



# Patricia Cross Transcript

## CSC Annual Members' Meeting

### Tuesday, 16 March 2021 – 5.30pm AEDST

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#### *Start of Transcript*

#### *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 focused 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 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.