

Sunsuper Annual Member Meeting - 6 February 2020

Answers to member questions not addressed at the meeting

Q1 Do you have/can you provide a comparison graph showing the growth from a \$10,000 deposit in the Socially Conscious option vs the graph shown for the Balanced option earlier in the presentation.

A1 You can review and compare the performance of each of our investment options over 1, 3, 5, 7 and 10 years on our [website](#).

Q2 There is some momentum being gained within financial circles suggesting that “another potential market ‘correction/downturn’ becoming more likely”. Can you comment on the validity of this statement? Within the Sunsuper ‘standard portfolio mix options’ (e.g. Balanced, Growth, Conservative, Retirement), does each portfolio adjust its investment mix based on a potential ‘forecasted’ correction? Or should investors (e.g. Me) log onto Sunsuper online and make adjustments to our investment mix, based on our own assessment of the information being presented to us?

A2 There is no way of knowing with any certainty how the economy and financial markets will evolve over the short-term. We at Sunsuper don't invest money on short-term market forecasts. We are committed to our members' best interests which is why we carefully construct portfolios with a view to meeting and preferably exceeding the medium to long-term investment objectives set for our investment options. And we offer a range of investment options designed to suit our wide range of members and their differing life stages and risk appetites.

A market correction will come at some point as corrections and financial downturns are inevitable and all members will likely experience many such events during their investment lifetime. We also know that every downturn comes to an end, and over time, the economy, businesses and financial markets move on. However, our members will have widely differing investment timelines to cope with such downturns. Someone close to, or in retirement will likely need a more conservative portfolio so that any impacts from a market downturn can be reduced. In contrast, someone much younger may well be able to accept higher risk and have time to benefit from an eventual market recovery. We believe that selecting an investment strategy that suits your circumstances is a more reliable way to invest than attempting to predict the timing and duration of shorter-term market movements. Please let us know if you would like one of our financial advisers to call you to discuss your investment choice.

Q3 Can you give some insights into any assessments in relation to the cash/cash-equivalent instruments (CCE) and counter-party risks? In reference to Basel III from BIS, physical gold (& ETF) being recognised as such an equivalent recently, what appetite does the board have to include such an alternative asset selection?

A3 The Basel Accords do not apply to superannuation funds, like Sunsuper. Like all Australian superannuation funds, Sunsuper does not employ leverage: all investments are funded from member contributions. By contrast, banks are structured quite differently and are required to meet minimum risk-weighted capital requirements consistent with the Basel accords.

Having said that, our investment implementation does lead us to incur counterparty risk and we do take guidance from the methodologies outlined in the Basel Accords to measure our potential future exposure with respect to counterparty risk. However, we employ our own framework for managing counterparty risk which includes measuring and monitoring our potential future exposure and managing our exposure through collateralisation. With respect to gold, we would consider direct gold investments to be liquid from a liquidity risk management perspective, but we would not include gold in our cash portfolio, given its substantial price volatility. Given the price volatility, changes in the regulatory treatment of gold would be of limited influence and any investment decision to invest in gold would be primarily based on the expected return from the investment with the potential value of gold as collateral being a minor consideration.

Q4 I accept that in the past, over the long term, the Balanced fund has shown growth. But for older retired members, the long term may not be soon enough; e.g. following a GFC event. What is Sunsuper's policy on actively managing the diversification of the Balanced fund in times of high volatility?

A4 You are correct that the Balanced option may not be appropriate for those either approaching or in retirement, as it does have a significant exposure to growth assets such as shares. The Retirement option, which is much more defensively positioned, may be more appropriate for members approaching or in retirement. That's why Sunsuper's default Lifecycle Strategy gradually transitions members away from the Balanced option and into the Retirement option between the ages of 55 and 65. As always, we recommend our members seek financial advice to decide which option or combination of options is best for them.

Q5 In view of the higher P/E ratios currently being experienced and because of the late cycle period, are you expecting more investment in unlisted assets as well as lower allocation to the US?

A5 We haven't significantly increased our unlisted holdings, which are already substantial, and generally higher than many competing funds. While PEs are elevated in the US, elsewhere valuations are not as excessive, and shares still look very attractive compared to both cash and fixed income where future returns are likely to be very low. While we do acknowledge that we are in a late cycle world, the world could stay that way for some time - we don't believe there is a reliable way for super funds to attempt to "time" the cycle.

Q6 Given the nature of illiquid assets - how are they valued on an ongoing basis in a members Balanced account?

A6 Sunsuper's unlisted assets valuations are generally provided by investment managers who usually engage independent valuation specialists, often from the four major global accounting firms or specialist valuation firms. Where valuers are appointed by investment managers, Sunsuper provides input on the selection of the valuer and ensuring their valuation method complies with the requirements of our regulator (APRA) and the relevant fair value requirements of the Australian and international accounting standards. Depending on the asset class, valuations are carried out either monthly, quarterly, six-monthly or annually. In addition, valuations occur throughout the year: for example, not all property assets are valued at the same time annually. New valuation assessments are regularly incorporated into our portfolios. At least 80% of our unlisted assets are revalued in any given quarter.

Q7 What strategies are investment managers taking to mitigate losses against effects of the Coronavirus on our investments. Are they looking at hedging against possible downturns?

A7 We are not taking any particular steps to mitigate investment losses from coronavirus. These episodes do not tend to have a long-lasting impact on investment returns, and after an initial shock, share markets have recovered. Nevertheless, we are closely monitoring how the crisis evolves and its impact on the Chinese economy, including being in close contact with our investment managers who have exposures in China. At Sunsuper, we have no way of knowing with any certainty how the economy and financial markets will evolve over the short-term. We don't invest money on short-term market forecasts. Hedging against market downturns inevitably imposes a cost on performance, and we don't believe it's possible to reliably predict when such hedging may be warranted. However, it's worth remembering that our significant holdings in alternative assets - particularly our unlisted assets - means that Sunsuper members are less exposed to short-term share market volatility than members in many other funds.

Q8 Would investing in new healings such as medicinal CBD oil be something Sunsuper would consider.

A8 We have an extremely small exposure to two Canadian medicinal CBD oil companies - Aurora Cannabis and Canopy Growth Corporation - within our international share portfolio. There are only a few companies involved in the industry and they are (at this stage) very small. There is no specific reason why we would exclude such companies in the future.

Q9 Please could you elaborate on what Sunsuper is doing to (a) identify, assess, manage and mitigate its climate-related financial risks from the top to the bottom of the organisation (i.e. the impact of climate change on its business/investments and the impact of its business/investments on climate change); (b) disclose those risks to the market and members in line with the recommendations of the Taskforce on Climate-related Financial Disclosures and similar regulatory frameworks in Australia; and (c) in light of the above, to actively plan for and manage its investments to maximise returns in the context of the growing global decarbonisation transition?

A9 In line with Sunsuper's fiduciary duty to members, material risks and opportunities relating to climate change are considered from an investment perspective. We distinguish two broad categories of investment risk from climate change: physical risks and transition risks and seek to incorporate consideration of these risks within the investment process. Our approach and activities undertaken in 2019 to manage climate-related investment risks and opportunities are available in the 2019 Sunsuper Responsible Investment Report on our website at <https://www.sunsuper.com.au/members/investments/responsible-investing>. We support the recommendations of the Taskforce on Climate-related Financial Disclosures and intend to align our reporting to their recommendations. Looking forward, our approach to managing climate-related financial risks is continuing to evolve, with a number of initiatives underway in 2020. As part of our responsibility to members, we will continue to provide transparency into our approach and activities to manage climate change investment risks and opportunities.

Q10 How does superannuation compare to general interest rates?

A10 There are a few ways to look at this. Firstly, past returns from superannuation funds - particularly balanced and growth funds - have been much higher than the returns available on interest bank deposits, which have been close to historic lows. However, while we expect medium to long-term future returns from super to exceed those of bank deposits, there is no guarantee that this will always be the case. During difficult share market conditions, super fund returns can be negative,

and the interest earned on bank deposits will look better. Long-term investments that include riskier assets - such as shares and property - generally deliver higher long-term returns than deposits, but they are subject to greater volatility in the short-term - volatility that does not impact on bank deposits.

Q11 What are hedge funds?

A11 Hedge funds ('absolute return' funds) use pooled funds to invest in alternative assets or strategies. This may include the use of derivatives, alternative investments or leverage in domestic and international markets (see more about the definition of hedge funds on the [MoneySmart website](#)). At Sunsuper, our Hedge Fund and Alternative strategies asset class consists of strategies, including traditional hedge funds, which invest in both listed and unlisted securities or their derivatives (e.g. futures, options) with the objective of producing a return well above cash. Traditionally, hedge funds aim to generate returns through their managers' skill and ability to invest flexibly rather than have their portfolios closely tied to, or closely resembling market benchmarks. The Hedge Fund and Alternative strategies portfolio is designed to be defensive: to have low volatility and a very low correlation to the performance of global capital markets (especially share markets). Over time, however, Sunsuper has moved away from traditional hedge funds, becoming less reliant on managers' skill, towards a more opportunistic approach, taking advantage of market disruptions where we consider there is the potential to earn higher returns.

Q12 Are alternative assets and unlisted property classified as defensive or growth?

A12 Sunsuper characterises private equity as a purely growth asset class, as returns are linked to growth in the economy and returns are expected to come largely from growth rather than income. Our Property and Infrastructure portfolios seek to provide returns between that of shares and fixed income. Returns from the unlisted property portfolio are largely income - the rent levied by the property to its tenants - rather than capital gains. Infrastructure also generates much of its return from income but is somewhat more growth oriented than property. Neither asset class fits neatly into a growth or defensive category. Both asset classes capture returns generated by a growing economy, and yet a significant proportion of the returns over time are likely to come from relatively stable income streams. We therefore divide both asset classes equally between growth and defensive. We categorise our Hedge Funds and Alternative Strategies portfolio as defensive: the portfolio is constructed with a strong asset backed and income focus. While the portfolio will

exhibit some growth characteristics from time to time, it is designed to have a very low correlation to the performance of global capital markets.

Q13 Is Sunsuper overweight in its Australian investment versus the rest of the world. It seems like Sunsuper's investments have a bias to Australia in both equities and unlisted. Is this really taking a global approach?

A13 Sunsuper, in common with most other Australian superannuation funds does exhibit a 'home bias' - maintaining substantial exposures to Australian investments. However, in alternative assets, Sunsuper has tended to have a greater exposure to international investments than many of our competitors for some time. Our infrastructure portfolio is just under 50% invested in Australia/NZ. Our property portfolio is 68% invested in Australia/NZ but has an objective to reduce that over time. In private equity over 90% of the portfolio is invested outside of Australia while the hedge funds and alternative strategies portfolio is invested almost entirely outside of Australia.

Q14 Will copies of the presentation documents be emailed out to members?

A14 You can review the slides on the video recording of the event via the link that we emailed to you. You can also find the video on our [website](#).

Q15 Is this program [Dreams for a Better World] impacting on our returns, and do we have the option to opt out if so? Our focus and need is to maximise our returns, not participate in altruism when we already donate to other causes. Have you asked your members what they think of this? I don't recall being asked what my position as an investor in Sunsuper is, and how I would like Sunsuper to act on my behalf.

A15 Sunsuper's Dreams for a Better World program does not impact on members' returns. The program is an important part of our sponsorship activity for the purpose of raising our profile in the community and engaging with members, which is integral to the growth of the Fund and is paid for out of the normal budget set aside every year for administration. Our national growth strategy - which underpins all our brand marketing initiatives - benefits members through lower fees, and enhanced services. Further, our research has shown that most members think it's right for us to participate in the communities in which we operate in a meaningful way. When we last surveyed members, 74% said they thought it was appropriate for businesses like Sunsuper to give something back to Australian communities and 61% said that they felt better about Sunsuper because we help people and communities. In the coming months we will again ask our members for their views on the program and we encourage you to participate in this survey.

Q16 The mergers that we have experienced sound like they have been successful however how have they benefited us as members? Have the benefits outweighed the cost of merging?

A16 Our primary purpose is to act in the best interests of you, our members. The mergers we have undertaken, most notably with Kinetic and AustSafe Super, have allowed us to take advantage of economies of scale and capabilities. This delivers better outcomes for our members including greater cost efficiencies which ultimately generate greater value for the combined funds' members in the form of enhanced services and competitive fees. For example, in the past year, we reduced our investment fees and costs for MySuper members in our Lifecycle Investment Strategy option.

Q17 Why spend super returns on fireworks display on the Brisbane River this year.

A17 Sunsuper Riverfire is an important part of our sponsorship activity for the purpose of raising our profile in the community and engaging with members, which is integral to the growth of the Fund and is paid for out of the normal budget set aside every year for administration. Our national growth strategy - which underpins all our brand marketing initiatives - benefits members through lower fees, and enhanced services. Further, Sunsuper Riverfire is a much-loved community event, which last year brought together over 600,000 people from all over south-east Queensland to celebrate Brisbane city. Our research has shown that most members think it's right for us to participate in the communities in which we operate in a meaningful way. When we last surveyed members, 74% said they thought it was appropriate for businesses like Sunsuper to give something back to Australian communities; and 61% said that they felt better about Sunsuper because we help people and communities

Q18 Why does it take longer and longer before we receive our statement. Over last few years the period for this has blown out. E.g. for 2019 it took 5 months before I received my annual statement in the post. When I complained they replied it was the "industry average".

A18 We acknowledge and apologise to you and some other members who experienced delays in receiving your 2019 Annual statement. We are continuing to invest in our infrastructure and processes to improve this timeframe for next year.

Q19 Why can't I use the one email address for my two Sunsuper accounts? Is this likely to change? When?

A19 A member's email address is currently an important identifier for us to ensure the security and privacy of members' account details. However, we are continuing to investigate safe and secure improvements to how members can access their Sunsuper accounts, including using email address.

Q20 Could you please show the rate of return on each member's annual statement so they can compare with the general economy?

A20 Currently we show net investment earnings on members' Annual statements; however, we are always looking for ways to improve the information and reporting we provide to members about their super savings. In the meantime, you can review the performance of each of our investment options over 1, 3, 5, 7 and 10 years on our [website](#).

Q21 I would like an explanation as to why potential conflicts of interest are not clearly found within the statements (for example, Annual statements) issued to members. Examples of potential conflicts of interest include, but are not limited to, any political parties, unions, or employer groups.

A21 Sunsuper meets its regulatory compliance requirements and discloses on the Fund's website conflicts of interest that are considered a Relevant Interest or a Relevant Duty. The Register of Relevant Duties and Relevant Interests is updated periodically to ensure it remains current. Sunsuper has also published its Conflicts Management Policy on the [website](#).

Q22 How has Sunsuper advocated for its members in the retirement income review currently underway and what impact may it have.

A22 Sunsuper welcomes the Retirement Income Review (RIR) that has broad terms of reference. The key objective of the RIR is to gain an understanding of the current state of the superannuation system and to consider how it may perform into the future as the Australian population ages and lives longer. Sunsuper has participated by engaging with key superannuation industry bodies to provide insights and affirm the importance of the mandated system of superannuation as a key pillar and the need for the (already legislated) increase to the SG to be maintained to improve retirement outcomes. The RIR Panel is due to provide its final report to the Government by June 2020.

Q23 Given the raising cost of living (especially health care and services costs) and the lower returns from superannuation balanced funds and/or bank deposits) is Sunsuper or the superannuation industry lobbying the

government to increase the \$1.6M threshold. If so, what is the progress of those representations.

A23 The introduction of the '\$1.6 million balance transfer cap' limits how much superannuation can be transferred to a tax-free 'retirement phase' account. The [ATO](#) has indicated that the cap will be indexed periodically in \$100,000 increments in line with CPI. This measure was introduced from July 2017 with the objective to improve equity in the system by limiting the tax benefits received by individuals with higher superannuation balances. Sunsuper is not actively pursuing any change to this policy.

Q24 Why is the TPD insurance locked in to pay out over 6 years? As opposed to giving those members with a permanent disability the full payment in the year of the permanent injury. It is drip feeding the money to the injured. Not a good member outcome when they are struggling.

A24 Sunsuper has a responsibility to act in the best interests of all our 1.4 million members, and we strongly believe that our TPD Assist insurance product serves this purpose.

Sunsuper's TPD Assist provides either support payments or a single lump sum payment depending on the member's circumstances and which part of the policy definition they meet, with every claim considered on a case-by-case basis. TPD Assist benefits members in two ways. Firstly, TPD Assist allows us to keep insurance premiums low, so that every member benefits from a cost-effective default level of insurance to cover them if they become ill or injured, while at the same time ensuring excessive insurance premiums don't erode members' retirement savings. Secondly, in the event of a claim, TPD Assist provides focus on a member's wellbeing by removing the waiting periods for the majority of claims, provides access to early intervention programs, occupational rehabilitation and, where possible, helps members return to work. This product was only created after asking hundreds of our members who had previously been through the claims process what was critical to their recovery, with almost 70% wanting assistance in vocational rehabilitation, retraining or up-skilling, and 66% wanting help finding a job. All eligible claims are paid with the absolute intention of ensuring the best outcome for the member's circumstances and in the last financial year alone, \$271 million in claims was paid out.

Q25 If a member is not in the workforce and wants to contribute to a member's super account from his savings, what are the various options available including pros and cons.

A25 You can make a voluntary contribution to your super via BPay or Direct Debit through Member Online. In certain circumstances you may be able to claim a personal tax deduction for these contributions. You can find out more on our [website](#). It is also important to consider when someone is able to access contributions made to their account. Again, you can find out more on our [website](#). Or please let us know if you would like us to arrange for one of our financial advisers to call you.

Q26 What is the easiest way to deposit cash into a Sunsuper account?

A26 You can make an after-tax voluntary contribution to your super via BPay or Direct Debit through Member Online. You may also be able to make a salary sacrifice contribution to your super via your employer. You can find out more on our [website](#), or please let us know if you would like us to arrange for one of our financial advisers to call you.

Q27 Can a regular member take his super to 100% cash?

A27 Sunsuper offers 20 investment options, including Cash. Each investment option has a different performance objective, risk profile, asset mix and investment style which may also change from time to time. Each of these features may have a significant impact on your investment return. You can change your investments via Member Online or the Sunsuper app. However, before making any changes make sure you have read the Sunsuper for life Investment guide which contains more detailed information on investment fees and the characteristics of each investment option. Also let us know if you would like one of our financial advisers to call you to discuss your investment choice.

Q28 If I had to return to NZ due to family reasons, what are the procedures to access your super?

A28 You may be eligible to transfer your super between Australian and New Zealand super funds. You can find out more on our [website](#). You also may be able to access your super once you turn 65 or reach your preservation age and retire. Again, you can find out more on our [website](#). Or please let us know if you would like us to arrange for one of our financial advisers to call you.

Q29 What steps is Sunsuper taking to address the inequality between members who are in accumulation vs those who are in pension phase. Accumulation members carry the tax burden for the fund.

A29 The tax status of a superannuation product is determined by legislation, not by Sunsuper. Accumulation accounts and transition to retirement accounts are taxed on earnings and realised capital gains at specific rates as set by the government that Sunsuper must adhere to. Retirement phase income accounts are generally tax free on their earnings and realised capital gains, with a few minor exceptions, including international tax applicable on some investments. Again, these requirements are set by legislation and relevant regulations that Sunsuper must adhere to.

Q30 Whilst Sunsuper's direct fees are low, I have noticed that the indirect fees are almost as high as the direct fees. The transparency as to what makes up these fees is low. Can you shed some light on what is included in these fees. Could you also outline any efforts to reduce these fees.

A30 Indirect costs are costs incurred by investment managers in managing members' investments. All superannuation funds, including Sunsuper, are required by regulation to disclose these costs separately. This helps provide transparency for members when comparing investment options across the industry. These costs are in addition to investment fees and include explicit transactional and operational costs such as brokerage and stamp duty. They are not paid by Sunsuper, but rather are incurred indirectly by our investment managers and as such are reflected in the unit prices and included in your net investment returns. Indirect costs generally will be higher for assets requiring higher levels of management, including some of our unlisted property and infrastructure assets. We believe the returns on these assets justify and outweigh the management costs incurred; however, we continually work with our investment managers to ensure their fees are appropriate for the services they provide.

In addition, in the past year, Sunsuper reduced our investment fees and costs for MySuper members in our Lifecycle Investment Strategy option and also reduced our weekly administration fees for pension members. While we cannot guarantee or put a timeframe on future fee decreases, our goal is to continue our growth which will increase scale and allow us to directly pass on savings to members.

Q31 Why do you charge so much if you take out large sum money- \$20. But if go to a bank you give them say 2 days' notice and you pay not a cent.

A31 From 1 July 2019, Sunsuper does not charge exit fees for members to withdraw money from their account or to set up a regular payment or lump sum withdrawal. There may be taxes that apply to withdrawals - these aren't costs that Sunsuper applies, rather taxation amounts determined by government regulations that Sunsuper must adhere to.
