

Annual Members' Meeting – Minutes

Date: Thursday, 25 February 2021 at 11:00 am AEDT

Meeting: Annual Members' Meeting for the Heidelberg Australia Superannuation Fund

Present: The Trustee Directors, Towers Watson Superannuation Pty Ltd
The Fund Consultant
The Fund Actuary
The Fund Auditor for the 2019/20 Year

The minutes comprise a summary of key aspects of the presentation, questions and answers.

1 Welcome

Ms Piaia, a Trustee Director and the Chairman of the Meeting, welcomed everybody to the *2020 Annual Members' Meeting for the Heidelberg Australia Superannuation Fund*.

Ms Piaia ran through some housekeeping noting:

- microphones had been muted;
- members were able to log a question in the Q&A facility at any time. At the end of the meeting the appropriate presenter would answer the questions;
- minutes of the meeting would be available on the Fund website towards the end of March 2021; and
- the presenters would endeavour to answer the questions raised during the Annual Members' Meeting but, if this is not possible, the minutes would provide a record of any questions which were not able to be answered in the live forum, along with a response.

In addition, Ms Piaia reminded members that the presenters could not provide personal financial advice so any information to be provided at the Annual Members' Meeting would be general information only which does not take into account any member's particular objectives, financial circumstances or needs. It is not personal or tax advice. Any examples included would be for illustration only and not intended to be recommendations or preferred courses of action. Members should consider obtaining professional advice about their particular circumstances before making any financial or investment decisions based on the information provided at the Annual Members' Meeting.

2 Agenda for the Meeting

Ms Piaia stated that the presenters would provide an overview of the Fund, how the Fund is invested and the key highlights for the 2019/20 year. The presenters would then respond to questions.

3 In attendance

The presenters introduced themselves individually.

Directors of the Trustee of the Heidelberg Australia Superannuation Fund:

- Andrea Piaia
- Jackie Downham
- Kate Maartensz
- John Burnett

Executive and other official roles of the Heidelberg Australia Superannuation Fund:

- Andrew Hawthorn (Fund Consultant, Willis Towers Watson)
- Tracy Polldore (Fund Actuary, Willis Towers Watson)
- Alison Flakemore (Auditor, Crowe)

4 Overview of the Fund

Mr Hawthorn, the Fund Consultant, provided an overview of the Fund, explaining the role of the Trustee, Policy Committee and the advisors to the Trustee.

Mr Hawthorn noted that the Policy Committee is made up of equal representatives from the members and the Company. The current member elected representative is GK Ng and the Company appointed representative is Con Xanthos. The Policy Committee meets on a quarterly basis.

Mr Hawthorn gave an overview of the three membership sections (Defined Benefit, Accumulation, and Retained) of the Fund and outlined the membership and asset split for each section at 30 June 2020. Mr Hawthorn advised that the Fund was closed to new members in June 2020.

Mr Hawthorn went on to explain the investment choice options available to members, there being four diversified options and a Cash option available to accumulation and retained members and the non-defined benefit related accounts for defined benefit members. The key differences between the five investment options were outlined, those being the split between growth and defensive assets, the performance objective for each option and each option's probability of generating a negative return in any one year. Mr Hawthorn confirmed that switching between investment options is permitted and that all switches are implemented at the end of each month.

Everybody has a different appetite and tolerance for the level of volatility (sometimes called risk) that they are willing to take. The Trustee recommends that members seek professional finance advice before deciding which option may be most suitable for their particular circumstances.

The functionality of the Fund's website was highlighted and is where members are directed to access the latest information on the Fund and various publications including the Fund's Product Disclosure Statement, latest Annual Report and newsletter. The Fund's website is where members can access various forms to make changes to their personal details, change their investment options and update their beneficiary details.

5 Investment Management

Ms Maartenz, a Trustee Director, advised that the Trustee has appointed Towers Watson Australia Pty Ltd (TWA) to provide investment advice.

The Fund adopts a multi-manager approach through a series of investment trusts. The Trustee utilises active funds management in asset classes where there is good opportunity for adding value (usually growth assets such as property and shares) and passive funds management in asset classes where there is less opportunity for the investment manager to add value. Passive managers may also be used to manage investment risk.

This multi-manager approach was illustrated by Ms Maartenz. At 30 June 2020, the Fund was invested across nine investment managers.

6 This year in review – 2019/20

Ms Maartenz gave an overview of the key activities and highlights for the 2019/20 Fund year.

Ms Maartenz advised that the Trustee continually monitors the performance of the Fund and undertakes an investment strategy review each year. The outcomes from the recent strategy review were to:

- increase the Fund's international share investments to 70% (up from 50%) and reduce Australian share investments to 30% (down from 50%). The aim of the change was to increase diversification;
- increase the Fund's foreign currency exposure for international shares from 50% to 60%. Increasing the Fund's exposure to foreign currency is seen as a tool to manage downside risk;
- appoint a third international shares manager to increase the Fund's diversification within this asset class

These changes were made to the portfolio in the first quarter of 2020.

The investment returns for the Fund's four diversified investment options were listed for one, three, five and 10 year periods. Each of the options had provided returns above their respective CPI+ objectives over designative measurement periods and the comparative performance of the Fund had also been strong. This was illustrated by the Fund's Growth option investment return relative to the median returns from the industry survey SuperRatings.

Ms Maartenz noted that COVID-19 has impacted investment markets. We saw substantial losses in world investment markets in the March 2020 quarter. Markets stabilised over the June 2020 quarter and some of the losses were recovered. The Fund's service providers have been able to adapt to a new working environment with minimal impact to member services. The Fund has made payments under the Government's COVID-19 early release arrangements to a small number of members.

Looking ahead, the Trustee will: continue to focus on providing members with quality and timely information about the Fund; focus on ensuring that investment fees and net returns remain competitive; maintain insurance cover that is accessible to members and with fees below peer group funds; continue to review the Fund's investments with the aim of improving the retirement outcomes for members, while working with the Policy Committee to ensure the voices of members are heard.

7 Questions and Answers

7.1 “What is the difference between the accumulation and retained funds?”

Mr Hawthorn advised that the similarity is that the same investment options are available to accumulation and retained benefit members.

For employee accumulation members, the company meets the cost of insurance cover and expenses. These costs are met by retained benefit members and not by the company.

The insurance cover as a retained benefit member is the amount of cover held by a member when they cease employment with Heidelberg Australia. So, say if a member's cover is \$100,000 when he/she leaves employment, then he/she will move into the retained benefit section with \$100,000 of insurance cover and that amount is fixed. The member can agree to continue that insurance cover, the costs being outlined in the Fund's documentation, or they can cancel that cover at any time. It is up to the individual member.

7.2 “We have mentioned that the Fund is closed to new members does this mean that the Fund will die over time?”

Mr Hawthorn restated that the Fund is closed to new members and that the average age of members is getting older. At some point as the Fund's membership gets older, the Company will review the direction of the Fund. However, at this point of time it is business as usual and the Trustee and the Fund advisors are proceeding on the basis that the Fund is continuing.

7.3 “What would happen for the defined benefit members after 65 years of age?”

Mr Hawthorn advised that when defined benefit members reach age 65 their defined benefit is crystalized. That is their multiple times final average salary would be calculated on their 65th birthday and then that would become the opening balance as a late retiree (which is a term in the Trust Deed which is used to describe a member who is over age 65). The crystalized defined benefit then becomes an accumulation balance.

The member has full discretion on how that benefit is then invested within the Fund over the various investment options available and there is no longer the requirement for the member to continue to contribute. Therefore, the obligation to make member contributions at the rate of 4% or 4.71% gets turned off and Heidelberg will commence contributions at the Super Guarantee rate.

Essentially the defined benefit is crystalized into an accumulation account with super guarantee contributions and investment returns applied to the account. No fees apply whilst the member is still an employee of Heidelberg.

7.4 “Why does the Fund trustee not have a portal where members can manually put money into their accounts?”

Mr Hawthorn confirmed that members can put money into their accounts through payroll if they are an employee member and employees should speak to Julie Sarro regarding the process. Mr Hawthorn acknowledged that larger funds and industry funds will allow members to BPay into their account, but the scale of this Fund precluded this.

Mr Hawthorn advised that members can speak to the Administrator to contribute to their account, but it needs to be an individual transaction rather than via an available facility.

7.5 “With no new members the total value of the Fund will reduce over time so what does that mean for the attractiveness of the Fund to investing providers, fund managers and the effect of fees with less members covering those fixed fees?”

Ms Piaia addressed the question from a trustee perspective and stated that the purpose of a defined benefit fund like this is to pay out benefits over time. There are a number of smaller defined benefits funds than this Fund that are still in existence. The Trustee is expecting the Fund, being a mature fund, to decline over time in terms of its size as benefits are paid out to members.

Mr Hawthorn added that on the investment side, the Fund’s value is around \$23-25 million, and it has nine investment managers. The Fund uses wholesale investment managers, for which there are different requirements to investing, for example if the Fund appoints a new manager, the minimum investment amount is typically \$500,000. At this point the Fund’s smallest mandate with the managers is \$2 or \$3 million and therefore if the Fund was to change an investment manager, the size of the Fund would not preclude it from investing with a new manager.

Mr Hawthorn further stated that the Trustee negotiates fees with all managers so, even at a wholesale level, there is a rack rate which may be subject to an investment fee rebate (i.e. a reduction in fees). So, at this point the size and scale of the Fund is not a major concern.

Mr Hawthorn stated that in relation to fees and costs, the Company supports the Fund and the defined benefit arrangement. The administration fees for active employee members are paid in full by the Company. Unless that arrangement changes, the size of the Fund won’t have a bearing on costs for active members. For retained benefit members, the fee charged is a direct pass through of the fee that the Trustee pays the administrator.

7.6 “The size of the Fund at this time has no material impact on its performance or fees?”

It was noted that this was a clarifying question related to the question immediately prior and Mr Hawthorn stated his belief that this would be a fair conclusion.

7.7 “What options exist for someone who decides to early retire?”

Mr Hawthorn addressed this question. Irrespective of whether a member is an accumulation member or a defined benefit member, the benefit will be crystalized at the time of early retirement. The benefit is automatically invested in the Fund’s retained benefit section to ensure that there is no loss of investment and insurance continuity. After that point, it is up to the individual member to decide what they do. If the member is between 55 and 60, the benefit will generally need to remain invested (depending on the member’s preservation age), but whether it remains invested in the Heidelberg Australia Superannuation Fund or another fund is the member’s decision and they should seek professional financial advice.

When a member turns age 60, and assuming they have permanently retired from the workforce, there are further options and one of those is an account-based pension. Mr Hawthorn restated that the Trustee cannot give personal finance advice and noted that the Fund does not offer account-based pensions. Hence, if a member’s advisor recommends an account-based pension, many alternative funds, including industry funds, will provide this feature. In addition, when a member turns age 60 and has left the workforce, they can fully access their superannuation funds. After age 60 and leaving the workforce, 100% of the benefit is available from superannuation tax free.

Mr Hawthorn reiterated that a member should get personal financial advice.

7.8 “At the chosen age of retirement is the option for income stream available in our scheme?”

Ms Piaia directed members to Mr Hawthorn’s comments in response to the previous question and advised that if a member wanted to commence an income stream they would need to get financial advice and choose a product that was suitable for their needs in that regard. But this Fund does not provide any sort of income stream on retirement.

7.9 “I understand lump sums can be taken out as required are there any limits to this?”

Ms Piaia advised that prior to ceasing employment there are only certain circumstances that members can take out lump sums. She asked Mr Hawthorn to address limits on retained benefit members (if any).

Mr Hawthorn confirmed that if a member is over age 60 and has met applicable preservation requirements, they can access lump sum amounts from the Fund at any time. A written request would need to be made to the Fund administrator nominating account details and then that amount will be paid tax free. A member requires a minimum account balance of \$2,000 to join the retained benefit section. After having joined, no minimum balance is required to be maintained.

7.10 “Are there any fees associated with withdrawals?”

Mr Hawthorn replied that the Fund does not charge any withdrawal fees to members.

7.11 “How safe is defined benefit?”

Ms Polldore, the Fund Actuary, responded to this question with some background on defined benefits. The Fund Actuary monitors the funding position of the Fund and the key indicator for the Trustee, Actuary and also the regulator is the assets compared to the vested benefits. The vested benefits are those benefits that would become payable if everybody resigned or retired from Heidelberg. Ms Polldore confirmed that the assets in this Fund have covered the vested benefits by a reasonable margin since her involvement. She confirmed that this coverage is monitored on a quarterly basis and reported to APRA. Further, every three years a more in depth funding review is conducted as required by legislation to recommend contributions that ensure the defined benefits are covered in future. Ms Polldore noted that the Company has always been very agreeable to her contribution recommendations in the past. She ended by stating that the most recent estimate at 31 December 2020 showed the ratio of assets to vested benefits was around 110%.

8 Close

There being no further business, the Chairman declared the meeting closed at 11:43 am AEDT.

Signed as a correct record.



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Chairman

23 March 2021

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Date

Contact

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The Policy Committee

For feedback or to raise an issue or question, please contact a Policy Committee member.

More information:

www.heidaustsf.com