

Annual Members' Meeting

Tuesday 23 February 2021

5:00pm - 6:45pm AEDT

MINUTES of the meeting of the 2020 UniSuper Annual Members' Meeting

The 2020 Annual Members' Meeting, held on Tuesday 23 February 2021 at 5.00 pm AEDT, was conducted virtually. Chief Customer Officer, Ms Lee Scales, acted in the role of Master of Ceremonies and presentations were made by the UniSuper Chair, Mr Ian Martin, Chief Executive Officer, Mr Kevin O'Sullivan and Chief Investment Officer, Mr John Pearce.

Present at the Meeting were the UniSuper Directors and Executive Leadership Team, Fund Actuary, Ms Kate Maartensz from Willis Towers Watson, Fund Auditor Ms Maree Pallisco from Ernst Young and Independent Consultants to the UniSuper Audit, Risk and Compliance Committee Ms Sarah Woodhouse and Ms Fiona Rowland.

Important information

The presentations, Questions and Answers session and Minutes may include general financial advice which does not take into account the personal objectives, situation or needs of any individual. Before making a decision, please consider whether the information is right for you and read the Product Disclose Statement available on the UniSuper website at www.unisuper.com.au

Information provided primarily relates to the financial year ending 30 June 2020. Investment returns are not guaranteed, and past performance is not a reliable indicator of future returns. Comments on the companies we invest in are not intended as a recommendation of those companies for inclusion in personal portfolios. UniSuper's portfolios have been designed to suit UniSuper and may not be appropriate for others.

Information presented at the meeting has been prepared by UniSuper Management Pty Ltd (ABN 91 006 961 799) on behalf of UniSuper Limited: (ABN 54 006 027 121, AFSL: 492806), Trustee of the UniSuper Fund (ABN 91 385943850).

1. Opening

Mr John Briggs, representative of the Yorta Yorta and Gunnai nation, conducted a Welcome to Country. He acknowledged the traditional custodians of the land and paid respects to their Elders past, present and emerging.

2. Welcome - Master of Ceremonies, Chief Customer Officer, Ms Lee Scales

- Provided an overview of the meeting and the presentations
- Advised that closed caption functionality was available if required
- Outlined the conduct of the question and answer session including that some questions relating to personal information or financial advice could not be answered.

3. Chair's Address – UniSuper Limited Chair, Mr Ian Martin

The Chair welcomed attendees highlighting that, as the super fund for the higher education and research community, UniSuper is one of Australia's largest superannuation funds with more than 450,000 members and \$90 billion in funds under management. It is also one of Australia's top funds as evidenced by:

- Consistently strong investment performance both short and long-term, the Balanced/My Super option returning 9.0% and ranking equal first in the 10-year period to 31 December 2020
- An internal investment team of 47 skilled and experienced investment and finance professionals who manage over 70% of the Fund's \$90 billion in assets
- Internal management means UniSuper can target particular investment strategies and be more directly and proactively involved with the ESG (environmental, social and corporate governance) related issues of our investments, including climate change
- Consistently benchmarks as one of the lowest cost funds in the marketplace largely due to the competitive advantages of internal investment management and operational scale
- Consistently high member satisfaction levels as evidenced from the results of member survey, which showed high Net Promoter Scores and year-on-year increases in other metrics such as Contestable Loyalty, Member Satisfaction and Ease of Interaction
- The seamless change to remote working in March 2020 for all employees and the maintenance of performance standards and delivery of quality service to both members and employers, whilst working remotely
- Recognition from key ratings and research agencies, Chant West and SuperRatings, including being named Best Fund, Advice Services for 2020 (Chant West) and 'My Super Fund of the Year' for 2021 (SuperRatings)
- Rating in the highest category on all counts of the APRA Heat Map, a comparison tool used by the Australian Prudential Regulation Authority (APRA), one of the few funds to do so
- CEO, Kevin O'Sullivan, was awarded winner of the 2020 Fund Executive of the Year.

Mr Martin noted the multiple Government policy-induced changes and the further initiatives to default arrangements being proposed by the Government, highlighting the strategic consequences for the entire sector. Whilst the Fund is well placed to be a strong performer in the changing environment, some changes to the way the Fund operates will be necessary such as opening the Fund to a broader membership to maintain competitiveness and scale, which are the key drivers of good investment performance and low-cost structure. Mr Martin highlighted that any changes will be made consistent to the requirement to be in members' best interests and would retain the current strong affinity with the higher education sector.

Mr Martin also noted the important role superannuation funds have, as major investors, in shaping how the companies we invest in respond to and address the real threat of climate change. Mr Martin highlighted the leadership role of the Fund and the preferred approach of undertaking rigorous engagement with companies rather than pursuing full divestment of all fossil fuel related investment.

Turning to Board matters, Mr Martin noted that the recent appointment of Ms Sarah Roberts to the Board has increased the number of female directors to six, a majority, making the UniSuper Board one of the few boards in Australia with such a high representation of women directors.

As a result of the recent announcement that, later in the year, Kevin O'Sullivan will be stepping down as UniSuper's CEO after more than eight years in the role, Mr Martin confirmed that global executive search firm, Egon Zehnder, has been appointed to assist with the appointment of a successor. An announcement will be made in due course.

Mr Martin noted the difficult and unprecedented events of the 2020 year and acknowledged the leadership, commitment and hard work of the CEO and the entire UniSuper team. He also thanked his fellow Board members for their ongoing efforts and support and acknowledged the additional Board meetings undertaken this past year to ensure oversight of the Fund during this difficult period.

In closing and on behalf of the Board, Mr Martin thanked the UniSuper Fund members for their trust and support and the Board's ongoing commitment to deliver great retirement outcomes to members.

4. Chief Executive Officer's Address – Mr Kevin O'Sullivan

Topics covered by Mr O'Sullivan included:

- The strong relative performance of the High Growth, Balanced, Conservative and Sustainable Balanced investment options which recorded returns to 30 June 2020 in the top quartile for the 1, 3, 5 and 7-year periods
- The continuing strong financial position of the Defined Benefit Division indicated by a Vested Benefit Index (VBI) of 114% and an Accrued Benefits Index (ABI) of 125% as at 30 June 2020, with further improvement since then
- For an individual with a \$250k balance, the lowest fees of the top 100 funds, for the Flexi Pension Balanced Option and the second lowest fee for Accumulation Balanced Option
- The revision and improvements made to MemberOnline over this period to provide members with faster access across all devices
- Continuing increases in members' satisfaction across the areas of Member Services, Advice, Contestable Loyalty and the Company overall
- The continued growth of Personal Accounts which, since being introduced in October 2017, has resulted in over 19,000 new members
- The actions of the UniSuper Board and management team to respond to COVID-19, which ensured that, within a very short timeframe, all business units were able to work remotely and continued to deliver great service
- COVID-19 support measures provided to employers and members included:
 - o increased video and phone advice appointments
 - o increased live webcasts, which were attended by thousands
 - o digitisation of more processes to make it easier for members
 - o working with universities to assist with any special arrangements put in place
 - o The prompt payment of early release superannuation monies totalling around \$250 million with over 94.5% of requests paid on the day of receipt and 99.59% paid within five days of receipt
- Implications of the enacted Choice of Fund legislation, COVID-19 impacts on the university sector combined with the potential impacts of the proposed Stapling legislation
- Consideration of opening the Fund to members outside of traditional sectors and the importance of retaining a strong affinity with the higher education sector.
- Taking advantage of the opportunities arising from the changing external environment and addressing these opportunities from a position of great strength.

In closing, Mr O'Sullivan thanked attendees for their membership of UniSuper and reiterated that he and the Management team are always striving to provide greater retirement outcomes and be the best value superannuation fund in Australia.

5. Chief Investment Officer's Address – Mr John Pearce

Mr John Pearce, Chief Investment Officer, provided an investment briefing, which included an overview of:

- The 2020 calendar returns and investment performance of the:
 - Defined Benefit Division achieved by investing in high-quality property infrastructure and fortress assets
 - Balance option return of nearly 6%, 2.5% over the median achieved through high liquidity levels which enabled payment of switches, early release payments and pursuit of investment opportunities in the depth of COVID-19
 - Sustainable Balanced option which like all sustainable ESG options has very little energy exposure and excludes all investment in fossil fuels performed well
 - Conservative balanced options which, in the short term, has been impacted through exposure to airports and property adversely affected by COVID-19, although long term remains a top quartile performer.
- The 60% range over the past year in the investment performance of top performer in global environmental opportunities and worst performer, listed property which mainly comprises shopping centre assets
- The Fund's high ranking on the APRA Heat map, a standardised performance table that removes anomalies arising from varying classifications of what is a growth asset and what is correctly a defensive asset
- Observations relating to the short to medium term prognosis of future economic growth referencing the financial market cycle and economics
- The prominence of decarbonisation and the collective efforts of corporates and governments over the coming decade to meet the 2050 Paris goals
- The role of the Fund as a leader in ESG initiatives as detailed in the [Climate change position statement](#) which outlines the guiding principles, investment implications and engagement and collaboration initiatives
- The detailed information provided on the website and the [Climate risk and our investments – November 2020](#) publication
- The Fund's low exposure to companies involved in extracting and producing fossil fuels which exclude any company deriving more than 10% of revenue from coal
- The position that engagement with companies has a greater impact and superior outcome than divestment which removes the Fund's right to engage with the company to ultimately vote as a major shareholder
- The goal that, by the end of the year, 100% of Australian companies held in the Fund's actively managed Australian portfolios will have publicly disclosed commitments to Paris is well progress and already approximately 80% of holdings meet this criterion
- The Fund's seven ESG investment options which do not include any investments in fossil fuel related companies which with an annual investment of over \$11 million across these options make UniSuper the largest superannuation investor of ESG themed products in Australia.

In closing Mr Pearce reminded members of the extensive information including performance returns and fees available on the UniSuper website.

6. Member Question and Answer

Master of Ceremonies, Ms Lee Scales, invited questions. Reminding members not to include any personal information, Ms Scales advised that questions and responses would be made publicly available and would be recorded in the minutes however names and contact details are not published. Responses to any questions not answered at the meeting will be published on the website.

Q1: What fees are paid to non-executive directors?

Response: Chair, Mr Ian Martin

Remuneration details of directors and the executive leadership team and the remuneration practices are comprehensively addressed in the Remuneration report available on the UniSuper website.

<https://www.unisuper.com.au/about-us/governance-and-disclosures/disclosures> - Remuneration Report for the year ended 30 June 2020.

Q2: Is UniSuper increasing its investment in renewables?

Response: Chief Investment Officer, Mr John Pearce

Noting the worldwide trend to renewable energy which has resulted in prohibitive prices to direct investment in renewables such as wind or solar farms, Mr Pearce advised that to date investment in this strategy has been limited to exposure through the ESG investment options. Consideration will be given to future investment in alternatives such as hydrogen, however.

Q3: Why does the Fund still hold Rio, given the Juukan caves disaster?

Response: Chief Investment Officer, Mr John Pearce

UniSuper was one of the first to comment publicly that, as an investor in Rio Tinto, we were saddened to hear that the cultural site in Juukan Gorge has been destroyed and that these actions did not meet our expectation that Rio Tinto has consent from the Traditional Owners prior to proceeding with mining and that matters of cultural significance and social values are taken seriously.

We met with Rio Tinto Board and have emphasised the importance of protecting culturally significant sites (and how this is assessed, controlled and monitored) and confirmed we would await the findings of a company investigation which was undertaken with the local Traditional Owners.

When the review was completed, Rio Tinto imposed a financial penalty on three executives. I met with the Chairman and in a direct conversation advised this response was inadequate, the positions of the executives were untenable and appropriate action was expected. The Board subsequently changed its decision, and rather than just imposing a financial penalty, those three senior executives, including the Chief Executive Officer, have left the organisation.

As a major investor, we continue to have ongoing discussions with Rio to ensure such a disaster cannot happen again and to date, we are comfortable with the progress that has been made.

Q4: Given the impact of COVID-19 and the financial impact on universities, a larger cohort of academics may retire earlier than anticipated say 2 years ago. Will UniSuper change any products in response, eg 'easing into retirement' products?

Response: Chief Executive Officer, Mr Kevin O'Sullivan

The effect of COVID-19 has definitely had an impact however, there has always been and will continue to be, some people who leave the sector earlier than otherwise. There are no current plans to change or introduce new products as I believe the current products cater well for all of our members. The key thing we are doing and have done is to ensure individuals who have been affected by employment changes have access to good people, whether they are super consultants, financial advisers or people at our offices around the country, to access good advice to make good decisions. What is needed is less a product solution rather obtaining good advice to make good decisions.

Q5: Have super contributions been impacted by salary reduction / freeze in annual increases?

Response: Chief Executive Officer, Mr Kevin O'Sullivan

Superannuation contributions are typically a percentage of a member's salary and typically in the past, as a member's salary goes up, contributions go up, unless they become unemployed. With the COVID pandemic, there have been two types of salary change: people have either taken reduced hours or a temporary reduction in salary, or alternatively their salary has been frozen. In instances of reduced hours or a temporary salary reduction, superannuation contributions reduce proportionally – there will be a fall in accruals during the period of reduction, but past accruals will continue to grow. In respect of frozen salaries, accumulation factors and prior contributions will remain unchanged, however defined benefit contributions and accrual will continue to accrue but only at the rate of growth in annual salary which means growth in the average salary factor will be a little slower than it would have been if not for the wage freeze. UniSuper has been working with the universities over the last several months to ensure that nobody is detrimentally impacted as a result of salary freezes.

Q6: Will the long-term effects of COVID-19 change the possibility of meeting with advisers face-to-face?

Response: Chief Executive Officer, Mr Kevin O'Sullivan

If COVID safe arrangements are in place, and the government permits it, UniSuper will continue to provide face-to-face advice. Except for Victoria and Northern Territory, face-to-face consultations are continuing and are expected to resume in Victoria in a week or so. Resumption in the Northern Territory is dependent on the COVID restrictions in place between Perth and Darwin however, like everyone across the country, they still have access to video and phone-based advice.

Q7: Does UniSuper invest in crypto currencies, and would we consider launching a crypto currency investment option?

Response: Chief Investment Officer, Mr John Pearce

Crypto currency and bit coin, by every measure, is the biggest bubble seen in the history of market bubbles. Bitcoin is a means of transferring payments; however, it is no easier than using the bank transfer process. If viewed as a store of value, it is far too volatile.

Bitcoin does not have any intrinsic value, its value is basically what the market determines it is. It's not an asset but a speculative instrument that UniSuper will not be investing in.

With respect to a crypto currency investment option, to launch a new investment option involves many aspects, it is not only an investment decision. Our priority is to continue to keep costs low so any option must have general appeal. Inclusion of a crypto currency option will not be pursued.

Q8: How does UniSuper protect me from losing money in a crisis such as the one we have just experienced?

Response: Chief Investment Officer, Mr John Pearce

The only truly safe asset is cash; therefore, the only safe investment option is the Cash option. Currently, the cash investment option is delivering zero returns.

Looking at the structure of other investment options there is a limit to what can be done. The Balanced option for example has approximately 70% in growth assets and 30% in defensive assets. To provide protection, investors must take a more defensive position however, long-term this may not be the most desirable response. When making investment decisions members are encouraged to access one of UniSuper's extremely qualified advisers.

Q9: For those of us who have been made redundant, what should we be doing to make a seamless transition to retirement?

Response: Chief Executive Officer, Mr Kevin O'Sullivan

The starting point is to speak to a UniSuper superannuation consultant. They can give you general advice about transitioning to retirement and, if there is a benefit to you from obtaining personal advice, they can book an appointment, set up a meeting with one of the UniSuper financial advisers, who will prepare a personalised, tailored plan. Also available on the UniSuper website are a range of webcasts looking at redundancy in retirement which you can view or register to attend.

Q10: How is the long-term health of the financial position of the Defined Benefit Division, particularly as a result of COVID-19 and the recent impact of staff exists across the higher education sector and such low interest rates?

Response: Chief Executive Officer, Mr Kevin O'Sullivan

Prior to becoming CEO at UniSuper I was an actuary. My training and experience as an actuary allow me to look at the ABI with some comfort. Whilst COVID-19 led to a reduction in both funding measures (VBI and ABI), buffers utilised by the current Actuary are quite strong and, whilst there may be more exits this year and next than usual, when a member leaves the Defined Benefit Division, there can be actually a positive impact to the overall long-term funding position of the Defined Benefit Division. Another factor providing comfort is that the Actuary has reduced the required earning rate. These are all measures of comfort I would highlight regarding the long-term financial health of the DBD.

Q11: What are the risks of the Defined Benefit (Index) Pension having to go into a 'review period' again in the challenging investment times?

Response: Chief Executive Officer, Mr Kevin O'Sullivan

Although the risk is not zero and will never be given markets can be volatile or negative, the risk is quite low. This is because there is such a strong funding buffer and the lower required rate of return [mentioned above]. A slight risk remains however as the required rate of return is still subject to volatile returns, for example if there is another Global Financial Crisis, there could be a risk that there will be a clause 34 period in the future.

Q12: Does the Fund contribute or pay any money to any union? If so, how much?

Response: Chair, Mr Ian Martin

The answer is 'No' however, to ensure there is no confusion I do want to point out one circumstance. In instances where a Board member is an executive of a union, the practice is that Director's fees are paid to the union. This is also the case with respect to vice chancellors who are on the Board, their fees are paid to the university. This is common practice across the corporate sector - whenever there is a director who typically is a full-time executive of another organisation, typically, as a matter of standard practice, the fee is paid to the other organisation.

Q13: What is UniSuper doing to lower costs for its customers?

Response: Chief Executive Officer, Mr Kevin O'Sullivan

As a not-for-profit fund, there is no obligation to make a profit for a stakeholder. Fees paid by members must cover the cost of operating and fund legislatively-mandated reserves. As an organisation we aim to control costs, and \$100 million a year saved through inhouse management of between 65 and 70% of all Fund assets has enabled a significant reduction in fees. Fees are reviewed annually and, whilst continuing to provide great services to our members, the focus is to keep fees as low as possible.

Q14: What changes have been made to our investment strategy as a result of COVID-19 pandemic?

Response: Chief Investment Officer, Mr John Pearce

No major changes have been made, primarily due to the pandemic having reinforced existing, strong beliefs – the importance of liquidity and the conservative approach UniSuper takes to liquidity. For example, to be included in a defensive allocation within the investment options of the Fund, an asset must have 100% of its return generated by income. The Fund has ample levels of liquidity and this position will continue to be retained. Many market participants are of the view that the equity market is overvalued and now is the time to sell. Although agreeing there are pockets of overvaluation we are not of that view and opportunities arising in sectors which represent value, particularly those leveraged to full recovery postvaccination, are being considered. There are reasons to be positive and we are holding steady in terms of our investment strategy.

Q15: How is the deterioration in Australia's relationship with China impacting our returns?

Response: Chief Investment Officer, Mr John Pearce

Not very much. China's actions are primarily affecting companies and sectors operating in the areas of beef and barley exports. The Fund has little exposure in these sectors although this would be different should, for example, China target iron ore exports, the second largest export for Australia. China does not have many alternative options to source iron ore however and I am hopeful that within 18 months or so, the relationship with China will return to some sort of normality.

Q16: When is UniSuper planning to bring out an App for people to access their account?

Response: Chief Executive Officer, Mr Kevin O'Sullivan

This question has been asked by many members over several years. Currently, we are focusing on consolidating our superannuation and administration systems, that needs to be actioned first. Once completed, the desirability of developing an App will be investigated noting that, although not an App, the functionality to use your mobile device which can replicate everything you do on your desktop, is already available.

Q17: What are the rules regarding rolling money from other super funds into UniSuper?

Response: Chief Executive Officer, Mr Kevin O'Sullivan

We welcome rolling money from other super funds into UniSuper and it is quite a simple process. All instructions are on the website or you can speak to our call centre. The website also highlights some of the considerations that you might want to think about as you decide about rolling into UniSuper.

Q18: Shouldn't UniSuper make it easier for SMSFs to be transferred into the Fund – not just by bank cheque?

Response: Chief Executive Officer, Mr Kevin O'Sullivan

There are three main ways for SMSF money to move into UniSuper, these being a cheque from the SMSF, a bank cheque or an EFT, electronic funds transfer. These methods meet current government requirements, but I understand the Australian Taxation Office is working with super funds to streamline this process which they hope to have implemented by the end of 2021. Within the current regulations we try to make this process as easy as possible and hopefully it will be made even easier.

Q19: What is the outlook for airports and shopping centres?

Response: Chief Investment Officer, Mr John Pearce

With respect to shopping centres both the short- and long-term outlook, particularly relating to the price in the market, is good. For example, the shares of the owner of Westfield shopping centres are trading at between 25 and 30% discount to net assets reflecting the market's view that these are depressed assets and likely to stay depressed.

Although popular opinion is that online shopping will continue to adversely affect shopping centres and the COVID pandemic increased online shopping, shopping centres, particularly quality centres that have turned themselves into destination centres, people are returning. Accordingly, in the long-term and even in the short term, this sector may be undervalued.

Airports differ and in the short term it is hard to envisage a positive outcome. The Fund's biggest investment is in Sydney airport which comprises 70% international profit. Even if all of Australia has been vaccinated by October 2021, with the Government's conservative approach and elimination strategy to the pandemic, it is unlikely that Sydney airport will open to international travel this calendar year. Longer-term, the current operators have the concession until the end of the century so that even taking into account one year of depressed returns, there is 80 years to return to profitability particularly when a replacement airport is unlikely to be built in the foreseeable future.

Q20: How long will it take UniSuper to appoint a new CEO?

Response: Chair, Mr Ian Martin

We don't yet know, but based on experience, around six months, give or take. It will depend on who is appointed and when they can take up the position. Regardless of how long the appointment process is, I am confident that Kevin will remain committed until his very last day at UniSuper and there will be a very smooth transition.

[Any financial advice in these answers is general financial advice which does not take into account the personal objectives, situation or needs of any individual. Before making a decision, please consider whether the information is right for you and read the relevant Product Disclose Statement available on the UniSuper website at www.unisuper.com.au.]

6. Meeting Close

Noting that there was insufficient time for another question, the CEO was asked to reflect on what had been learnt from the variety of questions submitted.

The CEO thanked everyone for attending and for the many questions that had been posed.

In closing, the MC noted the Fund's engaged membership as evidenced by the many questions received and reminded members that responses to unanswered questions will be published on the website.

The meeting concluded at 5.45 pm.