



# Minutes of the Hostplus Annual Members' Meeting

Held via live stream on 3 December 2020, 9:00 am (AEDT)

## Speakers:

David Elmslie, Chair

Sam Sicilia, Chief Investment Officer

David Elia, Chief Executive Officer

Mark Robertson, Employer Director

Bev Myers, Employee Director

Alexandra Grayson, Independent Director

## Quorum

The Chair declared the meeting open at 9:00am.

## ITEM 1. Introductions

The Chair on behalf of the Board and Hostplus executive team, welcomed and thanked all those who joined online for Hostplus' second Annual Members' Meeting (AMM).

The Chair commenced proceedings by formally acknowledging the Wurundjeri people as the Traditional Custodians of the land on which Hostplus' head office was located and from where he was joining the meeting and paid respects to their Elders past, present and emerging.

The Chair advised that the meeting was being broadcast from Melbourne, Sydney and Brisbane and speakers would be making their addresses from those locations.

The Chair recognised a quorum of Hostplus Board Directors had joined the meeting online and that as such, the AMM would serve as an official meeting of The Board.

The Chair invited members to submit their questions through the event streaming page until the end of the AMM and noted that questions submitted prior would be responded to later in the meeting.

The Chair noted that a full video recording along with the responses to all unanswered questions would be made available on the Hostplus website within the next 30 days.

## ITEM 2. Chair's Message

The Chair spoke to the following matters:

- Hostplus, being an industry superannuation fund, is only run for the benefit of its members and does so by optimising investment returns to members' accounts and keeping operating costs low.
- The maintenance of the Fund's fixed administration fee for accumulation members at \$1.50 per week, or \$78 per year, and unlike competitors, the Fund does not charge any asset-based fund administration fees.
- Despite periods of market volatility including the unprecedented events of the past financial year, the default Balanced option has delivered top quartile investment returns over 5, 7, 10, 15 and 20 years.
- The impact on many of the Fund's 1.3 million members and 216,000 contributing employers in the sectors that have borne the brunt of the disruptive businesses shutdowns across the country as a result of the COVID-19 pandemic.
- The federal government's decision to introduce the 'Early Release of Superannuation' scheme in April that allowed people in financial hardship to access up to \$20,000 from their superannuation across two tranches and that more than 4.7 million Australians had withdrawn over \$35 billion as of 8 November.
- That a total of 308,000 members have withdrawn a total of \$3 billion since the start of the scheme, as at 12 November, and that the Fund was able to grow in terms of members, investors, employers and total assets while funding those withdrawals as a result of Hostplus' financial strength and sound asset allocation.
- The Fund's strategy has been to build scale making growth in both member numbers and funds under management extremely important, providing it access to large, long-term, unlisted investment opportunities that may not be open to smaller funds.
- Funds under management grew by nearly \$4 billion, or 8%, to reach \$48.8 billion.
- Compound annual growth for the last seven years to June 2020 was 21%.
- Total membership grew to nearly 1.3 million, an increase of 8% from last year despite reduced employment following the pandemic and recession it triggered.
- The increase in the number of contributing employers by 28,000 or 14% to 216,000 employers as at 30 June.
- The proposed reforms of superannuation announced as part of the delayed 2020 Federal Budget and the Fund's support in principle for efforts to improve transparency, accountability and performance to improve outcomes for members, and the desire to work constructively with the government to improve the proposed changes as would be elaborated by the CEO in his remarks.
- The release of the Annual Report in early October and its availability to download on the website.
- The Chair thanked members who had attended the meeting and, on behalf of the Fund, wished them and their families the very best for the year ahead.
- The Chair then invited the Chief Investment Officer to address the meeting.

## ITEM 3. Chief Investment Officer Update

The Chief Investment Officer (CIO) spoke to the following matters:

- The challenges for global and domestic economies during the last financial year and the volatility of financial markets around the world due to factors beyond just COVID-19.
- The Balanced Option delivered a modest negative return for the year of -1.85% for accumulation members, the first negative return in 11 years and only the fourth negative return in Hostplus' 32-year history.
- The Fund's investment approach takes into account investment cycles and the Balanced option's investment style anticipates a negative return every 3-4 years on average.
- The Balanced Option remained a solid performer in the long-term and ranked by SuperRatings' performance survey in the top five in terms of investment returns over rolling five to twenty-year periods.
- The Index Balanced Option delivered a positive net return for the year of +0.19% and delivered above-median returns over 5 and 7-years, largely due to its allocation to fixed interest investments which performed well when markets were turbulent earlier in the year.
- The Shares Plus Option delivered a positive net return for the year of +0.68% and is ranked in the top five compared to competitor funds over three to twenty year periods.
- The Capital Stable Option and other pre-mixed investment options, Conservative Balanced Option and SRI Balanced Option, delivered a negative return for the year largely due to volatile investment markets.
- Hostplus has provided a superior net benefit and this is demonstrated through a comparison, using SuperRatings' data on the fifty largest default funds, between Hostplus' default Balanced Option, the median-ranked fund and the bottom-ranked fund in the group.
- Over a 15-year period, the example showed that the Hostplus member was \$11,000 better off than the median-ranked fund and \$49,000 better off than the bottom-ranked fund.

- This exceptional net benefit has been delivered to Hostplus members over time by keeping administration costs as low as possible and achieving strong long-term returns.
- Long-term performance demonstrates that the Fund's strategy, built on active investment management, strong diversification and a reasonable allocation to unlisted and direct assets, such as property, infrastructure, private equity and venture capital, is working well.
- Hostplus is committed to a responsible investment approach that includes environmental, social and governance (ESG) considerations, and accordingly significantly updated its Responsible Investment Policy during the year and achieved an A+ rating for its Responsible Investment Strategy and Governance from the PRI.
- When it comes to investing in company shares, active ownership – involving company engagement and voting at company meetings – has positively influenced company behaviour and performance, supporting the achievement of shareholder value.
- This approach applies to climate change, where rather than divesting or selling holdings in particular sectors, Hostplus uses its influence as a shareholder to seek to create change within companies by encouraging and supporting an orderly transition to a low-carbon economy by investing in climate solutions.
- Investments in the Fund's default Balanced Option are spread across many different types of assets as part of good risk management principles. It is an 'all weather' approach designed to perform reasonably well during both favourable and unfavourable market conditions to help smooth out returns over time.
- During the past financial year, the majority of unlisted assets fulfilled their intended role and countered volatility of listed share markets in March.
- The Fund's investments in nation-building infrastructure projects and life-changing technologies can provide sustainable and competitive returns over the long-term.
- As one of the largest Australian investors in private equity, Hostplus has committed over \$4 billion to private equity projects that aim to achieve long-term investment outcomes for members in areas including medical therapies, alternative food sources, collaborative tech, robotics and clean energy.
- The Fund has been invested in private equity for over 20 years with around 8% of the money it manages invested in this space.
- Some tangible examples in the default Balanced Option include Vaxxas, an Australian medical technology company, Agerris, a 'Farm Robotics' company, Swift Solar, a US renewable energy start-up and V2Food, an Australian company producing sustainable plant-based food.
- The Fund's approach has been to ensure the overall investment portfolio is resilient to withstand unexpected events that might undermine its liquidity, and this was demonstrated through stress-testing exercises involving six different 'shock' scenarios, as well as the application of all six scenarios at the same time.
- In each scenario the Fund remained liquid and stable, demonstrating the stability of the investment strategy.
- As a result of the Early Release of Superannuation scheme, members made the difficult decision to withdraw a total of \$3 billion from their accounts, and while this and other events of 2020 impacted short-term performance, the Fund's liquidity was never in doubt.
- The Fund Balanced option's long-term investment performance remains strong and within the top performers over the rolling 5 – 20-year periods, and the CIO stated that the Fund remained alert to ongoing disruptions and expressed his confidence that it would continue to adapt and do so with a focus on the long-term horizon.
- The CIO encouraged members to visit the website for more information and to download the latest annual report for more details on the areas he covered in his presentation, thanked them for their attention and wished them the best for the year ahead.

#### **ITEM 4. Chief Executive Officer Update**

The Chief Executive Officer (CEO) spoke to the following matters:

- Hostplus has been actively addressing the challenges posed during the year and since the inaugural Annual Members Meeting that took place at the beginning of the COVID-19 pandemic.
- The Fund has worked hard to provide the much needed immediate financial assistance to many members who made the difficult decision to access their super early through the 'Early Release of Superannuation' scheme.
- As at 12 November, the Fund had processed 417,000 applications from 308,000 members totalling some \$3 billion, with 97.5% of all payments made within five business days.
- The number of applications received has been steadily declining with the average of 8,000 applications per week between 1 July and 12 November being much lower than the 24,000 applications per week received during the scheme's first tranche between April and June.
- As a profit-to-member Industry SuperFund, everything Hostplus does is in the best financial interests of members and the flat \$78 per year administration fee which has been in place for 16 years has contributed to a strong net benefit to members, which is the best and clearest indication of absolute value to members.

- The administration fee for pension members was reduced by 40% from \$7.50 per week to \$4.50 per week making this one of the most competitively priced offerings in the market today.
- The flagship default Balanced Option produced a modest return of –1.85% for the year to 30 June 2020, the first negative return in 11 years and only the fourth in the option’s 32-year history.
- The Balanced Option’s long-term performance remains strong, with a net return of 8.61% per annum over ten years to the end of the past financial year.
- The popular and low cost Index Balanced Option has grown to over \$7 billion as more Australians actively choose Hostplus as their preferred superannuation provider, and it delivered a positive return of 0.19% during the past financial year.
- The Fund’s performance has continued to be recognised through industry awards including Money Magazine’s 2020 Best of the Best award for the Diversified Fixed Interest investment option, and an award from SuperRatings for 15 years of continuous Platinum performance.
- Hostplus broadly welcomes the federal government’s reforms to superannuation announced as part of its 2020 budget however believes they need refining in critical areas and wishes to work constructively to ensure the proposed changes are made efficiently, effectively and objectively.
- The proposed performance benchmarks do not cover the majority of underperforming funds in the retail sector, may be open to gaming and could see members’ best financial interests adversely affected rather than improved.
- The performance benchmark is also likely to favour passive investing rather than an actively managed approach which could have the unintended effect of encouraging super funds to track the reference portfolio’s index or benchmark more closely, resulting in lower returns in the long term for members.
- It is important to correct the proposal to not only measure investment costs, but also other costs that contribute to a net benefit result, such as administration fees.
- While Hostplus agrees with the ‘one fund at a time’ approach to reduce multiple accounts, the current proposal may lead to members being stapled to an underperforming fund.
- Along with other industry funds, Hostplus believes the better approach would be for people’s super to be stapled to them and not vice versa and that their account balance follows them from job to job.
- Hostplus has always interpreted the sole purpose test as being their ‘financial’ best interests and has acted in this way through examples such as the unprecedented freeze in its admin fee, ongoing low operating costs, the recent 40% admin fee reduction for pension members and the freeze in insurance premiums for the next 3 years.
- The Fund’s business strategy was refreshed and refined for implementation over the coming three years and will continue to focus on the core objective of optimising retirement outcomes for members.
- The industry-first Self-Managed Invest (SMI) platform has been well received since its launch in 2019 and has received several awards recognising its innovation.
- The first phase of the Fund’s mobile app has been launched for Apple and Android and will be further developed over the coming months and years.
- The Fund’s partnership with the First Nation’s Foundation will see it proactively work to improve retirement outcomes and financial engagement more broadly for Aboriginal and Torres Strait Islander Peoples, and will build on actions in its Reconciliation Action Plan that was launched in 2016 and updated in 2019.
- The CEO thanked the audience for their attendance and introduced the next speaker, Board Director Mark Robertson.

## **ITEM 5. Employer Director Update**

Employer Director Mark Robertson spoke to the following matters:

- Hostplus’ Board of Directors is equally structured, with three employer directors nominated by one of the Fund’s two founding shareholders - the Australian Hotels Association (AHA), three employee directors nominated by the Fund’s other founding shareholder - the United Workers Union, and three independent directors.
- Established in 1839, the AHA represents more than 5,000 members across every state and territory and provides 270,000 jobs.
- Superannuation plays a critical role in driving growth in the industry and generating ever-greater employment opportunities.
- The challenges posed to the sector over the past year beginning with the devastation of the summer fire season followed by the COVID-19 pandemic.
- With the local end of the pandemic-induced shutdowns, the focus turning to the recovery phase of the industry and the broader economy.
- Together the AHA and the United Workers Union laid the foundations for what has become one of the largest and best-performing industry super funds, putting the rights of workers and the industries in which they make their living at the front of the agenda.
- Collectively the Employer Directors, along with the Independent Directors, the Employee Directors and two alternate Directors constitute the Hostplus board in the “3-3-3” governance model.

- The equal representation of all interested stakeholders and a responsibility to members informing and driving decisions ensure the Board are well placed to continue to lead Hostplus through these challenging times and beyond.

## **ITEM 6. Employee Director Update**

Employee Director Bev Myers spoke to the following matters:

- The UWU was formed last year when United Voice, a founding shareholder in the Fund, joined with the National Union of Workers to create a new union.
- The UWU is committed to an equitable and fair superannuation system and believes its greater scale and shared knowledge see it well placed to promote income security and dignity for all workers in retirement.
- Employee representatives on the boards of industry funds ensure the 5 million Australian workers who are members of industry super funds have a say in how their fund is run.
- It has been a challenging year for many members, particularly those in the traditional sectors of hospitality and tourism and all Board Directors strive to ensure members enjoy the most positive outcomes possible in their retirement.
- The UWU's firm position is that any proposed deferral, freeze or walk-back on the legislated increase to the superannuation guarantee should not occur; it will continue to advocate this position particularly on behalf of women, casual and older workers who have been disadvantaged by the current system.
- While Board Directors hold different positions, they are unquestionably unified in their collective pursuit of best outcomes for members.

## **ITEM 7. Answers to pre-submitted questions**

Independent Director Alexandra Grayson introduced the next segment which was responses to pre-poll member questions taken before the meeting. She invited the Chief Executive Officer, Chief Investment Officer and other Board Directors to join her in providing responses. The following is a summary of topics discussed:

The CIO responded to a question on the Fund's investments in renewable energy by providing examples of such investments including the Powering Australian Renewables Fund (PowAR) which is developing 1,000 megawatts of large-scale renewable generation projects; Swift Solar, a start-up company developing lightweight and flexible solar cells; and Commonwealth Fusion Systems and First Light Fusion, which have developed two different approaches to generating fusion energy. He stated that these investments were testament to Hostplus' recognition of and commitment to this important sector.

The CIO then responded to a question on the Fund's approach to ensuring investments were environmentally sustainable and ethical and whether it would be taking action such as divestment from fossil fuels to help address climate change. The CIO reiterated the Fund's commitment to a responsible investment approach and said it was guided by an ESG framework for investment options as well as selecting and reviewing investment managers. In response to the second part of the question, the CIO stated that the Fund's approach was, rather than divesting, to retain ownership in companies and use its influence to create change to support a transition to a low-carbon economy. During the last financial year the Fund engaged with 189 companies either directly or through the Australian Council of Superannuation Investors (ACSI), and that 18 out of 20 target companies agreed to improve disclosure of their climate change risks as a direct result of the Fund's engagement.

The CIO responded to a question on whether the SRI Balanced Option sufficiently excluded fossil fuels and whether a stricter exclusion list would be considered for this option. The CIO stated that the Fund had been progressively tightening the fossil fuel exclusion within this option over time, and that a refreshed and improved SRI Option would be launched in early 2021 and would exclude all companies that mine, produce or generate energy from coal, oil or gas as well as those receiving more than 20% of revenue from servicing these sectors.

The CEO responded to a question on the strategic asset allocation to cash in the Balanced Option and how good performance could be maintained by saying that the spread of investments across different asset classes represented good risk management, and that the Fund had to be conscious of the precedent set by the federal government's early release of superannuation scheme requiring it carry more liquidity. Diversification and active management would become more important than in the past to ensure the robustness of the portfolio.

Ms Grayson responded to a question asking when Hostplus would offer an option to invest in an Australian Shares Index such as the ASX 200, advising that the Fund did indeed already offer this to members via its Choiceplus investment option, with multiple Australian shares index ETFs to choose from.

The CEO responded to a question from a member concerned about a drop in their account balance during the year and seeking reassurances as to when it will recover by saying that he appreciated the past financial year was an anxious time for many members. He highlighted that the Balanced Option had rebounded from the lows of the investment market downturn earlier in the year and that members who had not switched to defensive options had seen their 'paper losses' during the year largely recovered, if not fully.

Employer Director Mark Robertson responded to a question posed by a member about recent reports that Hostplus' Employer Directors supported a freeze in the superannuation guarantee increase due next July by providing an assurance that the media report referenced was incorrect and that all Hostplus Board Directors supported the legislated increase in the superannuation guarantee. He stated that the Board believed that any further delay to the increase would be detrimental to members' long-term retirement savings outcomes.

Ms Grayson answered a question on the underlying investments that make up the Balanced Option by highlighting that all asset classes and underlying investment managers engaged by Hostplus were listed on the website for everyone to view and were updated regularly. In relation to each investment option, including the Balanced Option specifically, Ms Grayson stated that the Fund was working to improve investment disclosure at this level and expected to have this reported on the website soon.

Ms Grayson then responded to a question on whether the Fund planned to take its admin in-house as some other funds, saying that the question was timely and that Hostplus had recently reaffirmed that Link Group would continue to be a key partner in providing administrative support over the next five years. In November the partnership was extended to include the management of the service centre and other member service functions. She said that the Fund believed the arrangement with Link delivered the best possible value to members.

The CEO responded to a question on whether withdrawals through the early release scheme would have a detrimental effect on Hostplus in the future. The CEO stated that with the scheme due to end on 31 December, he did not anticipate any detrimental effect between now and then and that while \$3 billion had been withdrawn this represented less than 6% of total funds under management. The Fund had ample liquidity to meet a late uptick in payment requests.

The Chair responded to a question about stability of the CEO and the executive at the Fund by highlighting the impressive performance of the CEO and CIO over their respective 17 year and 12 year tenures in those positions at the Fund. He stated his belief that Hostplus' long-term net investment performance has been market leading and is testament to the stability, guidance and leadership of both the Board and management team.

## **ITEM 8. Meeting Conclusion**

At the conclusion of the allotted time for these responses, the Chair informed the online audience that any unanswered questions would be made available online, via the Fund's website, within 30 days of the AMM.

The Chair thanked the audience for their attendance and for the continuing trust and support of its membership.

The Chair then declared the meeting closed, at 10:30 AEST.