

# Member Outcomes Assessment

## Choice options comparisons

(for the year ended 30 June 2022)

### Purpose of this document:

Section 52(9) of the Superannuation Industry (Supervision) Act 1993 ("SIS Act") requires RSE licensees to annually determine for each MySuper and choice product whether the financial interests of the members that hold the product are being promoted.

This document sets out the annual Member Outcomes Assessment for legalsuper's Choice product for the year ended 30 June 2022. It compares the returns, fees and costs and investment risk for legalsuper's Choice product with comparable products, as well as the other attributes that contribute to good long-term outcomes. It also concludes that the financial interests of its members are being promoted by the Trustee.

### Assessment:

In determining for each product whether the financial interests of the beneficiaries of the entity who hold the product are being promoted, the trustee has regard to the requirements of the SIS Act and Superannuation Prudential Standard 515 (SPS 515) including:

- a) the fees and costs that affect the return;
- b) the return for the products (after the deduction of fees, costs and taxes);
- c) the level of investment risk for the products;
- d) whether the options, benefits and facilities offered under the product are appropriate to those beneficiaries;
- e) whether the investment strategy for the product, including the level of investment risk and the return target, is appropriate to those beneficiaries;
- f) whether the insurance strategy for the product is appropriate to those beneficiaries;
- g) whether any insurance fees charged in relation to the product inappropriately erode the retirement income of those beneficiaries; and
- h) any other relevant matters, including the matters set out in SPS 515, (a. whether, because of the scale of, and within, the RSE licensee's business operations, those beneficiaries are disadvantaged; b. whether the operating costs of the RSE licensee's business operations are inappropriately affecting the financial interests of those beneficiaries; and c. whether the basis for the setting of fees is appropriate for those beneficiaries.)

### Trustee determination:

Having had regard to the matters set out in sections 52(9)-(11) of the SIS Act for the year ended 30 June 2022, Legal Super Pty Ltd as trustee of legalsuper has determined that the financial interests of members of its Choice product are being promoted by the Trustee.

## Introduction

The Trustee is responsible for the investment arrangements of legalsuper and for formulating a long-term investment strategy for legalsuper's Choice product in addition to individual investment strategies (investment options) made available to members.

In investing the savings of its members, legalsuper is guided by the following investment goal and core investment beliefs.

### Investment goal

The investment goal of legalsuper is to produce investment products that consistently deliver competitive long-term, risk-adjusted returns for members.

### Investment beliefs

1. We believe that optimal decision-making leads to strong member outcomes and is facilitated by appropriate governance structures.
2. We believe that rigorous research of both the expected benefits and potential risks of investment opportunities leads to strong member outcomes.
3. We believe our key comparative advantages are a long-term mindset and our size, and that we can improve member outcomes by exploiting these.
4. We believe that real long-term returns are most important. However, we recognise members have choices and returns relative to peers, are also important.
5. We recognise the need to take risk in order for the Fund to achieve its return objectives. Risk is only taken when we think we will be appropriately rewarded for it, and is managed through asset allocation, manager selection, overlays and portfolio construction.
6. We aim to capture most of the upside in strong markets, and to minimise losses.
7. We believe that asset allocation dictates most of the return and volatility of returns, and that the expected long-term returns and risks are best established through strategic asset allocation.
8. We believe that markets move through cycles and by taking a dynamic approach to managing asset allocation, where we have high conviction, we aim to improve the probability of achieving the Fund's return and risk objectives.
9. We outsource our asset management to appropriately qualified investment managers. We employ passive managers, and also active managers where we have a high level of conviction in their ability to add value net of fees and costs.
10. We believe that environmental (including climate change), social and governance opportunities and risks exist and should be taken into consideration to the extent we can practically do so and within the context of optimising net risk-adjusted returns.

### Trustee determination:

- Comparisons with comparable products of other regulated superannuation funds
- Options, benefits and facilities offered to members
- legalsuper's Investment strategy
- legalsuper's Insurance strategy
- Other relevant matters

## Choice options comparisons

legalsuper offers 11 choice products:

- 4 single asset class options:  
(Cash, Enhanced cash, Australian shares & Overseas shares)
- 7 blended asset class options:  
(Conservative, Conservative balanced, Balanced index, Balanced SRI, Balanced, Growth & High growth).

### 1. Returns (net of fees, cost and taxes)

The table below shows the extent to which one, five and ten year returns for each Choice investment option exceed or underperform the median of comparative funds in the SuperRatings universe<sup>1</sup>. A plus symbol indicates returns met or exceeded the median and a minus symbol indicates returns were below the benchmark.

Please note, the median returns comparator for overseas shares includes funds with different levels of hedging compared to legalsuper's approach and this needs to be kept in mind when comparing legalsuper's return with the median. The level of hedging for all comparable overseas shares options is not publicly available.

Investment option	1 year (%)	5 years (%)	10 years (%)
Cash	-0.38	-0.25	-0.13
Enhanced cash	+2.48	-0.14	-0.27
Conservative	+1.22	+0.01	+0.13
Conservative balanced	+2.23	+0.17	+0.20
Balanced	+2.57	+0.24	+0.31
Balanced index	-2.57	-0.52	-0.45
Balanced SRI	0.00	-0.25	-0.24
Growth	+2.40	-0.10	-0.45
High growth	+3.73	+0.67	+0.07
Australian shares	+0.07	-0.88	-0.08
Overseas shares	+1.73	+0.25	-0.37

**Note:** Past performance is not a guide to future performance.

### Key findings:

#### legalsuper's Choice products:

#### Relative performance:

- As at 30 June 2022, 1 year returns to 30 June 2022 were above the SuperRatings median for the majority of the Choice products. The cash and balanced index option underperformed whilst all other Choice options outperformed. legalsuper's blended asset class products outperformed the SuperRatings median, due to strong sector and manager relative outperformance from active investing, whilst the balanced index option underperformance was due to the option holding a higher degree of listed assets which underperformed during the year

## APRA Choice Heatmap | 30 June 2021:

- All Choice products were reported as performing broadly in line with the 7-year benchmark in the 30 June 2021 APRA Choice Heatmap, except for three - Balanced SRI, Conservative and Conservative balanced.

In relation to these under performers - due to concerns with under-performance and governance, the manager of Balanced SRI was changed from AMP to Pandal in August 2020 and performance has since improved and fees are lower. In relation to the Conservative and Conservative balanced options, the Trustee has informed APRA that the comparators used in the APRA Heatmap were not suitable for the actual asset allocation of these products and has requested a review.

## 2. Fees and costs

### Key findings:

- As at 30 June 2022, legalsuper's fees for all Choice options are noted in the table below based on a \$50,000 account balance.
- legalsuper fee reductions were implemented on all Choice options from 30 June 2022.
- In a year when the industry median fees increased, legalsuper lowered the fees on all but one Choice option.
- Fees for legalsuper Choice options were lower than industry median in all but Balanced SRI, where they were equal to the median.

The following table shows legalsuper's fees and costs for each Choice investment option when compared with the SuperRatings median for all funds universe.

Investment option	legalsuper fee based on \$50,000 account balance	SuperRatings median fee based on \$50,000 account balance
Cash	\$233	\$267
Enhanced cash	\$268	\$550
Conservative	\$423	\$559
Conservative balanced	\$458	\$566
Balanced	\$528	\$610
Balanced index	\$278	\$610
Balanced SRI	\$498	\$498
Growth	\$523	\$601
High growth	\$513	\$686
Australian shares	\$478	\$734
Overseas shares	\$423	\$710

### 3. Investment risk

Each Choice product has a different level of risk reflected in different allocations to growth and defensive assets. The target and estimated level of investment risk for each Choice product is set out below:

Name of Choice product	Risk profile
Cash	very low
Enhanced cash	low
Conservative	low to medium
Conservative balanced	medium
Balanced	medium to high
Growth	high
High growth	high
Australian shares	very high
Overseas shares	high
Balanced index	high
Balanced socially responsible	high
Direct investment option	very high

This reflects the investment strategy adopted by the Trustee and is consistent with the median investment risk for products of comparable super funds with equivalent return targets.

## Options, Benefits and Facilities offered to Members

### Independently awarded & highly rated

The strength of legalsuper's overall offering is evidenced by high ratings from the four major rating agencies. legalsuper has been awarded a SuperRatings Gold rating for MySuper, employer sponsored and personal, and a Platinum rating for its pension product.

legalsuper products were nominated for ratings or awards from Chant West, The Heron Partnership and Rainmaker.

### Higher personal service for members/beneficiaries

legalsuper offers higher levels of personal service to members via our client service manager team. Our team helps members in their goal of building their savings for retirement (e.g. provision of factual information and general advice about legalsuper superannuation products). Our team meet with members and employers to answer their questions and provide information and support to increase their understanding of super and also facilitate workplace seminars. This information and support provides real value to members to make good decisions regarding their superannuation accumulation and management.

Meetings with members were facilitated in a face-to-face setting, or remotely via zoom or Microsoft teams

- 2,329 meeting meetings were facilitated for the year; 19,290 emails to members;
- 7,520 phone calls with members.

### Direct investment option | more control for members in how they invest

In response to the high level of member directed investment choice, legalsuper offers twelve investment options including a Direct Investment Option (DIO) whereby members can invest directly in S&P/ASX300 shares, Exchange Traded Funds, Listed Investment Companies, and/or Term Deposits. DIO members have access to a dividend reinvestment plan and can also take advantage of a range of corporate actions. Money Magazine - in their 'Best of the Best 2022' awards - named legalsuper's DIO as the winner of the 'Innovation - Best Member Direct Investment Choice' award.

### Information, tools & other support

Our website makes available for members an extensive range of superannuation, investment, insurance, and retirement focussed material. It also includes a range of tools and calculators to assist members with engaging with their super including a retirement income forecaster, insurance needs calculator and insurance fee calculator. Members can also log on to their personal account to check or update account details or transact on their account.

### Retirement income products

legalsuper launched its Retirement Income Strategy on 1 July 2022, outlining the support provided to Fund members leading up to and throughout retirement. In particular, the Trustee recognises the importance of assisting Fund members approaching retirement to consider their retirement income needs and opportunities rather than solely focusing on their superannuation account balance.

legalsuper's retirement incomes products give members access to pension options including:

- a Transition to Retirement pension,
- an account-based pension option for those who have retired and want a flexible income stream in retirement allowing for commutations or lump sum withdrawals if the need arises.
- two guaranteed income accounts are also available to provide a form of longevity insurance – the Lifetime Guaranteed Income Account and the Fixed Term Guaranteed Income Account.

### Research & insights

legalsuper regularly researches member views and needs and seeks member feedback. This research, and the insights gained, inform ongoing development of our products and services to ensure they are appropriate for the needs of our members.

**Conclusion:** The options, benefits and facilities offered are appropriate to the members/beneficiaries of the Choice product.

## Investment Strategy

### Investment strategy

The investment strategy, level of investment risk and return targets for each option have been formulated having regard to a range of considerations including the demographics of legalsuper's members and liquidity requirements.

The investment strategy is predicated on delivering competitive performance measured against a core peer group of funds while at the same time differentiating performance with a high level of active management, niche/specialist investment opportunities and a focus on innovation and technology which drive long-term performance. The execution of the strategy is guided by legalsuper's investment goals and beliefs as outlined earlier in this document.

The Trustee monitors the effectiveness of its investment strategy over both short and longer-term time-periods.

### Younger membership demographic

The median age of legalsuper's members is 43 which means that most have a longer investment time horizon and are better placed to ride out periods of volatility and can therefore invest more highly in growth assets. This is evidenced by a significant proportion of assets being invested outside MySuper balanced in products which have even higher allocations to growth assets.

### Environmental, social & governance

Investment beliefs have been adopted by the Trustee which recognise that ESG opportunities and risks exist and should be taken into consideration to the extent practical and within the context of optimising net risk-adjusted returns.

Many of legalsuper's incumbent investment managers have regard to ESG considerations in building and managing their investment mandates.

legalsuper also offers an ESG option (Balanced Socially Responsible) which has an exposure to securities in industries which demonstrate leading ESG considerations and ethical practices and a wider range of exclusions (fossil fuels, alcohol, gambling and others).

**Conclusion:** The investment strategy, including level of investment risk and returns targets, are appropriate to the members/beneficiaries of legalsuper as disclosed in legalsuper's PDS.

## Insurance Strategy

We combine our deep & growing understanding of our members' insurance needs with our insurer's capacity to work with us to design & deliver insurance options tailored for the particular needs of the legal community.

### Highly rated by SuperRatings

SuperRatings has assessed legalsuper's insurance cover and costs as "Excellent" which is a rating of "Well Above Benchmark". Insurance is not available for the pension product.

### Designed to protect member savings

Default Death and Total & Permanent Disability (TPD) insurance has been designed to address the following:

- cost of insurance for members is reasonable based on the level of cover offered and does not result in any material erosion of a member's retirement benefit.

### Comprehensive review by specialist insurance consultant

In 2022, Deloitte Consulting Pty Ltd was engaged to assist with a review of legalsuper's insurance arrangements, encompassing default cover amounts, TPD definitions and premium rates. Deloitte concluded that legalsuper's insurance fees were fair and also provided recommendations of improving affordability, better meeting members insurance needs and addressing issues with TPD definitions that had been identified by ASIC as an industry issue.

Deloitte also completed the following analysis:

- A comparison of the recommendations with peers regarding cost
- A comparison with Peers regarding cover amounts
- A comparison with peers regarding TPD definitions
- A review of services provided by the group insurer to assist member processes (claims and underwriting)
- A review of pricing to confirm the Group Insurers approach to claims experience and pricing more broadly.

In 2023 legalsuper is implementing the recommendations made by Deloitte with a small 4% increase overall in member premiums but addressing cross subsidies so some members will see an increase in premiums and other members will see decreases.

Insurance arrangements remain in place that provide:

- Default Death and TPD premiums are less than 1% of salary across most ages noting that members younger than age 25 do not receive default cover unless they opt in. Premiums increase relative to salary at age 26, as members transition to four units of default cover under legalsuper's insurance benefit design, although this increase does not cause the premium to be more than 1% of salary; and
- Default cover premiums will not excessively erode member account balances, where the projected impact on member account balance does not exceed 2.9% of a member's retirement balance.

**Conclusion:** The insurance strategy for legalsuper's Choice product is appropriate for its members/beneficiaries and its insurance fees are not inappropriately eroding the retirement incomes of Choice members/beneficiaries.



## Other relevant matters

### Scale

#### legalsuper has acquired substantial scale through its partners

legalsuper has sufficient scale to negotiate competitive services and fee structures with large and specialist skilled and resourced outsourced providers including investment managers, fund administrator, custodian and insurer. Material outsourced providers are periodically subject to tender or reviewed to ensure services and fees are competitive. To the best of our knowledge, there have been no instances where members/beneficiaries have been disadvantaged by legalsuper's size and scale.

#### As a smaller fund, legalsuper is more nimble and able to access niche investment opportunities

At 30 June 2022 legalsuper managed \$4.95 billion on behalf of 41,318 members. As a smaller fund, legalsuper can be nimble in identifying and securing investment opportunities that are less accessible to larger funds and make a material contribution to overall performance. legalsuper makes investment decisions more efficiently and quickly and takes decisive and timely action to add or remove investments from the portfolio.

**Conclusion:** Members/beneficiaries are not disadvantaged by legalsuper's size and scale. legalsuper's smaller size means it can deliver higher levels of personal service to members/beneficiaries compared to larger super funds.

## Operating costs

### Specialisation in the legal sector means we avoid trying to be all things to all people

With a clearly defined target market (legal sector), legalsuper does not advertise broadly. This contrasts with many other super funds which spend material amounts on advertising and promotion. Instead of advertising, legalsuper supports the continuing professional development (CPD) programs of law societies across Australia. In addition to lifting legalsuper's brand profile in the legal community, this support advances the career development of legal professionals and their capacity to boost their retirement savings and provide valuable feedback about member needs.

As white-collar professionals, legalsuper's membership is more homogenous than other funds and provides advantages when designing and delivering cost effective and sustainable products and services for members. Our service and member communication are more tailored and personal and the level of face to face contact that legalsuper has with its members is higher than most other funds, especially very large funds.

### Rigorous operating cost management

legalsuper is rigorously focused on keeping its operating costs to a minimum while maintaining good governance, risk management and member service levels. An annual operating cost budget is reviewed by the Board's Administration & Insurance Committee and then approved by the Board. This includes robust discussion and questioning to ensure all expenditure is incurred in members' best financial interests.

For several years, the operating cost budget has been set to maintain administration fee rates unchanged. Investment fees are the subject of ongoing review and negotiation, especially at times when new investment managers are being appointed. In addition to material investment fee reductions delivered to members in the prior financial year, further investment fee savings have been passed on to members in 2021/22.

**Conclusion:** Based on our comparison of fees with comparable funds and rigorous management of operating costs we conclude that our operating costs are such that our member fees are fair value and competitive with comparable super funds.

Having had regard to the matters set out in sections 52(9)–(11) of the SIS Act for the year ended 30 June 2022, Legal Super Pty Ltd as trustee of legalsuper has determined that the financial interests of members of its Choice product are being promoted by the Trustee.

This information is of a general nature and does not take into account your specific needs. You should consider your own financial position, objectives and requirements before making any decision. You should also obtain and read the relevant legalsuper Product Disclosure Statement (PDS) and Target Market Determination (TMD) before making any decision in relation to legalsuper. The PDSs and TMDs can be obtained at [legalsuper.com.au](https://legalsuper.com.au). Past performance is not necessarily an indicator of future performance.

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