



Annual Member Meeting – 15 February 2022: Minutes

Commonwealth Bank Officers Superannuation Corporation Pty Limited (CBOSC/trustee), as Trustee of Commonwealth Bank Group Super (fund).

Held via livestream on 15 February 2022 at 5:15pm.

1. Present, apologies and quorum

1.1. Present

- Rosemary Vilgan, Director (Independent Chair)
- Ian Ward-Ambler, Director
- Susan Allen, Director
- Janet Linklater, Director
- Chris Williams, Director
- Cara Botha, Director
- Stephen Halmarick, Director
- Magda West, Director

Also present:

- Daniel Nott, Committee Member
- Stephanie Smith, Trustee and Fund Auditor, PwC
- Louise Campbell, Fund Actuary, Willis Towers Watson
- Scott Durbin, Chief Executive Officer (CEO)
- Ruwanie Dias, Chief Investment Officer (CIO)
- Jamie Stanley, Executive Manager Member Services
- Briony Larssen, Executive Manager Finance and Risk Management
- Tuan Tran, Company Secretary

1.2. Apologies

- Jessica Pramana, Director

Quorum

It was noted that a quorum was present and the meeting was declared open.

2. Opening of meeting

2.1. Welcome and introduction

Ian Ward-Ambler, Investment Committee (IC) Chair, welcomed members and acknowledged the traditional custodians of the lands on which the meeting was held. He then introduced the Directors, Committee Member, Auditor, Actuary and the Management Team, and outlined the agenda of the meeting.

2.2. Meeting minutes and questions and answers

The IC Chair noted that member questions received prior to the meeting and questions received during the meeting would be answered in the meeting and/or in writing and made available on the fund's website along with meeting minutes.

The IC Chair reminded members that questions relating to personal circumstances, personal advice, certain commercial, legal and confidential matters cannot be addressed as part of this meeting.

He then introduced the Independent Chair to speak to the members.



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3. Chair's address

Remarks on key areas

The Chair thanked the IC Chair, welcomed members and attendees and addressed the meeting.

3.1. Past year's results – Your Future Your Super performance test

The Chair thanked members for entrusting their superannuation to the fund.

The Chair acknowledged the disappointing results of the fund's performance in the Your Future, Your Super annual performance test as at 30 June 2021. She reassured members that the Board has always been focussed on their best financial interests. The Chair provided an overview of the fund's performance assessment and measures taken with the aim of improving future performance noting the below.

- a) The performance test assessed the past 7 years of net returns of the MySuper products (ie the fund's Accumulate Plus Balanced (MySuper) option), as at 30 June 2021, against benchmarks determined by legislation and calculated by the Australian Prudential Regulation Authority (APRA), which notified the fund of the test outcome on 30 August 2021.
- b) The trustee believes the fund did not pass the assessment because some of its underlying investments had a different mix of assets compared to the benchmarks and some investments underperformed when compared to the benchmarks.
- c) As at 30 June 2021 the Balanced (MySuper) option delivered an annual return of 13% and a long term return of 7.3% pa over the last 10 years, calculated in each case after the deduction of fees and taxes.¹
- d) The trustee has, over the past decade, been focussed on meeting and exceeding the objectives set and communicated for each investment option and has produced a smoother return experience for members compared to the average experience for other comparable MySuper products².
- e) The introduction of the Your Future Your Super performance test in 2021 with retrospective effect has now re-defined the measure of success for the fund.
- f) A number of strategic initiatives and investment portfolio changes that aim to improve future investment performance and enhance members' retirement income have been implemented and, in some cases, are being implemented with further details to be provided by the CEO and CIO.
- g) While APRA regulations require the trustee to consider contingency plans, no decision has been made to close or merge the fund.

3.2. Focus of the Board

The Chair spoke to some of the other focus areas for the Board. The Chair remarked on the past year that was challenging for many of the fund's members as a result of

the COVID-19 pandemic with the emergence of the Delta and Omicron variants.

The Chair highlighted the fund operates on a profits-to-members basis (exclusively for current and former Commonwealth Bank employees and their spouses), meaning fees are designed to only cover the costs of running the fund. This exclusivity and understanding of the fund's membership base coupled with over 100 years of experience since its establishment in 1916 help the fund in tailoring the investment approach to its members' needs, designing efficient and cost-effective insurance, and delivering value for money services.

The Board is focused on continuing to provide members with the tools and support they need to maximise their superannuation by, among others, seeking to deliver:

- a) reliable long-term returns through a suitable default option and a suite of choice investment options
- b) services and experiences that members value and support good decisions, and
- c) affordable and appropriate levels of insurance cover for members to protect them and their families in the event of hardship.

The Chair also noted the transition of member administration to Mercer Outsourcing (Australia) Pty Ltd and master custodian to State Street Australia Limited on 1 March 2022 and the appointment of Mercer Financial Advice (Australia) Pty Ltd as the financial advice provider for members. She then outlined the benefits of the transition.

3.3. Plans for the future

The Chair provided an overview of the focus areas in the fund's strategic planning for the future:

- a) for the default MySuper option, moving from a single investment strategy approach, where all members have the same asset allocation, to a lifecycle investment approach, where members' asset allocation will change over time based on their age
- b) enhancements to the Accumulation Plus and Retirement Access choice
- c) progressing further on embedding environmental, social and governance (ESG) considerations into the fund's broader process, including its climate change action plan, to achieve its net zero 2050 commitment
- d) an insurance tender to be undertaken to ensure that the quality of cover and insurance premiums being charged to members remains competitive, and
- e) a review of the retirement income strategy and Retirement Access pension offering.

The Chair thanked the CEO, CIO and their extended teams as well as service providers for guiding the fund through a tumultuous year. The Chair also, on behalf of the Board, thanked members for their support and ongoing trust in managing their retirement savings.

¹ Past performance is not a reliable indicator of future performance

² As measured by the 7 year volatility/annual standard deviation of the fund's MySuper option against individual peer MySuper options as at 31 December 2021 (published in SuperRatings' SR Super Volatility and Risk-Adjusted Return Survey, SR50 MySuper Index, as at 31 December 2021)

4. CEO'S address

4.1. The year in review and business update

The CEO addressed the meeting, expanding on the Chair's comments on the Your Future Your Super performance test outcome for the Balanced (MySuper) option, acknowledging the concern this outcome has caused members and assuring members that actions are being taken to address this.

The CEO remarked that the fund had over the past decade, been focussed on meeting the investment objectives set for each investment option, which had been managed through investments with high levels of diversification aiming to smooth the return experience of members.

The CEO reiterated the two key drivers of the Your Future Your Super underperformance:

- a) historic under-performance of some investments when compared to the benchmarks, and
- b) the fund's underlying investments had a different mix of assets to the comparison benchmarks, eg the fund's MySuper diversified investment portfolio included Multi-Asset and Alternative asset classes which were invested differently to the test benchmarks. The investments in these two asset classes included allocations to a range of asset classes with less shares held than the comparison benchmarks. Over the assessment period, the returns from shares outperformed the returns from these diversified assets.

The CEO highlighted that the fund has implemented or is implementing a range of strategies, which have been designed, as part of the Fund's ongoing strategy reviews, to improve long term return outcomes.

The year in review

The CEO provided an overview of the fund's operations in the past year, highlighting the below.

- a) The fund continued to deliver positive net returns with the Balanced (MySuper) option returning 9.94% for the year to 31 December 2021 and 7.82% p.a. over 10 years.
- b) The fund's competitive fee structure; for example: (i) the total annual fees for the fund's MySuper product for \$50,000 and \$100,000 balances are among the lowest fees within the industry; (ii) the total annual fees for the Accumulate Plus Choice options (calculated based on \$50,000 and \$100,000 balances) remain lower than the median fees across the industry; and (iii) the total annual fees charged for all investment options within the fund's Retirement Access range (calculated based on \$50,000, \$250,000 and \$500,000 balances) remain lower than the median fees across the industry³.

- c) The fund's expense ratio (expenses relative to assets) and cost per member is below the SuperRatings industry median (i.e. lower expenses)⁴.
- d) The fund's members receive higher levels of cover for every one dollar they pay in current premiums for death cover, total and permanent disablement cover when compared to the SuperRatings industry median⁵.
- e) The overall insurance offering remains competitive even with the premium increases on death and total and permanent disablement cover from 1 March 2022.
- f) A full review of insurance arrangements was conducted in the last 12 months, including the ongoing adequacy and affordability of the current default design across all age groups; and levels of affordability offered by alternative default designs.
- g) The fund remains large enough to enjoy the benefits associated with scale and manageable enough to deliver bespoke services that meet the needs of its members, with funds under management grown from \$6 billion to \$13 billion over the past 10 years.
- h) 63 seminars were delivered to over 600 members in the past year through digital channels, with over a third of members taking action on their superannuation post seminar.

A detailed assessment of the outcomes delivered to members across investment returns, fees, insurance and services is available in a ['Member Outcomes Assessment'](#) on the fund's website.

Transition to new service providers

The CEO reiterated the benefits of the transition to new administration service providers noted by the Chair. These include cost savings, better capabilities to enhance the fund's default investment approach, an enhanced digital experience such an app for both IOS and Android and improved website, and a revamped financial advice offering for members.

He explained the reasons to freeze transactions from late February to early April 2022 and the implications of the freeze as a result of this transition as previously notified to members. For example, member transactions will pause, however, employer contributions and pension payments will continue to be received and made respectively; and the investments of the fund will continue to be managed largely as normal.

The CEO acknowledged that the freeze period might be inconvenient for some. He also noted the material long term benefits of the transition and the timeframe for the freeze is consistent with similar transitions undertaken in the industry.

3 In FY2021, sourced from SuperRatings Pty Ltd (ABN 95 100 192 283, AFSL 311880)

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5 Based on SuperRatings Benchmark Report 2021

Introduction of the LifeCycle MySuper option

The CEO remarked on the replacement of the fund's default Balanced (MySuper) option with the lifecycle (MySuper) option in 2022, designed to enhance retirement outcomes over the long-term.

The investment strategy (or strategic asset allocation) in the default lifecycle (MySuper) option will be adjusted over the lifetime of a member. Younger members generally have more time to ride out the ups and downs of investment markets in order to achieve higher returns over the long term; their investment strategy will be invested in more aggressive growth seeking assets, such as shares. As members age, tolerance of risk may change as they generally start to consider drawing on their superannuation to fund their retirement, so while still requiring growth in their account; their investments will generally become more diversified seeking to provide smoother returns over time.

Choice investment option menu

The CEO also spoke to the upcoming changes to the Choice options aimed at providing an enhanced range of risk/return profiles to meet the needs of the fund's membership.

The new choice menu will give members a wide spectrum of choice to cater for different member risk appetites, including the addition of a High Growth option and changes to the Growth, Balanced, Moderate, Conservative and Cash options.

These changes are anticipated to occur at the same time as the introduction of the lifecycle strategy and will be communicated to members in the coming months.

In his closing remarks, the CEO thanked members for their engagement, acknowledged the challenges over the past year but assured members that he and the Board are working towards delivering members a better retirement outcome.

5. CIO'S address

Key focus areas

The CIO outlined that her address would cover:

- 5.1. Investment philosophy and beliefs
- 5.2. Performance of investment markets
- 5.3. The fund's investment performance
- 5.4. Key investment initiatives implemented over 2021, and
- 5.5. Climate change action plan.

She highlighted that most of the information covered mainly relates to the Accumulate Plus super and Retirement Access pension products, in particular the default Balanced (MySuper) option.

The investment strategies for the fund's Defined Benefit divisions are different and, importantly, remain fully funded and in surplus. Further information on the Defined Benefit strategies is in the fund's [Annual Report](#) available on the fund's website.

5.1. Investment philosophy and beliefs

The CIO highlighted the:

- a) fund's investment philosophy is expressed through eight investment beliefs (which are available on the Fund's website) and built upon two key tenets, being to generate strong long term returns while protecting against downside risk
- b) fund's diversified investment options are designed to achieve long term growth whilst maintaining appropriate level of diversification to help meet investment options' return objectives through a range of market scenarios
- c) fund's diversification-oriented philosophy has generally resulted in a lower exposure to shares in recent years compared to its peers, and
- d) upcoming change in the default MySuper option design is expected to result in exposure to growth assets for younger members to be more in line with peer funds and contribute to enhanced retirement incomes for members.

5.2. Performance of investment markets

The CIO provided an overview of the performance of investment markets over the past year noting:

- a) the wide spread of returns across asset classes, which saw:
 - i. strong share market returns with bouts of volatility in shares as new strains of COVID emerged and the anticipated impacts of sooner than expected unwinding of governments and central banks stimulus
 - ii. flat or even negative returns on more traditional defensive assets such as cash and government bonds with interest rates and bond yields continuing at all-time lows and bond markets adversely impacted by upward surprises in inflation data
 - iii. long-term diversifying assets such as property and infrastructure delivering strong returns, and
- b) the falls across sharemarkets and bond market yields rising in early 2022, driven by several factors, such as higher inflation numbers, especially in the US (a signalling by central banks of their intent to unwind stimulus and increase interest rates) and more heightened geopolitical risk, and
- c) that with many asset classes trading at near historic highs and the possibility of sharemarket returns over the medium term being lower than those observed in recent years, diversification within investment strategies while maintaining appropriate levels of growth exposure, particularly over the longer term continues to be important.

5.3. The fund's investment performance

The CIO shared with members the fund's investment performance measured against multiple lenses, including:

- a) performance of each of the Accumulation options over the calendar year to 31 December 2021 (on a net of tax and fees basis), the returns ranged from 19.8% for the international share options to -1.5% for the Fixed Interest option, demonstrating the spread of asset class returns
- b) the Balanced (MySuper) option's 12-month performance to 31 December 2021 was 9.94% p.a.
- c) performance against investment return objectives, which have been exceeded for all Accumulation Plus options and Retirement Access options over their objectives' 10 year period to 31 December 2021
- d) the MySuper option's net returns relative to the median results of peers over 7 and 10 year periods lagged largely due to the lower allocation to shares which, however, ensured less volatile returns than almost all MySuper peers⁶
- e) the fund's Choice options, which met their long term return objectives over the 10 year period to 31 December 2021 and, when compared to peer options, the majority of the fund's options matched or outperformed peer medians over the long term⁷, and
- f) the Your Future Your Super performance test, acknowledging the disappointing outcome and the need to adapt to the changing regulatory environment including the introduction of this test, with a range of investment initiatives implemented aiming to address and improve outcomes.

5.4. Key investment initiatives implemented over 2021

The CIO explained the five asset classes (building blocks) used in the design of the fund's diversified options and the enhancements made to these building blocks, aimed at improving the outlook for the investment options.

The key changes to the diversified options included:

- a) a reconstruction of the Alternatives portfolio with the introduction of new strategies and new investment managers:
 - i. specifically introducing a specialised credit strategy which includes a diverse range of loans to private, corporate, emerging and securitised credit markets, aimed to strengthen returns while driving further diversification, and
 - ii. a reconstruction of the Alternative Risk Premia strategies by updating the investment manager composition
- b) instructing some of the Multi-Asset managers to measure their portfolios in-line with the benchmarks used by APRA, and

- c) completing the sale of a retail shopping centre in Queensland within the Real Assets portfolio at a premium to book value aligning with the long-term objective to diversify and expand the property and infrastructure portfolios.

5.5. Climate change action plan

The CIO remarked on the work undertaken on climate change over the year, including:

- a) committing to a net zero carbon emissions across the fund's investment portfolio and operations by 2050, and at least 45% reduction by 2030 as an interim target
- b) implementing, in the first half of 2021, a fossil-fuel related exclusion across the portfolio's direct holdings, excluding companies that derive more than 10% of their revenue from thermal coal and oil tar sands mining
- c) commencing work with the fund's investment managers to set decarbonisation targets across various asset classes and strategies, and
- d) enhancing the Real Assets portfolio to improve the investment proposition and support the climate objectives.

The CIO concluded her remarks by thanking members and reiterating the commitment to the continued delivery of sustainable investment performance to members.

6. Questions and answers (Q&A) session

Panel discussion

The IC Chair opened the Q&A session and reminded members that questions would be answered in the meeting and/or in writing and made available on the fund's website along with meeting minutes (refer to Member Q&A).

The IC Chair thanked members for their questions.

7. Closing remarks

The IC Chair, on behalf of the Board, thanked all those present for attending the meeting and invited members to contact the fund should they have any questions on their superannuation accounts.

8. Meeting close

The meeting was declared closed at 6:30pm.

6 As measured by the 7 year volatility/annual standard deviation of the fund's MySuper option against individual peer MySuper options as at 31 December 2021 (published in SuperRatings' SR Super Volatility and Risk-Adjusted Return Survey, SR50 MySuper Index, as at 31 December 2021)

7 As published in SuperRatings' monthly Fund Credit Rate Survey, referring to relevant options' SuperRatings peer group

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Video recording

A video recording of this annual member meeting is available to members on request by contacting the fund's contact centre on 1800 023 928 or +61 3 8306 0977 (if calling from outside of Australia) from 8am to 7pm (AEST/AEDT) Monday to Friday.



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