Minutes of QSuper's Annual Members' Meeting, held at Select Audio Visual, Unit 10, 25 Lerna Street, Brisbane on Wednesday, 2 February 2022

In Attendance:	Don Luke (Chair) Mary-Anne Curtis (QSuper Trustee) Charles Woodhouse (Acting Chief Executive Officer) Megan Ashenden (Member Education Officer) – Event MC
Attending by video-conference:	Bruce Cowley (QSuper Trustee) Michael Drew (QSuper Trustee) Janine Walker (QSuper Trustee) Shayne Maxwell (QSuper Trustee) Sandra McCullagh (QSuper Trustee) Beth Mohle (QSuper Trustee) Kate Ruttiman (QSuper Trustee) Anne Finney (Chief Risk Officer) Karin Muller (Chief Operating Officer) John Seccombe (Acting Chief Financial Officer) Wayne Cannon (Queensland State Actuary & QSuper's Actuary) David Rodgers (Partner, Deloitte & QSuper's External Auditor)
Secretary:	Trevor Golden (Fund & Company Secretary) – by video-conference
Apologies:	Nil
In Attendance:	QSuper members joined the meeting by video-conference

1. Welcome

The meeting commenced at 5:30 p.m. and Megan welcomed everyone to the second QSuper Annual Members' Meeting. Megan noted that members' questions would be addressed in the Q&A session after the formal part of the presentation, and that if there was insufficient time to get through all of the questions, a complete list of questions and answers would be posted on the QSuper website in the coming weeks.

2. Welcome to Country

Megan noted that QSuper pays respects to our First Nations people, who have occupied and cared for this continent for over 65,000 years.

Megan introduced Shannon Ruska (Tribal Experiences), a bloodline descendant of the Yuggera, Turrbal, Nunukul, Gorenpul/Cooperoo, and Yugembir peoples, who performed the Welcome to Country, acknowledging the First Nations people as the Traditional Owners of the land on which the meeting was taking place and paying deep respects to all Elders past and present and emerging.

3. Introduction

Megan introduced QSuper Board Chair, Mr Don Luke and QSuper's Acting Chief Executive Officer and Chief Investment Officer, Mr Charles Woodhouse.

4. Chair's Address

Don welcomed members to the meeting noting that QSuper's purpose now, as it always has been and always will be, is to serve its members.

Don noted that the meeting was being held close to the second anniversary of the emergence of the COVID global pandemic which has had such serious consequences around the world. Don paid tribute to the outstanding work that so many QSuper members do in supporting our communities, particularly through the COVID pandemic.

Don noted that QSuper is focused on supporting its members by enhancing their superannuation. He noted that in the past year, QSuper has exceeded its investment objectives across the board with the Accumulation account Balanced option producing a strong 13.7 per cent return; well above its objective of the CPI+3½ per cent, which equates to six per cent. It was noted that the past few years have been an incredibly volatile period for the global economy and that QSuper's investment strategy is designed to give Fund members a smooth ride; aiming to provide strong investment returns, with fewer ups and downs along the way. Don reported that in addition to QSuper's strong performance in the 2020-21 year, the Fund's annual performance over the past 10 years was 8.6 per cent for the Accumulation account Balanced option, one of the stronger returns in the nation.

It was noted that superannuation is a valuable addition to the nation's financial infrastructure but QSuper recognises that financial returns must be matched by high levels of service and continual innovation. Don noted that QSuper's strength is demonstrated through the range of awards that the Fund holds, particularly those that recognise our pension products and our unique investment strategy. Don advised that QSuper was once again awarded the SuperRatings Pension Fund of the Year Award, the SuperRatings Smooth Ride Investment Award, and Money Magazine's Best Value MySuper Award.

It was noted that for the past two years, QSuper has been pursuing a merger with Sunsuper, and that in just under four weeks' time, QSuper will become part of Australian Retirement Trust. Don noted that the QSuper Board firmly believed that the merger will be in the best interests of the members of both funds and that it will be stronger together. He also noted that this was the only basis on which the funds have embarked on this merger; that it delivers benefits to members and that it is in their best interests. Don noted that this will be a fund with more than two million members and more than $230 billion in funds under management, the second largest in Australia. It was noted that the merger will create an organisation that can draw on the advantages of scale, both through how it invests and how it relates to members. It was also noted that QSuper members should not notice any immediate changes as at the date of the merger, and that as time progresses, the benefits from the joining of two strong superannuation funds will flow through to all members. Don advised that the merger will offer members greater long-term financial returns matched with excellence in service that comes from scale. It was noted that the decision to merge was made only after the most rigorous and lengthy consideration of all the issues. It was also noted that the QSuper name will be retained within Australian Retirement Trust because of the importance of the Fund's strong public-service heritage.

Don moved on to discuss QSuper's approach to climate change noting that QSuper sees climate change not just as a financial risk that QSuper must manage on behalf of its members, but also as an enormous opportunity to be part of the efforts to make our world more sustainable. It was noted that the Board understands that taking strong meaningful action on climate change is exceptionally important for all of us. It was further noted that QSuper has an active program to make its portfolio of investments more sustainable and to understand and limit the impact of climate change on our investments. Don informed the meeting that QSuper has committed to net zero by 2050 and has substantially rebalanced the Fund's equities portfolios to align them with our objective to invest in accordance with the Paris Agreement on climate. Don noted that the Fund is continuing to work on how it improves the sustainability of its unlisted assets and that the Board and Management are working on this methodically and with great care.

Don paid tribute to QSuper's former CEO, Michael Pennisi, who finished in that role in October 2021. Don noted that Michael led QSuper through its transformation from a public-sector fund to a public-offer fund, established its own insurance business, invested significantly in a range of new products, services and advice to members. Don thanked Michael for his many years of service to QSuper.

Don closed by thanking members for their interest in attending the annual members meeting.

5. Acting Chief Executive Officer & Chief Investment Officer's Address

Charles welcomed everyone to the meeting noting that he had been the Acting Chief Executive Officer of QSuper for five months, and its Chief Investment Officer for two years.

Charles discussed the impacts of the COVID global pandemic noting that the social effects of COVID have been confronting, as people around the world spend months in isolation to limit the spread of the disease; and the economic effects have been volatile and unpredictable, as industries have closed and then reopened, consumers have changed their behaviour and supply chains have been disrupted.

Charles noted that QSuper is proud to be able to help members meet their own needs throughout their working life and beyond. It was noted that QSuper tries to achieve this in several ways: by investing for members' prosperous retirement, by supporting members with a range of insurance and superannuation products and services and by guiding members to make informed decisions.

In relation to financial outcomes, it was noted that QSuper has continued to deliver on its aim to provide a 'smooth ride' with fewer ups and downs for the Fund's Lifetime and Diversified investment options. It was noted that the Accumulation account Balanced option returned 13.7 per cent, well exceeding the objective of CPI+3½ per cent.

Charles informed the meeting of the contribution to investment returns from several of the asset classes. He noted some of the changes to the Fund's investments, and summarised some of the factors impacting the global economies. He also noted the serious responsibility QSuper carries with respect to the management of member's retirement funds.

He noted that whilst "investment is at the heart of what we do", it is complemented by the structuring of products and insurance that suit members' stage of life and protect members financial wellbeing in retirement. Charles informed members that QSuper had launched Lifetime Pension in March and that this product provides income for life, offers additional pension benefits and guarantees a return of the initial investment. He also noted that this product will be in greater demand as members put value on the income security that will help their retirement years be their best years.

Charles advised the meeting that insurance continues to play a valuable role in the lives of QSuper's members with 7,506 members paid a total of $399 million in total permanent disability, income protection and death benefits during the year. He noted that QSuper's insurance products recognise the special nature of the work that many of the Fund's members do in putting themselves at risk on the front line, protecting the community.

Charles advised members that QSuper had changed how the Fund offers advice with the objective of making the most frequently sought advice — that is advice on superannuation — more readily available. He noted that this change has resulted in more members being able to access information and advice as QSuper's Member Services team had helped more than 160,000 members with their inquiries and a further 372,000 members accessed their accounts online or through the QSuper app.

Charles noted that the Board and Management are conscious of their responsibilities to members and the broader community, which looks to QSuper as a substantial and responsible investor, able to balance financial performance with social responsibility. He noted that over a number of years, QSuper has been working to develop policies targeting climate change and that the Fund has been part of global investor groups advocating for reduced carbon emissions and better environmental practices. He also noted that QSuper has developed its own systems to help the Board and Management understand and reduce QSuper's emissions profile and that more recently, QSuper has rebalanced its global equities portfolio to substantially reduce the emissions that our investments finance. Charles noted that QSuper is in the business of managing risk on members' behalf. He noted that the Board and Management see climate change as a substantial risk and that importantly, QSuper has been able to identify and implement change without materially impacting the Fund's broad investment strategy.

Charles closed by noting that the Board and Management's daily focus is on members. He thanked those participating in tonight's meeting and welcome the opportunity to answer members' questions.

6. Member Question & Answer Session

Megan thanked the speakers and noted that the panellist would now begin answering member questions. It was noted that the panel would be endeavouring to answer as many questions as possible and that a full list of questions and answers would be made available on the QSuper website in the coming weeks. Megan read each of the questions and invited a panellist to respond:

Q1. "When the market rises and falls, this isn't represented in my account balance on the day and at the time, so could you please explain why."

Charles thanked the member for the question noting that for many funds, in a balanced option, that option will actually be dominated by the equity exposure: the exposure that it has to listed share markets. So, for an average peer fund in a balanced option, you might have as much as two-thirds of the asset allocation allocated to listed shares. He noted that this allocation will actually drive about 90 per cent of the volatility of the amount that that option moves up and down on any given day.

Charles advised that in QSuper, the strategy is based on diversification, so QSuper actually has about half the exposure to listed shares that other funds would have and invests in other areas that provide similar expected returns to listed equities but also provide some diversification. He noted that members may be observing a move up or down in the share market; but it may very well be offset, which is by design and on purpose, by the returns that the Fund has coming from another asset class, like infrastructure, real estate, fixed interest or foreign currency.

He stated that the second answer to the question is based on unit pricing noting that QSuper does have a two-day delay in the unit pricing to make sure that QSuper has all the accurate information captured in that unit price to ensure that it's sound and able to be transacted on by members.

Q2. "Will QSuper and Sunsuper members have access to all Australian Retirement Trust products and services at some future date; and will QSuper's products eventually be made available to all Australian Retirement Trust members?"

Don thanked the member for the question and noted that there will be two divisions in the merged entity; one division referred to as the 'Government Division', and it will continue with the name 'QSuper'. Don noted that in the transition to the merged entity, members' current benefits, current entitlements and the current way in which your superannuation is being managed — insurance etcetera — will stay the same. Then over time, as the benefits from the merger emerge, they can be enhanced. So the decisions have not been made and will evolve over time about what will move from one division to the other division. He also noted that there is a phenomenal opportunity for combining, for aggregating, for doing things better and for getting economies of scale; but it's important that the funds give certainty and continuity through all of that in working through.

Q3. "A recent message to Fund members indicated that investment transaction costs associated with the merger are anticipated to have a negative impact on the unit prices over the next two to three years. This is a concern when unit prices are already under pressure from a variety of external sources, so what steps are being taken to minimise the impacts of any adverse merger outcomes on existing members?"

Don noted that in relation to the merger, the leadership teams from QSuper and Sunsuper, the QSuper Board, and the Sunsuper Board, enthusiastically endorsed the merger based on all of the due diligence and the business case. It was noted that the business case found that there is a very, very strong positive net present value in proceeding with the merger. It was noted that some of the financial benefits will emerge over time — over the next four, five, six, seven or eight years.

It was also noted that there are a few minor costs in the investment transition with 'minor' meaning on average, across the portfolio, about 0.01 per cent; and for the maximum about 0.05 per cent. Don noted that this is a very small amount, and the funds believe that those costs will be paid back very quickly after the merger. He also noted that most of the costs of the merger have been met, and will be met, by the reserves; accrued through the judicious management of QSuper and Sunsuper in the past, so they will not be drawn by having increased fees. Don noted that the merged fund would be reducing the fees for all members from 1 July 2022.

Q4. "What is QSuper doing to ensure that it has a good risk culture?"

Mary-Anne Curtis (Chair of the Audit & Risk Committee), noted that the Board and the Audit & Risk Committee have a very strong focus on our key strategic risks and, through our committee meetings throughout the year, we actively monitor the strategic risks and the controls that we have in place to manage those risks. Mary-Anne commented that managing risk is a day-to-day activity for all of our employees and it is critical to achieving strategic outcomes for the organisation; reducing the cost of risk management is also a part of that.

Mary-Anne noted that QSuper integrates its risk management practices and procedures to safeguard the achievements of its objectives, to ensure that the operations that the company manages are within risk appetite and also to ensure that the values of the organisation are upheld. It was also noted that QSuper operates in a regulated environment, and compliance with those regulatory standards is of paramount importance.

Anne Browne (Chief Risk Officer), noted that QSuper has values and behaviours which guide our staff in how we interact with each other, and these are written into QSuper's code of conduct. It was noted that in addition, there is also a risk culture framework that we have across the entire organisation; the risk culture framework guides how staff manage risk, so that the actions that we are taking and the behaviours behind it all. We use that to ensure that people really understand what the principles are that we want to instil behind managing our risk.

Anne reiterated that QSuper is a regulated organisation and that the Fund has a lot of compliance obligations that it must meet. It was noted that QSuper has training programs in place as well as a centralised risk management system, in which there are those controls, and all of our staff will assess how effective those controls are on a six-monthly basis. Anne noted that the Fund has a variety of mechanisms in place through training, through our centralised risk management system and through ongoing interactions between her team, which is a second-line team, and also with the business.

Q5. "Can you please explain why the socially responsible option has performed so badly in 2021-22? I monitor this daily with comparison with the ASX200 and QSuper Australian shares. I realise that it has been a difficult year, but it has performed badly from July, so how often do we change our investment mixes in this space?"

Charles noted that the underlying share portfolio in the Socially Responsible option is quite different from the ASX200, and it is targeted specifically to invest in the areas that the members have identified as areas that they would like us to target. He noted that it is a very concentrated index comprising about 150 stocks; whereas in comparison to the equities portfolio that we use in the Balanced option, that would hold as many as 3,000 stocks.

Charles informed members that since July, some areas have underperformed and this is evident in the US with the performance of the NASDAQ, which is the sort of tech-heavy index in the US, and the S&P 500 or the Dow Jones. So the NASDAQ has underperformed much more significantly than the Dow or the S&P over the recent period.

He also noted that last year, the Socially Responsible option had an equity performance or contribution that was in excess of the performance of the portfolios that were in the Balanced option. Therefore, as the equity exposures are different, both in terms of concentration and the industry exposures that they have, over short periods of time, that can lead to volatility and outcomes relative to the other options.

Q6. "Will we be backing nuclear projects?"

Charles stated that for the Fund's infrastructure assets QSuper has developed a tool internally that looks at the assets through a socially responsible lens. So, in the first instance, in climate change, Management look at transition risks as well as physical risks, and we make sure that QSuper incorporates those considerations into any analysis that we do for an asset. It was also noted that QSuper's investment managers have never presented the Fund with an opportunity to invest in a nuclear project, and it would be unlikely based on the way that QSuper invests.

Charles noted that from a listed shares perspective, the Fund has developed a process that really builds on its engagement program. So QSuper is involved with a number of organisations — two international and one domestic come to mind — that are really focused around not only climate change but also socially responsible issues. He noted that QSuper has a process now where that is incorporated back into the construction of our portfolios either through the portfolio construction itself, whether we own stocks or we don't own stocks, or through that engagement program and, therefore, through the proxy voting.

Q7. "Regarding reduction targets for carbon and our ESG strategy, apart from the net zero carbon aim by 2050, what is the aim in the interim by 2030?"

Don noted that in relation to climate change, QSuper uses our assets and the way that we manage the Fund's money to be in line with net zero by 2050 and in line with decarbonising in the economy. He noted that not only has the Board and Management worked through an approach and a framework looking across the whole of our portfolio and that QSuper has dramatically reduced our carbon footprint through action that the Fund took late last year. He noted that the Fund also liaises and interacts as part of the group of owners and the people who manage these things like airports, such as Heathrow and Brisbane Airport, the ports that we invest in and electricity generation. He noted that over the next six months and over the next year, members may notice enhanced reporting in the area of climate change which will clarify all of these things in great detail.

Sandra McCullagh (Chair of the Investment Committee), informed members that QSuper has done a lot of work in the last 12 to 18 months on climate change, which culminated in a release that we made to members on 15 October 2021. She noted that it detailed the process that the Board and Management had gone through in assessing the Fund's equities portfolio and how it complied with the goal of net zero by 2050. It was noted that this was a very rigorous independent assessment of how the companies that QSuper invest in are progressing in their commitment and actions for a net zero 2050 and from that, QSuper made quite substantial changes to its equities portfolio.

Sandra noted that making goals or commitments to 2030 targets for the Fund's portfolio in relation to carbon reduction was best left to the merged fund: Australian Retirement Trust. It was noted that once all of the assets are brought together from QSuper and Sunsuper, the new Board will be able to make commitments for Australian Retirement Trust. She noted that, as that fund takes hold next year, there will be commitments for 2030 and other goals that will flow on from the work that QSuper has done this year.

Don added that the way in which the new Board will manage climate in the merged fund, will be to take the best of both and raise the bar even more because both funds are determined to be leaders in this space.

Q8. "In relation to the Self-Invest option, would members be able to log in and look at the daily earnings from shares?"

Charles noted that this is actually detail that he didn't have to hand, but that a full response would be published on the QSuper website following the meeting. He noted that QSuper was continuing to provide more information to members, such as publishing QSuper's equity holdings on the website so that members can see what shares the Fund owns.

Q9. "Regarding the merger and advertising expenditure, how much money did QSuper spend on advertising and brand promotion in 2021; and will this be halved by splitting it with Sunsuper in the merged fund?"

Don noted that in relation to television advertising and brand promotion, QSuper is very modest in its expenditure and that it must be always in members' financial interests. He noted that there has to be a purpose for it and it has to add to the value of the Fund and add to the value of members in the Fund before the Board and Management can allow anything to be spent in that space. He also noted that there will be economies of scale when you bring two groups together as you don't have to duplicate expenditure.

Karin Muller (Chief Operating Officer), noted that as QSuper is a profit-for-members fund, it takes the position that every dollar spent has to be in members' best financial interest. She noted that the advertising spend is between $3 million and $4 million for the financial year however 'halving that' is probably a question to be address following the merger.

Q10. "Given the purpose of merging has been stated as a desire to take advantage of economies of scale, it seems contrary to retain investment management teams in both Sydney and Brisbane, so will we be consolidating the teams into one team based in Brisbane, or do we intend to have it based elsewhere?"

Don noted that the merger will give the merged fund different opportunities in investments because of the scale noting that the funds under management will grow and grow very substantially. He noted that significant consideration was being given to investment philosophy and investment structure; not just for a fund that's the $230 billion today but, indeed, $300 and $400 billion and to be incredibly cost effective in the way that the merged fund manages money.

Don stated that every year, QSuper carries out a benchmarking exercise about the costs that QSuper incurs in managing money, and that's not just QSuper's headline investment fees but also the Fund's transaction costs. He noted that the benchmarking is against some of the largest and most advanced funds on the globe, and QSuper's fees are very low on a global basis.

Charles agreed, noting that the merged fund will have an opportunity to consolidate mandates and derive some of those synergies. He noted that a large measure of why QSuper is competitive from the fee perspective is because it is an attractive investment partner to some of the best investment managers worldwide, including in Australia. He noted that the reason that is the case is not just because QSuper is a big fund but because it is a growing fund. He also noted that growth means that, as new investments come up, the Fund does not have to sell something in order to pursue or buy them, and that QSuper can be quick in terms of its decision-making.

Charles stated that from a demographic perspective, QSuper members not only tend to have higher balances but also tend to be older in terms of their age range; Sunsuper brings a larger number of younger members. He noted that from an investment perspective, this would prolong the period of growth where the merged fund can use those great advantages that QSuper has employed over the last decade and longer to members' advantages.

Don affirmed that the merged fund would continue with offices in both Brisbane and Sydney for its investment operations and that it would draw upon the expertise of both of those teams.

Q11. "Regarding staff diversity, what processes are in place to increase diversity in staffing, not only from a gender point of view but also for disability, cultural and ethnic diversity?"

Don noted that unless there is diversity right through the organisation, it will never be a great organisation. He noted that it was important to have diversity of thought, diversity of gender, and diversity of culture. He stated that the Board for the new entity has ensured diversity; noting that the Board is pretty evenly split (seven males and six females), and the Executive team has five females and five males.

Beth Mohle (Chair of the People & Nominations Committee), noted that a lot of work had been done in recent years at QSuper, but also through the merger process, to make sure that there is an absolutely top-notch culture; not only to maintain the present culture, which is already excellent, but also to build upon that in the new entity. She noted that a lot of time and effort had been invested to ensure diversity and inclusion, and building that culture within the organisation. She also noted that it is essential that the merged fund not only has diversity of thought, but also is inclusive of all perspectives.

Q12. "Regarding electric vehicles because business is booming in that field, can QSuper invest in the materials that are used for the manufacturing of batteries for EV vehicles?"

Charles noted that QSuper's approach to the listed share market is a passive one that really focuses on diversification, so the Fund does not tend to identify specific themes like that for inclusion in the portfolio. He noted the robust debate at the Investment Committee around thematic investing but that to date, the Fund's approach is one that really focuses on diversification across a number of different sectors.

Charles stated that from a commodities perspective, the Fund has received strong returns over the last fiscal year and that there is some general exposure there, but not specifically targeting anything like lithium or any of the metals that would be included specifically in batteries. He noted the Fund's build-out of its renewable energy platform with there being a great demand for electricity to fuel those sorts of vehicles.

Q13. "What number of members and assets are associated with the Defined Benefits scheme, and how are their interests safeguarded in the merger?"

Don stated that about 38,000 people are in the Defined Benefits scheme. He noted that when QSuper has been working with the Queensland Government in relation to the merger, one of the many things that has been absolutely paramount for the QSuper Board is to make sure that there is no detriment in any way for Defined Benefit members. He also noted that there will be no change in the way in which the Defined Benefits are guaranteed by the Queensland Government, there will be no change in the way that the moneys are invested, and there will be no change to the benefits themselves.

Wayne Cannon (Queensland State Actuary), explained the specific Defined Benefit membership numbers and noted that there are two pools of assets that relate to the Defined Benefit. He noted that some of these assets are within the QSuper trust and, as at 30 June 2021, the date of the last actuarial review, this amount was about $6.5 billion. He also noted that the Queensland Government holds assets to cover its liability to eventually make its share of the payments to those members and at 30 June 2021, this was about $25.5 billion; so a total of about $32 billion. Wayne noted that the assets in excess of the accrued liabilities of the scheme were at about $6.6 billion, a very strong position. Wayne informed the meeting that his interpretation of all of the governing documents for the merger was that there is absolutely no change to the Defined Benefit scheme and that he was continuing to value them at such.

7. <u>Concluding Remarks</u>

Megan noted that the meeting had reached the end of the allocated time and she thanked members for the large number of questions that had been sent through. Megan thanked the QSuper Trustees and Executives in the studio and also those attending virtually.

The meeting closed at 6:40 p.m.

Don Luke – Chair, QSuper Board
14 February 2022