Full Transcript
CSC Annual Members' Meeting
Tuesday, 16 March 2021 – 5.30pm AEDST

Start of Transcript

Welcome and Acknowledgment to Country

Peter Jamieson: Good evening, everybody. My name is Peter Jamieson, Chief Customer Officer here at CSC, and I'd like to welcome you to our first Annual Member Meeting. Before we get underway, let me begin with an acknowledgment to country. We acknowledge the traditional custodians of the land we are meeting on tonight, the Ngunnawal People, and all custodians throughout Australia and all areas where you're joining us from. We pay our respects to their Elders, past, present and emerging, and we extend that respect to all Aboriginal and Torres Strait Islander people who may be joining us on the call tonight, also. And we welcome you, our customers, past and current Australian government employees, serving ADF members, veterans and your families, over 500 of you joining us online tonight. Thank you for your service and for making time to join us here.

It really is our pleasure to be able to share with you what we're doing to help you achieve your retirement goals. This is our first Annual Member Meeting, and we're holding it virtually due to the uncertain times we all find ourselves in. The latest COVID cases in New South Wales and Queensland only serve to reinforce how quickly things are changing, and due to this uncertainty, we have recorded our presentations for this evening. You'll hear pre-recorded presentations from our Chair, our Chief Executive Officer and from our Chief Investment Officer.

But let me reassure you, we're all here, socially distant, in Canberra, and we hope to be with you in person the next time we meet. Attending tonight are our Board of Directors, who our Chair will introduce shortly, our executive team, auditors and actuaries.

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Agenda

So to our agenda for this evening. Recorded presentations from our Chair, Chief Executive and Chief Investment Officer will start. This will be followed by a live Q&A session, where we will respond to your questions, both the many that we received prior to the meeting and those that we're receiving right now.

Our meeting will then conclude at 7:00 p.m. Eastern Daylight Savings Time. I'll remind everybody now that you can submit your questions using the question buttons at the top and bottom of your screen. Those question buttons are available right now. Now, please note that we won't be responding to questions that relate to your individual circumstances tonight. Those are best directed to our contact centre, or we can contact you directly after the meeting.

I'll also let you know that we may not get to all of your questions tonight, but we will provide written answers to all questions on our website, after the meeting.

Introductions

So let me start by introducing our panel. First of all, our Chief Executive Officer, Damian Hill, Alison Tarditi, our Chief Information Officer, and our Chair, Patricia Cross, who will now introduce our Board. Patricia.

Patricia Cross: Thank you, Peter, and I would like to add my welcome to that of Peter's and thank each and every one of you for attending our first ever Annual General Meeting. I'd like to introduce our Directors, most of whom are here tonight, with one exception. On my left is Garry Hounsell. Garry is Chair of the Audit Committee. He's a member of the Board Governance Committee, and a member of the Risk Committee.

To Garry's left is Marg Staib. She's been a CSC Director since 2014, chairs the Military Super Reconsideration Committee, chairs the Defence Force Case Assessment Panel, chairs the Risk Committee, and is a member of the Audit Committee. On Marg's left is Mike Vertigan. Mike has been a CSC Director since 2011. He's the Chair of the Board Governance Committee, a member of the Board Audit Committee and a member of the Board Risk Committee. On Mike's left is Ariane Barker. Ariane's been a CSC Director since 2016. She chairs ARIA, is a member of the Board Governance and Board Risk Committees and a member of the Member Outcomes Committee. On Ariane's left is Air Vice-Marshal Tony Needham. Tony's been a CSC Director since 2016. He Chairs the Member Outcomes Committee. He's a member of the Remuneration and HR Committee, Deputy Chair of the Military Super Reconsideration Committee and Deputy Chair of the Defence Force Case Assessment Panel. To Tony's left is Melissa Donnelly. Melissa just joined in 2020. In fact, she joined virtually. She's a member of the Board Remuneration and HR Committee and a member of the Board Governance Committee, and great to see Melissa in person.

On Melissa's left, we have Alistair Waters, who also joined in 2020. He's the Chair of the Board Governance Committee, a member of the Board Audit Committee and a member of the Board Risk Committee.[1] Not present is Chris Ellison. Chris is a resident of West Australia, and due to the COVID complications associated with travel and potential border closures, he's not joined. Chris has been a CSC Director since 2014. He chairs the Remuneration and HR Committee. He chairs the APS Reconsideration Committee, and he's a member of the Member Outcomes Committee. Thank you.

Peter Jamieson: Thank you, Patricia. Welcome once again, and we'll now move to Patricia's pre-recorded presentation.

Pre-recorded presentation – Patricia Cross, Chair

Introduction

Patricia Cross: Good evening, and welcome to the first ever CSC Annual Member Meeting. The team at CSC and I are very pleased to have the opportunity to meet with you, even though it is virtual and not in person. We hope you're able to use this opportunity to learn more about how your superannuation is managed and a bit more about the people involved in managing it. As you probably know, the responsibility of the CSC Board is to ensure your super is managed securely, is invested appropriately and the services CSC provides you are efficient and helpful. We're intensely focussed on doing everything we can to assist you in achieving excellent retirement outcomes.

The immense responsibility that comes with being the trustee of your super is never lost on us. Around the CSC Board and throughout the organisation, we are highly cognizant of our members and customer service to the Commonwealth of Australia. We seek in turn to be able to serve you. I would really like to thank my fellow Board Directors for their steadfast commitment to their roles and for the valuable guidance and expertise that they provide to CSC and to me. I also want to acknowledge and thank our previous Chief Executive Officer, Peter Carrigy-Ryan, who retired in July 2020 following a long and distinguished career, some 16 years at CSC and its predecessor entities.

Peter was appointed CEO of CSC shortly after the corporation was established in 2001, and he led the extraordinary transformation of the organisation with great skill and dedication. I thank

[1] Mr Waters' introduction at the AMM included some inaccuracies which have been recorded in the transcript. The introduction should have noted that Mr Waters is a member of the Audit Committee, a member of the Risk Committee, a member of the APS Reconsideration Committee, a member of the member Outcomes Committee and a Director of ARIA Co Pty Ltd

Peter for his exemplary and invaluable contribution to CSC. In June last year, the Board appointed Damian Hill as CSC's new Chief Executive Officer. Damian has a proven track record in super, having been the CEO of REST, one of Australia's largest superannuation funds, and he is highly regarded and actively participates in the industry.
And what an amazing time to take on a new CEO role. Damian has demonstrated not only how talented he is in the world of superannuation leadership - even more so, his resilience in adapting as needed in these crazy times, and you'll be hearing from Damian shortly.

Investment approach

I would now like to give an overview of our approach to investing your super and our performance. Our Chief Investment Officer, Alison Tarditi, will provide a more detailed presentation of our investments a bit later. CSC's primary investment objective is to maximise long-term returns for our customers. This objective is designed to provide, on average, a comfortable standard of retirement for our overall member and customer base. We have a target return of 3.5% per annum over rolling three-year periods for our default, Balanced and MySuper Balanced options, while keeping risk to an acceptable level.

We define acceptable risk as a probability of loss in no more than three or four years out of 20. The news is good when it comes to investment returns, we've generated for all the super schemes we manage, and it means that over the long run, CSC is able to capture most of the upside in markets while mitigating the worst of the downside. We achieved our rolling three-year investment return objective for the majority of CSC's assets under management in the 2019/2020 financial year, and all of our investment options met or exceeded their target returns in each of the five, seven, 10 and 15 year investment horizons to 30 June.

COVID-19

As we all know, during 2019 to '20, the world got turned upside down due to the COVID-19 global pandemic. The initial response of financial markets was to fall significantly. We responded to the COVID-19 pandemic proactively, swiftly, and successfully. We quickly reduced risk throughout our investment portfolio, which saw us avoid 40% of the downside in equity markets throughout February and March 2020. Although our short-term one-year results were negatively impacted by the pandemic, the losses we faced were small compared to the losses seen in equity markets over that period.

Our investment team did a fantastic job under extremely difficult and unprecedented circumstances, and it further reinforced that our investment philosophy is indeed sound. We have great investment governance, and we deliver as our investment philosophy says we will. Every one of us has been deeply affected by COVID-19. For CSC, COVID-19 forced incredible change for our customers, our business and our investments. Eighteen months ago, we could never have imagined that our entire workforce would be working remotely from our homes, and all the while ensuring there was no significant impact on our customers.

For the past 12 months, we've operated either entirely or partially remotely, and without skipping a beat. We've continued to manage our investment portfolio, pay pensions, allocate super contributions, carry out financial advice consultations, conduct education seminars and answer customer calls and emails. Oh, and have Board meetings - lots of them.

CSC is the most regulated super provider in the country, and that is primarily because we are a government agency. While the regulatory mandate can be quite burdensome for us, it is generally a good thing for our customers. Our governance, risk and compliance processes and protocols are probably the most comprehensive in the entire Australian public and private financial services sector, not just the super industry, and this means that because of that government crest and the accountabilities that come with it, we are a safe set of hands for your super.

Member Outcomes

I want to now briefly mention a new regulatory initiative called Member Outcomes, which came into effect on 1 January 2020. Damian will speak in more detail shortly about how we have implemented Member Outcomes, but in simple terms, it means everything we do has to be in the best interest of you, our customers, our members, and to do that, we need to know our customers in the APS and ADF like no one else, and our customers are unique. And because our customers in the APS and ADF are unique, so is what we offer them, whether that be our investments, our education, our advice offerings, and the empathy and the understanding our staff demonstrate every day.

As we say, we are proud to serve those who serve. No other super fund knows our ADF and APS customers like we do, and our customer-centric strategy means we're actively and constantly listening to our customers, and we're transforming our service offering and products around the needs of our customers. We're changing our business model and processes and systems we use to ensure that we are delivering what our customers want and need. Damian will soon be talking in more detail about what this transformation program will mean for our customers.

Climate change

Before I wrap up, I want to talk about an issue that is very much of interest to many of our customers. That topic is climate change. You'll be hearing a lot about this today, but I want to highlight a bit from the Board's perspective. Climate change is a core component of CSC's approach to environmental, social and governance issues, what is commonly referred to as ESG. At CSC, we believe that there is significant embedded value in companies and organisations that operate ethically and sustainably. ESG measures assist us in assessing companies' develop in these areas, and at CSC, we're focussed on engaging with companies to promote genuine sustainable impact.

There are many facets to managing ESG risks, because they're interdependent. We believe that incremental, consistent changes are more effective in supporting robust and smooth transitions to a more sustainable future. On climate, we manage climate investment risk, principally in three ways. The first is through renewable investments. We invest in renewable energy assets and strategies because renewable energy is the most likely future of our global energy system.

CSC has a proud record of investing in assets, both public and private, that will make a positive impact on the climate in the future. CSC focusses our investment exposures in the relatively cleaner producers, especially in Australia, and particularly those who are also investing in renewables and operate with high social and community standards. The second way we manage climate investment is by supporting robust transitions from fossil fuels. As long-term investors, we can support a transition from fossil fuels, a transition that respects the practical demands for energy in our country and around the world, that recognises the labour force impacts of the transition and that understands simple divesting is unlikely to reduce the climate risk.

Larry Fink of BlackRock highlighted this recently, and although we can smile and postulate that he's talking his book, it's undeniable that if public companies simply divest to private companies, then there's no reduction in the climate impact. I wouldn't exactly use the phrase greenwashing, however, if private companies are owning most of the inglorious energy assets, how do we as investors in public companies make an impact?

The third way CSC manages climate risk is by focussing on the impact of the climate footprint over time. We don't have a specific temperature target - i.e., at 1.5 degrees - because we believe not only will the pace of change will accelerate, but also because climate action can be implemented in many ways. Our approach considers the carbon footprint of our investments, the market's appreciation of that and our ability to influence it, and we measure this at a net portfolio level. As I said, CSC considers all ESG issues to be fundamental, and we have consistently been a market leader, and in many cases, a first mover in this space. Again, Alison will elaborate.

Conclusion

To conclude, the 2019 to '20 year presented exceptional challenges to Australia, from widespread severe drought, destructive bushfires and then COVID-19. On behalf of CSC, I want to thank the thousands of frontline staff and volunteers, many of them members and customers of CSC, that stepped forward and stood up during the bushfire and COVID-19 crises. 2019 to 2020 also experienced significant global geopolitical events, including but not limited to a flood of public policy intervention in financial markets, our rapid transition from physical movement to virtual enablement, Brexit, the US-China trade war, increased focus and facilitation of public unrest, and public policy U-turns everywhere.

All these had a significant impact on the economy, our business and investment markets during the year, and we can be sure that there will be more to come. Globally, infections from the COVID-19 virus continue. Our workplaces are forever different, and markets still have challenges pricing risk, and none of that will change quickly. Despite these on-going challenges, our commitment is to ensure that everything we do is focussed on you, our customer. Thank you for engaging with us at the CSC. Many thanks to all of the staff at the CSC and thank you for attending our first annual member meeting. I look forward to taking your questions later.

MC – Technical issues and CEO introduction

Peter Jamieson: Thanks very much, Patricia. Now, we're receiving a few questions from customers about technical challenges, buffering. Rest assured, we will be making available a full transcript of this meeting after the meeting, and that'll be available on our website within the next few days. We'll now play Damian Hill's pre-recorded presentation.

Pre-recorded presentation – Damian Hill, CEO

Introduction

Damian Hill: Good evening, and thank you for your attendance at our first ever Annual Members' Meeting. It's really pleasing to see so many of you joining us and taking an interest in your super fund, and thank you for all the questions you have asked. It was a pleasure to join CSC in July 2020, though a different experience with almost everyone working from home.

I found a strong and committed team who had adapted quickly to the COVID environment, both from a working remotely point of view and continuing to deliver customer services. I found an organisation with a rich heritage in dealing with the intricacies of the 11 superannuation funds we manage. Next year, for example, we celebrate the 100th anniversary of the oldest of the CSC schemes and the setup of the predecessor to CSC.

Despite that long history, it was still an organisation with huge opportunities in front of it to enhance the service to our unique customer base. Patricia has already talked about that uniqueness, but I just wanted to add one further example. I get to sign 100th birthday cards for customers and beneficiaries, and I get to do about a dozen a month. This shows the long-term nature of superannuation and how our heritage means we are the strongest, most experienced retirement income provider in Australia.

CSC’s transformation strategy

Super is certainly shifting from being a topic that is only thought about when you either start a job or approach retirement, to being something that people are engaging with more frequently, because they see it as an important investment in their future. This evening, I want to focus on what CSC is doing to make ourselves better for you, our customer. CSC's guiding light is our three-year strategic plan, which was approved in August 2020. This three-year plan is developed and put in place with a crystal-clear objective, achieving great outcomes for our customers.

And we will deliver great customer outcomes through our three core functions. The first is providing adequate retirement savings for our customers. The second is enabling our customers to make informed and engaged decisions, and the third is embedding ease, efficiency and effectiveness into our products and services. Our current three-year strategic plan is the most important and significant body of work we have ever undertaken. This strategic plan will transform CSC, and it's a transformation that our customers will notice and benefit from.

So why are we undertaking this significant transformation of CSC? Well, first, our customers' expectations are growing. We've asked many of our customers about what they want from us, and they told us they want to feel at ease, understood and empowered. And we want to be there for every single customer, seamlessly and helpfully, during those moments that matter to them. Our customers also live in a very different world to when CSC first started.

Customers don't just compare us to other superannuation funds, they compare us to the brands they engage with and the service experience they have nearly every day. To be the best super partner for you, we need to benchmark ourselves against the leading global service providers across every industry. Our business is changing. With a world-class investment function, a strong connection with our customers and expertise in the products we provide, we've built a great foundation for the future, but we need to continually look outside our business, learn from others and challenge our thinking if we are to transform into a business that is constantly improving and seeking to do better for our customers.

CSC's transformation is simply about delivering better outcomes for our customers. As part of this transformation, there are a lot of back-end changes to our technology systems, processes and operations. I'll be honest. In the past, some parts of our business have been built around what was easier for us, and not necessarily our customers. That's certainly not to say we haven't always been absolutely committed to serving our customers in the best way possible. Far from it.

Technology platforms and back-end systems that were implemented 15, 10 or even five years ago aren't going to cut it in today's quick-paced, technologically driven world. We have a multitude of back-end systems doing significantly the same thing for different schemes with a low level of integration across our service offerings, but that is all changing. So what can you, our customer, expect to see over the next three to five years? You can expect to see us make the most of our data and insights to personalise both your experience with us and your retirement outcome.

You'll be using the latest digital capabilities that will enable much simpler access to your online CSC account and greater self-service options. You'll experience much faster transactions with us, because we'll have better administration systems that will allow for greater automation. The way we work will be centred on end-to-end service, where the goal will be to resolve any issue or inquiry in a single transaction, with individual and tailored support and guidance as necessary. We will be expanding our financial assistance and advice services to ensure we can guide you on your path towards retirement, and we also want you to be happy and healthy when you reach retirement.

Retirement initiatives

After all, you will have worked hard to get to retirement, and you want to be in good shape both mentally and physically, so that you can enjoy every single bit of it. That's why we do more than just invest your super. We are taking a more holistic approach to your retirement journey, and we have made partnerships and are providing services that can guide, assist and support you. For example, we have partnered with organisations like Lifeline and SuperFriend to build awareness and provide mental health support for our customers. We've partnered with Legacy to make sure those who are dealing with loss or financial hardship are supported in the best way possible - quickly and with compassion.

And our Third Act, Retirement Ready and 40 Plus programs all exist to guide and support those of our customers who are in the latter part of their working life, so they can make informed decisions that are right for them. We have also recently partnered with Mercer Australia, to undertake a trial of the Care and Living with Mercer Initiative, otherwise known as CaLM. CaLM is a service that supports Australians and their families in finding the right aged care and senior living needs for their loved ones. The current state of Australia's aged care industry can be very complex and challenging to navigate.

Today, with more people living longer, there are more families impacted by aged care needs than ever before. Aged care costs are one of the biggest draws on superannuation benefits, not only for those going into care, but also the next generation, who are the primary caregivers. Women, who do most of the caregiving, are the most impacted by this issue.

CaLM provides a guided way forward to help families plan, implement and monitor aged care and senior living services, so that your loved ones can live better, longer lives with the independence, dignity and security they desire. CaLM provides something called a Care and Living Roadmap Builder, which will support families who would prefer to take a do-it-yourself approach to finding and implementing aged care arrangements. It's a really useful and practical service, and we look forward to introducing the Care and Living program to our customers soon.

We search for and provide services like CaLM not because we, and I mean CSC, think it's a great idea. We do it because our services are driven and informed by our customers. This is all enabled through our customer listening program called The Compass. We actively seek feedback, comments and insights from our customers, the good, the bad and the ugly. The Compass points us in the right [direction] and, making sure we're on the right track to meeting our customers' needs.

At the risk of sounding like the captain of a boat, it gives us the information we need to correct our course or completely change our direction. The Compass customer listening program allows us to see how we've gone and where we should be heading. Many of you may have noticed that your most recent super statement was delivered to you digitally for the first time. This new digital statement was a direct result of our Compass customer listening program. Through the Compass listening program, you told us that we should simplify our annual statements, make them more useful and provide them in a digital format. In effect, we codesigned the statements with some of our customers. So that's what we did, and the feedback has been great.

So I encourage you to get in touch with us if there's something you're not happy about, or even that you are happy about, because we want to leverage our many strengths as well. Your feedback, comments and insights are incredibly valuable, and they will help us improve.

Legislative change

Another way we are making things better for our customers is by advocating for legislative and scheme rule changes and regularly reviewing and looking to improve the products we offer, whether that be super or insurance.

One product we made changes to recently was ADF Super. To make the process of transitioning out of the Australian Defence Force simpler for our customers, we proposed a change to ADF Super to enable those leaving the ADF to retain ADF Super as their superannuation fund of choice post-service, and we have more product changes coming that will provide more flexibility for our PSS, CSS and PSSap customers. From this month, if you're in PSSap, the changes that are being made will enable you to receive both APS and non-APS employer contributions into your PSSap account at the same time.

If you're in PSS or CSS, the new changes mean you'll be able to open a PSSap ancillary account to make personal and non-APS employer contributions.

Fees

So I've covered the huge body of work we are undertaking to improve our services and products for our customers, and now I'd like to deal directly with a few of the bigger topics or issues out there that many of you have questions about. The first topic is fees. There's been an increasing focus on fees from regulators, ratings houses, superannuation providers and customers over recent years.

To date, it's been difficult to accurately compare funds, as there have been significant variations in calculation methodologies to report both returns and fees. Put simply, when it comes to looking at fees across super funds, you re-aren't comparing apples with apples. Efforts by the regulator to standardise how investment returns and fees are calculated and reported have started. It's important to note that super funds with lower fees don't necessarily offer the best value, because the real cost to customers may not be fully captured.

Even when fees are calculated consistently across the industry, what ultimately matters is that your retirement savings are not vulnerable to the condition of markets at the time you choose to retire and that you are getting value for money. At CSC, we invest in high-quality assets and strategies that we expect will assist the achievement of your retirement goals, but this investment strategy does come at a cost. Examples of such assets include private infrastructure and property assets, where the costs of actively managing the asset are higher than holding a very small share in these assets through listed markets.

We believe net returns, taking into account risks incurred in investing customer savings, is the most appropriate measure of success. Nonetheless, we have an active program to align our investment partners with the investment returns generated for you and to reduce our overall investment fees, and you will likely see these reduce over the next couple of years.

Climate change and responsible investing

The other issue that is of interest to many of our customers is climate change, and investment in renewable energy and carbon emitting industries.

CSC took out the coveted Asian Investor Institutional Excellence Award late last year for ESG engagement and their summation of our efforts was this:

> *"CSC's on-going efforts to bolster its responsible investing engagement, both via new forms of index and adding new forms of data process made for noteworthy developments of an already impressive level of devotion to ESG."*

We acknowledge the critical importance of reducing carbon emissions and transitioning to renewable energy production and environmentally friendly manufacturing. Super funds can play an important role in driving change and progress in this space, given the influence we can leverage through the significant investments we can make.

We have made significant investments in renewable energy, and we will continue to search the world for more of those investment opportunities.

Commissioner of Taxation v Douglas – military invalidity pensions

Another issue that impacts some members of our Military Super and DFRDB schemes relates to the Federal Curt decision that was handed down in December last year in the *Commissioner of Taxation versus Douglas* case. The court determined that specific invalidity benefit payments paid under pensions that commenced on or after 20 September 2007 by the DFRDB and Military Super schemes are superannuation lump sum payments, rather than superannuation income stream benefits.

In relation to this issue, and to clear up any confusion, the ATO is responsible for remediating historical invalidity benefit payments. CSC is responsible for ensuring future invalidity benefit payments are taxed in accordance with the decision made by the Federal Court. The ATO is currently working on a remediation process following the decision, and they are reviewing all impacted benefit payments and the prior taxation treatment of those payments. CSC is working hard to update its systems to apply the lump sum withholding rate to fortnightly payments for impacted customers. Because these are complex, technical changes, we expect these will take some months to implement, so in the meantime, tax will continue to be withheld at the current rate. Regardless of when CSC commences withholding at the lump sum withholding rate, we will report all payments made this year as lump sum payments, so that the ATO can apply the right tax base to those impacted customers' tax returns.

This means that affected customers will not be taxed incorrectly for the 2020/2021 tax year. As part of the tax return process, the ATO will refund to impacted customers any excess tax that was remitted to the ATO by CSC during the year. Let me assure you that the ATO and CSC are working closely together on the remediation process, and we are committed to keeping all impacted customers up to date.

Member Outcomes

Patricia mentioned in her address the member outcomes legislation that came into effect at the start of 2020. Member outcomes is fundamentally about you, our customer. For us, member outcomes is about holding ourselves to account for our vision, our customer promise and our customer commitments. At CSC, we deliver member outcomes through three core functions. First, by providing adequate retirement savings. Second, by enabling customers to make informed and engaged decisions, and third, by embedding ease, efficiency and effectiveness into our products and services.

Our comprehensive strategic plan focusses on successfully delivering on our three core functions, both now and in the future. You should be able to see more transparent information about our member outcomes on our website.

Conclusion

I would like to finish up by reaffirming our commitment to you. CSC is a super fund that exists for those who are in the APS and ADF, and because we've been serving those who serve Australia for decades, we know you better than any other super fund. When it comes to your super, our staff know what matters to you better than anyone else. Our frontline staff that take your calls, answer your emails, process your super contributions and pay your pensions genuinely care about you.

Our investment team do what they do with you in mind, every single time. You may have seen our new marketing campaign recently. We've called this marketing campaign Be Super Appreciated. It's called that because we are honoured to serve you, and we want you to know you are appreciated, and it isn't all about us. It's about you and our over 700,000 other customers. We are very aware of the huge responsibility we have in managing your super, and I can assure you, every single person at CSC shares a common purpose. That purpose is underpinned by investing your super wisely, so you can enjoy the retirement you deserve.

But it is also to support, guide and inform you every step of the way on your path to retirement, to be there for you in the moments that matter to you. So thanks again for attending this Annual Members' Meeting, and I'll be on hand later during the Q&A session to take any questions you may have.

MC – CIO introduction

Peter Jamieson: Thanks very much, Damian. We'll now turn to Alison Tarditi's pre-recorded presentation.

Pre-recorded presentation – Alison Tarditi, CIO

Introduction

Alison Tarditi: Now, the reason you've joined us this evening rather than going out for dinner or watching your favourite program on television, is that financial independence in retirement is important to you, as it is to me. So if I leave you with just one key takeaway this evening, I hope it's this - it isn't how much money you make on paper at any point in time along the journey to retirement that matters but how much of that wealth you're able to keep and realise as purchasing power to spend on the things that matter to you when you do retire.

My super, and that all of my senior investment team, is invested alongside yours. Tonight, let me demonstrate not only how we build, but also how we steward our investment portfolios so that they remain robust and capable of delivering to this purpose, as the world around us evolves and sometimes shifts quite dramatically. Any successful investment strategy that is capable of converting ideas into enduring net wealth must start with clarity of objective and of time horizon. This enables portfolios to be purpose built, opportunistic and robust to the many manias and speculative whims that episodically distract market prices away from their fundamental value.

Investment objectives

Our investment objectives and our measures of success or failure are very clear, and there are just three of them - generate sufficient real returns after fees and costs to ensure that we can all retire to a comfortable standard; avoid assets that have a material risk of permanent capital impairment; and build a carefully curated selection of robust investment options to enable all of us to confidently choose the right portfolio for our personal circumstances. Let's go through each of these in turn.

Our first objective is to generate sufficient real returns after fees and costs. But what does sufficient actually mean? We use the highest standard recommended by the Association of Superannuation Funds of Australia, or ASFA, highlighted in green in the first two rows of this table, because it is an independently derived measure of what is required to be financially comfortable in retirement in Australia. For a couple, this equates to a lump sum $640,000, or an income of around $62,500 per annum.

This is our primary measure of success, because it relates directly to what you can expect to spend in retirement. It might surprise you to learn that today, this is a standard that only 25% of Australians are on track to achieve. ASFA projects that this will increase to 50% by 2050, and that's still below the 71% of our full-time defined contribution and more than 90% of our contributing defined benefit customers, who are all on track to retire above this standard, assuming that we are your only source of superannuation savings. Indeed, our average full-time defined contribution customer is on track to accumulate 32% more than this standard by retirement.

Our second objective, which is to avoid assets that have a material risk of permanent capital impairment, recognises the very important difference between suffering a temporary paper loss on the journey towards retirement, what is commonly referred to as volatility, versus a permanent write-down in the principal value of your savings that cannot be recouped before you retire. We measure our capacity to avoid such risks with three metrics. The first is a comparison of our realised investment returns against their targets, as set out in the product disclosure statements for each option and calculated over multiple time horizons that roll through the course of your working life.

The return targets for each option are not random, and they're not driven by what everyone else is doing. They are precisely calculated to define what must be achieved on average over your working lifetime to deliver you financial comfort in retirement. As you can see from these charts, all three of our investment options are generating real returns after all fees and costs above their objectives across all time horizons greater than three years. Shorter-term measures of performance, either below or above targets, reveal more about the vagaries of markets than the enduring value of your savings, because as US stock investor Philip Fisher once said, the stock market is filled with individuals who know the price of everything but the value of nothing.

But returns only tell you about the past. The future of your savings will be determined by the risks you're carrying in your portfolio today and how they pay off or don't pay off in the future. Risk management, not just at the point of an investment, but also over its lifetime, is critical to ensuring that wealth is created and sustained. This is the focus of our second group of metrics, which I'm proud to say show that our public sector accumulation customers have never suffered any material write-off of their principal capital.

This is also true for members of the MSBS and ADF funds post-merger with us in 2012. By way of example, you had no exposure to highly complex leveraged debt instruments, or CDOs, as they were known, that hurt many investors through the global financial crisis. You had no exposure to any hedge fund liquidity or fraud events, nor have you suffered any material rise in private company bankruptcy rights, either through the financial crisis or earlier recessionary episodes, and certainly not through the COVID pandemic period to date.

Now, costs matter, too. They particularly matter when they don't pay off. We hunt to find value for money, rather than lowest-cost assets. We also want to be able to pay for the best operators and managers of our assets, so that their value is underwritten throughout their life in your portfolios. So our third set of metrics support us to operate with full transparency on all costs and fees and on the payoff we do or do not generate in your portfolio as a result of incurring them.

So compared to a lowest cost, passive implementation of each options' investment strategy, we have generated after fees and costs an additional 0.7% per annum for the balanced options, with 12% less variation in your savings balance, 1.8% per annum for our aggressive options, and over their shorter, five-year history, 1.5% per annum more for our income-focussed options. So by incurring costs above a passive strategy, we've generated higher average returns after those costs and reduced a risk of capital loss.

Our third and final objective is to build you a carefully curated selection of robust investment options as opposed to a me-too smorgasbord, so that you can be confident to make choices that can maximise your chances of achieving retirement adequacy, given your personal circumstances, because we're all unique. Unnecessarily complex or long lists of investment options are one of the greatest impediments to sound investment choices. They just shift the retirement risk from the super fund back to you, the customer, and they feed the natural bias we all have towards giving way too much attention to short-term factors that may not align with the time horizons relevant to achieving financial adequacy.

Each of our three pre-mixed options are tailored to take the type of investment risks you need to bear through the different stages of your working life in order to accumulate sufficient savings for retirement. We also offer a simple, pure cash option for normal capital preservation. Our aggressive option, which you can see in this table, is designed for customers who are a long way from retirement and can afford to remain focussed on capital appreciation over the duration of their working life. Our income-focussed option is designed for customers who want to reduce the risk of their accumulated wealth being eroded by poor market conditions in the approach to retirement but who still require growth in their savings to outpace the corrosive impact of inflation.

Both of these pre-mixed options take a comparable level of risk to similar products offered by other super funds and are consistently ranked among the top performers on their net real returns across all time periods. Importantly, as shown in the last column of this table, all of our options rank very highly across the industry in terms of the amount of net real returns they can generate per unit of capital at risk. This means that our competitive outperformance is driven by the quality of the assets we select and how we steward them as active owners through time, rather than by simply taking on more and more exposure to risky assets with the hope that this will pay off.

Our balanced option, into which you are defaulted if you do not make an active choice, generally takes lower risk than comparable products available through other super funds. This is because our balanced options are explicitly designed firstly to ensure a high probability of delivering a comfortable financial retirement to our customer base, not to the average Australian employee who has a lower probability of achieving retirement adequacy and therefore needs to bear greater risk. And secondly, to be true to label. By this, I mean to balance the risks of insufficient capital growth against the risks of capital impairment that might arise due to unexpected adverse market conditions.

As a result of this and as our Chairperson has already described, we expect that relative to other balanced funds, our option will capture most of the upside in robust markets. Historically, this has been between around 87% and 93%, and avoid much more of the downside when markets fall, historically, between 39% and 50%. This pattern is an important part of our investment strategy, because it recognises the asymmetric impact on your savings from losses. For example, if your savings fall by, say, 30%, a level comparable to losses experienced by balanced funds through the global financial crisis, you would have to earn 43% just to get back to where you started prior to the loss. And so our strategy borrows from the rather pithy wisdom of Nobel Prize Winner Paul Samuelson, who said, investing should be more like watching paint dry, watching grass grow. If you want excitement, take $800 and go to Las Vegas. In the end, investment strategies are a lot like buildings. Their ability to endure the elements depends on the construction of their foundations.

Governance

The term used to describe investment foundations is governance, not to be confused with its less able but much faster propagating cousin, compliance. For our investment team, governance means having very strict and transparent risk budgets, a well-defined investment universe, robust valuation and macro toolkits, delegated authorities with precise accountabilities, early failure detection controls and a ruthless self-awareness of evolving and comparative advantage and disadvantage.

Our processes have been recognised with independent international awards for both governance, and much more importantly, in my view, for what good governance enables, namely, innovation and first mover advantage. But don't take my word for it. Let's look at some real examples of what this has allowed us to do for you. CSC was the first Australian super fund to implement a fully integrated portfolio-wide risk system. This is foundational to our ability to consider the complex interactions between assets, their tangible, and importantly intangible, attributes and the evolving world in which they operate.

We have been proactively triangulating corporations' financial value with their exposure to long-term and often slow to manifest governance, environmental and social risks for more than two decades, work recognised by the United Nations Innovation Award for Sustainability in 2003 and still acknowledged as global best practice today. We use these measures and others to actively engage with public and private companies that we own on your behalf when the potential to monetise better practices is material, and we vote all shareholder resolutions proposed by all of our public companies.

When engagement is futile and the risks to franchise value are material, we will exit our shareholdings, as we have done with undiversified thermal coal production and generation companies in 2020/2021, single entity producers of tobacco in 2013 and of cluster munitions and landmines back in 2011, and [of Forestry Enterprise, Guns Limited 53:05], approximately two years prior to the company being placed into administration in 2012.

Climate Risk

Now, climate risk is number one on the World Economic Forum's Risk List this year, but we initiated transparency on this risk to your future savings back in 2009, when we invited the Climate Institute to measure our portfolio's carbon footprint. We were the first Australian super fund to do so by quite a long interval. Our investments in renewable energy have reduced our carbon emissions by 460 tonnes in 2020 alone, versus a listed energy index, and our public equity carbon footprint is 16% lower than it would have been had we maintained a passive benchmark exposure to climate risks.

In 2015, we acquired half of the largest wind farm in the Southern Hemisphere at that time, being Macarthur Wind Farm. This investment has generated strong returns of 14% per annum to December 2020, not in small part because we recognised the structural tailwinds to renewables before others did and were therefore able to make a very low risk investment at a relatively low price per megawatt of generation capacity. Our competitors who have followed us into renewable energy have been assuming greater risk and paying up to 68% more than we did. For us, sustainable investing is not just about renewable energy. To mitigate the risks arising from the global population's challenging demands on natural resources, our most recent initiative has been to actively reduce our exposure to companies that misuse scarce natural resources.

Compared to the standard passive International Equity Index, this has efficiently halved water use and waste produced by companies in that particular segment of your portfolios. Our focus on structural changes and their implications for value creation and destruction extend well beyond ESG. Trends in technology and consumer preferences, for example, which I'm sure you're all aware of, have been formidable drivers of corporate and industry disruption. Motivated by our assessment that the infrastructure required for economic progress was less about traditional assets like toll roads and assets and rather more about digital infrastructure, like datacentres and fibre networks, we acquired a joint controlling interest in the Canberra Data Centres in September 2016.

As the first Australian super fund to directly invest in a datacentre, we were able to generate exceptional investment returns to you of 51% per annum from this asset since its purchase. In December 2019, we sold half our interest to lock in profit at almost two times our total cost, whilst retaining the remaining interest, which has continued to perform very strongly. In the interests of time, I have only been able to provide a very few tangible examples of our track record in hunting for high-quality assets ahead of the pack, and how that has enabled us to build high-quality portfolios robust to a myriad of market conditions and potential future states of the world.

The uncertain circumstances of our time, including the lowest interest rates in 800 years and unprecedented fiscal policy responses to the COVID-19 pandemic mean that we have been preparing your portfolios for resilience by building greater geographic diversity into our defensive assets and currencies, financing innovation, building new asset management businesses with revenue sharing arrangements, hedging against long-term inflation risk, maintaining our focus on the fundamental value and quality of assets, rather than their current prices, and being mindful of the fact that conditions are now conducive to creating extreme bubbles in some segments of financial markets, though with no certainty on timing.

I look forward to answering your questions about financial markets and our portfolios in the time remaining this evening, but remember what matters isn't how much money you make on paper at any point in time, but how much of that wealth you're able to keep and realise and spend on the things that matter to you in retirement.

MC – Q&A Introduction

Peter Jamieson: Well, thank you very much, Patricia, Damian and Alison for those presentations, and that concludes our formal presentations now, as we move into the Q&A part of this evening, and thank you to everybody who submitted questions, both before and during the meeting so far.

Another reminder that you can submit your questions using the question buttons at the top and bottom of your screen, and once again, we won't be responding to questions tonight that are related to your individual circumstances. So let's move into questions.

Q&A 1

Our first question tonight comes from John, and John's asked a question that many of you are interested in, so we thought we'd handle this straight off the top. Damian has talked about it in his presentation, but I think Damian will reinforce a few of those key points that he made, and the question is regarding the recent AAT decision of Douglas versus the ATO, regarding taxation of DFRDB lump sum payments resulting from a medical discharge. John has indicated that Justice Logan was particularly critical of us not providing an explanation for the income originally stated, and asked what we're doing to ensure that the previous amounts charged have been corrected and how we're going to ensure this is done quickly for veterans.

So as I said, I'll pass over to Damian. He's already made a few comments about this, but I'll ask him just to make a few more comments. Damian?

Damian Hill: Well, thank you, John, for your question, and we know it's a hot topic. Just reiterating what I said in my comments that the federal court recently ruled that military invalidity pensions should be taxed as invalidity pensions or superannuation lump sums, rather than as superannuation income, and this applies for pensions that were paid after September 2007.

So the result of this ruling is that pension payments, invalidity pension payments, will now be taxed at either a higher rate or a lower rate, and the amount of tax in the past will need to be adjusted. So CSC was operating the - and deducting tax based on the income and the rules and the legislation that applied at that time and the interpretation at that time. Obviously, this decision has changed that interpretation, and CSC is quite happy to make that change. We know that over the last few years, a few of our customers got private rulings, and we changed the tax withholding for them during that process.

But it's important to note that it is both higher or lower tax rates and the individual outcomes for customers will be dependent on their individual circumstances. That's why it is so complex. That's why we continue to work with the Tax Office, and as I said in my comments, the Tax Office is going to take care of all the historical parts in regard to tax paid, and CSC is looking to change its systems so that we look at the forward-looking tax deducted from these income streams.

Now, we continue to work closely with the Tax Office to determine the tax implications for individual customers, and some of our work has already led the ATO to rethink how this may be applied to minimise detrimental impacts to some of the customers. So it's an active discussion with the Tax Office that we expect to take a few more months yet to resolve, so it is likely to be around June before we get that in place.

Q&A 2

Peter Jamieson: Thanks very much, Damian. We really appreciate that, a very important topic for a number of customers and has been the subject of many of your questions tonight, as has the next question, which I think I might take. This question comes from Paul, so thank you very much, Paul, for your question. You've raised something that a number of our customers have asked about, which is our biannual CPI adjustment we make to pensions, and Paul asks that we need to make it tied to the cost of living rather than the CPI index, because CPI being used has led to the erosion of our pensions and wants to know what our position on finally getting justice and change on this important topic is.

So in regard to this topic, I'll just make the comment that, yes, just to clarify, we do adjust pensions every six months. That is a retrospective adjustment based on the CPI for the previous six months, so in the case of January's CPI adjustment, which there was no adjustment, it related to CPI movement in January to June last year, and in fact, CPI went backwards during that period, so we made no adjustment. Pensions don't go down, but if there is a negative or zero adjustment to CPI, then they aren't increased. In terms of the CPI as an appropriate measure, we believe that is still an appropriate measure, and rest assured, if we thought that this wasn't an appropriate measure, we would advocate on your behalf.

But it does consider a bundle of commonly used goods and services, which attempts to provide a fair and reasonable basis that we can use for periodically adjusting pensions, so thanks very much, John. Appreciate that question.

Q&A 3

Peter Jamieson: We'll move on to the next question, and this one comes in from Ben, and is coming back to Damian as well. Why does my superannuation have to stay locked away in Military Super? It's a low-performing fund. I'm a voluntary member of the fund, because I'm not allowed to transfer it to a higher-performing accumulation fund. That's from Ben. Thank you, Ben, for that question, and I'm going to pass over to Damian.

Damian Hill: Thank you, Ben, for the question. Yes, and it is the case that customers in some of our older defined benefit funds are, because of the rules of those funds, locked into the schemes that they have. These are the rules that were applied from many years ago, and we continue to administer them in that regard. This means that some customers who have left the military or public service are unable to access their superannuation accounts. We do receive quite a bit of feedback from customers on this matter, and we see that our role is to provide that information to the governments and departments so that they know the level of dissatisfaction with those rules.

But we can't change the rules ourselves, so we continue to try and engage on your behalf with the relevant departments in order to see that those rules can be changed over time. Thanks again, [Ben].

Q&A 4

Peter Jamieson: Thanks, Damian. We'll now move on to the next question, which has come in from Peter, and Peter, and I think I'll pass this back to Damian for a start, but also maybe we'll ask one of our Directors, Marg, to help us out on this question.

So this relates to during the height of COVID, we saw thousands of people access their super when they probably shouldn't have. What risk and governance controls did CSC have in place to check the validity of these claims, and what impact did all of these withdrawals have on CSC funds under management? So I might start with Damian?

Damian Hill: Again, thanks, Peter, for your question. So the early release scheme, for those that aren't aware of it, was brought in as part of a package with JobKeeper and JobSeeker, and it allowed access for up to $10,000, and you could do it twice over different financial years, in order to deal with issues about household expenditure at that time and any stress that people were under. Even prior to joining CSC, I was actually leading an industry group that was responsible for implementing the early release scheme, and the industry had to actually introduce the scheme in 18 working days, and so the fact that the industry was able to come together and do that was a fantastic outcome, and it actually got these amounts out to customers very quickly.

At CSC, our experience was that we had about 44,000 customers take advantage of the early release scheme, and they took about $380 million out of our various schemes. Fortunately, our investment program was very easily able to deal with this. There were no liquidity issues or any concerns from that point of view. We did see that there was a skew in the people who were asking for these benefits from former members of the Australian Defence Forces. So we saw that our main concern during this period of paying these benefits was to ensure that our customers knew that they weren't going to stop themselves being able to take out pensions later on in life by making these decisions.

From a point of view of fraud, fraud was very low. We had - the latest figures from APRA, and the ATO, is fraud is about 0.04% or 0.05% of applications over the whole system, and but what was the case was that the Tax Office did the self-assessment of whether people were eligible.

Now, the Tax Office, so we can expect that some people, including some within CSC, said that they were eligible, they were able to self-assess, and the Tax Office is going back and just checking a few of those, but we don't think that it's a major issue, and so we had the controls in place to minimise fraud and to make sure that we could get benefits out to our customers as quickly as possible. I'll hand back - or straight over to Marg now, if you like, Peter.

Peter Jamieson: Thanks, Damian. Yes, we might ask Marg to just make a couple of comments on our overall risk and control environment at CSC, as in her capacity as head of our Risk Committee.

Marg Staib: Thanks, Peter, and thanks, Damian. I'm just going to talk just very quickly but broadly about our very robust risk management framework that we have in place at CSC that does fully comply with the regulators through the prudential standard. It starts very much at the top, from the Board, and through management, and to all our people at CSC with a very strong commitment regarding leadership and our commitment to a healthy risk culture. And we start with a Board-approved risk appetite statement, and then also a Board approved policy around our risk management strategy.

Now, in all of that, we also have our risk committee, as we just talked about. In my committee, we have an externally appointed professional from the industry to help us assess environmental risks that are happening in the industry and more broadly around the country and of course around the globe. We have a Chief Risk Officer appointed. We have a very strong evaluation program, particularly with our internal auditors and also external, very strong compliance regime and also this is all tested and reported to the regulators as we are required to do.

So in the interests of time, I'll stop there, but can I just assure you, Peter, we do have a very robust risk management framework here at CSC.

Q&A 5

Peter Jamieson: Thanks very much, Marg. Really appreciate those comments. We'll move on to the next question now, which I'm also going to take myself, so this is from Alicia, who's asked about how long it will take to implement changes brought in by the Superannuation Amendment PSSap Membership Act of 2020, which was given - or sent over six months ago and should therefore commence very soon. And Alicia, you're quite correct, and in fact, those changes went live on 7 March, so just a week or so ago. And for those customers who don't know, those changes will allow our existing PSS customers in particular to be able to take - have access to our on-going PSSap Accumulation Fund, so it removes some of the restrictions that we currently have in place, really positive news for customers, and we'll be writing to those customers that can take this option up of being able to take up a PSSap account very shortly and let you know about that availability. So thanks very much, Alicia. Really appreciate that question.

Q&A 6

The next question we received from Ian, and Ian would like to know, will CSC consider moving to more ethical and environmental choices for investments in the near future? Many of the members of my organisation, CSIRO, are not willing to be involved in the investment in the fossil fuel industry and are strongly considering changing schemes which align more with their ethical and environmental views. We would like our superannuation schemes to not invest in fossil fuels.

Now, this is a question or a topic that is very important to many of our customers, and we've received many questions about this. I'm going to ask Patricia to make a few opening comments and then pass to Alison to go into a bit more detail. So, Patricia?

Patricia Cross: Thanks, Peter, and thanks, Ian, for your question. This is a very important topic to all of us at CSC, and CSC does have a very long record of being very actively engaged in all ESG matters, but when it comes to things like investments in fossil fuels, as I said in my presentation, and as Alison also noted, we really feel that CSC is better positioned to not divest but to continue to be actively engaged with companies. We try to encourage climate transition in all companies that we invest in, so that we're having an impact on $50 billion of assets under management, rather than just a narrow divestment.

So we do believe that active engagement is the answer and we're more likely to make traction, but, Alison, perhaps you want to elaborate. Thank you.

Alison Tarditi: Thanks, Patricia, and thank you, Ian, and your colleagues at the CSIRO. I know this is a topic that is close to your heart. We all want a healthy planet with rich in biodiversity and with clean water and clean air, and the question for us as your super fund is how do we prioritise authentic steps towards needed outcomes while delivering financial security to you in retirement and prioritise that over grandiose gestures?

So as I hope my presentation outlined with demonstrable examples, we've been very conscious of not just climate risk but sustainability issues more broadly for over two decades. Energy transition is well underway, too slow for some, and from your question, I gather that's your position, but too fast for others. The impediments to faster transition are not about renewable energy production but rather about its storage and distribution and just as importantly, the social impact on communities reliant on the existing energy system for employment, income and indeed, for energy.

So as I mentioned in the formal part of my presentation this evening, we were the first Australian super fund to undertake climate footprint analysis of our portfolio in 2009, an early mover, first mover, in fact, into renewables. We have $1 billion worth of high-quality renewable energy investments in our portfolio today. We have not invested in new fossil fuel plants in our infrastructure portfolio since 2010. We have reduced exposure to the inefficient users of water and producers of waste, and we have divested from undiversified thermal coal producers, both domestically and internationally, because we cannot engage effectively to produce genuine change with single-focus producers.

However, we don't believe in the precipitous exit, as our Chair has just explained, from diversified resource companies, like BHP, for example, or S32, who are well placed and incentivised to deliver a robust transition to the new energy system. These companies, for example, were two of the first companies in Australia to adopt the transparent reporting standards advocated by the task force on climate-related financial disclosures, which was set up by the Financial Stability Board internationally. They utilised climate-related scenarios to test not just the resilience of their asset bases but also how to commit capital to leverage new technologies and decarbonisation trends, so they're creating value for you in terms of your financial outcomes in retirement and improving the world that you'll retire into and leave to your children.

We believe, as Harvard research also attests, that voice is much more powerful than divestment where companies do have the capacity to improve and execute change well. Divesting from a coalmine, for example, changes the shareholding of that mine but doesn’t necessarily shut down the production from that mine and therefore has no impact on the environment. Engagement works much more effectively when it's collective and there is a material shareholding representing that voice.

This is why we were a signatory to the Carbon Disclosure Project back in 2002, and to give you an example of the effectiveness of that, in that capacity last year, we were one of 108 institutional investors from 24 countries around the world to engage with more than 1000 companies, representing about $21 trillion in market cap and 5 billion in carbon emissions to improve their reporting of their carbon emissions and what they're doing about that. By improving transparency, we support capital markets to be part of the solution to an inclusive and robust and fast move to the new energy system.

So we prioritise those authentic steps towards outcomes and try and demonstrate that. Now, I'm aware of the fact that a number of super funds have announced targets, a 33% reduction in carbon, for example, within a decade. We're well on track to deliver that. In fact, naive extrapolation of our track record to date would suggest we'd be carbon neutral by 2030, but we all know that these things aren't linear, and we hope to move as quickly as we can. Some other funds have announced a 100% reduction in carbon emissions by 2050 to align with the Paris Climate Agreement.

This will require a well-articulated and tangible plan, so when you're comparing super funds, I'd encourage you to look for that execution capability and ask for a plan, rather than just look at the headlines, but thanks for your question.

Q&A 7

Peter Jamieson: Thanks very much, Alison. Really goes to show how important we consider this issue, just as importantly as you do. We think deeply about it, and we have a well-considered approach. Now, the next question is a little closer to my heart, and it comes from Anthony, and Anthony asks, can the information about the scheme be made more accessible to members? The material appears written by the informed for the informed. I've tried reading the material multiple times, but the level of assumed knowledge is excessive. I cannot understand my statement, and I cannot work out basic considerations. And he goes on to reference our 1-300 number, perhaps not being as helpful as it could, and made a final offer to help us assist in improving our communications.

Well, we might just take you up on that, Anthony, but rest assured, this is an area that is close to my heart as well, and many of us here. Of recent times, we have been improving the communications in our more conventional documents, such as our PDSs, so you'll see new PDSs being published on our website just recently as a consequence of those changes that Alicia asked about before. You may also see some changes to our website and our - last year, our PSSap and ADF super customers received a digital statement. This year, our PSS and military super customers will receive a new formatted statement, which customers have helped us design.

So we acknowledge, we have a way to go on this topic, but we are committed to improving the way in which we communicate and the way in which we respond and support every one of you, so thanks, Anthony, for your question, and we might just take you up on your offer of helping us. Thanks again.

Q&A 8

Okay, moving on to the next question, I'll just let you know that we have probably just under 10 minutes left for questions, so we'll get through as many as we possibly can in the next 10 minutes. The next question - I'm hogging the questions. The next question is about our member education sessions. Deborah's asked when they might recommence, and we will be recommencing them very shortly, Deborah. We have been holding them virtually over this COVID period, but we'll be recommencing them around Australia once we can get certainty about COVID restrictions. But we understand that you'd like us there in person, and we'll be back there as soon as we possibly can.

Q&A 9

Our next question comes from - I'll just move to the next question, and okay. I think this next question might come to Patricia, so this is a question about Board remuneration and a question about whether Directors are remunerated and where can we find details of how much they are remunerated. Peter does also go on to ask about this particular meeting being our first AGM and is there a particular reason why this is the first? So, Patricia?

Patricia Cross: Thanks, Peter, and thank you, Peter, for your question. Yes, indeed, this is our first Annual Members' Meeting, and it's come about because there's been a change in legislation, the Putting Members' Interests First legislation, and so superannuation funds are required to have an annual members' meeting. We of course are delighted to be able to do so, because it gives us an opportunity to engage with our members.

In terms of Directors' remuneration, this is outlined on the CSC website in the Annual Report to Parliament, and that's updated each year. There are quite a few different figures, so I'll refer you to pages 53 and pages 54. There are quite a few lines there about Directors' remuneration, but I would like to make just a quick comment about remuneration, because it's a subject with which I'm highly engaged in various parts of the world, because there is this disconnect between what the amount on the street expects and what high-flying executives in US corporations, dare I say with my accent, expect.

In our minds on the CSC Board, remuneration is a balance. It's about balancing the need to hire and motivate the best talent while addressing the concerns of our stakeholders in the government, in the ACTU and the military and defence, and these are quite disparate stakeholders, so that means that governance is really key. And what we do at the CSC is that we have strong oversight from the Board on remuneration and input into rem policy and practice. Our Remuneration and HR Committee is chaired by Chris Ellison, who as I told you has extensive history in the federal government, but we also have on that committee Air Vice-Marshal Tony Needham, who is the former Head of People Capability at the Department of Defence, and the Secretary of the CPSU, Melissa Donnelly, so we feel like that does give us some balance into our remuneration considerations.

The policy approved at this committee places a structure around how all pay is determined, and it gives considerable discretion to the committee. An example about that discretion was when COVID came upon us, and the committee decided to freeze all pay rises and also to take a tiered approach to decreasing variable pay, with larger haircuts taken on total executive remuneration, rather than frontline staff. So, Peter, I hope that gives you just a brief overview of our approach. It’s not an easy question. It's quite a difficult subject, but one that we do keep on top of. Thank you.

Q&A 10

Peter Jamieson: Thanks, Patricia. We'll move on to the next question now, which I might send to you, Damian. This is a question from [Indran 82:59] and some others, and the topic of the question is our defined benefit pensions. Indran says, I receive a defined benefit pension from CSC. It's my primary source of income. I would like to find out how safe my pension is. In particular, is it 100% guaranteed by the Commonwealth Government, and if not, what are the main risks of a financial crisis impacting my pension? Thank you. So, Damian?

Damian Hill: All right, thanks, Indran, and I hope I've got your name right, or Peter and I have got your name right there. Apologies if we've muddled that up a little bit, and to all the others who were asking similar type questions. So with regard to the DB pensions, you're right. It is supported completely by the Australian Government, so you've got them as the backers of that, so from an investment perspective, the risks that pensioners usually have are the markets, but you are protected from that, so if there is a financial crisis, et cetera, the Australian Government will still support the pensions that are being paid to you, so that's a really important thing.

You're also protected against inflation, because the - your pension is adjusted every six months for inflation, so that is good as well. So the only real question that you have to ask yourself is can the government pay going forward? We're very fortunate in Australia that governments of all persuasions have supported our sovereign wealth fund, the Future Fund, and the large majority of its assets are there to support DB pensions and pensioners such as yourself. So the type of benefit that you have means that you're protected from most of the risks that many other Australian retirees are facing, and that's a very fortunate position to be in. Thanks very much for your question.

Q&A 11

Thanks, Damian. Okay, just a few more minutes on questions. Perhaps we've got time for one or two more. The next question is also very topical for customers. This question comes to us from Trent, and he's asked, did the active management strategy get it wrong for COVID? The returns appear better for taking nil action than whatever was implemented. My index funds returned far better for the period reported, and they did nothing at a low fee. How can bonuses be paid for such incorrect actions? Preserved members also report not achieved for the customer survey.

So we might ask Alison to make a few comments about investment returns over COVID.

Alison Tarditi: Thanks, Peter, and thanks, Trent, for your excellent question. Our natural bias is to focus on what I call the hare factors, the things immediately at hand, the experience of the last 12 months, but it is the slower-moving structural factors that determine and ultimately drive portfolio returns and outcomes in the timeframes that matter to anyone looking at saving for retirement. Over the past 12 months, our investment strategy has worked as we expected it to, so in February, prior to the global pandemic becoming something that everybody was aware of, we noticed the outbreak in China and were concerned about the fact that the world's manufacturing sector in China was effectively being shut down. That had implications for supply chains everywhere, and so we did reduce the risk in our portfolios ahead of what turned out to be a global pandemic.

As a result of that, through February and March, if you were retiring, you were retiring with 160 basis points, so 1.6%, of performance ahead of the average peer group in Australia, if you were retiring with CSC, and that placed us close to number one, if not number one, through that period. The outcome for you at that point would have been a preservation of 40% more of your returns than if you'd been certainly in any other super fund and certainly more than that versus a passive portfolio.

What we didn't do, which is what your passive portfolio would have done, is just stay invested and therefore with the policy responses that were pursued see a big return back up in risk assets through June and August. What we have been doing, though, is instead of taking a punt and hoping that things would recover, we've been, as we always do, very cautious and thorough in the checklists that we follow. We looked at not just the extent of policy responses but the efficacy of those, and they were very effective, because they were income replacement policies, some of the first examples of those we've seen in the world to date, through my career.

We also looked at the capacity of central banks to commit to keeping interest rates low, because with that level of fiscal expenditure and debt levels so high, the servicing burden to governments of an increase in interest rates would certainly curtail their capacity for further expenditure. We looked at their capacity not just to keep rates low but to actually manipulate the yield curve, as the Australian Central Bank has been doing over the last little while, buying double the rate of bond purchases that it had been doing prior to the crisis.

We looked at the outcome from the US election and realised that the $1.9 trillion of expenditure in the US would certainly be constructive for recovery, and so we've been building back into risk, and as people say, it's not until the black lady sings that - the lady in black sings that things are clear, so we've been adding consistently over the last 10 years 0.7% per annum above fees and costs relative to a passive implementation strategy to our balanced fund, with 12% less volatility in returns. We've been adding 1.8% per annum in our aggressive option and 1.5% per annum after fees and costs versus a passive strategy.

So I think you have to think about the hare and the tortoise and keep focussed on consistency and dependability of outcomes in retirement, which our governance structure supports us to deliver to you.

MC – Closing

Peter Jamieson: Thank you very much, Alison, for the comprehensive answer as well. So that brings us to the end of our Q&A session. I'd really like to thank everybody who's contributed tonight, both over the course of the evening and in the lead up to the meeting, where we received many, many questions. As I said at the outset, we haven't been able to cover all of your questions, but we have attempted to cover those that most customers have expressed an interest in.

We will however be responding to all questions in writing, and those answers will be on our website in the next 30 days, and the full video of this meeting will be available on our website within the next few days - couple of days. So in closing, let me on behalf of our Board and executive team thank you, our customers, for joining us tonight for our first Annual Member Meeting. You've heard tonight from our Chair, our Chief Executive, our Chief Investment Officer and our Board, and I hope what you've heard consistently is our commitment - our commitment to you, our customers.

We're committed to listening to you, understanding what you need and improving everything we do. Our first and only interest is in you reaching your retirement goals. To this end, you'll be receiving a survey from us, which will invite you to provide us feedback and suggestions on how we can improve this meeting in future, but in the meantime, I'd like to wish you all a very goodnight, and I'll close the meeting. Thank you.

End of Transcript

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