis. This is considered appropriate given the variable frequency of transactional behaviour by members which generates these costs
- The Government levy is applied on a cost recovery basis in an appropriate manner
- 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

It is considered appropriate to charge an additional fee to members who choose the full Investment List (which offers access to c.380 managed investment schemes, over 500 ASX listed securities and term deposits), since additional costs are incurred by the Wrap platform to support the more complex operational capability and governance oversight of the investment list.

For members selecting the Core Investment List:

- The fee structure for the Core Investment List, which provides members access to a compact choice of 20 MLC managed investment schemes (6 of which are Separately Managed Account model portfolios), reflects the lower complexity and consequently lower cost of administration of this investment list

- The fixed dollar fee is considered appropriate for ensuring minimum costs incurred on a per member basis are covered (e.g. member statements, ongoing product maintenance, regulatory change)
- The basis for the Cash Account fee and Government Levy is the same as for the full Investment List

We also concluded that the timing for the deduction of each of the fee categories for both the full and Core Investment List is appropriate on the basis that they align with the timing of expenditure.

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

The basis of our conclusion

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

- *Options, benefits and facilities:* MLC Wrap and Navigator products provide members with market competitive online member services, educational tools and communications
- *Investment Strategy:* the investment list offers members with an extensive choice of investments which have been assessed overall as being appropriate to meet their targeted investment objectives
- *Insurance Strategy:* Fund members can access insurance using their superannuation savings, with terms and conditions that overall, are broadly consistent with the retail insurance market
- *Insurance Fees:* On balance, the cost of the insurance that members can access through the platform is appropriate
- *Scale:* the scale of NULIS' business operations is substantial, which allows us to offer a large range of investments that would not typically be available to members in smaller funds, along with comprehensive reporting to help members manage their investment portfolio
- *Basis of Setting Fees:* fees are charged and costs are attributed to members in an appropriate fashion

In terms of areas where NULIS could do better, we have 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 have concluded that overall, **the MLC Wrap and Navigator products are 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 Superannuation Fund (ABN 40 022 701 955) (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.