

# IOOF INVESTMENT MANAGEMENT LIMITED ABN 53 006 695 021

## MINUTES OF THE ANNUAL MEMBER MEETING

### Trustee of the IOOF Portfolio Service Superannuation Fund ABN 70 815 369 818 and AvWrap Retirement Service ABN 82 004 832 237 (“Funds”)

Annual Member Meeting for the financial year ending 30 June 2022 held online via video conference on Tuesday 14 February 2023 at 5:00 pm (Melbourne Time).

#### PRESENT:

Lindsay Smartt	Chair & Independent Non-Executive Director
Karen Gibson	Independent Non-Executive Director
Jane Harvey	Independent Non-Executive Director
Steven Schubert	Independent Non-Executive Director
Beth McConnell	Independent Non-Executive Director
Anne Coyne	Chief Member Officer
Renato Mota	Chief Executive Officer
Dan Farmer	Chief Investment Officer
Frank Lombardo	Chief Operating & Technology Officer
Mark Oliver	Chief Distribution Officer
David Chalmers	Chief Financial Officer
David Flynn	Acting Chief Risk Officer
Chris Tay	Company Secretary
Sharyn Cowley	Company Secretary
Kari Arnison	General Manager Marketing Strategy & Execution Consumer Markets
David Lewis	RSE Actuary
Mark Nelson	RSE Actuary

#### APOLOGY:

Chris Wooden	RSE Auditor
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#### IMPORTANT INFORMATION:

The presentations, meeting minutes and answers to member questions may contain general advice that does not take into account your objectives, financial situation or needs. Before you act on any general advice, you should consider whether it is appropriate to your individual personal circumstances. Before making any investment decision you should obtain and read the Fund’s product disclosure statement which is available at <https://www.ioof.com.au/forms> or by calling 1800 913 118. Past performance is not an indicator of future performance.

The minutes include a summary of the key aspects of the presentations and the member questions submitted through the registration process and answered in the meeting. Any questions about a member’s Fund account or questions of a personal nature cannot be answered during the meeting. Members can contact the Member Services team if they have questions about their Fund account or their personal circumstances.

## **INTRODUCTION AND CHAIR'S ADDRESS**

The Chair opened the Annual Member Meeting (**AMM**), welcomed all attendees present and acknowledged the traditional owners of lands on which the meeting was held.

The Chair spoke about the three trillion-dollar superannuation industry with 23 million superannuation accounts across Australia and the importance of superannuation funds' performance.

The Chair discussed the median growth and returns of superannuation in the last financial year as well as the long-term numbers over the last 30 years according to the Chant West statistics published in July 2022.

The Chair then spoke about the role of the Trustee in improving the Funds for members and provided examples such as the relaunch of the Expand Essential and Expand Extra products with lower fees and new mobile app and website. He also mentioned the retirement of a legacy IOOF platform to modernise the product range. The Chair continued to speak about the role of the Trustee in providing insurance offerings into superannuation funds and optimising the quality of insurance cover and services.

The Chair concluded with reiterating the legal and moral responsibilities of the Trustee to act in the best financial interest of its members and will continue this throughout 2023.

## **INVESTMENT AND MARKET UPDATE**

Mr Farmer addressed the meeting, making the following key points:

- the global inflation surge;
- interest rate rises and the significant impact to the investment market performance;
- the attraction of income yields given the rise in interest rates and bond yields; and
- the decline of global share valuations.

Mr Farmer also spoke about how the Funds have performed through this environment and spent time discussing the investment outlook and the approach that will be taken in managing money through the next market cycle.

## **MEMBER ENGAGEMENT AND SUSTAINABILITY**

Ms Arnison addressed the meeting and discussed the initiatives delivered for members of the Funds which include:

- the online services that put members in touch with their superannuation;
- an International Women's Day event;
- the new Search for Super facility;
- the new Members information hub; and
- enhanced training and resources for the Contact Centre.

Ms Arnison also spoke about a more sustainable business addressing key environmental, social and governance issues. Ms Arnison spoke about the recent ESG initiatives and went into detail how responsible investing applies to superannuation.

## MEMBER QUESTIONS AND ANSWERS

The Chair opened the Member Question and Answer session by introducing the panel which included Dan Farmer who was joined by Anne Coyne, the Chief Member Officer, and one of the directors, Beth McConnell, to help answer the questions.

**1. *What's likely to happen to Bonds once interest rates drop again as they've not performed well since interest rates have increased?***

**Dan Farmer:** Bonds and fixed interest assets have just had their worst year since the late 1970s. This is really thanks to the jump we've seen in inflation and interest rates over the last year. The good news is that following these falls, we actually think the forward-looking returns for fixed interest are now much more attractive given the high yields we're seeing. In our view, it was the inflationary pressures that we've seen build up post-pandemic which caused central banks to push up interest rates in the first place. We think these pressures are showing signs of having peaked and potentially ease off from here.

We are getting more comfortable that central banks are not too far away from peak interest rates and we could even see some interest rate cuts later this year. In our view, this sets us up for a reasonably good period for bonds and fixed interest returns. Given the conditions I've just talked about; I think a few points support this view. Firstly, higher yields simply mean we earn more income from holding these fixed interest assets and this is without extra risk or excessive risk. Secondly, credit sectors like high yield and loans are quite attractive valuations following the falls we saw last year.

We are seeing good returns from credit going forward. We also think that we could see investors that look for income in other riskier asset classes like property or high dividend paying shares might actually start returning to the bond markets for income. So overall, from our perspective, the outlook for fixed interest from here is looking much healthier than it has done for a number of years.

**2. *How do you believe the government will amend or tax super into the future?***

**Beth McConnell:** I do reflect that I've been involved with the super industry since the early 1990s, and the one constant in the super industry during this time has been the level of continual change.

We are expecting that change to continue and the super industry will continue to need to respond to ongoing legislative changes as the Government continues to seek to enhance the integrity, the security and the modernisation of the system. Just to name a couple of legislative initiatives on the horizon now, legislating the Objective of Super to focus on an adequate income in retirement and a comfortable standard of living for retirees.

The Objective of Super is currently being debated and the aim is to have a common agreed objective of superannuation and legislate that objective ahead of the conversation around superannuation tax concessions. We'll continue to engage with the Government as these discussions progress. Probably also worthwhile mentioning reforms following on from the quality of advice review, which focused on access to affordable and high-quality financial advice.

In addition to those reforms, we are focused on having a safe and a future proof system based on environmental, social and good governance elements, ESG. This focus is heightened, of course, as we continue to see increasing sophistication in cyber and financial crime threats in the broader financial services industry, and the need to support investing in a more sustainable future.

**3. *Where is the best place to find out about what makes up our fund and our portfolio?***

**Dan Farmer:** Probably the best place to go is our website, which holds all our product disclosure statements and our investment menu documents. These documents show you all the portfolio options where we invest and our fees and costs.

**4. *What's being done to counter the risks of cybercrime. What assurance can you give that our data and funds are safe from cyber-attacks?***

**Beth McConnell:** A very topical issue. IOOF Investment Management Limited, the trustee of your super fund, and the broader Insignia Financial Group takes cyber security very seriously. As you would be all aware, there have been some high-profile cybercrimes in recent times, and we're very focused on optimising both the safety of your superannuation and your personal information.

IOOF Investment Management Limited and the Insignia Financial Group does this through a number of initiatives, including employing security operations, security architecture and cyber security groups. They work together with our risk functions and our business more generally. We also have a range of security functions such as firewalls, network configurations and intrusion detection, and we have a strong focus on education across our staff, our clients and our advisers.

I note that for IOOF Online, we have two factor authentication in place for additional protection, and we're always looking at ways to continue to improve the services we provide.

**5. *How are ethical and sustainable funds going compared to other investments, and how do you vet for greenwashing in the investments and validate a company's green performance?***

**Dan Farmer:** If we look across the wider market, we have recently seen some ethical and sustainable funds underperforming. This is mainly because they don't hold many energy or mining stocks. These sectors have performed particularly well lately. When we look at this performance, I think it's really important to remember that the record profits we're seeing from energy and mining companies today are really in large part driven by the current geopolitical pressures and most notably Russia's invasion of the Ukraine. In the long term, these energy companies have to manage the really tricky transition away from fossil fuels.

As for the question around greenwashing, we expect that managers we appoint will consider material ESG issues when researching and selecting companies they invest in on our behalf. When we onboard a new investment manager and also on an ongoing basis, we carefully monitor their approach to responsible investing to help us validate their implementation of ESG and ensure that we're not seeing greenwashing.

**6. *When are all the different RSEs, that is the four trustee entities within the group, when are they all going to be consolidated, and can we provide an indicative timeline?***

**Beth McConnell:** It's very front of mind for us. Our strategic intent is to simplify our business, to unlock the benefits and scale for our members, and simplification will need to occur at multiple levels of our business from the number of RSEs or trustee entities to the number of products and the number of administration systems and

many other elements. It's anticipated that that simplification timeline will take a number of years to complete but we've already made some good progress.

**7. *What impact will performance testing by APRA have?***

**Anne Coyne:** We continually review our super products to ensure we make whatever changes are required to meet or exceed the annual APRA performance test. Our approach to improving our funds can include repricing products, changing investment settings, terminating some investment options, and even moving members to new or better performing options.

**8. *Do you have any comments on the circular economy and what might that mean in the short term and long term?***

**Dan Farmer:** From my perspective the concept of a circular economy is essentially about creating a more efficient economic model and one which aims to minimise waste and really maximise recycling and at its core, it recognises that we live on a planet where resources are clearly finite and basically argues that we need a material shift in our own mindset and business practices to ultimately create a more sustainable form of capitalism.

Now, from an investment perspective, which is how I think about these things, this approach actually is sensible, reducing waste, recycling more and just generally making more efficient use of resources supports both profitability and the general long-term health of the economy. For these reasons, we are supportive of this way of thinking and we are just seeing more and more examples of this sort of efficient use of resources supporting profitability in companies that we invest in. I think over the longer term, we will see greater uptake of these circular economy concepts as the investment industry generally deepens its emphasis on ESG and responsible investing, just like we are at Insignia Financial.

**9. *Does IOOF invest in coal oil and gas assets? And if so, what's your strategy to retire fossil fuel assets out of the IOOF investment portfolio?***

**Dan Farmer:** I would say our managers are not excluded from investing in energy companies. But having said this, our managers do use environmental, social and governance principles to guide their investments because we believe these principles really help support a long-term investment mindset and ultimately lead to investment in assets that will deliver a more sustainable return over time. As I noted in my talk, we really continue to strengthen our approach to responsible investment and climate change generally. In line with this, we appointed a dedicated head of responsible investment to the investment team last year.

So now as we deepen our responsible investment approach, any future consideration of restricting investment in any particular sectors, such as energy, would be firmly based on what trustees assess to be in the best interest of our members.

**10. *Expand becomes Expand Extra. What's in a name? Is this simply an ego massaging exercise for the board or how will it deliver benefits for members?***

**Beth McConnell:** We did rebrand in November last year. The name changes were part of our modernisation and simplification strategy, and the changes were more than just in name.

As part of this change, we introduced some new member features, including a new mobile app and a new website experience for Expand Essential clients. We made some other changes as well. Fees have been simplified and we have added some more investment options and some more investment choices for members.

**11. *What expansion of investment options, including shares, ETFs and managed funds will you be offering on the Expand platform?***

**Dan Farmer:** We have made some significant changes to the investment menu of our Expand products. Perhaps just to note some of these on the list of security side, we're expanding the menu from the ASX 300 app to the full or All Ordinaries. With respect to term deposits, we have updated our terms available and on manage funds we have added over 30 new investment options with another 30 planned. We believe these options will continue to give you a choice of high-quality investment options for you or your financial adviser to select investment strategies that hopefully will meet your needs.

**12. *What steps have been implemented to address the criticisms of IOOF listed in the Financial Royal Commission?***

**Beth McConnell:** The recommendations from the Royal Commission have certainly been taken very seriously and they have been addressed in a number of ways. Insignia Financial separated its superannuation and investment trustees. It established a new board structures and the super fund trustees are now supported by a member office function and that function is focused on members' needs and is led by Anne Coyne who is on our panel tonight.

**13. *What are your views on today's global debt levels?***

**Dan Farmer:** We do focus on global debt levels and the buildup in global debt levels over the last few years, we think it does pose a mild concern, but not really a major concern. When we talk about total global debt, we need to remember that this captures debt held by governments as well as corporates and households. There is quite different dynamics at play across these different groups. If we think about government debt first, it's important to remember that the buildup in debt we saw through the COVID period was really critical in funding those support programs like Job Keeper.

The build-up in government debt was for very valid reasons. Nevertheless, debt levels are high, and back in 2021, the IMF estimated that total global debt was about 250% of global GDP, and this figure would actually only be higher today. There's no doubt that governments will need to show some spending discipline to work down their high debt levels. Pleasingly, we are starting to see this discipline emerge. If we shift our attention and look at companies and households, they're actually starting the year in pretty good shape with actually quite strong balance sheets.

If you cast your mind back to the COVID lockdowns, households were tending to save more and pay down debt during that period. Likewise, businesses generally manage cost pretty well, and many of them locked in quite low interest rates for a few years ahead. We think households and businesses are in good shape and should be able to manage their debt levels going forward from here. Now, of course, as we've been talking about, we're in an era of high interest rates and the burden of debt repayments become even more challenging. But overall, we see these debt levels as a mild challenge, but not a major risk going forward.

**14. *Market Forces is a reputable sustainability interest group that holds boards to account. So will IOOF support Market Forces' campaigns against investment in fossil fuel companies? And if so, how? Would IOOF consider a partnership? And what are your thoughts on Market Forces?***

**Anne Coyne:** Market Forces is one of a number of relevant interest groups we can engage with at this time. However, we don't have any specific plans with them now.

**15. *Can super funds be used as a deposit for an investment property?***

**Anne Coyne:** If you're a first home buyer, you may be able to use your super to buy a first home through a government initiative called First Home Super Saver and only super contributions you have made, such as personal contributions and salary sacrifice can be used. You can't use contributions made by your employer. There are rules and you need to make sure that you meet those rules. This is not actually designed to help you invest in property. You can't be looking to invest in your property. You can own your own home. What you need to do is to consider whether it's right for you. You may need help and guidance. You can call us, go to our website or speak with your adviser.

**16. *Are you taking early positions to take advantage of the coming hydrogen boom?***

**Dan Farmer:** There's no doubt that hydrogen as a mainstream energy source is interesting. We have to recognise that commercialisation paths are still fairly uncertain and really subject to a lot of market and regulatory risk from here. I can certainly see the hydrogen industry has potential for significant growth, but it's still in its early days development. Also, hydrogen does face some specific challenges, such as, hydrogen has high production costs. Hydrogen is difficult to store and transport, and there is actually limited existing infrastructure in place today. If we think about our portfolios there's certainly different asset classes where hydrogen assets could potentially play a role in our infrastructure strategy. We tend to look for assets with attractive, stable income.

We are less attracted to taking on emerging technology risks like hydrogen. As of today, we are not investing in hydrogen via our infrastructure portfolios. If we look at our private equity strategy, our private equity strategy does include investments with early-stage venture capital managers who could actually look at hydrogen assets. Currently, hydrogen technology is not a big focus of our venture capital managers, and they're seeing other market segments such as software and fintech, as offering more attractive investment opportunities. Having said this, we do constantly consider potentially new, interesting investment areas, and if we assess conditions are right, we will certainly look at and move into these new market segments.

**17. *Is there a guarantee for my superannuation if IOOF lose money by making a wrong investment?***

**Dan Farmer:** When it comes to investments, unfortunately there is no guarantee that every decision will turn out to be right and it can actually often take many years to actually determine if a decision has been profitable or not. Now, we certainly aim to reduce the chance that any single decision we take will overly impact returns. We do this through diversification and by diversifying our portfolios, we are not dependent on any single investment or asset to drive our long-term returns. This helps cushion against market volatility and also the impact of any one decision we make.

**18. *What do we do when an investment category shows poor performance? What's the criteria for exiting that investment class?***

**Dan Farmer:** As I touched on in my talk, we do take this long term view we have been talking about when we invest and it would be really unusual for an entire asset class like shares or fixed interest to have negative or poor returns expected over long sort of 10 or 20 year periods. But having said that, you are right that over the shorter term, we can see periods of significant underperformance for particular asset classes. We saw this last year with fixed interest. We do look to manage these periods of underperformance, and we do this in two key ways.

Firstly, again, this concept of deep diversification, is critical. If one asset class is suffering weak performance, we aim to hold other assets that are expected to offset with stronger performance. So wide diversification means your multi-asset portfolios

are not dependent again on any single investment to drive our returns. This really helps again to cushion against market ups and downs. Secondly, in many of our funds, we actively lower our allocation to asset classes where we think the forward-looking returns are low or we see forward risk as being particularly high.

The important point here is, is the focus on forward looking returns. A fall in markets such as we saw last year can actually mean forward returns are particularly attractive as prices are cheaper following a drop. But again, in the long run, diversification is key. As members, you have investments in a really great breadth of asset classes.

A really deep multitude of securities within each of those asset classes, different investment styles, different geographies and a wide range of investment managers. All of this adds up to a smoother ride through the long term.

**19. *Can you explain what related party payments is and what are they used for?***

**Beth McConnell:** Firstly, a related party payment is when we transact with a related party. So, for example, when we as a trustee company purchase shares from another company in the Insignia Financial Group, and that might be for important services, we need to run the super fund such as administration or investment services. Some entities use unrelated service providers, whereas we use many service providers from the Insignia Financial Group. Just a couple of observations about related party payments. Our related parties are accountable to the trustee for any services that they undertake for our members and are subject to contractual requirements in doing so.

As a group, we all share a mutual commitment to simplifying our platform suite and enhancing the quality and the features of our offering and delivering more competitive pricing. This is a key focus for us in the next few years as your trustee entity, as well as for the broader Insignia Financial Group. As part of the new regulations for this annual member meeting, all funds are required to disclose related party payments. That would be what was in the meeting notice.

These payments include investment management costs, promotional and marketing services, directors fees and board committee fees, insurance services, financial planning, arrears collection and other types of members' services. They equate to about \$396 per member per year across our 211,000 member base. If you'd like any more detail on related party payments, that detail is available in the financial statements on our website.

**20. *What effect will a centralised banking digital currency have on my super?***

**Dan Farmer:** There's certainly some interesting potential advantages, but also some disadvantage of a central bank digital currency.

I think it's important to remember that as of today, a central bank digital currency is still a concept rather than a reality. It's difficult for me to speculate with any conviction at this point what impact this might have on superannuation in the future. Now, what I can say is, the investment team is always interested to track and monitor new developments like these, but we always require they pass our really strict due diligence and research process and they have to show clear benefits to returns before we actually consider them to be added to your portfolio.

**21. *Do you run free or paid seminars for seniors who need investment advice prior to retirement?***

**Anne Coyne:** We hold seminars and educational webinars each year that are designed to keep you in touch with the latest research and insights on super. From time to time, we run seminars on retirement planning that covers lots of different areas that you could consider when planning to move out of the workforce. In



addition, most members can generate a range of reports for their super on our website and they can have access to a great range of planning tools and calculators online.

If you'd like a more personal approach, our financial coaches can provide general information at no additional cost. If you want to talk to the financial coaching team, you can call us on 1800 119 062. Alternatively, you can book an appointment using our appointment booking form on our website.

## **22. *Is super better than property?***

**Dan Farmer:** Firstly, I'd say there's no one size fits all approach when it comes to investing, and no two people will get the same answer on whether one asset type is better than another. There are some broad factors to consider in deciding what is right for you. First of all, when we think about super, super is a long-term investment.

This long-term focus, coupled with concessional tax rates on your super investment returns, can be really powerful in compounding returns over time, i.e. you are earning returns on top of your returns. The longer you're able to compound these returns, the bigger your savings could be. So that long term aspect of super is really important and from a tax point of view super can be very powerful again.

Salary sacrificing some of your pre-tax salary or making voluntary after tax contributions for which you can claim a tax deduction can both be effective ways to grow your retirement savings and also reduce your taxable income. Now, clearly, super is not the only way to build wealth and property continues to be a really popular investment among many Australians.

Whether that's the house next door or a big commercial property, you know, a lot of Australians go down that path and more than one in three Australian adults invest in assets outside of super. So, whether you have a preference for property or shares, bonds or something else, it's really, really important to understand your own investment goals and your own tolerance for risk.

We recommend having a diversified portfolio again and also seeking professional advice before you make any investment decision.

## **MEETING CLOSE**

The Chair advised that minutes of the meeting, responses to questions submitted but not answered during the meeting and a recording of the meeting would be available on the Fund's website within one month of the meeting.

The Chair thanked everyone for attending and submitting questions. He also thanked members for trusting the Trustee with their super. Lastly, the Chair gave his thoughts and wishes to members, family and friends affected by the natural disasters in Turkey and Syria and more recently, closer to home in Auckland.

The meeting closed at 6.04 pm.



Lindsay Smartt

Chair of the Board

IOOF Investment Management Limited

1 March 2023