



ANNUAL MEMBER MEETING 2020

Minutes of AvSuper's inaugural Annual Member Meeting

Held 4pm Tuesday 10 November 2020 via Zoom live stream

Presenting: Ben Firkins, Trustee Chair
Michelle Wade, AvSuper Chief Executive Officer (CEO)
Denise Allen, Investment Committee Chair

Quorum: Directors: Denise Allen, Stuart Brades, Geoff Burgess, Lawrie Cox,
Michael Farrell, Ben Firkins, Hylton Mathews,
Stephen Merlicek, Julie-Anne Schafer
Secretariat: Michelle Wade, AvSuper CEO
Shan Badowski, AvSuper Governance Manager

Introduction

The Chair opened the meeting at 4:00pm and welcomed attendees to the inaugural AvSuper Annual Member Meeting (AMM). The Chair noted the presence of the Fund Auditor and the Fund Actuary, and also noted the presence of AvSuper Directors online and that a quorum was present.

The Chair provided an Acknowledgement of Country for the meeting and encouraged members to ask questions via the online chat functions, noting that where questions were unable to be answered during the meeting, they would be made available on the AvSuper website within 28 days, together with the minutes of this meeting.

Chair update

The Chair introduced each of the Trustee Directors and discussed the following key points:

- The impact of the COVID19 pandemic on AvSuper's business and members,
- Significant past events in AvSuper's history and the current regulatory environment,
- The Trustee's decision to transfer to a new administration provider to take effect late November 2020, and
- The celebration of 30 years of AvSuper and the Fund's continued focus on members and their best interests.

CEO update

The CEO welcomed members in attendance and addressed the following key points:

- Significant events of 2020 including bushfires and COVID19 which resulted in the closure of the Canberra office and the introduction of work from home arrangements. The CEO also noted the restrictions on travel and the introduction of new technologies to conduct member meetings,
- Legislative changes including default insurance in super becoming opt in for members under 25 and account balances under \$6,000, as well as work test changes,
- The Superannuation Financial Hardship early release scheme introduced by Government in response to the COVID19 pandemic,
- Impending changes and improvements to AvSuper's administration, including changes to the online access tool, a change from weekly to daily unit pricing and the introduction of BPAY for members making direct contributions,
- Fee reductions implemented in late 2019 and further reductions to be effective 30 November 2020,
- Key achievements including AvSuper having won the Member Select fund for the third year in a row as voted by members, and a first placing in the member satisfaction survey against 32 other super funds, and
- The introduction of electronic verification of member identification working well to speed up benefit payment processes and improve security for members.

Investment Committee Chair update

The Investment Committee Chair addressed the following key points:

- The performance of investment markets in general, noting that 2020 commenced on a high before a sudden downturn as the pandemic took hold,
- The likely impact of COVID19 on global economies going forward,
- The short term returns of the MySuper option due to market volatility, and that 10-year Growth (MySuper) returns are still ahead of the Trustee's CPI + 3.5% objective,
- Changes made to the investment portfolio over the year including changes to both asset allocation and also to fund managers, and
- The current low interest rate environment, the effect on returns for cash investments and the need to balance risk.

Member questions

The following questions were submitted by members either prior to the meeting or via the online chat function at the meeting.

QUESTION 1

Would like more visibility and control of investments, to know what shares I am invested in and to select individual international shares?

There is a wealth of detailed investment information on AvSuper's website, so that is a very good place for members to start. You will find a full list of the current fund managers we have selected to manage our investments there, across each asset class. There's also a section for our top 10 holdings for both Australian shares and Global shares which we refresh regularly.

We're also preparing for a much broader publication of our full portfolio holdings, which we expect will commence in 2021, in line with some new legislative requirements.

In terms of a direct share option, we continue to monitor product developments in this space, but we've no plans in the short term to introduce this to members. Our current experience suggests there wouldn't be enough support from AvSuper members to make it cost effective. We've also seen that take-up rates for other super funds have been much lower than anticipated.

At this point in time, while we'll continue to monitor these products, the cost of implementing and maintaining such a service would far outweigh the benefits to the AvSuper membership base as a whole.

QUESTION 2

How is AvSuper performing since the pandemic? And how do the losses outweigh the gains?

In February and March this year, we saw markets plummet as the reality of COVID19 hit hard. AvSuper's investment portfolio obviously reflected this downturn as well. Markets came back strongly in the June 2020 quarter, and whilst anything negative at the end of the financial year is disappointing, (and the Growth (MySuper) investment option returned negative -2.1% by 30 June, after fees and tax); the final result was nowhere near as bad as initial expectations were predicting.

We have provided more analysis about this to members in our Annual Report, which was issued with your member statement a few months ago.

The current financial year has been quite volatile with markets focused not only on the devastation of the pandemic and its economic impacts, but also the bitter and divisive US election campaign.

When you throw China disrupting our markets into that mix, it has made for a bumpy ride. As at the end of September 2020 (as not all of the October data has yet been received), the Growth (MySuper) option is up around 2% for the financial year to date. So, to answer this member's question, "Yes, recent gains have outweighed losses".

And October looks to be another positive month, so we remain cautiously optimistic that if the transition to Biden in the US is smooth, and with continued government stimulus – and hopefully a safe and efficacious vaccine – we can continue to add positive returns to member accounts.

QUESTION 3

How is it determined that Airservices meets its Super Guarantee commitments?

Airservices Australia is one of AvSuper's Corporate employers, so this question only affects members in our Corporate division. Ultimately, Airservices is responsible for ensuring that it meets its superannuation obligations in respect of its employees, in accordance with the Superannuation Guarantee (SG) Act. The Australian Tax Office (ATO) is responsible for ensuring employer compliance with the SG Act. Any members who are concerned that their employer is not meeting their minimum superannuation obligations should discuss this with their employer or raise the matter with the ATO.

QUESTION 4

How do the Investment Committee and the Board factor in climate change risk for its investment strategy? Does the Board have a position about investing in fossil fuel industries? And what is our exposure to fossil fuels?

We have a very good fact sheet on our website for members who are interested in learning more about AvSuper's responsible investment practices. It's certainly a very important element of our investment strategy. We recognise that climate related risks are increasingly recognised as an important emerging financial risk facing long term investors like AvSuper.

Of course, it's just one of the many significant risks we consider and monitor at the Investment Committee, given our main objective is to maintain and enhance the long-term purchasing power of AvSuper members' retirement savings.

We regularly meet with our fund managers, both equity and debt, and have made our concerns known in relation to climate risks and seek their views on the potential risks. I am pleased to say that all our fund managers routinely consider climate risks when analysing companies and assets they look to invest in.

In addition, it is part of our due diligence prior to appointing a new fund manager to review their position on climate related risks. We are also looking to provide more information on these matters on the Fund's website and in your inboxes going forward.

As to the fossil fuel exposure, currently in the total portfolio it is approximately 1%.

QUESTION 5

What is AvSuper doing to reduce fees?

As most members would be aware, our fees fall into two main categories.

The first of these is investment related fees and costs. As I mentioned earlier, we reduced fees in 2019 and again in 2020 for most of our investment options. We review these fees closely every year to ensure we are getting a good deal. And we regularly negotiate fees with our fund managers as our managers change and as we grow the Fund to take advantage of our scale.

The second category of fees is administration related. These tend to be more stable, and we've not had any administration fees increases in more than 13 years. The fee reduction we're introducing at the end of the month is very pleasing, especially given the increasing cost pressures on super funds more generally, especially those that arise from legislative change.

Both our administration fees and our investments fees are based on a cost recovery model, in line with our profit-for-members philosophy.

QUESTION 6

What is AvSuper doing to improve their long-term average investment returns?

The Trustee and its Investment Committee remain focused on providing strong, long term investment returns for members across the range of our investment options. While keeping an eye to the long-term results, we regularly monitor the performance of our investment managers and the Fund's asset allocation so that we can make any necessary changes throughout each year. We also regularly review investment fees and costs to ensure members are getting the best possible outcome.

QUESTION 7

Given the federal governments new measures in the October budget ensuring Super Funds act in the best financial interest of their members, has the Board considered merging with another fund that offers better retirement outcomes for members i.e. lower fees and higher returns for members, if not why not?

The Trustee has established a range of general principles and requirements, as part of a larger framework response, which we consider essential when looking at a merger partner. The most important of these key principles is that any merger would be required to provide a greater net benefit to our members, including after considering the significant costs to members of effecting a merger.

AvSuper would only consider opportunities to merge with similar, like-minded super funds where we could achieve this strategic fit between us and another super fund partner, and where the member service and governance quality could be maintained at the existing high levels currently enjoyed by AvSuper members.

AvSuper has a rather unique place, being a fund with one of the highest average account balances in the superannuation industry. We also have one of the highest levels of member engagement as measured by such things as member online usage, member satisfaction surveys as well as participation and registration in meetings such as this one today. Our discussions with other super funds to date suggests that very few are well placed to be able to continue to offer the same range or quality of services, especially after considering the significant costs usually associated with undertaking a merger. And those merger costs are usually required to be borne by the members.

In summary, the Trustee does not have an ideological opposition to a merger. The key criterion is that it must be in the best interests of members.

QUESTION 8

How has the recent downturn in aviation (due to COVID19) affected AvSuper?

AvSuper's membership includes many people who work in the aviation industry, including a number of those on the Trustee Board. We understand the concerns of many of our members, and participating employers, for jobs in the aviation industry, and the uncertainty it is creating for our sector.

We are very conscious of the impact this has had for our members on their working lives, and our hearts go out to you. We hope that the lifting of the borders and the resurgence in domestic travel will facilitate a return to a normal working life.

We did see a small number of members access their super via the financial hardship release initiative introduced by the Federal Government throughout the year. This appears to be largely a result of reduced incomes rather than large scale job losses for our members.

Whilst many of us are employed in the aviation industry, the Fund does not have an aviation-oriented investment bias. Whilst many aviation companies have seen some very difficult times, we have not seen any material impact on the Fund.

It's obviously difficult to see what the longer-term ramifications may be, for the economy, for members, and for AvSuper, but we're confident at this stage that we're well positioned to weather the impact, under a range of scenarios.

QUESTION 9

How will the recent Your Future, Your Super announcements affect AvSuper?

These reforms were announced by the Government as part of the Federal Budget this year. It's important to recognise that they are only proposals at this stage and of course, are not yet law. There is still an industry consultation process to be undertaken before we will see the final form of the measures and understand the timing that will apply for their introduction.

There is a Budget 2020 Fact sheet on our website, that we've previously issued to members, which outlines the key proposals as communicated by the Government recently.

Unfortunately, it's a bit soon to be able to predict with any certainty what the likely impact on AvSuper will be until the legislation has been drafted and the measures are clarified. We will of course provide further updates to members as the legislative framework emerges.

QUESTION 10

How will the administration transition impact members?

The most obvious change for members will of course be our new AvSuper Online tool as was mentioned earlier. We'll be writing to members soon to provide an overview of the changes to our member online service, and some of the improvements we've made, including to the security settings. As part of the changeover, we will be requiring members to re-register for online services, to ensure we take advantage of the enhanced security settings. Please keep an eye on your inboxes for that update.

We also have some other improvements that we will be introducing into the new year, including a new member benefit calculator and BPAY facilities. Most other changes will be less obvious to members but include more digital communications and tighter processing service standards.

The new systems are much more flexible and scalable than we have currently, so we also expect to also see a significant reduction in administration errors and issues.

QUESTION 11

Are we investing in renewables?

AvSuper's current direct exposure to renewable energy sources is conservatively estimated at about 5% of our total investment portfolio. In our infrastructure portfolio alone, examples include our investment in Silverton Wind Farm, the Broken Hill Solar Farm and many energy storage facilities such as Lochard in Victoria and the Tesla powerpack in California.

Conclusion of meeting

The Chair thanked attendees again for making the time to attend the meeting and declared the meeting closed at 4:45pm.