AustralianSuper

2021 Annual Member Meeting

Transcript of the 2021 AustralianSuper Annual Member Meeting
Held online, Thursday 4 November 2021, 6pm – 7.45pm (Melbourne time)

Recordings of the event can be found at https://www.australiansuper.com/amm

Presenters:	Rose Kerlin, Group Executive Membership & Brand
	Dr Don Russell, Chair
	Paul Schroder, Chief Executive
	Sarah Adams, Group Executive Strategy, Reputation & Corporate Affairs
	Jim Craig, Independent Director and Investment Committee Chair
	Mark Delaney, Deputy Chief Executive and Chief Investment Officer

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Annual Member Meeting Transcript

ROSE KERLIN: Good evening and welcome to the AustralianSuper 2021 Annual Member Meeting. Let me begin by acknowledging the traditional custodians of the land on which we meet and pay my respects to their Elders past, present and emerging. I extend that respect to Aboriginal and Torres Strait Islander people watching this event. My name is Rose Kerlin. I'm the Group Executive, Membership & Brand at AustralianSuper and it's my pleasure to be your MC for this event.

This is our 16th year of holding Annual Member Meetings, just one of the ways in which we work to be transparent and accountable to members. Adapting to the pandemic has meant that our Member Meetings need to be held online, but we look forward to returning to meeting face to face again when the opportunity allows. Before this meeting, we also held seven SuperTalks and ran four virtual Information Booths where members have been asking questions of over 70 colleagues who have been on hand to provide live answers. I hope those of you who participated found these sessions informative and valuable and you got some of your questions answered.

This meeting is important to the Fund for three key reasons: first, we want to share what's been happening at AustralianSuper, particularly over the full year of adapting to the pandemic, along with providing an update on the Fund's investment performance and some of the future plans and initiatives we have in place to help you achieve your best financial position in retirement. Secondly, we want to hear directly from you. We encourage you to use this opportunity to ask questions and to make

suggestions about your Fund. I will let you know how you can do that at the end of the presentations. And, thirdly, we hope that hearing about your Fund's performance and future plans will leave you feeling more confident and secure about your superannuation and your life in retirement.

We have recorded the formal presentations. However, this will be followed by a live Questions & Answers session with the panel at 7pm. The Directors of AustralianSuper are present this evening, along with our Actuary and our Auditor, PwC, represented by Craig Cummins and Nicole Oborne. We aim to have the presentations complete in an hour, followed by the Q&A session for up to 45 minutes. You will be able to type a question and we will do our best to answer them all but please note we will not be able to answer questions about your personal circumstances. This is your Fund and it's the fund chosen by 2.5 million Australians. AustralianSuper is run only to benefit members, and the best financial interests of members drive our decisions.

To begin, I'd like to introduce Dr Don Russell to provide a welcome on behalf of the Board. Don joined the AustralianSuper Board as an Independent Director in May 2019 and was appointed Chair in September of that year. Don is also a Director of the Centre for Policy Development. His previous roles include Global Investment Strategist at BNY Mellon, Australia's Ambassador in Washington and Principal Adviser to The Honourable Paul Keating, both during his time as Treasurer and Prime Minister. Don has an exceptional background in a wide variety of sectors and brings a deep understanding of finance, superannuation and public policy to the Fund. Welcome, Don Russell.

DR DON RUSSELL: Thank you, Rose, and I would especially like to greet all the AustralianSuper members who are in attendance. I would also like to acknowledge my fellow Directors, who are joining us this evening. Jim Craig is the Chair of the Fund's Investment Committee and I would like to acknowledge Jim's contribution in helping secure another successful year of investment return for members. Jim will provide an Investment Overview shortly.

Because of the global pandemic, the last 18 months have been a wild ride. The Board and all colleagues at AustralianSuper have worked hard to navigate the turbulence and uncertainty that has buffeted global markets while ensuring that the Fund is well placed to continue delivering for members, whatever the future brings. In all of this, we have been very conscious that members need support and guidance to help them plan for the future and make sense of current uncertainties.

The Fund continues to grow rapidly, with over 1,000 Australians joining the Fund every day, and AustralianSuper now has over $230 billion in members' assets under management. As we have gone about securing great investment returns for members, we take satisfaction in the fact that your Fund is now of a size that our investment decisions make a material difference to the growth of the Australian economy. For too long, Australia has suffered from a dearth of patient capital. AustralianSuper, as a long-term investor with a large and growing pool of members' assets, is keen to support Australian businesses with good long-term prospects. Australian companies with an attractive outlook appreciate an investor such as your Fund that can look through short-term challenges in the name of big success in the future. This has been particularly important for those companies seeking extra capital to help them navigate the setbacks associated with the pandemic.

As a long-term investor, we pay close attention to the long-term risks that companies carry, particularly the risks associated with climate change, and we carry this attention into how we engage with companies. We are finding that engagement with companies on climate change risk and other ESG matters is beneficial not only to the investment returns for members but also for the companies

involved. Looking ahead, the Board has endorsed a new 2030 Strategy for the Fund based on ensuring we are Australia's leading superannuation fund for members.

As we continue to grow domestically and internationally, we will maintain our Members First culture while building a fund where AustralianSuper colleagues can thrive. As we do, it will be with the Fund's new Chief Executive, Paul Schroder, at the helm. The Board appointed Paul to the role, commencing 1 October, following the decision by Ian Silk to step down after leading AustralianSuper throughout its 15 years. On behalf of the Board, I would like to thank Ian for his extraordinary leadership, integrity and commitment to members. Ian's enduring legacies are the exceptional team that he built at AustralianSuper and the culture within the Fund which continues to place the long-term financial interests of members at the forefront of everything we do.

I am pleased that the Fund was in the position to appoint our new Chief Executive from within the Fund as a result of strong succession planning by Ian and the Board. Paul has been a member of the AustralianSuper Executive for 14 years, holding Executive roles across Growth, Brand, Product and Strategy. As such, he is well placed to lead the Fund through our next phase of growth and evolution, delivering top long-term performance and world-class products and services to members. I very much look forward to working closely with Paul.

I would like to conclude by giving my thanks to you, AustralianSuper members, for your ongoing trust and confidence. Trust grows from results, and I and the Board will be working hard to ensure that AustralianSuper continues to deliver for members.

ROSE KERLIN: Thank you, Don, for those opening remarks on the focus of the Board. Our next speaker is the Chief Executive of AustralianSuper, Paul Schroder. Paul is responsible for the overall leadership and strategic direction of the Fund. He was appointed in October this year following 14 years with the Fund in multiple executive roles, including most recently as Chief Risk Officer. To provide an overview of what the Fund has been delivering for you over the past 12 months and the focus for the future, welcome Paul Schroder.

PAUL SCHRODER: Hello, everyone. My name is Paul Schroder and it is truly an honour to be the Chief Executive of your Fund, AustralianSuper. As Don mentioned, I've been with the Fund for 14 years, most recently as the Chief Risk Officer. I'm proud of what we've all achieved together and very confident about the future that lies ahead of us.

Thank you for attending the 2021 Annual Member Meeting. During the meeting I will talk with you about the Fund's continued response to the pandemic, member services we've been providing throughout this period and, importantly, the investment return of the Balanced option. I'll talk a little about our approach to investments and, in particular, responsible investing. I'll reference some of the policy changes that have occurred over the year in the superannuation system and how that might impact on you and, importantly, I'll look to the future and to think about our 2030 Strategy and how we're preparing the Fund for the future so we can continue to deliver for you.

First I recognise that many of you will have been dealing with major changes because of COVID. Changes to your jobs, changes to your living and financial circumstances, home schooling. It really has been disruptive and that COVID pandemic has impacted everyone differently and in a myriad of ways. Almost 300,000 AustralianSuper members withdrew more than $2.3 billion of their savings in the first half of the financial year; that is, from July to December 2020. They were accessing the Government's

early release scheme to help them deal with immediate financial needs arising from the pandemic. I'm really pleased that we were able to make 97% of those payments within five days to help get money to members when they need it most. The downside is, of course, that people took their money out when markets had corrected, and so if you put together the impact of taking money out and markets correcting, plus missing out on returns, that's going to have a big impact on people's balances and we're going to have to help them so they can continue to compound their earnings and have a better balance when it comes to retire.

Of course, superannuation is a long-term investment. Investment markets will have fluctuations, so over time it's really important to ride those fluctuations to get the maximum benefit of compound interest. During the disruption caused by the pandemic, the Fund, of course, was committed to continuing to operate well for you. In order to support you, of course we need to support our colleagues, and you may not know that we now have 1,000 talented colleagues across four continents in all of the Australian offices, in London, Beijing and now in New York, our third international AustralianSuper office. Colleagues have had to continue to work remotely and they've done so really efficiently throughout the whole year.

We've maintained our focus on everybody's individual mental health to make sure they can do their very best job for you. That's included having to think about safe working environments, making sure they're fit for purpose, worrying about dogs and cats and homeschooling, but also people's wellbeing, all the while trying to make sure that all of our services to you are not interrupted. I want to thank each of those colleagues for their hard and continued work on your behalf throughout the entire year. Maintaining that high level of service has been a key focus for the Fund and you just think about all the moving parts that are involved in putting together your superannuation balance and to make sure they can happen safely and securely and accurately to ensure that you can continue to have confidence that your superannuation is in good hands.

During that year, and despite the complications of COVID, we've been able to deliver more education seminars, most of them online. We've increased the number of on-demand videos, produced more articles, fact sheets and newsletters to help keep you informed and updated about your super. Many members have told us that the more they know, the better they feel, and we're committed to sharing with you in all the ways that we can. Your contact centre received 1.3 million calls and, of course, we're always looking for ways to improve that service to deliver high-quality information and advice to you and to ensure that costs continue to stay low. So good advice helps you take good actions, costs down, performance up, your superannuation balance improves as a result.

The website received 21 million visits and, at the same time, about 200,000 members have downloaded the AustralianSuper App, taking it up to a million people using the app. So if you haven't got your super in your hand, do it. Download the app. It's a terrific app and, as I say, more than a million people have already. With the app, you can look at your balance, you can make transactions, you can access your statement, you can make a contribution and, terrifically, I think, you also get a prompt to say a contribution has gone in or a pension payment has been made to your bank.

One of the most pleasing things that's happened this year has been in relation to investment performance where we've been able to deliver you the best single-year return in the Fund's history. The Balanced option, which is where most members are invested, delivered a record return of 20.43% - 20.43% - in the financial year, which is just a staggeringly large number, especially when you think about where, for example, inflation is. To put that number into perspective - remembering that it's

only a one-year return and we must think about the long term and the volatility in the fluctuations - but just to put that number into perspective, a member with a balance of $100,000 at the start of the financial year would have seen that increase to $119,700 at the end of the year, when you take into account returns and fees. At a time when members and households have faced so much uncertainty and difficulty with COVID and all the things that have come from that, it's particularly pleasing to provide this kind of increase through investment performance.

Importantly, at the end of the financial year, AustralianSuper is the top-performing fund in the country over 7, 10, 15 and 20 years. AustralianSuper has returned an average of 9.73% per annum over the last 10 years. Last year's result, of course, was considerably higher but we need to think about these things through the long run. Future returns are expected to normalise over coming years. AustralianSuper is a high-performing fund over the short, medium and long term.

I thought I'd share some figures for you, just looking at what does a poor-performing fund look like over 1, 3 and 10 years and then what does a median fund - that is, the median means 50% of funds did better than that and 50% of funds did worse than that - but if you just look at the large super funds. I've got some graphs here which will come up on the screen and the orange is AustralianSuper's performance over those same periods. So the idea here is we want to make you the most money so that your balance grows to the largest it can be so you've got the best life in retirement that you can fund at. So that's one thing. We want to make sure you have more money, risk-adjusted, post-tax and post-fees, but we also want to make sure that we're doing at least as good a job and a better job than other funds so that if you had your choice, you'd say, "I'll choose AustralianSuper".

So AustralianSuper's Balanced option outperformed the poorest-performing fund by over 7%, and over the 10-year period - remember I said it's really important to think about the long run; that's where we should be focussing - AustralianSuper outperformed the poorest-performing fund by an average of 3% every year. 3%. If you compared to the median fund - that is, the Fund 50% did better, 50% did worse - AustralianSuper outperformed by an average of almost one and a half per cent each year. These results are testament to AustralianSuper's model, to the skills of Jim and Mark and the whole team across the entire Fund.

Importantly, being able to deliver this outperformance year after year after year is having a material impact on your retirement savings, and that's the only reason we exist: to help you save more, to help you earn more, to help you protect those assets so you can spend more money in retirement. Now, as I said before, one and a half or three per cent outperformance might not sound that significant. Is it a small number? Is it a large number? But when you think about super as a multi-decade investment and over those long time frames with compound interest, those differences really add up and they're worth worrying about and they're worth talking to people about. This is a really stark example of the importance of choosing a good fund in building your retirement balance. There are, of course, a number of good funds in this country and I'm definitely not saying we're the only one but the difference between a good fund and a really high-performing fund is enormous to your balance.

I'll give you an example comparing AustralianSuper using the return figures in the previous slide. So imagine three people are starting out in a workplace. It could be your child. It could be your brother. It could be your friend. But three people in three different workplaces. They earn the same amount. They receive the same amount of super and, in all other respects, they are the same, except for the super fund they have their super with. If one of them is the poorest-performing fund and one of them is the median fund and one of them is AustralianSuper, what will the difference be? So, as I said, the

assumptions are identical across the comparison. So let's assume a really good income. Let's assume $74,500 a year. Good, very good pay. You're in the work force for 40 years. We'll use the 10-year earning rate of the poorest-performing fund, the 10-year earning rate of the median fund and AustralianSuper's 10-year earning rate, and let's apply that - because I said super is a very long-term investment, let's apply that over a 40-year working life. So the poorest-performing fund, with its 10-year earning projected over 40 years, delivers about $540,000 in retirement savings. Now, just let me remind you we're using a really good salary here, so some people's numbers will be bigger; some will be smaller. I'm just talking about using this particular example but the same principle will be true using different examples and different end numbers. But if you think about that example, over 40 years, everything exactly the same, the median fund will deliver just under $750,000, a great deal more than the worst-performing fund. And AustralianSuper, with a number bigger than the worst fund and smaller but still bigger than the median fund, would end up earning nearly $1 million.

So those numbers, the one and a half and the three, they sound small but in dollars the difference can be huge. Those people did nothing different. They just ended up in a poor-performing fund or the median fund or a really high-performing fund, and the dollar difference, which means what you can do in retirement, is fundamentally different. The difference in outcome for those workers between AustralianSuper and the median fund is $316,000. Imagine what you could do with that in conjunction with the age pension. Imagine what you could do to your house. Imagine what you could do with that amount of money in the way you live in retirement.

And the difference between AustralianSuper and the very worst fund? Over half a million dollars. Nothing else different; just to choose the right fund. Now, of course, we're using the 10-year average returns here and the 10-year averages for all those other funds. Nobody knows precisely what's going to happen in the future and you will have heard many times in the disclaimer that past performance is not an indicator of future performance but it's a legitimate way to look at past returns to think about what happened in that period.

Over the Fund's history, we have delivered market-leading returns. We're able to deliver those returns and build your balance in part because of the model we have. All of the profits we make go to you. We are a for-members fund, a profit-for-members fund, which means we don't pay profits to shareholders and everything we earn is on your behalf, making money for members, not from members. We're also able to leverage our size, our scale, our skill to create efficiencies and to generate savings, and those efficiencies and those savings go straight into your balance. That's at the core of who we are. It's our purpose to deliver you, your best financial position in retirement with you - your actions and our actions.

Jim Craig, the Chair of the Investment Committee, and Mark Delaney, our Chief Investment Officer, will cover markets in more depth, investments and provide more detail on our investment approach later on in these presentations. But I would like to briefly touch on the Fund's approach as a responsible investor and how this also helps contribute to our performance and to build your balance for retirement. When you talk about responsible investing, what we mean is consideration of relevant environmental, social and governance factors, and that's increasingly known as ESG. AustralianSuper members don't need to choose between sound ESG - environmental, social and governance - issues and top performance. They are one and the same, hand in glove, because investing in well-run companies that manage their ESG challenges will deliver better long-term performance for you and help build your balance. The ESG team at AustralianSuper engages with companies in which we invest on your behalf to advocate to improve ESG outcomes and, in turn, that results in improved member returns as well as positive broader social or environmental outcomes.

AustralianSuper recognises that climate change is a material investment risk. That's why during the year the Fund committed to achieving net zero carbon emissions in the portfolio by 2050. Managing the portfolio to achieve net zero carbon emissions by 2050 is prudent and it's in your best financial interests. Considerable work has been done by the ESG, Investment and other teams across the Fund over many years to consider how we can ensure that we adopt a sensible members-first approach to managing climate risk and all of our risks. As a Fund, we support the goals of the Paris Agreement on climate change, which you might recall they aim to limit global warming to well below two degrees and preferably no more than 1.5 degrees by 2100. We also support a smooth and just transition to a low-carbon economy.

Change always comes with cost and it can disrupt people, so we've got to make sure that workers and communities are very much supported in their transition to new energy sources and to new industries. That has the dual advantage of minimising the economic cost but also providing the best investment outcomes for you as members. That's why we engage directly with companies on climate change and participate with other investors in groups like Climate Action 100+. Importantly, we also measure and report on the low carbon transition progress inside the portfolio. The carbon intensity of your equities portfolio has declined 41% since 2013. That makes it 13% lower than the index for Australian equities and 37% lower than the index for international equities. That means lower than what everyone else is doing when you say 'the index'.

AustralianSuper currently invests more than $1.2 billion in a range of renewable energy projects across markets in infrastructure and equities, and, of course, we expect this to increase over time as the opportunities to make money for you increase. We've identified the most emission-intensive companies in our portfolio and we've developed an engagement strategy, seeking that low-carbon transition to a cleaner, more sustainable economy.

As Chief Executive, I want to make sure that AustralianSuper is the leading Australian super fund in the world's best system for you. The Your Future, Your Super package of legislation included a number of changes that are relevant to the Fund and relevant to you. The changes include a new approach to reducing multiple accounts, which is a very good thing. Too many people have too many accounts and I imagine one or two of you will have an additional account somewhere in your back drawer. The system that's going to be introduced is called 'stapling', which I'm not quite sure how good that is as a name, but effectively what it means is if you join a fund, you will stay with that fund. You're stapled to the fund. So when you change jobs, unless you tell your employer you want to do something else, you'll stay in the Fund that you started with. Over time that should have a positive impact on the system. Less accounts is better, less fees, provided you're in a good fund, as I mentioned earlier because a high-performing fund makes a big difference to your end balance. AustralianSuper has long advocated both privately and publicly that poor-performing funds should be removed from Australia's superannuation system. We want to make sure that all members can rely on the performance of the funds in the system and we want to make sure that the system is workable for members, for employers.

A third element of the Your Future, Your Super package was the introduction of an annual performance test for superannuation funds, and that's conducted by APRA. Poor-performing funds that don't meet the test are required to write to members, notifying them of the outcome of that test, and there's also restrictions on those funds accepting new members into the future. Pleasingly, and I think as you'd expect, AustralianSuper has already passed the first annual test.

Outside the Your Future, Your Super package, we very much welcomed the increase in the Superannuation Guarantee to 10% on the 1st of July 2021. It's great for your balance and it's going to be great for young people joining the work force that their balances will grow by 10% now and there's a pathway to 12% contributions. That will occur by 2025.

Two other important changes were made for thresholds for superannuation payments. First was the removal of minimum earnings thresholds for the payment of superannuation for those people earning less than $450 a month, and you can imagine that that had really hurt young workers, part-time workers and women. The second was the increase in the threshold for the concessional superannuation cap from $25,000 a year to $27,500. Now, of course, investing, like super, is always about the future. The Fund has put its mind to and finalised its 2030 Strategy. I said before, we've got to really think about that very long term. The 2030 Strategy is based on our collective vision of your Fund and ensuring that AustralianSuper can continue to be the nation's leading superannuation fund for you as members. We want to be able to always help you achieve your best financial position in retirement, and to do that, the Fund needs to be strong and healthy and have clear plans.

So my commitment to you as Chief Executive is that, just as it has always been, you will be front and centre of all of our decision making and that your outcome is the only thing we care about. I'll now hand over to Sarah Adams, who is AustralianSuper's Group Executive for Strategy, Reputation & Corporate Affairs to provide you a few more details about what that future looks like.

SARAH ADAMS: Thanks, Paul, and good evening, everyone. It's my pleasure to be here this evening to talk to you about the Fund's 2030 Strategy. AustralianSuper is the nation's top-performing superannuation fund. We are the most trusted superannuation fund and more Australians choose AustralianSuper to help them achieve their best financial position in retirement than any other. We have a strong history of delivering for members and today we are a fund with over 2.4 million members, investing more than $230 billion on your behalf. As we look to the future, the challenge for the Fund is how we can continue to deliver these outcomes for members amidst a changing industry, changing member preferences and expectations, changing regulatory settings and a changing competitive landscape.

Our 2030 Strategy is about the Fund successfully navigating this change on your behalf to give you confidence your retirement savings are with Australia's leading superannuation fund for members. I'll start by providing some context. Looking ahead to 2030, the pool of superannuation savings in Australia is expected to grow from $3.3 trillion today to over $5.5 trillion, with particularly strong growth in the retirement market. We expect changing regulatory settings and shifts in the competitive market to result in fewer, larger and better-performing superannuation funds. This should be a good outcome for Australians generally as the standards for all funds should rise. Many of these will be in the profit-to-member fund sector but we also expect a small number of retail funds to remain present and international entrants looking to tap Australia's significant pool of retirement savings.

We also expect that as the industry grows, higher standards of conduct and transparency will be expected by members and imposed by government. Recent trends in regulation designed to improve member outcomes should continue, including measures to expose under-performing funds, remove duplicate accounts and increase standards of conduct and transparency. We think this is absolutely right. Particularly where such changes are implemented across the sector, we believe it should lift both performance and accountability.

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As a member-first fund, we're constantly looking to meet the needs of members. More members are making more choices about their investments and becoming more engaged with their super, which is fantastic. Digital and technological advances in financial services but across the board are also leading to changes in how you want to deal with us, including greater personalisation in that experience. We also expect a continuation of current trends where we see increasing engagement in financial matters, including superannuation, also leading to higher expectations from members across service, product and experience.

Responding to these changing member preferences, the industry will see increased competition. The trend away from default to direct joins will continue, meaning more Australians will actively choose where they invest their superannuation. New brands will launch, seeking to tap particular customer cohorts and interests, and we'll see new innovations in product and service, including an increasing price consciousness driven by a rise in index funds.

So the Fund's 2030 Strategy is our blueprint for responding to the changing external environment as well as the internal changes we face as we continue to grow and evolve. While change is inevitable, what won't change is the Fund's commitment to members.

As Paul Schroder said earlier, we want to be Australia's leading superannuation fund for members and deliver on our purpose of helping members achieve their best financial position in retirement. To do that, we've based our 2030 Strategy around five pillars. We are a growing fund and our strategy has been to seek growth so we can extract the benefits of scale for members. The strategic challenge for the Fund is making sure we grow sustainably in a way that allows us to continue to deliver for members over the long term. By 2030, our goal is to be a clear market share leader. To do this, we will need to continue and evolve and expand our distribution model - how we reach potential members - to make it scalable, efficient and successful in a consumer-led setting, as well as significantly improving our retention of members already within the Fund. Sustainable growth is also ensuring we make the right decisions to support our growth, including, for example, investing in new and improved core systems and platforms to ensure we can deliver enhanced levels of performance and service, make better decisions for members, drive efficiency within our organisation and protect our information and data properly.

The second pillar is market-leading performance. You trust us with your retirement savings and a key pillar of our strategy must be to continue to deliver great performance for you. Our goal is to maintain top decile investment performance, and while we have a strong and proven track record of delivering great returns, in a consolidating market with fewer larger and better-performing funds, maintaining that top decile performance will be a challenge. In response, we'll bring our investment model to full maturity and continue to expand our investment management capability across different asset classes and geographies. Market-leading performance is also about talent. We can't expect to deliver on our strategy without continuing to attract, develop and retain a high-performing global work force, thinking about the skills we need now but also the skills we'll need into the future, as well as making sure the AustralianSuper member-first culture is not lost through our growth and expansion.

To respond to the changing market and your changing needs and preferences, we'll need to deliver a distinct member proposition. The Fund's member proposition includes the products we offer, the services and advice we provide and the information, help and guidance we make available to members. We want our proposition to be simple, targeted and compelling to meet the needs of members across all segments, driven by strong value-for-money positioning, aligned with ensuring everything we do is in

your best financial interests. We'll also uplift our service offering to make dealing with us easier, using automation and digitisation to help ensure every interaction is simple and helpful. While the external environment is changing, we're changing as a fund too.

The scale benefits pillar represents how we, as a fund, will use our size and scale to continue to drive simplicity and efficiency into our operations and reduce operating costs so we can deliver savings back to members through lower fees and investing in better products and services. Our recent and projected future growth also means we need to evolve our operating model. As we look to the future, we are no longer a small domestic superannuation fund but a large international investment fund operating on behalf of 2.4 million Australians.

Lastly, we will continue to work hard to earn the trust you place in us, to not just say we are Australia's leading superannuation fund for members, but through good governance, clear accountability and fully integrated risk management clearly demonstrate that we are. For the Fund, leadership also means being a leader of our industry through setting and meeting high standards and advocating for a system that operates in the best interests of AustralianSuper members and all Australians.

The execution of our 2030 Strategy will be supported by our business planning, budget, data and program delivery frameworks. It will be reviewed regularly and measured by a fund score card reported to the Board and in the outcomes we deliver for you. I look forward to keeping you updated on our progress over the years ahead. Thank you.

ROSE KERLIN: Thanks to our presenters for that great overview of what the Fund has been delivering for members and how we will be using our scale and skill to outperform and to help members achieve their best financial position in retirement. I'll now introduce the Chair of the Investment Committee, Jim Craig, to provide an investment overview. Jim has had a successful career in investment banking and funds management across Australia and Europe for over 25 years. We are fortunate to have his perspective, knowledge and global experience on the Board and the Investment Committee.

Following Jim's address, Mark Delaney, AustralianSuper's Chief Investment Officer and Deputy Chief Executive, will provide a detailed look at last year's performance as well as the investment outlook and the strategy going forward. Welcome, Jim Craig.

JIM CRAIG: Thanks, Rose. As has been mentioned by Don and Paul, AustralianSuper produced record returns for members in financial year 2021. While the one-year result is exceptionally strong, we are particularly proud of our returns of 9.6% over the three-year period. The team's ability to perform well in both challenging and comparatively more stable conditions is proven. My congratulations go to Mark and the Investments team for their work in delivering great outcomes for members consistently over many years. I am conscious, as with the other presenters, that superannuation is a long-term investment.

Superannuation returns will vary year by year and, as it is an investment over a lifetime, returns over the long term are our focus. The share market volatility over the pandemic period highlights the importance of remaining invested. Some members changed investment options in response to market volatility. Those who switched to cash during the downturn may not have been in a position to benefit from the rebound, while those who remained invested were more likely to end up in a better position. Even for experienced investment professionals, it is extremely difficult to time the market; that is, to know precisely when the bottom or the top has been reached.

The AustralianSuper Investments team has built a portfolio that is diversified and balances the need for liquidity, which served invested members well during this period. A key element of the Fund's strategy has been the internalisation of our investment program. This continued in the period and now 44% of members' assets, your assets, are managed internally. We expect this to grow to 60% under internal management over the medium term. This benefits you in multiple ways. It lowers investment costs. It enables greater alignment to our long-term investment horizon. It enhances our portfolio oversight and it gives better access to investment opportunities. And I'm pleased to say that the internal team continue to deliver strong long-term returns in line with their targets. Our globalisation strategy further improves access to the best international investment opportunities by having an on-the-ground presence in key global markets such as London, Beijing and most recently in New York, with the opening of our US office. Being active in these locations enables better business relationships, access to new investment opportunities and improved ability to oversight your investments.

Following almost six years with AustralianSuper, I will be leaving the Board this month. I'd like to take this opportunity to thank the Directors of the AustralianSuper Board for their steadfast approach to creating one of the best-performing super funds in the country for members. I thank members of the Investment Committee, Mark Delaney and the entire Investments team for their hard work, commitment to member outcomes and insights, which have resulted in AustralianSuper being the number one rated performer over 7, 10, 15 and 20 years.

Finally, I'd like to thank you, AustralianSuper members. It has been a privilege and a pleasure to be a Director and Chair of the Investment Committee for your Fund. I'll now pass to the Chief Investment Officer, Mark Delaney.

MARK DELANEY: Hi, everybody. It's great to see so many of our members listening in. What I'm here to talk about is investment returns, so let's get down to it. The opening slide refers to the word 'open', which is really about economies opening up after COVID. With higher vaccine rates and lifting of restrictions, it's likely to see many economies opening up in the second half of 2021 and into 2022. Australia will follow as well. But the path of COVID has been very uncertain, so there's no guarantee it's going to be all that smooth going forward, so we're going to plan for the best but keep an eye out for the worst.

This graph here talks about investment returns in the last year, and weren't they fantastic? The Balanced plan earned over 20%, which is our highest return. If you look at the graph here, you can see the Balanced plan returns have been pretty strong since the financial crisis of 2008/2009 but nowhere near as strong as the 20% return we earned last year. In many ways, that 20% return is a payback for the small return we earned last year as COVID really affected investment markets.

Let's unpick this 20% return a little bit. On the graph here, we can see the two orange bars on the left-hand side show 30% returns for international and Australian equities. Very strong equity market returns. They were the big engine room of returns of the overall Balanced plan and the other PreMixed options. Very strong equities returns. Look across the graph a little bit and you see very low returns for cash and for fixed interest. That really is the price we pay for the central banks providing so much stimulus and lowering interest rates as far as they did. So if you had a portfolio biased toward equities, you did very well, and if your portfolio was biased towards fixed interest, you earnt very modest returns. The other thing which stands out from the graph is incredible returns from private equity. Private equity in the long run is the highest-returning asset class, and this year was no exception, with returns over

40%.

Let's have a look at how all our investment options went over the last year. This graph here shows the returns for the Super Options, which is what you do before you retire, and the Choice Income, which is the post-retirement investment options. The orange bars are for the Super Options and the grey bars are for the Choice Income options. The first thing that stands out to me when I look at this is that the grey bars are all higher. Why is that? And that is that you pay no tax on investment earnings in the retirement phase. The benefit of paying no tax has been worth roughly 2% over the last year for the Balanced plan, for example. That extra kicker is always very helpful.

The second thing that stands out is those options which carry higher equity allocations and, therefore, more risk have earned more than those who carry less equity weight and, therefore, less risk. So high growth has done a lot better than stable. That's to be expected in the long run, and this year was a clear example of that. Great one-year returns are good but super is a 40- or 50-year endeavour, so one year doesn't really make that much difference.

Let's have a look at long-run returns. That's what really matters to members, making good long-term returns which build up their balance over time. Here we have the returns of the Super Options, which is the pre-retirement options, for the last 10 and 15 years. Interestingly, the 10-year returns are higher than the 15-year returns and that's because the 10-year returns picks up the period after the Financial Crisis, while the 15-year returns picks up the negative years of the Financial Crisis. So over the last 10 years, it's been a fantastic period to be an investor, with the Balanced plan earning almost 10% per annum over that period. Phenomenal result. Look back a little further and you find that a 10% per annum return falls to about seven and a half per cent for the Balanced plan when you look over 15 years because the negative years of the Financial Crisis are included. Again, the higher equity weighted options do better than the lower equity weighted options but all have done very solidly over both 10 and 15 years.

Let's now turn to the pension option returns. Here we have them for 10 years because not all those products have been running for 15 years. In this case, those in the pension phase don't have the 40- or 50-year investment horizon and have something a lot shorter. Let's hope it's about half of that for all those people involved. Here you see the Balanced plan has earned more than 10% - 10.77% - over the 10 years and that extra kicker is also due to the fact of paying no tax. Again, the same profile of returns exists. High growth does better than stable and the returns decline as you move down to lower risk investment options.

I prepared this little table to try and unpick why investment returns have been so strong over the last 10 years. Let's have a look at 30 June 2011. Here you see the Reserve Bank cash rate was 4.75%. It's now almost zero. So interest rates have declined by almost 5%, four and a half per cent, over that 10-year period in Australia. Do the same thing in the US but here I focus on the borrowing rate for the US government over 10 years. 10 years ago, they were paying around 3.2%. Now they're paying one and a half per cent, so their borrowing rate has halved. Why that matters is lower interest rates have fed a strong recovery over the 10-year period and also reduced the discount rate applying to many investments. The wash-up of that is strong recovery and falling interest rates have really kicked the equity markets along. And the last row talks about the US equity market, which has gone up over three times in that 10-year period. Hard to imagine it was $1,321 on the 30th of June 2011 and by 30 September it's $4,308. An incredible performance. It's fair to say that the next 10 years won't be as good as the last 10 years. It's hard to see interest rates in Australia going negative, minus 5%, or US

interest rates falling to zero, so the pre-conditions aren't the same as what occurred at the 30th of June 2011 whereby share markets were still fairly low after the Financial Crisis, interest rates had a long way to fall and the recovery had a long way to run. So it's been a great 10 years but, unfortunately, I don't think the next 10 are going to be as good.

Three factors were really important in last year's returns. The biggest one of those was the authorities saying they'll do whatever it takes to keep the economy going. They cut interest rates, increased the money supply and provided large payments to individuals and companies to keep going during the difficult COVID times. The second thing which mattered was a rapid rollout of the vaccines. That allowed life to return to some semblance of normal and for people to be slightly less concerned about COVID. And the third thing was things opening up: shops opening up - and we're all desperate to start shopping again, services, travel and all those related factors. People have accumulated lots of savings during COVID because they haven't been able to spend and, as things open up, they've got the opportunity to spend those savings and kick the economy along.

We've talked a lot about the past but investing is all about the future: what's going to happen in the future and what investment returns are we going to make in the future. So there's five things which are really having a big impact upon the future: geopolitics, budgets and monetary policy, digitalisation, regulation and climate change. Geopolitics, the first one. We've now moved - it has now moved to the centre stage with the US-China conflict. No-one knows how this uncertainty is going to resolve but it will be a big factor, I think, in returns in future years. The governments and the central banks are going to have to normalise policy after the large stimulus payments during COVID. This withdrawal of fiscal and monetary stimulus will have an impact upon how economies go over the next few years. Digitisation is affecting everything we do. We've seen it in online shopping, in manufacturing and it's also coming to services. It's going to transform how we operate and impact many businesses and companies. Regulation is becoming much more important, but one of the key lessons about COVID was the governments were prepared to do whatever it took, including passing legislation saying how things should operate. It's probably unrealistic to expect that governments won't be prepared to continue to give more directions to how the economy works in the future. Being on the right side of this will be important for our portfolio.

Finally, climate change. It's everywhere. Everybody talks about it. But it will be a really big factor in how energy works over the next 10 to 20 to 30 years, and I'll talk a bit more about that later. As important and topical as those five factors are, they're not as important as the basics of investing; that is, valuations, the economic cycle and what's happening to interest rates. Let's have a look at each of those three factors. Valuations are now fairly expensive, given the sharp run-up in shares in the past 10 years. Not as good a take-off point as a decade earlier. The economic cycle has had some big swings in the last three or four years with the COVID bust and now the recovery. We think this recovery's got further to go and will go for a few more years yet, so there's no reason to be concerned on the cycle front.

On interest rates, they're likely to rise as the recovery broadens out, so we're likely to have a period where rates are a bit of a headwind to markets, whereas they were tailwinds in the previous three or four years. All in all, we've got a fairly steady investment environment, high valuations, a reasonable cycle but with rising rates, so returns are likely to be smaller than what they were in the previous period. Investing toward a net zero world: Paul talked a little earlier about how we're managing climate risk in the portfolio and how that's changed over time. The key thing which stands out to me about the move to a net zero world is that the markets are moving very rapidly to price out carbon, with carbon

investments having a significant discount in their pricing. So the markets have moved quickly, anticipating a fairly rapid adjustment path. The companies are responding to the markets. You've seen a big company like BHP look to divest its carbon investments as it's looking toward the future.

Finally, the policy makers are coming to some broad consensus around how this adjustment process will take place. So what we've seen is the markets move first, the companies follow the markets and then the policy environment gradually becomes clearer. Portfolio transition around carbon has started and will have to continue over the next 10 years and, if anything, the carbon adjustment is happening more quickly than probably what people anticipated. Let's turn now to responsible investment more broadly. This is a very significant part of investing and affects all aspects of our portfolio. It's something we take extremely seriously because if we get these risks wrong, the financial implications can be very substantial. Environmental, social and governance factors are big factors in long-run returns for many companies. We and the companies need to be aware of how these factors are unfolding and be forward thinking in our adjustment and our plans to ensure that we're future-proofing the portfolio and making sure these businesses are viable in the long term. The best way to do this is to engage with the companies to ensure in their strategic planning they're taking account of these risks, they're adjusting their plans and looking forward. So our engagement with the companies, which we do a lot of, helps us and them better prepare the portfolio for these ESG risks. We also participate in a number of investor forums and related groups, trying to promote ESG throughout the global and Australian industry. This is particularly important as we need to build consensus to move quickly on these factors.

I'd like to spend a moment or two talking about what the Investment team is focused on. First and foremost, we're focused on generating the best possible investment returns we can for you, our members. We see that as our job, our mission, and we can make a big difference if we do a very good job. As a part of doing that, we're seeking to build out our global presence, having offices in both New York and London. The reason we're doing this is to get access to a greater supply of investment opportunities and better manage our overseas investments. It's a big advantage for us but it's a long-term project and it has been going very well.

The second thing we're doing is trying to reduce costs. Costs matter a lot in the long term because while it might be only a few basis points, you add that up over 20, 30, 40, 50 years and it ends up being a lot of your money being spent. So what we're trying to do is to reduce your costs by internalising activities. That means doing them ourselves rather than employing more expensive agents, as long as we can do them well. That process of internalisation has been going on now for almost a decade and has generated very strong benefits.

The third thing is digitalisation and technology change. It's been slow to come to investments but it's gradually creeping in and people are changing how they do things using new datasets and new techniques. I think it's going to gradually increase over time and will become more important as to how we do things.

This is my most favourite graph. We can talk about one-year returns, we can talk about 10-year returns, we can have percentages, but what does it really mean? Have a look at this. You put $100,000 into the Balanced plan 20 years ago. 2001. It's now worth $460,000. 100,000 to 460,000 over 20 years. Phenomenal. Just fantastic. So that says long-term savings works and it works really well.

The second thing I like about this is that when these events come along, and you could probably call them 'events' - and look at the Global Financial Crisis. It did cause balances to go down a little for a

short period but it was preceded by a large rise and then followed by also a very large rise. So, in the end, it didn't have much impact at all. Imagine if you'd sold out of your super and went to cash at the bottom of the Financial Crisis. You would have 150,000 or something, and not 450,000. It's an incredible difference. Investing for the long term works. Staying the course and not being panicked out when markets fall is the key to it. Look at COVID-19 up there at the right-hand corner. It barely had an impact. So remember, stay the course, invest for the long term and don't react when the newspaper headlines start to scream. Thank you.

ROSE KERLIN: Thanks to Jim and Mark for the insights on our investment strategy and performance. That concludes the formal presentations. I hope you found them informative. We will now proceed to the Live Question & Answer session. For those that are not joining us, thank you and good evening. For those that are joining us, please note that questions can only be typed into the questions box. If we aren't able to answer all questions at this meeting, a response will be provided afterwards via the Minutes of this meeting.

I would like to remind you that if you choose to send any questions to us during the Annual Member Meeting, these questions and our responses may be made publicly available to other meeting attendees in realtime as part of the meeting. They'll also be recorded in the Minutes of the Meeting, which will be made publicly available on our website. Please note that to protect your privacy, do not include any personal information in the messages or questions you submit to us as part of the Annual Member Meeting other than your name and email address. We are not able to answer questions relating to your personal account or personal situations. Please contact us via the website, phone or the AustralianSuper App in these instances. We'll give you a moment now to enter your questions. Thank you.

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