MINUTES OF THE LGIASUPER ANNUAL MEMBERS MEETING
BRISBANE CITY HALL, 64 ADELAIDE ST, BRISBANE CITY
THURSDAY, 29 OCTOBER 2020

TIME:
12.00 – 1.30pm

1. Welcome and Introductions
2. Chair's Message
3. Chief Executive Officer Update
4. Chief Investment Officer Update
5. Member Question and Answer
6. Meeting close

ATTENDEES:

John Smith	Chair
Peter Kazacos	Director (via video link)
Ron Dewhurst	Director (via video link)
Greg Hallam	Director
Ros Heit	Director
Ray Burton	Director
Jennifer Saunders	Director
Kate Farrar	Chief Executive Officer (CEO)
Garnett Hollier	Chief Financial Officer (CFO)
Troy Rieck	Chief Investment Officer (CIO)
Eleanor Noonan	Chief Operating Officer (COO)
Andrea Peters	Chief Growth Officer (CGO)
Ivan Ortiz	Chief Technology Officer (CTO)
Shelley Sorrenson	General Counsel and Company Secretary (GC)
Shawn Chan	Chief Risk Officer (CRO)
Nick Wilkinson	Willis Towers Watson, Actuary (via video link)
George Sagonas	Pricewaterhouse Coopers, Auditor (via video link)
Paul Collins	Pricewaterhouse Coopers, Auditor
Tim Cox	Master of Ceremonies (MOC)

APOLOGIES:

Cr Mark Jamieson	Director
Cr Cameron O'Neil	Director

#	Agenda Item	Presenter
	Meeting Commenced at 12.00pm	
1	**Welcome and Introductions** Tim Cox as host of the Annual Member Meeting welcomed members to the second LGIAsuper Annual Member Meeting, acknowledging the traditional custodians of the land paying his respects to the Elders, past present and emerging.	Tim Cox, MOC

2 Chair's Message — John Smith, Chair

The Chair welcomed and thanked everyone for joining the meeting. The Chair presented information on the following:

- LGIAsuper has endorsed new strategies for the fund and for the benefit of members;
- Significant legislative changes at the beginning of the year;
- COVID-19 impacts and global economic slowdown, market fluctuation and investment performance – the fund is in a strong position;
- LGIAsuper's response to the COVID-19 pandemic including the early release scheme and temporary reduction in the minimum withdrawal amount for pension accounts;
- Successful transition to a new administration system with LGIAsuper's technology partnership with Tech Mahindra;
- Consolidation in the industry and proposed merger with Energy Super, including:
    - background and rationale;
    - commitment to member services;
    - commitment to remaining a community-based fund;
    - maintaining focus on the local government sector; and
    - any merger must be in the best interests of the members and be backed by a strong business case.

The Chair reiterated LGIAsuper's commitment to cost savings, the core philosophy of putting members interests at the forefront and the fund's key priority of growth and innovation.

3 Chief Executive Officer Update — Kate Farrar, CEO

The CEO spoke about the work done by LGIAsuper over the past year, noting LGIAsuper's highlights for 2019/20, including:

- Introduction of online videos and webinars for super health checks and webinars;
- Reduction of administration fees;
- Leveraging partnerships such as TAL, Tech Mahindra and JANA;
- Launching Superhub platform and additional online channels;
- Increased security of members' data and other member online improvements, including digital newsletter;
- Governance of the fund throughout COVID-19;
- High standards of service including growth and innovation; and
- LGIAsuper's changes to the structure of asset classes and strategic asset allocations of investment options.

The CEO noted the achievements for LGIAsuper over the past year:

- Net Promoter Score and Assessment of Member Sentiment was 13, an 86% increase, moving up four places to ninth overall;
- SuperRatings' Platinum Award for the 12th year running;
- Five Apples from Chant West and ranked in the top 10 best performing funds for calendar year 2019;
- Finalists in the Chant West Conexus Financial Super Fund Awards for Member Services Best Fund and for Super Fund of the Year; and

- LGIAsuper's key diversified options were top five performers in their category and the fund has also performed very strongly against competitors over three, five and ten years.

The CEO spoke about the potential merger with Energy Super noting:

- Energy Super and LGIAsuper have high level of similarity:
    - Energy Super is a specialist sector fund
    - Both funds are profit for member funds;
    - Both funds have the same inspirations – achieving better scale but remaining boutique and personalised funds; and
- The merger can maximise member returns and keep costs low – potentially a 10% improvement in fees overall for members.

The CEO addressed the top three questions received from members with regards to the merger including:

- Staffing and redundancies:
    - The MOU provides a no redundancy policy for 18 months, to end of June 2022; and
    - All roles in the organisation will be subject to a merit-based selection process from within our existing team members to determine where each individual sits in the organisational structure.
- Whether a member vote to ratify the merger is planned:
    - No. It is not required by the regulations;
    - When an agreement is reached by both Boards, a successor fund transfer will be undertaken; and
    - LGIAsuper cannot change anything for members until it has been communicated and members have been given time to consider it.
- Whether the name Energy Super means that the fund is heavily weighted in its investments towards oil, gas, or other fossil fuels:
    - No. The name Energy Super reflects the fund's heritage and status as the fund for Queensland's electricity sector workers, including those from the distribution and transmission sectors who move renewable energy.

4 Chief Investment Officer Update — Troy Rieck, CIO

The CIO welcomed everyone in attendance and sought questions from the members on the floor and online.

The Chief Investment Officer (CIO) covered the following topics:

- 2019/20 year in review (including diversified options accumulations returns; long term investment performance and single asset class options);
- Global change in share markets following the COVID-19 pandemic;
- LGIAsuper generating positive returns and performing above medium;
- The importance of diversification and long-term investments from the perspective of wealth compounding;
- Investment programs including in Australia and internationally;
- The challenges of diversification amongst the risk profile;
- Asset Class performance in 2019/20 (Accumulation);
- Staying competitive with various awards being won by LGIAsuper;
- Socially responsible investment options;
- Market outlook having regard to the COVID-19 pandemic and lack of vaccine;

- Challenges in traditional assets investments and responses.

5 Member Question and Answer

Panel: John Smith, Chair; Kate Farrar, CEO; Troy Rieck, CIO

Mr Cox invited questions from the floor and those streaming online.

Q1 What is the timeline on knowing whether or not that merger is going to go ahead? If it does not go ahead, would you look for another partner?

Response from John Smith

The timeframe that we are working towards and very much on track is to aim to sign a binding Heads of Agreement by the end of December, with a plan to transition by 30 June next year. At this stage we think it will go ahead. The two teams from each board are working really well together. There is a likeness to our thinking, a likeness to be really focused on members, and the way we provide services. If it did not go ahead, that would be really disappointing.

We did do an assessment across the industry. We contacted seven other funds or thereabouts. Energy was well out in front but there are others. One of the key things we put as a requirement for this merger and any merger was to leverage the Tech Mahindra partnership. They are digitally very advanced. We think it is the best facility a fund can have to actually deliver services effectively and cost effectively.

Q2 How does LGIAsuper set targets for your investments and how do you assess how you have performed?

Response from Troy Rieck

We are trying to build an investment program that gives members choice. We build these diversified options that have various levels of risk, as well as a single sector option. The return targets are deliberately set – Aggressive has a higher target, Balanced, Stable, and Defensive have lower targets.

The maths behind that is about replacement of income in retirement. We measure ourselves over time on those outcomes. We are also trying to take into account current market conditions. We will change those allocations to try and maintain those expected return targets over time. And then we benchmark ourselves both against that target, peers and internally.

Q3 When will we have our annual statements for the previous financial year?

Response from Kate Farrar

All of the Pension and Accumulation Statements have already been dispatched and we are now in the process of dispatching the Defined Benefit Statements.

Q4 Which of the options should I invest in to be benefited from the high potential returns in renewable infrastructure? Are you looking to invest in any solar, wind or battery or transmission infrastructure in Queensland?

Response from Troy Rieck

The infrastructure asset class contains all of our renewable infrastructure. We feature Waterloo wind farms. We have talked about T Grupo Solar. So all of the diversified options, Defensive, Stable, Balanced, Diversified, Growth, Aggressive and MySuper contain some infrastructure. We do find the prospects for infrastructure investments in renewables in Australia quite interesting. One of the great challenges we have had in Queensland is transmission of power from remote Queensland in particular, marginal loss factors have recently been increased. I am hoping that we can solve some of those transmission issues quickly, in which case renewable power becomes a more attractive investment proposition too.

Q5 If a merger proceeds, what is the process for choosing the CEO and board members for the new roles?

Response from John Smith

It is a merit-based approach. The first process would be to determine the best CEO and that sets the tone for how we make the decisions right across the organisation. We will be looking for that CEO to present their vision for the joint business and we are looking at their credentials to actually deliver on that promise. Once we have selected the CEO, the CEO, the Board and the Joint Steering Committee will be involved in selecting the structure of the organisation and the positions to fill. We are also providing a no redundancy policy for 18 months, to end of June 2022.

Q6 I understand that the super daily returns are pegged to the share market and other investments. However, when there appears to be very good day on the share market, the super return does not often appear to fully reflect the share market return. What is the algorithm used to calculate super returns?

Response from Troy Rieck

There are two important things for members to think about when they are looking at those earnings rates that appear on the website. One is that there is a one business day lag between what you see happen in markets and what you see published on the website. The second thing is that share markets are not the only thing in the investment program, so it is not always going to be a one for one change between what you see in the share market and what you see in the unit prices.

Q7 Do you envisage any further significant changes in the government's policy or regulations on superannuation, particularly as we try and get the economy moving again?

Response from John Smith

On a high level, about 30 Chairs got together with Jane Hume, who is the Senator responsible for super, and Stephen Jones, who is the Shadow, to talk about policy and where they are heading. There seems to be a lot of discussion around

the current 9.5% and whether we will go to 12%. The Budget also contained quite a significant number of announcements in this respect.

<u>Response from Kate Farrar</u>

It is an enormous period of change within the superannuation industry. A lot of it is arising out of the Productivity Commission and Royal Commission reviews. The biggest announcement by far, which was in the Budget this year, was to do with the way default funds are allocated to members. And there were two announcements within that. The first one was that the fund that you start your working life with would follow you throughout your career. This aims at trying to reduce the number of multiple accounts that members have.

The other aspect was that last year APRA released a performance monitoring system, called its heatmap, and the government has extended that heatmap performance into our legislative process, whereby if you underperform on the heatmap for two years in a row, you will not be able to take on any new members. That was a very significant stepping up of the remit of APRA's performance monitoring system. These two pieces are very big changes to the structure of the superannuation system. There may also be some changes to the way insurance is operated within superannuation. We would expect that the regulatory environment would continue to change for superannuation, certainly for the foreseeable future, and we will respond to that.

Q8 How much is this meeting and the catering costing members?

<u>Response from Kate Farrar</u>

It costs about 4 cents per member per day to put this on, which we think is a really important investment. We are now required by law to hold Annual Members Meetings, and it is a fantastic opportunity not only for the Executive Team to meet with you and for you to talk with our growth specialists and our advisors, but also a good reminder of our purpose.

Q9 Are the international investments that you spoke about in teak or lettuce limited to any particular fund or across all of them?

<u>Response from Troy Rieck</u>

We think that international investment program is important for everything that we do. With the exception of cash and Australian shares, we invest part of every asset class into the global portfolio. So, infrastructure, in real estate, for example, we have some value-add funds based in the UK and Europe. Global shares is obviously a large part of the portfolio, and most of our alternatives have been internationally based as well, a mixture of Australian bonds and global bonds. I think it is really important that every member who is invested in those diversified options, or even most of the single-sector options, should know they are invested in that global program to one extent or another.

Q10 What percentage of your members are affected by COVID-19? Is there anything you can do to assist those members?

Response from Kate Farrar

The first point is to discuss early release. There was the early release scheme, which was put in place by the government very quickly in order to allow our members affected by COVID-19 job losses and income reductions to withdraw money from their super. We had around 15% of our members actually accessing that early release. And that was 1% or thereabouts of our funds under management. So, it was not really significant for us in terms of funds under management as a fund, but certainly that was a loss of members. The hypothesis we draw from that is that a number of our members have been impacted by COVID-19, and in terms of support for that, one of the things we did was to take a reduction in our cost base and our earnings.

Response from John Smith

We discussed as a Board what we should do in terms of understanding the circumstances a lot of our members were in, and we were getting the feedback that many were being affected. The Board did take a reduction in remuneration. The CEO also offered the same thing for us, and then shortly thereafter, the Executive Leadership Team followed. We did talk about extending it as a Board but we did not want the Executive Team to follow us because they were working so hard and we were putting them under so much pressure. We did not see the point in actually taking it any further with them. So, we are very pleased to align with the people that were struggling at the time, but we have to get back on and do the job, and we really are thankful for the team to continue to do the really hard work of support, and it is not going to get any easier as we head into a merger.

Q11 I noticed the Australian Super International shares for last year were 11.46% and LGIAsuper international shares were 3.44%. That is a big difference. What are your strategies for this year to compete with that?

Response from Troy Rieck

We cannot speak to the risks that AustralianSuper was taking to generate those returns. What we can speak to is what we are doing here at LGIAsuper. So, we have pulled up the survey as of 30 September, and our international shares option has generated 6.8% per annum over the last year. That is 14th out of 50, 9.1% over three years, 19th out of 50 and 9.9% per annum over five years, that is 12th out of 50. So, that is top quartile, second quartile returns over one, three, and five years. We are pretty happy with that.

Q12 Were there any specific factors that saw LGIAsuper change life insurers from OnePath to TAL?

Response from Kate Farrar

We ran a pretty rigorous tender process, and that included OnePath, TAL, and one other insurer, and we looked at pricing, the services offered to members and claims experience of the new insurers. TAL was by far the preferred choice, and they have not disappointed us. We have now completed our first year with them. The Board is doing a first-year review at our next Board meeting. They have been

outstanding partners, both from a service perspective and also in terms of claims for members and delivering great value.

Q13 Will executives be receiving bonuses during the COVID-19 pandemic?

Response from John Smith

No, we do not pay bonuses. Our remuneration structure is based on getting the best advice we can to provide the right remuneration to attract and retain people. We have some flexibility within that to pay at market, above market, for high performers, so we are rewarding people who perform well, but we don not pay bonuses.

Q14 What strategy does LGIAsuper have in place to ensure that newer local government employees swap to LGIAsuper from their existing fund?

Response from Kate Farrar

One of the big strategy moves that we have for the current financial year is to slightly reorient away from retaining existing members, which is still obviously very important, but also to focusing very much more on making sure that we get our full share of local government employees.

One key thing that we have done is the introduction of Super Hub. We have 16 Councils with Super Hub now, a digital portal that comes up through the intranet of those councils. That is a fantastic way to ensure that new people are able to access information about LGIAsuper. Our growth and relationships teams are starting to go back on site to local governments, making sure that they see not just existing members, but also potential new members. We are also working closely with HR and payroll teams to make sure we are getting to inductions. So, the teams are very focused on making sure that we are the best local government fund that we can be, and making sure that we have really good penetration there.

Q15 Where do you see diversified fixed interest being at the end of the financial year?

Response from Troy Rieck

We do not have a view for the next two and a half months, but we know from a long-term perspective that fixed interest is generally a really challenging asset class. We are only really hanging on to it now for liquidity and that cushioning effect. It is a challenging time to go out and buy bonds when they yield less than 0.8% per annum for the next 10 years.

Q16 Is an investment option centred around commodities going to be offered?

Response from Troy Rieck

We have no current plans to offer an option around commodities for two reasons. One is that they cost money to set it up. Number two is, you can see from our choices online, the vast majority of the money actually sits in the diversified

options. So, we do think that a diversified options program is the way for almost all members to go. We do offer some single-sector options there for members who want to build their own portfolios or their advisors who want to do so, but commodities is not currently on the program.

Q17 Last I checked, you can invest in infrastructure as a single asset class. Has that changed?

<u>Response from Troy Rieck</u>

You cannot invest in infrastructure as a single asset class. Property is a separate asset class that members can invest directly into. For the present time, given the discussions around the SFT, we are not planning to change the lineup of our options.

Q18 Why do we not have a local representative in North Queensland anymore?

<u>Response from Kate Farrar</u>

LGIAsuper is more heavily weighted towards South-East Queensland than Northern Queensland, and the closure of our North Queensland office was a reflection of that fact. We needed to make sure that we were applying our resources in the places where people were. One of the potential benefits of a merger with Energy Super is that we would have, together, a really well-spread portfolio of members across all of Queensland. And they do have services outside of Brisbane and our expectation is that we would be able to leverage those services for the benefits of members outside Queensland as well. That is definitely one of the things that we have been looking at to make us quite excited about the potential of the Energy Super merger.

Q19 What areas and in what companies is the fund invested in?

<u>Response from Troy Rieck</u>

For those who are interested in more of the details, we do put some of our top holdings on the website. We are invested in approxmately 2000 individual investments at the present time for the diversified options.

Q20 Any idea when the government will release the results from the retirement income review?

<u>Response from Kate Farrar</u>

No. Sorry, they are yet to tell us.

<u>Response from John Smith</u>

There are around 600 pages in the report but we have not heard any more. We would love to see it so that we can actually get our teeth into it. We simply do not know. So, sorry, we cannot help you.

Q21 What changes, if any, has LGIAsuper made in its investment placements since the Rio Tinto destruction of Aboriginal ancient sites, and which current options for members are free of Rio Tinto shares?

<u>Response from Troy Rieck</u>

We have made no changes to our portfolio. The approach we take with respect to issues like Juukan caves' destruction in Rio Tinto is, we are very much in favour of engagement rather than divestiture. And it is a simple reasoning behind that. If you are a shareholder, you have influence over the board, the investment strategy and the staffing, particularly at the executive levels. If you are not a shareholder, you have no influence. So, we could easily sell our shares, but we would be getting rid of what we think is a long-term winner in the portfolio, and we would have absolutely no say over their behaviour.

In terms of the options that do not invest into Rio Tinto, members who invest in cash, diversified, fixed income, and property, there is zero exposure in there. We have about 2.5% in the Australian equities option and a very small holding in the international equities option. So, it is really a proportionality thing for us. We think it is a more nuanced conversation, we are not black-and-white thinkers about these issues.

Q22 With the current low interest rates, are the diversified growth option and the MySuper Under 75 funds similar?

<u>Response from Troy Rieck</u>

Yes, they are very similar. We do have small differences in the allocations, but they are very, very close.

Q23 How are we doing transitioning our investments away from fossil fuels and towards renewables in line with the Paris Targets?

Q24 What ethical and climate change and innovations are our funds supporting?

<u>Response from Troy Rieck (for both questions)</u>

It does fit into these investment strategy changes we are looking at. In the infrastructure portfolio, we have made an investment with a group called Lighthouse, which specialises in disability and social accommodation. We think that those stable, predictable cash flows, which are backed by government contracts, are great investments in the current environment, and if we can do well by doing good, so much better. A big part of this strategy is about looking for certainty, but finding certainty that can generate sufficient returns so that members can build that retirement balance.

Broader questions about ESG and fossil fuels. It is a really challenging thing for us to think about. We do have a number of investments that are related to fossil fuels without being involved in fossil fuel discovery or manufacture, the North Queensland gas pipeline, for example. The challenge we have is if we turned off all the fossil fuels tomorrow, the economy would grind to a halt. We do think there

is a transition process underway. We are very interested in what that means for our current investments, but also the future prospective investments that we would like to make. So, we certainly think about those as we go about changing the portfolio over time.

6 Meeting close

Tim Cox, MOC

Tim Cox thanked all members and attendees for their time and encouraged guests to visit the exhibition booths.

Meeting concluded at 1.33pm

Signed as a true and correct record:

Chairman

3 December 2020

Date