**ONEPATH RETIREMENT PORTFOLIO SERVICE**

**MINUTES OF THE ANNUAL MEMBER MEETING**

**OnePath Custodians Pty Limited ABN 12 008 508 496**

**Trustee of the OnePath Retirement Portfolio Service (Fund)**

Annual Member Meeting for the financial year ending 30 June 2021 held online via video conference on Wednesday 2 March 2022 at 5:00 pm (Melbourne Time).

**PRESENT:**

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| Lindsay Smartt | Chair & Independent Non-Executive Director |
| Andrew Bloore | Non-Executive Director |
| Carolyn Colley | Independent Non-Executive Director |
| Karen Gibson | Independent Non-Executive Director |
| Jane Harvey | Independent Non-Executive Director |
| Martin Walsh | Independent Non-Executive Director |
| Renato Mota | Chief Executive Officer |
| Dan Farmer | Chief Investment Officer |
| Mark Oliver | Chief Distribution Officer |
| David Chalmers | Chief Financial Officer |
| Lorna Stewart | Chief Risk Officer |
| Sarah Burley | Chief Member Officer |
| Chris Tay | Company Secretary |
| Christopher Wooden | RSE Auditor, KPMG |
| David Lewis | RSE Actuary |
| Anthony Chan | Actuary |
| Chris Porter | Defined Benefit Sub Plan Actuary |
| David O'Keefe | RSE Actuary |
| Geoff Morley | Actuary |
| Jacqueline Downham | RSE Actuary |
| Jeffrey Humphreys | RSE Actuary |
| Michael Berg | RSE Actuary |
| Saffron Sweeney | Plan Actuary |
| Surath Fernando | Plan Actuary |
| Timothy Jenkins | Plan Actuary |
| Tracy Polldore | Consulting Actuary |
| Steve Black | Head of ESG |
| Anthony Caneva | General Manager of Member Engagement & Wellbeing |
| Genevieve Frost | Business Development Manager |
| Michelle Stone | Principal Owner & Lead Financial Adviser, Feel Good Financial Planning |

**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 circumstances. Before making any investment decision you should obtain and read the Fund's product disclosure statement which is available at **https://www.wrapinvest.com.au/** 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 could not be answered during the during the meeting. Members can contact the Member Services team if they have questions about their Fund account or their personal circumstances.

## WELCOME 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 role of the Trustee in protecting the benefits of members and working to deliver improved outcomes for members.

The Chair discussed how members were part of one of the five largest superannuation organisations in Australia, with well over two million members. He discussed the additional layer of protection members received from the reporting and disclosure requirements of Insignia Financial Ltd (**Insignia Financial**), as a listed company, and the benefit to members from the company's ability to raise capital and invest in product and service development.

The Chair then discussed how the trend of consolidation in superannuation can advantage members over the long term, as scale can bring more value and benefits for all members. He noted that investing in superannuation was paying off for Australians and will help them active their retirement plans, with returns from the median growth fund significantly outperforming inflation over the last 20 years.

## FUND AND MARKET UPDATE

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

- the impact of world events on investment markets;
- IOOF's focus on long-term investment outcomes;
- the wide diversification in IOOF's portfolios;
- IOOF's approach to managing investment risks and opportunities;
- the continuing focus on responsible investing and ESG; and
- further strengthening of the investment team through Insignia Financial's acquisition of MLC.

## MEMBER INITIATIVES

Mr Oliver addressed the meeting and discussed the following key points:

- the benefits of Insignia Financial's increased scale, including wider expertise in the investment team and the ability to negotiate lower investment management fees and insurance premiums;
- the ongoing enhancements to personal service, digital tools and technology to respond to members' super questions; and
- the improvements to modernise older super products.

## SUSTAINABILITY

Mr Black addressed the meeting and spoke about Insignia Financial Group's approach to sustainability:

- it believes in the science of climate change and supports the effort to get to net zero emissions by 2050;
- it considers the climate impact of our investments across our portfolios and we measure the impact of our own operations on the environment;
- it takes all ESG risks seriously and applies them in specialist ESG funds, when managing money directly and when using external managers;
- it drives sustainability both by selecting investments that are good opportunities and have outstanding ESG characteristics, and by engaging with companies that are taking action to improve their ESG and sustainability performance.

## FINANCIAL WELLBEING PANEL DISCUSSION

Mr Caneva, Ms Frost and Ms Stone addressed the meeting and provided some information and tips on how members can make the most of their money, including:

- think about your money personality and how it affects your behaviour;
- get a clear idea of where you are with your super now;
- think about the retirement you want, what will it look like?;
- use some of Insignia Financial's digital and phone-advice tools to see what actions will get you closer to your retirement goals; and
- a reminder that it's never too late to get your finances right, and that it's particularly important for women.

## MEMBER QUESTIONS

The Chair opened the Member Question and Answer session.

1. ***Why do we have frequent member meetings regarding superannuation and investments?***

   ***Lindsay Smartt:*** The annual member meetings are all about understanding what matters to you, our members. It's about allowing you to hear from the trustee and the executives and reflect on what was achieved in your superannuation in the last financial year and also to look at the outlook for the next 12 months. Importantly though, it also gives you an opportunity to ask questions about what's important to you and what matters to you, such as investment performance.

2. ***Why should I stay with ANZ if industry funds have better costs and returns? I am unhappy about fees increasing – they used to be the lowest in the industry and the new feature is a strong disincentive to existing and new members.***

   ***Dan Farmer:*** I think there were really three key themes there, firstly around our performance, secondly around our fees and thirdly, why members should feel confident about staying with our funds. If I just touch on performance first, and as I noted in my presentation earlier, we do offer a wide range of funds and it's not totally clear exactly which funds the member asking the question is in, but perhaps if we can just focus in on Smart Choice Lifestage default fund, which many of our members are in.

   As I noted in the presentation, our Lifestage funds have really delivered quite strong absolute returns over the last 12 months and just by way of example, our Lifestage 1970s fund delivered a return of 15.5% for the last year, so really good absolute returns. Probably even more importantly than that, over the long term all the Lifestage funds are returning well above inflation. We're growing the real value of members' savings balances. We know performance against other comparable funds is also really important to many members and it's really important to us as well. The investment team is taking a lot of action to drive improved returns against other comparable funds and as discussed in the presentation earlier, we are making significant enhancements to these Smart Choice Lifestage strategies, and these have been implemented over 2021. Most importantly, we're investing in alternative assets and we're making higher allocations to growth assets in our Lifestage funds. We made these investments and enhancements to our strategy to drive higher returns and become even more competitive against other funds out in the marketplace, including industry funds. I think it's also important just to note that many of the other competing funds out there also have alternatives as a key element of their investment strategy. We began implementing these enhancements through 2021, and we're already seeing improvement to the Smart Choice Lifestage performance compared to peers. If we look at the SuperRatings surveys, and these surveys capture most super funds in Australia, including industry funds, all of the Smart Choice Lifestage funds were first or second quartile over the December quarter. This just really means that those funds were well above the average fund in that SuperRatings survey. Now for longer-term periods over one year to December 2021, three out of the seven Lifestage funds were either first or second quartile. We are starting to see improvements from these strategy enhancements roll into performance. We're really focused on continuing to roll out these enhancements over 2022 and again the aim of this is to lift our performance compared to other funds.

I think that the second main element of the question was around fees, and it ties into the enhancements we just talked about. The enhancements to investment strategies have resulted in a lift in fees on Smart Choice Lifestage funds. The lift in fees we've made to these funds is really to allow us to invest more in the alternatives we've just talked about. When we look to invest in alternatives, we look for the best alternative managers from around the globe and these really good managers are far more expensive than the passive managers that Smart Choice has historically used. Importantly, even after the lift in Smart Choice super fees, Smart Choice remains in the lowest 25% of super fund fees in the most recent SuperRatings surveys. So it's still very competitive, with very low fees compared to peers.

The final element of the question was around why members should still feel confident about these funds compared to industry funds. I've talked about the enhancements to investment strategy, but I think there are some broader improvements I hope members can take some comfort from. First of all, the funds are now part of Insignia Financial, which is one of Australia's largest wealth management businesses and is also listed on the ASX, so a very strong parent company specialising in wealth. A larger investment team is now in place and deploying a wider range of skills and deep experience to the management of your funds, again with a focus of driving those competitive returns. Finally, the increased scale following Insignia Financial's acquisition of MLC just provides another opportunity to improve and simplify our investment products, again to drive better outcomes for our members. So there have been lots of enhancements and changes over the last 12 months to drive improved performance and in particular better value for money for members. Hopefully these changes are really helping members feel a bit more confident about their financial future with us.

3. ***How have the recent changes in the investment strategy that have resulted in higher fees impacted the performance?***

***Dan Farmer:*** As we touched on Smart Choice, investment fees are up basically because of the inclusion of alternatives in the investment strategy. I'll elaborate a bit further on why we include alternatives in Smart Choice. We included alternatives in Smart Choice because when we looked at our long-term 10-year return expectations for traditional listed asset classes, we could see those returns were becoming quite low compared to history. Particularly in bonds, and in more defensive asset classes generally. Now, these low expected returns to these traditional listed assets meant it was becoming increasingly difficult to generate returns high enough to support our members growing savings sufficiently to enjoy a comfortable lifestyle in their retirement. When we looked at the long-term 10 year returns for alternatives, this was a much more attractive outlook. Not only were returns to alternatives more attractive, they also lowered risk for members. This really was a result of the returns to alternative assets behaving quite differently to equities and bonds and this gave us diversification benefits when we blended them into our portfolios. So alternatives delivered dual benefits: a better return after fees and lower risk. In summary, by adding alternatives, we could deliver members a higher probability of having enough money in super when they retire to enjoy a comfortable lifestyle as defined by ASFA.

I'll just touch on what alternative assets are. Alternatives are a very wide asset class. If we think about what we mean by alternatives in terms of Smart Choice we're talking about assets like infrastructure projects - think of toll roads and ports, real estate assets, private equity, private credit and private loans. I think an element in the question was how are these strategies going? As I noted in my presentation, we're really continuing to build out this alternatives program over a number of years. We started investing last year and already have $1.5 billion committed with great managers and really strong assets and we expect to invest a further $1 billion over the next 12 months. Now it's early days, but performance has been good and just to give you a real example of this, a fund manager, Berkshire, who has an alternative portfolio in Smart Choice and invests in US real estate loans has generated a return of 40% since we invested with them last year and those strong returns to alternatives are flowing through to overall returns to Smart Choice. In summary, the strategy changes associated with higher fees will help increase the probability that members achieve a comfortable lifestyle in their retirement.

4. ***What is your SMSF strategy?***

***Mark Oliver:*** Today you're hearing from OnePath Custodians, which is a corporate body trustee and is regulated by APRA. An SMSF, on the other hand, is a superannuation trust arrangement where investments will be held by a group of trustees who are also usually the members of the fund that provides them with their retirement benefits. That structure is regulated by the Australian Tax Office or the ATO. Now usually SMSFs are operated to allow members access to a range of different investments and strategies and sometimes those aren't always available through the APRA regulated funds like ours. What are we doing in terms of strategy? Well, OnePath can support members seeking to transfer their super to a complying self-managed super fund if requested. The Insignia Financial Group, which is a related party of OnePath, also offers a range of services for self-managed super funds to invest, including investment administration technology, which doesn't utilise the same tax structure as OnePath, but so do other providers. If you do choose to go this path, you should be aware that the administrative and compliance requirements of an SMSF can be quite onerous, and we do recommend that you speak to a professional financial adviser. We do often hear that self-managed super funds can be anything but self-managed, so please get in touch with us to see how we can help you through that.

5. ***In terms of the superannuation investment performance for 2021, were any lessons learned and how can you improve the outcome?***

***Dan Farmer:*** I think the summary is we always look to learn and improve, and markets always throw up plenty of new challenges that we have to adapt and learn from. I've talked about performance enhancements we've made, so I might jump straight to the sort of broader lessons learned. A couple of things really stand out to me when I look back over the last 12 or 18 months. One thing that jumped out to us over that period is it reinforced our belief in the importance of diversification and remaining true to our investment philosophy. We've seen periods of very high risk and volatility with COVID and now the Ukraine situation over the last 12 to 18 months and markets have really behaved differently in the face of these risks than sometimes might have been initially expected. Just to give you an example of that, I think back to when COVID hit in 2020 and we saw equity markets initially fall very sharply, which is what you would expect, but then we saw a very rapid and quick rally in equity markets, delivering very strong 20%-plus type returns. So by holding the line on diversification and really staying well-diversified in all our portfolios, we continued to hold equities through that period and capture that strong rally for our members. The second thing that comes to mind is around capturing opportunities. Again, the COVID period also highlighted to us the importance of keeping an eye out for opportunities in periods of volatility in particular. An example again: in the depths of the COVID sell-off in March-April 2020, we saw opportunities in credit markets really emerge. Credit markets got hit very hard and there were some really attractive opportunities emerging. We managed to opportunistically capture these credit opportunities through allocating more to credit in many of our funds and this really added returns to members' balances. We always continue to learn and improve, and lessons learned are, stick to our principles of diversification and taking opportunities where we can.

6. ***What transparency is required by stakeholders to comply with current sustainability parameters and what percentage of investments fall under ESG?***

   ***Steve Black:*** Insignia Financial has a number of stakeholders, including clients, members, shareholders, regulators and staff, and providing transparency to all of these stakeholders around the sustainability of our business and the way that we invest clients' money, and your money, is paramount. Some of the things we do are we report regularly to the regulators, including APRA, which is the superannuation regulator, and also to ASIC, which is the financial services regulator more broadly. We also provide shareholder and client transparency through our publicly available company reporting and we provide super performance and responsible investment information to our superannuation clients. Further information on how we invest sustainably and use proxy voting as an active investor or owner of assets can be found on our responsible investment web pages.

   As previously mentioned, we do offer ethical and sustainable funds on our super menus, including a sustainable Australian share fund through Smart Choice Super, which is a product called the Alphinity Sustainable Share Fund, as well as offering four ethical options with our OneAnswer platform. We're also currently reviewing our fund menus to ensure we're offering an appropriate variety of socially responsible investments or ESG options on our menus. In relation to the second part of the question, 5% of our total investment menu across our platforms falls under an ESG sustainable or ethical label. But that being said a number of the investment options on our menus, including ours, will not categorise specifically as ESG but they do have ESG considerations included in the security selection of the portfolio.

7. ***I've heard that OnePath was one of the worst performing super funds – does that affect ANZ Smart Choice too, or is it a separate fund? Why did you appear on the Fat Cat report? Why has OnePath performance has been below industry benchmarks and what are you going to do about it?***

   ***Dan Farmer:*** If I take the question around Smart Choice and OnePath first, the short answer is Smart Choice is a different set of funds to OnePath, and as we've noted throughout the presentations, we do offer a wide range of funds, and different funds have different objectives and strategies. Now, if we look at Smart Choice Lifestage funds, they determine their asset allocation based on the member's age, invest passively in traditional asset markets and we have recently started adding alternatives into the investment mix. When we look at Optimix or OnePath funds, these funds offer a range of different asset allocations for different risk preferences and make use of both active managers who are out there actually trying to beat the market benchmarks and passive managers who follow the market benchmark. So this means our different funds often perform quite differently depending on market conditions. Smart Choice performers won't necessarily impact OnePath funds and vice versa. Having said this, I think it's really important to note that all our funds are well diversified and have a long-term focus, with the aim being to beat inflation over time to really help members grow the real value of their savings.

The next part of the question was around OnePath performance against industry benchmarks, and some of our OnePath and Optimix funds have historical performance which is not where we would like to see it. This has occurred for a variety of reasons, such as underperformance of underlying investment managers and potentially not enough invested in real assets and alternatives. Examples of this historical underperformance have been picked up by some industry reports that you've referenced, like Fat Cat and APRA heat maps. Now we can't change these historical returns, but we are working very hard to ensure that future returns going forward are far stronger. The new investment team which took over management of these portfolios in 2020 with the acquisition by Insignia Financial have taken some pretty significant immediate and meaningful steps to improve performance of these funds. To give you a flavour of the significant enhancements to Optimix and OnePath investment strategies, I would call out a few things. First of all, the scale benefits that come from being part of Insignia Financial. This allows access to a much wider range of high-quality investment managers and, importantly, at highly competitive prices, just through our increased buying power, and the recent acquisition of MLC just enhances these scale benefits. To give you a bit more evidence of that and put some meat on the bones, we can look at the enhancements we've made through the number of manager changes we've made to the Optimix and OnePath funds. There have been 35 new managers appointed to Optimix and OnePath funds and 14 managers removed from those funds since the new investment team started work. That really gives you evidence of the amount of positive change that's happened in those fund suites.

Finally, in terms of improvement, strategic asset allocation has been improved. We now invest in real assets such as direct property and high returning unlisted assets such as private credit and, along with asset allocation enhancements, we've also been given more flexibility to how we position our funds. This allows the team to better respond to the ever-changing market conditions that we've been seeing over the last couple of years. These enhancements are designed to deliver improved returns for you and we've seen improved returns since implementation. It takes time to turn around long- term, seven- or eight-year performance histories. We are seeing improving one and three-year returns, which I think better reflects the current construct of those funds and the current team managing them. As an example, all the Optimix diversified funds beat their internal benchmarks over the year to December 2021 and in a number of the Optimix funds' performance, we're beginning to see these funds climb up the peer surveys over the year. There's still more work to do and more enhancements are continuing in Optimix and OnePath funds, again designed to drive improving returns to members.

8. ***What legislative changes are you anticipating in the next 10 years that can impact performance? What key legislative changes have been introduced in the last 12 months and what impact have they had?***

***Lindsay Smartt:*** In recent years, through vehicles like the Retirement Income Review and the 2021 Intergenerational Report and various other pieces of legislation, it's been a focus on a more efficient and effective superannuation system. One of these is under the banner of Your Future, Your Super which has been introduced, and these changes include the stapling of contributions to members' existing superannuation accounts and the performance test, and, you may have seen some recent publicity about this, importantly, a legislative obligation to ensure that the trustee in making all of its decisions considers what's in the best financial interests of members. It's also the design and distribution obligations and there are many more, but we welcome all of these reforms because they're all about what's better for members and what can improve member outcomes.

Now you asked about the future and it's pretty challenging to think about that. What I can say is that I think both sides of politics will continue to introduce changes in superannuation, providing they're in the best interests of members and are about producing better outcomes for members. I certainly hope that in the immediate term we allow the current reforms to bed down. Another piece of legislation that passed recently was the abolition of the $450 minimum threshold per month of salary for superannuation guarantee charge contributions. I think one outcome out of all of these reforms is that we're likely to see continued consolidation in the superannuation funds that we're already seeing across the industry.

9. ***Can you comment on the impact on investment markets of the tragedy we see unfolding in the Ukraine?***

   ***Dan Farmer:*** First and foremost, the invasion of Ukraine is a traumatic humanitarian event for all of those either directly or indirectly involved. Our thoughts go out to all of those impacted. In terms of what the invasion may mean for markets, we really consider the impacts in the context of our broader economic outlook, which I touched on in my presentation. No doubt the Russian invasion of Ukraine makes the outlook much cloudier. Probably one of the key impacts is it may cause upward pressure on inflation, and we think Russia's actions could really further drive these inflation pressures we were talking about earlier via sanctions, rising energy prices, and just adding further disruption to supply chains, which we've already seen. More inflation pressure equals a much harder job for the central banks to keep inflation under control without actually causing the economy to stall. On top of this, rising energy prices and the negative impacts on confidence from the invasion may actually crimp demand and growth. So at the moment, we're seeing that the risk of stagflation has become a little more elevated. If we step back and look at specific impacts on markets more closely, one thing we can say for sure is markets don't like uncertainty. The Russian invasion, and in particular the financial sanctions that have come around the Russian invasion, are adding uncertainty to markets and there's been particular uncertainty around the impacts of locking out Russia from SWIFT, which is a payment messaging system, and Russia itself is putting capital controls. This has caused some worries amongst investors about the unintended consequences on the financial system from these sanctions. Investors initially moved to safe haven assets like cash, gold and safe currencies like the Swiss Franc. The potential impact on energy prices and energy supply in Europe is a really big focus of markets. Oil prices have spiked above $100 on the invasion, and this is just driving further inflation pressures.

   I think it's important to remember that Russia provides about 40% of the European natural gas supply and 30% of its oil supply. Potential disruptions to energy supply to major European economies may severely impact those economies themselves, but also have knock-on effects. Equity markets have been extremely volatile following the invasion, given this high degree of uncertainty. Some people might have noted that we actually have seen some strength in equity markets post-invasion and this might seem a bit counterintuitive. It's really been for two reasons. We've seen that the markets took the view that central banks may delay raising interest rates, and this was viewed as a positive by equity markets . Initially, there also was a view that the sanctions that were put in place maybe weren't as severe as initially thought, but this has been proven to be incorrect. If the Russian invasion becomes a prolonged event, this uncertainty will definitely weigh on equity markets.

   Now, one thing I did want to say about our funds, in particular in the OnePath funds, there's very little exposure to Russian assets directly in the funds. It is a really complex situation that's unwinding at the moment in terms of the financial controls around Russia and what assets can be removed or taken out of Russia at the moment. I want to really reassure members that the investment team is working really closely with our investment managers to understand the situation and make sure members' best financial interests are taken care of through this quite challenging period.

Ms Frost 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 responses to questions not answered during the meeting are an attachment to these minutes.

## MEETING CLOSE

The Chair thanked everyone for attending and submitting questions. He thanked members for trusting OnePath Custodians Pty Limited with their super.

The meeting closed at 6.13 pm.

**Lindsay Smartt**

**Chair**

23 March 2022