

2022 ANNUAL MEMBER MEETING Q&A



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ANZ STAFF SUPERANNUATION (AUSTRALIA) PTY LIMITED
(the Company/Trustee) as Trustee of ANZ Australian Staff Superannuation Scheme (ANZ Staff Super)
Annual Member Meeting – Q&A
Held via live webcast on Tuesday, 9 August 2022 at 5.00pm.

Questions and answers:

Paul Rosam advised members about the process to submit questions and noted that answers to questions would be placed on ANZ Staff Super's website within the next month.

Paul responded to questions which had been submitted by members prior to the meeting and questions asked during the course of the meeting.

1. How are you managing the downturn of the stock market?

ANZ This is a really great question so I'll go into quite a bit of detail here and may refer back to this answer when we're talking about other questions. There's a graph that I'll ask to have put up on the screen for you that will help me to illustrate the point.

First thing to note here is we remain invested in the stock market in all but the cash option. This is not unique to ANZ Staff Super. All major funds have a significant percentage of their investments in equities.

This has driven strong results for us and for all funds over the last 10 plus years, however, this comes with the reality, not just the risk, the reality that there will be some down years. We believe in the equity risk premium. That is, we believe that investors will be rewarded over the long term for the risk of investing in shares versus very low risk investments like cash. It is extremely difficult to predict exactly when the stock market will go up and down. So staying invested over the long term is the best approach. This has been highlighted once again by the returns in July, where US equity markets saw their best month since the strong post-COVID rebound in 2020.

Whilst we view equities as a key contributor to member outcomes over the long term, this does mean that falling stock markets will impact members' balances in the short term. While the media focus on risk naturally focuses when markets are falling, ultimately the risk our members face is not just short term volatility, but the long term risk of not having an income at retirement that meets their needs.

We believe that the best way to balance these short term and long term risks is to stay invested in shares but limit the downside risk by diversifying this and this is how we manage the downturn of the stock market.

What we've seen in recent months has been some of the worst returns from markets in some time, with equities and bonds falling together. However, our investments in diversity, unlisted property and infrastructure, have tempered these losses for members.

As a result, while the global share market was down 19.4% for the first six months of the year on a hedge basis, our balance growth fell by only 8.6% over this time. This diversification is the key to the approach. And as you can see from the graph on your screen, the yellow line is equities. They move up and down, they have short term gains and losses.

And you can see some rather big ones there that historically have been followed by strong growth for the years that follow. And it's this approach that has meant that despite the ups and downs we've experienced over the last two and a half years, the balance growth option has delivered 7.8% a year over the last 10 years.

2. When a member puts in their switch option, ANZ should lock in their unit price for that day instead of giving them the unit prices for one weeks' time when ANZ makes the switch, as markets can move a lot.

Our approach to investment switching stems from its units being priced on a weekly basis. Requests received on or before 5pm Thursday are processed on the following Wednesday. This means that they are processed at the next available unit price which came into effect from the Tuesday and takes into account valuation movements up to the close of business on the previous Thursday.

This approach is appropriate and seeks to maintain equity between members given the current unit pricing cycle. Having said that, we are looking to move to daily unit pricing. When we make this change, members will be informed and provided with details about the revised switching timeframes.

3. Whilst our fund performance has generally managed to score within the top quartile of fund performance, ANZ Staff Super has underperformed some of the leading industry super funds. For example, Australian Super, HESTA, Hostplus. Our fund's underperformance is consistent based on historic results of 1% to 3% per year. Are there any discussions or initiatives within our fund looking to close this gap? Having low administration fees does not offset the underperformance where a super balance is beyond a certain size.

A number of those funds mentioned have a younger member demographic and take more risk and illiquidity in their portfolios as a result. This greater risk is typically reflected in more shares, more property, and more infrastructure. Which when they are unlisted, will usually have a valuation lag verse the valuation posted in a listed market which is currently attracting the attention of the media for some super funds.

Despite the last six months, the past 10 years have been a very strong period for risky assets and so this has been a big contributor over this period. This is one of the reasons why our aggressive growth option has outperformed the balance growth option over this time. And it's worth noting that our aggressive growth option is a top quartile performing option over 10 years.

Now we're always looking at improving our investments and this is including making more investments into infrastructure in recent years. But we're also committed to taking an appropriate amount of risk in our MySuper option based on our member demographics.

We have to look at our member base as a whole to come up with our MySuper strategy. But we know that each of our members has their own circumstances so once again, I'd encourage you to seek advice on what option makes the most sense for you.

4. What is management doing to minimise the impact of the bear market on balanced fund members?

As we talked about with previous answers, we diversify our options which means in a significant bear market, as we've seen in 2022, our investment option returns are better than those from equity markets.

5. A member would like to know is it possible to set up a part pension annuity payment post 60 years of age?

We offer a transition to retirement pension option through the retirement section. This option allows members who have reached their preservation age to draw a pension from their super savings as they phase into retirement.

This option is an account based pension rather than annuity which is a specialised investment. So it would be important to seek financial advice to make sure you invest in product which is appropriate to your financial circumstances.

6. Looking at the cost of the sum of executive officer remuneration for the 2021 financial year, being \$930,461, is this for one officer only? What is the justification for these costs? What is being done to cut the costs?

No, this is not for one officer only. The amount quoted on the notice is the sum total of all remuneration for directors and responsible managers of the fund.

Details of this expenditure is published on the website. We run a lean operation. Our expenditure is among the lowest of all super funds, as evidenced by our market leading account management fees.

7. How does the performance for the fund compare with leading industry funds?

Our performance stacks up reasonably well against our broad group of peers. Some of the most prominent industry funds have been the near the top of rating surveys for some of the reasons discussed, including taking more risk and having more in liquid assets.

8. Is there any timeframe to introduce daily unit price settings?

Whilst we had flagged that we'd be looking at whether moving to daily unit pricing would be a cost effective change to consider in 2022 or 2023, we've not yet completed this work.

We have commenced investigating with our service providers what would be required to move to daily pricing and the potential timeframes and the likely cost. There are a number of initiatives we would like to implement and the service providers are also making upgrades that will enable us to move to daily unit pricing.

Now, we need to work out and balance our priorities and confirm our plans. We'll then, as soon as we're able, be able to provide a better indication of when daily unit pricing may be introduced.

9. ANZ Staff Super's performance appears to have really fallen off a cliff this financial year and especially first half of 2022 compared to peers in the SuperRatings Survey. First half of 2022 performance looks like it is way worse than the bottom quartile. What has driven this extremely poor performance relative to peers? Could you please provide a performance attribution, including dynamic asset allocation versus manager selection?

This isn't correct. None of our options are in the bottom quartile in the SuperRatings Survey as at 30 June over one, three, five, or 10 years when compared against their respective SuperRatings cohorts or in the case of the balance growth option against the universe and MySuper options.

Further to that, all but the balance growth option are in the top two quartiles over each of these periods. In line with what I've talked about previously, it's the level of risk taking and the strategic asset allocations that are the biggest driver of relative performance. Rather than dynamic asset allocations and manager selection.

Now, just a note if I may on the SuperRatings Survey. Because we have weekly unit pricing, our performance in the extreme short term rankings isn't always accurately captured in a one month survey when month end and weekend don't line up.

By example, let me talk how this timing mismatch can work. We were ranked number 1 of 47 funds in the SuperRatings SR50 MySuper options for one month for the month of April and forty eighth of 48 funds for the following month.

Now, we weren't the best fund in the country in April and we weren't the worst fund in the country in May. This is purely due to the timing and it may be the reason for the question. To be clear, this is purely a timing discrepancy than what's reported and has no impacted on the long term returns that you receive.

10. I would like to understand the performance of the superannuation fund against the other performing funds to determine performance of my superannuation as a basis for decision making.

Hopefully the previous discussions have helped with these considerations. Once again, we suggest getting financial advice before making any decisions.

11. How are our investment decisions being influenced by global and domestic market conditions today and our projections for the future? Inflation, cash, cash rates, potential recession etc.

The current environment remains challenging for both investors and many of our members. As this question implies, there's a high degree of uncertainty in relation to key economic factors, including inflation, growth, and interest rates.

When the potential range of outcomes for economies and markets is so broad, we don't believe it makes sense to make big bets on any one scenario eventuating. Instead, we've got a continuing focus on ensuring our investment options maintain a well-diversified mix of assets.

It's important for me to reiterate that super is a long term investment and our options have weathered a variety of challenging conditions over time and deliver strong long term results because of this diversified approach.

12. A member would like to know what is the outlook for growth over the next 12 months within the fund? Should we be looking at more cautious investments within the fund over the next 12 months?

This is a good question. Unfortunately, I can't give advice. As we talked about earlier, compared to the last decade, our advisors, Willis Towers Watson, are telling us that growth will slow initially in response to the central banks around the world lifting their interest rates to address inflation.

Markets are quick to price in expectations of change in growth, inflation, and interest rates, as we've seen so far in 2022. So our expectation is that growth will slow. It does not necessarily lead to obvious portfolio changes when it's similar to consensus fears, re we're not looking to make continual portfolio changes in response to market volatility, short term market volatility. We have a longer term investment focus.

13. Are an absence of political donations a strategic move in the current environment given the ever dynamic nature of banking?

All of our expenditure needs to be in members' best interests. We don't believe that political donations are in our members' interests and we'd prefer to direct our expenditure to seeking better outcomes for our members.

14. While significant progress has been made in the reporting of ESG or sustainable investments in the most recent annual report, can you please provide further details about your plans for action to meet the net zero by 2050? In particular, what concrete steps will be taken in this decade to halve the carbon emission from investments?

This is a great question. I've covered the five areas that we're currently looking at but this is an area we'll continue to work on. And we expect to adjust our approach over time as the data improves and the opportunity to improve our approach arise.

15. With regards to both Australian and international shares, how does the fund plan to balance the returns of a diverse share portfolio with ethical and sustainable investments given that the majority of these managed funds do not beat the market and have higher management fees?

This question and the one previous highlight plurality of views amongst members. We continue to strike a balance between passive and active management in our share portfolios. We expect our active managers to consider sustainability but this is only one aspect of what they do. We employ them to improve returns and wouldn't invest with them if we didn't think they could achieve this.

On the passive side, our focus from a sustainability perspective is of ensuring that all our managers are engaging with underlying companies to improve their approaches and through this, the overall performance of the market.

Though we haven't ruled out moving away from this approach if we believe it is in the best interest of members.

16. There should be an option to allocate portfolio to digital assets. But instead, we have to move our super to somewhere else. When is this option coming?

We don't believe digital assets are an attractive investment option for our members. So I can't see a situation where we'll invest in digital assets in the foreseeable future.

17. Is there any plans to improve a core front end platform that increases the risk of switch errors and investors not being aware of any error during a long processing period, with no confirmation sent to investors during this long period processing period, where the market can move materially?

Our online switching tool allows members to change the investment option for their current account balance or for their future cash flow. And you need to edit your investment options for both of them separately.

Thanks for raising this with us, we'll review the online tool with our service provider to consider whether there are any further changes that could be made to mitigate the risk of members making a switching error or provide an earlier notification regarding the switch so a member might be able to identify if they've made an error in the online tool.

18. When ANZ has an easy app available to view super balances and details which can be easily seen as an account, is it possible on the ANZ app to have all financial details in one place? I would like to actively view my balances and account information in a handy format.

We've been in discussions with ANZ for some time now. I doubt there'll be any new additions to the ANZ app but with ANZ moving to a new application platform, ANZ Plus, we're hopeful that we may have something to announce in the next 12 months.

19. Many super funds are currently allowing members more diverse options and control over where their super is invested. For example, ESG, industry specific, et cetera. This is fast becoming the biggest selling point when picking a super fund. When will ANZ Staff Super align themselves with this industry standard?

Over time, we'll continue to consider the menu investment options that we offer and whether it makes sense to increase the number of options, and if it did, what type of option we'd offer.

If we were to introduce new options, we need to be comfortable that their return and risk profiles complement the existing menu, their expected performance is achievable on a long term basis, and they have a scale to ensure they don't need to be subsidised by members who invested in other options.

It's important to ensure that all the options are well constructed and cost effective and they perform strongly over time, providing a reasonable range of returner risk profiles that cater to most members.

20. A member would like to know whether you feel members should be more aware of and engaged with their super. Providing zero visibility of the underlying investments and an annual statement covering a period that started 18 months in the past suggests you'd rather members had a pay and ignore attitude.

Look, we certainly do agree that members would benefit from being more engaged with their super. I don't accept that we provide zero visibility. There's information available online, up to date account balance, investment performance, and portfolio holdings.

We encourage members to take a look at this information. Our website and annual report includes the asset classes for each of our options and all of the investment managers within each of those asset classes that make up these options.

The vast majority of our investments are held via the pooled funds of these managers. So any further drill down would involve significant cost in management time and we'd need to be convinced that spending members' money on this is warranted.

As for our annual member statements, these are provided three months after the end of the year which is a fair bit of work and relies on info which is not available the day after the end of the year, and considering the resourcing required, it's a good effort by the team.

21. Why can an investment switch only be done weekly and why is there an approximate one week lag after an investment switch decision is made before the investment switch is affected? This results in significant market risk.

I think we've covered this question earlier.

22. Please provide more detailed performance history of its investment options so that members can see more historical unit price and/or performance data over time? Currently, only yearly data is available and more detailed price and/or performance would be beneficial, including daily or weekly data and by selecting time periods over which to review the data.

Great question. We provide yearly returns for one, five, and 10 years on your annual statement and each of the last 10 years on the annual report. And also, historical unit prices are available on the website for each week back to 2001.

23. Could ANZ Staff Super please provide the composition of its investment options split into asset classes and fund managers and their performance over each in detail?

Our portfolio holding disclosures are available on the website under the trustee information/scheme document.

In there, there's a listing of each investment options investments held in the schemes name by asset class. Including the performance of each manager and holding disclosures is not something we would consider nor is a rule to other funds.

To do so could lead to potentially commercially sensitive information being released, resulting in unintended consequences. Have a look at page 15 of our annual report which also lists our investment managers and the asset class they invest in.

24. Perceptions are not always reality. Having said that, why does this fund appear to continually perform so poorly compared to the union controlled ones?

I'm not sure I agree with that. Our performance has been sound over a long period of time and reflects the invest risks we've taken, as evidenced by our survey rankings, particularly the Rainmaker survey for June 2022 that I've mentioned earlier.

As I also mentioned earlier, typically the larger industry funds have taken on more risk and illiquidity in their portfolios as a result. This greater risk is typically reflected in more shares, more property, more infrastructure.

Despite the last six months, the past 10 years have been a very strong period for risky assets and drivers for returns over that period.

25. What is the outlook for the rest of 2022? Noticed my super has gone backwards.

Yes, June concluded the worst half - the worst first half year returns for decades. For instance, US equities were down 20% which is the worst performance since 1962.

In this environment, traditional portfolios failed to provide investments with any meaningful diversification as both equities and bonds continue to drift lower together. However, whilst the short term experience and outlook is challenging, with volatility likely to remain high, we remain focused on ensuring our portfolios can weather this environment while delivering you strong returns over the long term.

As for the outlook, our advisors tell us to expect growth to be lower over the next five years than what we've experienced previously. Having said that, what the Ukraine highlights is how uncertain forecasts can be. That sure as heck wasn't a consideration at the start of 2021. It's worth noting that there has been a significant rebound on equity markets in July.

26. Changing superannuation percentage amount on PeopleSoft MyPay request details requires start and end dates. Can it be streamlined to just enter a new percentage amount? As experienced issues in the past in which no deduction happened due to issues with the dates.

Although this isn't an area under ANZ Staff Super's control, I do understand that system limitations in PeopleSoft and different rules for the ending and starting of contributions require the end user to input differing dates to the starting and ending of contributions. Potentially there may be some enhancements with the upgrade to ANZ's people systems which is going on at the minute.

27. What is the status of enabling children of members to become members? You said previously this is under review.

Yes, the trustees considered enabling ANZ Staff Super's members' children to join. At this stage, the option hasn't proceeded given the regulatory requirements and the cost of establishing this option. If circumstances change, we may revisit this decision in the future.

28. What is the growth outlook for the next five years.

I think we've covered that one in previous answers.

29. I lost money. Why is that?

Similarly, I think we've covered this question off. Long term success involves significant investment in equities which means that your investments can go down with falls in equity markets but it's the right strategy for the long term.

30. Need to update on life insurance.

ANZ Staff Super offers death and TPD cover at market leading rates. And as you'll recall, I announced earlier tonight a further decrease of 9% from already low premiums. For more information, please refer to our PDS or call us on 1800-000-086.

31. Can we receive yearly reports on our emails and the past performance of the last few years or any place where we can view it?

I think we may have covered this. Our year to date investment performance and average returns over one, three, five, and 10 years is on the website each month, along with an independently sourced quartile ranking of our performance against peers.

And yearly returns for one, five, and 10 years are on your annual statement, and each of the last 10 years in the annual report, and for those wanting to check through history, historical unit prices are on the website back to 2001.

32. Why can't we get daily, weekly, monthly performance details from the website?

I think we covered that in the previous question.

33. Would you be able to update the application for membership? Retirement section document, it currently allows for a maximum single transfer of \$999,999. This is well below the government limit of \$1.7 million.

Good suggestion. We've passed that onto our administrator to fix that.

34. What benefit do I get being staff for superannuation?

Well, look, some of the benefits of ANZ Staff Super include competitive fees, investment performance, a range of investment options, really competitive - well, market leading flexible insurance cover, online education programs, we have a partner personal section accounts, an account based pension, and access to limited financial advice.

35. How are we positioning the fund for the coming years in the face of the ongoing pandemic, related supplier demand, and inflationary constraints? Are there any sectors that offer promising growth prospects over the coming years?

To reiterate my earlier comments, we're focusing on building diverse portfolios that can weather this short term environment and deliver you strong returns over the long term.

36. When will an investment option for stricter ESG screening requirements be available to members?

We've outlined our approach to ESG and I hope you appreciate the progress we've made in the five areas which we're focusing on from an ESG perspective.

37. A number of industry super funds are obtaining high returns from investing in a higher percentage of unlisted assets. What is ANZ's position on unlisted investments and will they be looking to invest in a higher percentage of funds going forward in this area?

As I've mentioned, much of our recent investment focus has been on continuing to improve the diversification and resilience of our investment options. And this has included increasing allocations to unlisted assets which have elements of downside protection and linkage to inflation.

Importantly, these increased allocations to unlisted investments need to be balanced against the scheme's membership and liquidity profile.

38. In terms of the ANZ Staff Super app, I would like an understanding of where we are with it, next steps, when do you think we can go live? An app would be a better experience and easier to log on to.

Yes, I agree. An app would be good. We do have the mobile website but that means members need to remember their log on details and password. It's certainly on our agenda. We're in discussions with ANZ and I hope to have some good news to announce at some stage in the future.

39. A question in relation to investment options. In the future, outside the four options in the fund, considering lifecycle super. As you get old, the risk changes, different asset selection classes et cetera.

Look, we'll give it some thought. However, what we need to remember is members are living much longer nowadays. So need to be really careful that they don't dial down their risk too early and that way they get lower but more stable investment returns and find themselves in the situation of running out of money earlier than if they maintained a more balanced portfolio.

We do suggest that all members get financial advice to determine the right investment mix for you.

40. Is the trustee satisfied that the failure to implement daily pricing and overnight processing of investment switches is in members' best interests?

We are certainly looking to move to daily unit pricing. You've just got to remember that super is a 50 year investment and a weekly cycle is consistent with that approach but we certainly are looking to move to daily unit pricing at some stage in the future and when we're ready to make this change, members will be informed and provided with details about the revised switching timeframes.

The following questions were submitted during the meeting:

41. Is there any consideration underway of TPD cover for retained members? Specifically the need - application of the activities of daily living standard.

Certainly we are focusing on our insurers just at the minute and our insurer has proposed a revised TPD definition, that's total and permanent disablement definition. We will be working through that in the next month or two. And if we are comfortable with the revised definition, we'll announce that as soon as practical.

42. Why can't I simply access online a historical graph showing the performance of my super investment over time?

We will be working with our service provider to review our offering to see what can be provided. You do get that in your members' statement each year and unit prices are certainly available on a weekly basis. But I accept that our website is becoming due for an upgrade.

43. If a few competing funds are consistently performing better and have higher returns due to the illiquid funds, then why shouldn't I switch to one of those? What is the value proposition that would make ANZ Staff Super a more attractive option?

Well, there are a couple of things. If you're an insured member, you have access to the lowest death and TPD premiums in the market, some 60% to 70% below average. We have among the lowest fees and we have good solid investment returns. However, if you speak to your financial advisor and they identify a fund that may be a better fit for you, then that's a matter for you and your financial advisor.

44. If other funds are taking more risk but are receiving better returns, why don't we follow their lead?

Well, we need to consider the demographics of our fund. If you were a fund that has the average age of your members at 30, it's quite a different investment demographic to what we've got where the average age of our members is 45, and you need to take that into account when setting your investment strategy.

45. The \$50 million investment into Palisade is an exciting push towards 2030 and 2050 net zero goals. This represents approximately 0.7 of current FUMs. Did we have a target for FUM allocation over the next three years, say 5% for similar net zero investments?

We don't have a target for specific FUM at this stage. We're continuing to look at our investment mix and we've also got a large passive fund. And if it would make sense to apply a filter to that, that would not increase the tracking error. When I say tracking error, that's the risk of underperformance. If we could find the right fund to allocate that money to, then we will certainly consider that.

46. The Suncorp Superannuation is faced with a class action, settled in the New South Wales Supreme Court with Suncorp to pay \$33 million. Since ANZ has bought Suncorp, how does that affect ANZ and our superannuation on the legal perspective? For example, for those with super with Suncorp sometime in the past who are now on ANZ Super. We're being invited to sign up for that class action by the end of this month. How does that affect those in this scenario?

How it affects ANZ, I'm really not sure. I'm probably not qualified to comment. I would suggest that as it pertains to any of our members' holdings with ANZ Staff Super, it has no impact. It would have no impact. So I'm probably not holding enough information to answer how that would affect you, other than what it would for ANZ Staff Super, and that would be no impact.

47. Why did it take over seven months to provide the last annual review?

Well, I'm not entirely sure that it did. The email with our annual report went out in June and member statements went out in March. There's a fair bit of work that happens post year end. All the financials need to run, the annual review, and that means that we get various things done in various timeframes.

At the end of March we got our annual member statements out which are the most read document that we provide. And then once that's done, then we can move onto the annual report, which was provided to members in June. And there's a fair bit of work so don't undersell the amount of effort that it takes to build those reports.

And having them delivered five or six months after the end of the year is not unusual.

48. There has been significant consolidation of superannuation funds over the last few years. Is ANZ Staff Super in any danger of merging with another fund?

I refer back to my previous comments. We believe that there is a place for small, well run, niche funds with a competitive advantage. I would suggest that our relationship with ANZ would be a good example of competitive advantage. So will consolidation affect ANZ Staff Super in the future? Potentially. But we're confident for the short to medium term that we'll continue on providing superannuation to ANZ Staff Super members as a standalone entity.

49. You talk about the average member being 45 years old. But shouldn't each member just adjust their investment according to their age and choose appropriate percentage investments in aggressive, balanced, etcetera?

Yes, the 45 I talked to is relevant for us setting the overall investment mix. But yes, I would recommend that all members speak to a financial advisor to work out what is the appropriate investment mix for you. But also, be careful, because of the length of time that Australians are now living after they retire, to be careful that they don't dial down their risk too early.

Now, recall I can't give advice. So that's general information and general theory about investments. Please speak to your financial advisor to work out a plan that's appropriate for you.

50. How can I see how much my employer has contributed year to date and also previous years?

The year to date information I believe is available via the ANZ Staff Super website and employer contributions are detailed specifically in your members' statement.