OFM (Oasis) FY2023 Annual Members' Meeting Transcript

Lindsay Smart

Good evening, everyone, and welcome to the Annual Member's meeting for the 2023 financial year. I'm Lindsay Smartt, and I'm chair of Oasis Fund Management Limited, which is the trustee of the Oasis Superannuation MasterTrust. I'd like to start the meeting with our Acknowledgment of Country in the spirit of reconciliation. We acknowledge the Traditional Custodians of country throughout Australia and their connections to land, sea, and community. And we pay our respect to their Elders, past and present, and extend that respect to all Aboriginal and Torres Strait Islander peoples today.

Before outlining tonight's format, I want to thank those of you who have been part of our ongoing conversation through the previous three Annual Members' Meetings and we extend a special welcome to those joining us for the first time. Thank you for being with us tonight.

In a few minutes, we'll hear from our Chief Investment Officer, Dan Farmer. He'll provide a summary of key global and domestic events that have affected the economy and what that means to the investment markets. And most importantly, your super fund's returns. And then you have the opportunity to ask questions about your super fund's performance, investment strategy, and anything else you want to know in the Q&A session.

And some of you have already submitted questions in advance, and we thank you for that. And you can also ask questions via your screen now. And we'll try to cover as many of your questions as possible in these speeches and in the Q&A session. But if we don't get to yours tonight, we'll provide an answer within a month after the meeting, which we'll make available on our website. Unfortunately, we're unable to answer personal financial questions in this meeting due to privacy reasons, and we recommend you call our Contact Centre if you want more information.

After the question time, the meeting will conclude.

There are currently two prominent conflicts being waged, Russia's ongoing invasion of Ukraine and the conflict in the Middle East that escalated in late 2023. The ongoing humanitarian impact is extremely concerning.

Shortly, our Chief Investment Officer, Dan Farmer, will take you through the key political and economic events of the last year and how that affected your fund's returns. It's really important to remember that regardless of world events, as trustees of your super fund, we follow economic events closely, diversifying your investments carefully and rebalancing when necessary to help smooth out returns and limit losses during times of market downturn.

Now valued at $3.5 trillion, Super is up there with the annual gross domestic product of advanced economies such as the United Kingdom or France. Australia's super system is one of the world's fastest-growing retirement savings schemes. It's consistently rated across the globe as one of the best ways to save for retirement, and super also invests across industries and regions, helping to build nations and drive economies. As trustee of your fund, our job is to help ensure that your fund is in the best position to do that.

In 2023, a key change to super was the increase of the Super Guarantee, and that is the amount your employer is required to contribute to your super. And it went up to 11% on 1st of July. The federal government also announced that from 1 July 2026, employers will need to pay super to their workers every payday rather than every quarter. Now, both these changes are good news for members, especially younger ones, and will help improve their super outcomes in the years to come.

A friend recently told me that his super balance had gone down, and asked if he should be concerned. Now there are quite a few moving parts to this. Contributions in, investment earnings, payments out, just to name a few. And I said to him that without knowing the specifics and drop in the super fund balance is not necessarily a problem. But what this highlighted to me is the absolute importance of members building an understanding of what is driving your super fund balance from year to year, always remembering that it's a long-term arrangement. The current high cost of living is making a lot of Australians think twice about what goes into the shopping trolley. And for those who are approaching retirement, we know they're keeping an even closer eye on their super balance. It's also the case for people in retirement who know that their super will need to last them for many years.

And while we don't have a crystal ball, I think it's worth thinking about the following points. In the 2023 calendar year, across all super funds, the median growth super fund returned 9.9%, which is way above the usual long term annual goal of about 6%. Now, this was quite a turnaround from the previous year's loss of 4.6%, which was largely a result of market swings. It's also the 11th positive return in the past 12 years across the super industry, and all achieved amid a very challenging backdrop of volatility, political uncertainty, and recent high inflation. And while we know that past performance doesn't indicate future returns, what is true is that decade upon decade superannuation has proven to be a sound investment for members providing good returns over the long term.

Now, a final thought about inflation. The view of the market is that high inflation won't be sustained for the long term. However, it might take a bit longer to drive it down than was originally hoped. And this just emphasises the importance of building resilience in retirement to deal with the inevitable economic swings and roundabouts.

Our Chief Investment Officer, Dan Farmer, will provide more detail about inflation and the strategies that our investment managers have put in place to build resilience in your funds.

As a trustee, we are the board of your super fund. We're a group of external non-executive directors and our purpose is to come together to put your interests first and to look after your super fund. That's why it's important to maintain a stable and experienced trustee board of directors. I'd like to acknowledge Andrew Bloore, who resigned as a director at the end of 2022, when the trustee board transitioned to become all independent non-executive directors. On behalf of the board, I'd like to thank Andrew for his valuable contributions during his tenure.

As the Board of trustees, we have both a legal and fiduciary obligation to make all decisions in members' based financial interests. For many of our members, the other vital part of our funds is the insurance offering. As trustee, we have an obligation to ensure that our insurance offerings provide comprehensive coverage aligned with the diverse needs of members and prioritise your financial security. And while the government aims to strike a balance between the need for insurance and the removal of it from super funds with a low balance to avoid eroding their retirement savings, we always advocate for insurance in super for those who want it.

For many Australians, taking out cover through super can mean the difference between protection if something happens to them and having no cover at all. Group insurance is generally cheaper than retail cover, and premiums are deducted from a member's super account, so it doesn't affect their cash flow. And this makes insurance accessible for many people, especially with today's high cost of living. This accessibility is crucial with more than half our members choosing to rely on us for their insurance needs.

Our commitment extends beyond cost-effective insurance to our professional and compassionate and positive claims management process. We actively seek to keep members at the heart of everything we do, and this is our philosophy integral to our approach to claims.

What might not be immediately apparent is that well over 90% of claims submitted to us are approved and paid. And this underscores our commitment to being there for you and your loved ones in your time of need.

We're optimistic about the future of advice. We believe the government's final response to the Quality of Advice review, which was announced in December, will assist in making quality advice affordable and accessible for more Australians and improving their financial wellbeing. Whilst there's still some lead time ahead as the reforms make their way through the parliamentary process, we're excited about how the changes are likely to make it easier for us to help our members with simple advice that can make a difference to their superannuation balance at the time of retirement.

At the moment, personal advice can only be provided by an authorised financial adviser, and this can be expensive. By allowing super funds to provide the simpler types of advice, many more of our members will be able to access it. Under these reforms, super funds will be able to consider a broader range of member's personal and household circumstances, such as debt, spouse's income or age pension eligibility, and this will be a really important component of enabling us to help our members in a more meaningful way.

As retirement is, after all, a whole of household issue. We believe removing barriers to financial advice will make it more accessible to our members and improve their retirement outcomes. The significance of timely advice, especially as members approach the retirement phase, is integral to our commitment to helping members enjoy a dignified retirement.

And now I'd like to invite our Chief Investment Officer, Dan Farmer, to discuss your super funds investment performance.

Dan Farmer

Thanks, Lindsay. I'm really pleased to talk with you all today after what's been a year of strong performance for our fund. In my session today, I'm going to touch on the key forces driving the economy over 2023 and how they affected investment markets.

Investment positioning of the fund over the year and what that meant for your returns. Our outlook for 2024, and most importantly, how we continue to manage the fund in line with your best interests.

So looking back on the year that was, inflation was again the big story, which despite efforts from central banks, remained at elevated levels over the year. In an effort to lower inflation, the Reserve Bank of Australia or the RBA raised the cash rate five times over 2023, taking it to a 12 year high of 4.35%.

Now these increases were designed to dampen consumer and business spending, with the aim of cooling the economy and reducing inflationary pressures. Now these higher cash rates have had some success. Inflation has fallen quite substantially from its peak of 6.8% to 4.3% for the 12 months ending November 2023. Still, this rate of inflation remains above the RBA's comfort zone of 2 to 3% inflation. Now on top of this, the economy has remained resilient in the face of these higher interest rates and higher cost of living pressures.

A number of factors that really helped hold the economy in good stead over the past year, included things like, firstly, Australian households had saved at above average levels through the Covid lockdown period as we all stayed at home and spent less. Over 2023 households were out spending these excess savings, which really helped support the economy over the year.

Now today we see these household savings buffers as having largely been spent. In addition, many Australians with mortgages locked in their interest rates at very low levels through the Covid period. So many Australians are only just beginning to feel the impacts of these RBA rate rises, as these fixed rate mortgages, roll off. Similarly, corporations around the globe were able to lock in lower interest rates, often for longer periods than individual mortgage holders were able to.

So a lot of corporates, haven't felt the direct impact of higher interest rates yet. Many corporates will start experiencing higher rates from the end of 2024 as their existing debt arrangements, start to roll off. Also, I think it's worth remembering that higher interest rates aren't bad news for everyone. Those people without mortgages and who are net savers earn more income as a result of the higher interest on their savings, giving them a little bit more to spend.

And finally, economic growth was supported by wages moving higher, particularly in the US. This meant that the average worker had a bit extra to spend on eating out, buying a new outfit, or having a holiday. Again, all supporting economic activity.

Now, the upshot of all of this is that while inflation is on a downward trajectory from its highs, the robust economy may mean inflation is stickier on the way down from here. Geopolitical events added to economic uncertainty throughout the year. Unfortunately, the conflict in Ukraine, continues. Now, while the initial spike in commodity in energy prices triggered by the conflict have, subdued somewhat, the conflict remains an underlying risk while a path to resolution continues to be unclear.

And more recently, the Gaza conflict has heightened uncertainty in the Middle East, a region critical to global oil supply. The global economy remains highly reliant on oil, even though we're slowly moving, towards renewables. So whilst over 2023, these geopolitical events didn't have a significant impact on economic growth, the global economy is still vulnerable to these tensions.

So we've looked at the global events influencing in the economy over 2023. Now, I'd like to talk about what this has meant for investment markets. While movements in, share markets often grabbed media headlines over the last year, most investors, including us, were focused on some big swings in the bond markets. The bond markets bucked their usual stable but boring reputation. and things got quite interesting in the high inflation environment.

So how did bond markets fare in 2023?

Well, bond markets had one of their most volatile years in decades. Over the first ten months of 2023 bond yields, which is just the interest rate you receive from owning a bond, rose sharply in most markets. Now, this big upswing in bond yields was driven by a combination of, the stubbornly high inflation we talked about, rising official cash rates and a period of instability in the US banking system, which was triggered by the failure of three mid-size U.S. banks.

Now, thankfully, this banking instability was short lived, and we didn't see wider knock on effects. So as a result of these factors, the yield on the widely followed, US ten year government bond rose from 3.8% at the start of the year to a high of nearly 5% in October 2023. Now, while high yields mean income generated from more defensive parts of the portfolio is improved, it also means negative returns to bonds over the short term.

Gyrations in the bond market have continued over the last three months, but with a direction of swings reversed. Bond yields have fallen sharply back to 3.8%. This recent fall in bond yields has been driven by both the downward trend in inflation we just talked about and just as importantly, the US central bank hinting in December that they may have raised cash rates enough to bring inflation back to more comfortable level. Now the implication of their hinting being that there may be no more cash rate increases, and we actually may have a good chance that we see cash rate cuts later this year.

So while 2023 was a real roller coaster ride for traditional stable fixed interest markets, the overall return to the major fixed interest benchmarks ended the year at a modest 5% return. Now if we shift our attention to equity markets over 2023, and again, we see resilience in returns in the face of higher interest rates.

The outlook for equities actually appeared quite challenging at the start of last year, with many market analysts predicting an economic slowdown or even a recession, in the face of higher interest rates. Now, as we've spoken about, the economy actually held up well and a recession didn't eventuate over the year. The sentiment in share markets strengthened late in the year as expectations grew, that central bank cash rate hikes were close to over, and the chances of an economic soft landing improved sharply.

This improvement in the economic outlook, along with, stellar performance from a handful of AI related tech stocks, supported strong equity returns over the year. Over 2023, global share markets advanced around 21%. While back home, the ASX 200 gained, 12.4%. So against this backdrop, how did our funds perform?

Oasis provides access to an array of asset classes and diverse investment styles.

This flexibility empowers you and your financial adviser to customise investment strategies according to your individual return requirements and risk tolerance. On the Oasis investment menu, funds are predominantly managed by external managers rather than the Insignia Financial team. Of these funds 96% delivered positive absolute returns after fees during the calendar year 2023, and this figure increases to 99% when viewed over the last five year period. Therefore, it makes sense to stay the course.

So I've covered 2023 and given you an overview of our performance. The next thing I'd like to talk about is the investment outlook for 2024, and how we will be positioning your funds to navigate the period ahead. Now, firstly, as I mentioned earlier, inflation looks like it's on the way down, although it could well be stickier with further declines coming more slowly. In other words, it may take some time for inflation to fall back to the 2 to 3% range central banks like the RBA are more comfortable with.

So while central banks have done a lot of good work taming inflation through higher cash rates, we may not see actual cuts to the cash rate here in Australia until late in 2024. So interest rates may stay high for a while yet.

So what does that mean for economic growth?

Well, it is a tricky environment for central banks to navigate, but we see a reasonable chance that economic growth can remain resilient in the face of higher rates, at least for the next 12 months. Now we've taken this cautiously optimistic view of economic growth, given the relatively good health of the economy today. And we also take comfort from central bank signalling their willingness to cut rates as inflation trends down.

Now, I've spoken a lot about inflation, and cash rates as key factors influencing our outlook. Now of course, the investment team take a wide range of factors into account when looking ahead. Globally, the wars in the Ukraine and Middle East continue to persist. And investment professionals like my team and I must consider many eventualities, such as the possibility of the Middle East conflict widening the impact on commodity prices from these conflicts has been muted to date, with oil prices now below levels when the conflict began.

As long as these conflicts remain constrained within each region, we don't see these events as having a material impact on investment markets in the medium term. It's another issue if these conflicts widen. And, for example, recent attacks on the Red sea commercial shipping by the Yemen-based, Iran-supported Houthi movement, which has prompted US led military action against the Houthis, does raise the possibility of an unsettling tit-for-tat cycle, again presenting risk to economic stability.

In terms of how we will construct your fund menu in this macro environment, we will always maintain a well-diversified menu of investment choices spanning multiple asset classes, high quality investment managers and appropriate securities.

So in closing, I'd really like to thank you all for trusting us to invest your money. Again, you can rest assured the investment team is working diligently managing your portfolio in accordance with our time proven investment philosophy to help provide you with the retirement lifestyle you want.

As Lindsay talked about, super is a long term investment, and in the years ahead, it will no doubt be periods of strong returns like we've just seen, along with more challenging periods. What's important is to stay the course and keep your eye on the long term. And over the long term, super funds have proven again and again to provide good outcomes to members. So thank you again and I'll hand you back to our chair, Lindsay Smartt to host the Q&A session.

Q&A Session

Well, thank you very much, Dan.

And welcome everybody to our Q&A session. Some of you sent through questions when you registered, and we can see more coming through this evening. Before we begin, please note that our responses are for your information only and do not constitute financial advice.

Our first question is for Dan, and it's from Ian, who's asked if it's possible for members to move their funds totally away from fossil fuel companies. Great. Thanks, Ian. A great question to kick off with. If I look at our internally managed, investment options first, and in those investment options, we use environmental, social and governance principles to really guide how we invest.

And rather than totally excluding these types of investments, we work selectively to engage with these companies with the aim of driving better outcomes, more sustainable behaviour and positive change. Now, in terms of the wider set of investment options available to members on our menu, we do offer several ESG options that really minimise exposure to these fossil fuel companies.

Thanks, Dan. Our next question is from Tim who'd like to know why he should continue to reinvest in Oasis. I'll answer this one for you, Tim. Oasis is part of Insignia Financial, which is a leading wealth management business listed on the Australian Stock Exchange, and it benefits from a large investment team with diverse skills and experience.

The scale of Insignia enables us to improve and simplify investment products for better member outcomes, and this scale is a benefit by maintaining lower fees for members. We hope these benefits make you feel confident about investing your retirement savings with us.

We've got time for just one more question from Andrew, who's asked whether we maintain a member reserve and if there were deductions for administration fees.

I'll take this one, Andrew. Yes, we do maintain a reserve. It's prudent practice to do so, and it provides additional financial security for our members. And regarding administration fees, we do have an administration fee that's calculated as a percentage of your balance.

But it's worth remembering that fees go towards the ongoing operation of the fund, including investment management, administration, and regulatory compliance.

Well, thank you everyone for your questions during the Q&A session. It's a really valuable exchange where we not only provide answers, but we also gain valuable insights into your concerns. So the questions we couldn't address tonight, the answers, along with a recording and minutes of tonight's meeting, will be available on our annual members' meeting website.

And members will also receive a feedback survey shortly, and we're eager to hear what you enjoyed about the meeting and what we can improve on for next year.

As chair of Oasis Fund Management Limited, your trustee, I'd like to thank each and every one of you for joining us and for trusting us with your superannuation. I'd like to thank Dan for his valuable contributions to this evening's Annual Members' Meeting. Once again, thank you for joining us tonight.

Good evening.

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