

Minutes of the 2023 Annual Member Meeting

Held via live stream, Wednesday 6 December 2023, commenced at 10:30AM (AEDT)

Master of Ceremony	Ms Bonnie Bley, Nous Group
Presenters and Q & A Panel	Mr Nick Johnson, Board Chair Mr John Livanas, Chief Executive Officer Mr Charles Wu, Chief Investment Officer Ms Nada Siratkov, Chief Experience Officer
Board members	Mr Alex Claassens, Employee Representative Ms Catherine Bolger, Employee Representative Ms Cathy Yuncken, Employer Representative Mr Tony O'Grady, Employee Representative Mr Thomas Costa, Employee Representative Apologies: Ms Carol Austin, Employer Representative Ms Lisbeth Rasmussen, Employer Representative Mr Russell Mason, Employer Representative
Executive	Mr Allan Parapuram, General Counsel and Company Secretary Ms Keri Pratt, General Manager, Defined Benefits, Assets & Liabilities Mr Nish Patel, Chief Financial Officer and General Manager Corporate Services Apologies: Mr Jag Narayan, Chief Risk Officer and Audit Executive Mr Jason Hazell, General Manager, Defined Contribution Investments
Actuary	Mr Nathan Bonarius, PricewaterhouseSecurities Limited
Auditors	Matina Moffitt, Geoff Rooney, Emma Cunliffe, BDO
Agenda	<ol style="list-style-type: none"> 1. Welcome and Introduction 2. Strategic Updates and Board Highlights 3. Fund Update 4. Investment Performance 5. Member Update (includes a video interview with centenarian member, Mr Guy Wilkie Warren) 6. Q&A Session

7. AMM Close

The Minutes comprise a summary of key aspects of presentations, and the Q&A session and will be published on the State Super website along with a video recording of the AMM and the presentation slides.

1. Welcome and Introduction

Ms Bonnie Bley, Master of Ceremony, spoke to the following matters:

- welcomed members to State Super's second Annual Member Meeting
- acknowledged the Gadigal people of the Eora Nation, the traditional custodians of the land, and paid respect to the Elders past, present and emerging, and also extended that respect to any Aboriginal and Torres Strait Islander people watching the meeting.
- introduced the State Super team who will be presenting today, outlined the agenda and the purpose of the AMM, and advised the attendees that questions can be submitted online and will be answered during the Q&A session, including those questions submitted during the registration process.
- attendees were reminded that questions on personal finances will not be answered at the meeting to protect member's privacy.

2. Strategic Updates and Board Highlights

Mr Nick Johnson, the Board Chair, spoke to the following matters:

- the Board's approach to responsible investing, and expectations for responsible behaviour by the companies in which member's funds are invested
- the Board's involvement in seeking to influence responsible behaviour, using Qantas as a recent example; the process and votes cast for various motions at the Qantas Annual General meeting in November 2023
- progress on the reduction in carbon emissions benchmarked against the levels in 2020

3. Fund Update

Mr John Livanas, the Chief Executive Officer (CEO) thanked the attendees for their time, introduced the members of the State Super Executive team and re-iterated State Super's commitment to helping members, to provide members with the best experience and best investment returns.

Mr Livanas spoke to the following three matters:

- Application of Responsible Investing on the internal functioning of State Super through an inaugural Sustainability Committee
- Update on the migration of the Administration Systems by Mercer, the approach to mitigate the impacts of any errors or mis-steps on members, such as the error in reporting to the ATO, and the reasons for the delay in the statements for active members
- Innovations in State Super: the use of Machine Learning (a form of artificial intelligence) to support better investments with lower risks, the successful sale of the Port of Geelong last year, and upcoming sale of Queensland Airports Limited, and the proposed new benefits scheme to support front line workers

4. Investment Performance

Mr Charles Wu, the Chief Investment Officer (CIO) noted that the State Super investment portfolio is one of the top 10 performing funds in the country. He noted the importance of having a diverse, well-thought-out investment strategy in the face of market uncertainties, like:

- the effect from the Ukraine-Russia conflict on the world economy and equity markets causing the prices to drop, disrupting the flow of essential commodities resulting in inflation and the simultaneous response by the Central banks around the world in raising interest rates, resulted in re-pricing of the assets
- the impact of the China-US tensions on the equity markets, which resulted in a drop in the value of investments
- the combined effect of the China-US tensions with the Ukraine-Russia conflict, had a significant impact on the stock market
- introduction of Chat GPT had a positive response in the stock market
- the fluctuation in the value of bonds of almost 50%, over the last 18 months, from the highest to lowest points

Mr Wu noted despite the market experiencing a significant drop of about 25% from its highest to lowest point, the Growth portfolio managed to limit its losses to around 5% during the same period. And going forward, State Super will continue to fortify the portfolio's resilience in times of uncertainty, ensuring sufficient liquidity to meet member benefit payments.

Mr Wu further noted State Super's strategic plan to gradually reduce holdings in illiquid assets and is currently contemplating the sale of Queensland Airports Limited.

5. Member Update

Ms Nada Siratkov, the Chief Experience Officer (CXO), outlined the history of State Super and spoke to the following matter:

- through annual independent research, the feedback on State Super's member beliefs remains consistently high
- member satisfaction with the core services, in particular the telephone service, was highly rated by the pension members; this is a service provided through an outsourced arrangement (with Mercer)
- other highly rated services include the personal interview service (managed by Mercer), financial planning and seminars (both provided to members via a contract with Aware Super), and members are encouraged to use these services
- member snapshot as at 30 September 2023 shows the largest proportion of membership are pensioners (approx. 65,000 out of 85,000 members). By 2028, it is forecast that there will be approximately 61,000 pension members out of 70,000 members
- State Super will endeavour to respond individually to members who have submitted questions that are specific to their circumstances
- If more information is required, members are encouraged to call or utilise the services available (information on these services and how to access them is available on our website): call the State Super Customer Service Centre, attend a seminar, book a personal interview or see a financial planner
- In 1970's, the State Super legislation was amended to introduce an indexed State Super pension increase in line with the CPI (Consumer Price Index). This was mainly to offset the cost-of-living pressures based on a basket of goods and services (refer to page 8 of the CXO's presentation slide)
- For 2023 the CPI adjustment rate was **6.6%** (based on CPI Sydney Index)
- A snapshot of State Super centenarians: a video interview with centenarian member, Mr Guy Wilkie Warren was played at the end of the CXO's presentation

6. Q&A Session

Question 1

What are the measures that State Super has in place to ensure the security of my personal information and details? What preparations have been put in place in the event of a data breach?

John Livanas answered:

Keeping your personal information safe, keeps me awake at night.

It's important to note that most of your personal information actually is managed by Mercer, as our administrator. We've got all the appropriate policies and control frameworks in place, but that doesn't stop us from continually checking and testing that they work. We do so by:

1. Checking in with mercer about their controls, their multi-factor authentication processes, the way our Call Centre Staff converse with members, our internal audit of Mercer and State Super and our other providers, and so on... it's not perfect but we try to make sure it's enough
2. I want to call our call centre staff, who have foiled a number of attempts by asking that one more question that a fraudster cannot answer!
3. And finally, of course, should there be a breach, we have a 'playbook' for what we should do.

Question 2

Do you have enough money in your funds to cover all our pensions, projected using a baby-boomer life span?

John Livanas answered:

Us baby boomers are living forever ... thankfully our actuaries have incorporated this into assessing liabilities. I ask them each year, and so far they've been right. So yes the liabilities incorporate the greater expected lifespans.

Regarding funding, the NSW government – the largest of the 150 odd employers in our scheme, have been working with us to support our funding. I'm comfortable with where we are and I can discuss our funding frameworks and liquidity windows – but that'll just bore you. Suffice to say, NSW, an economy comparable to that of Sweden, has the money.

Question 3

Global trends - do you expect a US recession and what will be the flow-on effect in Australia and on our funds?

John Livanas answered:

During a recession you might expect the stock market to always perform poorly, but this isn't always the case. The stock market often reacts to what investors think will happen in the future, not just what is happening right now. So, if investors expect a recession, the stock market might start falling before the recession begins and start rising before the recession ends.

Also, our funds are diversified, with only about half in the stock market. The other half acts as a counterweight. Most importantly, your fund has done really well over the last 20 years – and we've seen a few recessions.

Question 4

How do you propose to out-perform inflation?

John Livanas answered:

Remember, our job is to beat inflation. Here's how we do it:

- hold a diversified portfolio in shares and bonds
- Invest in Real Asset:
- Invest in Inflation Linked Securities:

Over the term of our investment horizon, we've been good at beating inflation.

Question 5

How has the super fund performed post-COVID - For the last 2 years.

John Livanas answered:

The Balanced option delivered an approximate annual return of 7.5% over the last three years. This performance is noteworthy, especially considering the initial COVID-19 market shock, which caused a significant 15% drop in the average portfolio.

Question 6

What is State Super's position in relation to the proposed Federal Government's increase of taxation from 15% to 30% for those on a defined benefits superannuation deemed to be in excess of \$3m. How will the \$3m limit be determined?

Nada Siratkov answered:

The Commonwealth Government has proposed a new 15% tax on individuals whose total superannuation balances exceed \$3 million. The new tax will commence from 1 July 2025 and will be applied to the earnings derived from the members balance in excess of \$3 million dollars. State Super is required to comply with all income tax laws applicable to superannuation.

No legislation for the proposed change has been introduced into the Parliament so far, however a draft has been released for consultation that sets out how the government proposes to introduce the new tax. While specific detail of the valuation method used for defined benefit members is yet to be confirmed, it is the government's intention to apply the tax in a broadly commensurate manner to those in accumulation style funds.

For both pensioner and active contributing members, the value of your State Super pension will be reported to the ATO each year, and added to any other superannuation interests that you hold. The ATO will then assess your total superannuation holdings and if they exceed \$3 million, the tax will be applied on those earnings that relate to the amount over \$3 million.

For State Super pensioners, the ATO will issue a tax assessment directly to you and you will have 84 days to pay the assessment. For active members, if the only super you have is your State Super account, the tax debt will be deferred in full, and the ATO will send you a debt account creation notice, advising you of the amount of the debt.

That debt will be payable when your State Super account is paid out to you. If you have both a State Super account and another accumulation account, the proportion of the tax that relates to the accumulation account will not be deferred, and you will be issued with a tax assessment for that amount which will be payable within 84 days.

Question 7

[Please explain why the delay of annual reporting of statements has occurred?](#)

Nada Siratkov answered:

The 2023 member statements for members in most schemes were issued in October and November. Member statements for SASS members are expected to be mailed by mid December.

While this isn't our usual delivery timeframe, member statement delays following a system transition are not unusual. This is because trustees and their administrators take additional time to ensure the accuracy of member statements on the new system. We expect the 2024 Member Statements will be issued in the usual timeframe.

Question 8

[What are your criteria for investing sustainably, environmentally, ethically, etc.?](#)

Charles Wu answered:

When we talk about investing in a way that's good for the environment and sustainable, we have a special approach that depends on the type of investment and its rules. We always follow our Investment and Responsible Investment Policy, and we also keep our Climate Principles in mind. These guidelines help us focus on making money for our members while also considering ESG (Environmental, Social, and Governance) factors.

We have some basic rules that we stick to, and if an investment doesn't meet these, we won't put our money there. Our goal is to lower the risk that comes with ESG issues as much as we can, and we also try to invest in things that have positive ESG impacts, but only if we think those investments will also give us good returns. Let me give you two examples of how we do this:

- Melbourne Airport plans to eliminate the greenhouse gases it directly produces and the ones linked to the energy it uses by 2025. To help achieve this goal, they've set up a massive solar farm generating 12 megawatts of power, which began operating in January 2022. This solar farm is the biggest of its kind in Australia and is located on the airport's premises.
- Waste Management, a company based in North America, assists people by collecting trash and then converting it into energy. They also focus on using creative recycling methods to make materials reusable instead of being thrown away.

As people who invest for the long term, we believe that companies that handle their ESG (Environmental, Social, and Governance) stuff well are more likely to succeed and do better in the long run. We think that being actively involved and taking care of our investments helps not just the companies we invest in, but also us as investors and you, the State Super members.

For State Super, being actively involved means we talk with companies, vote on important issues (that's what 'proxy voting' means), work with others, and push for policies that help companies become more environmentally friendly and sustainable in

how they operate. We think this is really important for making sure these companies do well in the future.

Question 9

What percentage of State Super investments overall are in sustainable energy industries?

Charles Wu answered:

We're investing in sustainable energy industries that could grow a lot because of their focus on low-carbon products and services. Think of things like electric vehicles and solar cell manufacturers. The amount we invest in these kinds of companies varies from 7% to 10%. This difference is because we have different investment options, and each option has its own level of involvement in the stocks of these industries.

Question 10

Given the current international environmental and political crises, what ongoing steps does State Super take to ensure funds are invested ethically, i.e. socially responsible sustainable investing, and how does State Super assess what constitutes 'ethical investment'?

Nicholas Johnson answered:

This is an important question on topics which are regularly discussed by the Board and various of the Board Sub-Committees.

All our investments are made within State Super's Investment Framework and, as such, are evaluated by our Investment team against our stated policies relating to such issues as climate change, modern day slavery and corporate governance. We have specific exclusions on investing in tobacco and controversial weapons, the details of which are defined in our Responsible Investment Policy. We also collect and monitor various asset specific ESG measures annually as well as engage with our investment managers on these matters.

I talked earlier about the metrics which are being applied in tracking the desired reduction in carbon emissions from our portfolio. While less tangible, we are participating in various industry discussions around the development of measures for such related issues as biodiversity and slavery.

That said, I should note that State Super is not an exclusionary ethical fund. Such ethical funds typically set very narrow investment guidelines with their members accepting that the associated excluded investments can have a material impact on investment returns.

The primary duty of State Super is to meet its pension benefit obligations to members, and to achieve very high risk-adjusted returns on the members' defined contribution funds. We are delivering on that duty while applying our Responsible Investment policy.

My opening remarks illustrated the steps which the Board will take if we are not satisfied with poor corporate behaviour. The Board and management team will continue to be alert to, and take actions, in situations that are not tolerable within our investment guidelines.

7 AMM Close and Closing Remarks

Ms Bley thanked the panelists and members for attending the AMM and advised that the questions and answers, and a video of the meeting will be published on the State Super website in the new year. Members with specific questions on personal circumstances were asked to get in touch with the State Super customer service team on **1300 130 095**.

Attendees will receive an email requesting feedback on the AMM.

The Chair shared his reflections, thanked members for their confidence in the State Super team and look forward to the next annual meeting.

Meeting closed at 11.28am.