

Minutes - legalsuper Annual Members' Meeting

Held via live stream on Monday 29 November 2021 at 1.00pm

Present:

Kirsten Mander, Chair, Andrew Proebstl, Chief Executive (CE) & Norman Zhang, Chief Investment Officer (CIO)

In attendance:

Adam Awty, Andrew Boog, Richard Fleming, Richard Flitcroft, Carita Kazakoff, Anastasia Polites, Imogen Sturni, James Peters AM QC (Directors)
David Eastwood, Executive Manager, Operations & Member Services, Kaye Wheatley-Brown, Executive Manager, Legal, Risk & Compliance, Jessica Lancashire, Executive Manager, People & Culture, & Dean Waters, Partner, KPMG (external auditor)

1 Meeting open & welcome

1. The Chair announced that a quorum of legalsuper's Board of Directors was present online and declared the meeting open at 1.00pm.
2. The Chair on behalf of the Board and legalsuper Executive team welcomed and thanked all those who joined the Annual Members' Meeting (AMM).
3. The Chair confirmed that notice of the AMM had been given in accordance with the *Superannuation Industry (Supervision) Act 1993*.
4. The Chair formally acknowledged the traditional custodians of the land on which the meeting was being held and paid respects to their Elders past, present and emerging.
5. The Chair noted that legalsuper's auditor, Dean Waters from KPMG, was present.
6. The Chair addressed the agenda and confirmed how the AMM would be conducted.
7. The Chair invited members to submit their questions via the online platform.
8. The Chair briefly discussed the events of 2021 and noted:
 - it has once again been a challenging year, dominated by the Delta variant of the COVID-19 virus taking hold globally and consequent border closures and lockdowns;
 - the Board and management have continued to adapt to the ever evolving scenarios that have been created by COVID-19 during the course of the year;
 - there is continuing reform and changes to the policy and regulatory framework which governs the superannuation sector, bringing into sharp focus the importance of strong and responsible management of superannuation, both at an individual level and for the Australian economy;
 - legalsuper has remained focussed on supporting members' aspirations in both the short and the long term, with key objectives being to keep members informed and actively supported, to provide safe stewardship and prudent management of their superannuation savings and to maintain the same high standards as the legal sector is expected to maintain; and
 - a positive development of the year ended 30 June 2021 was substantially higher investment returns – with the MySuper balanced option, in which a majority of members are invested, achieving its highest ever annual return of 17%.

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2 2020/21 in review

9. The Chief Executive spoke to the following matters:

- during 2021, during ongoing pandemic-related disruption, there was a focus on supporting members and employers, the wider legal community and the legalsuper team;
- legalsuper now manages over \$5bn FUM on behalf of over 41,000 members working with more than 10,000 businesses across Australia;
- legalsuper's overall offering has been highly rated by the four major rating agencies – Chant West, the Heron Partnership, SuperRatings and Rainmaker, placing legalsuper in their highest award categories;
- legalsuper was also a finalist in Chant West's Specialist Fund of the Year award;
- the three key priorities for legalsuper are:
 - ensuring that members are confident that their superannuation savings are at all times safe and well managed;
 - embracing the highest levels of risk management and governance; and
 - a firm commitment to supporting Australia's legal community;
- as regards investment performance in a somewhat volatile year:
 - legalsuper delivered its highest investment returns in any financial year over the last 30 years;
 - the MySuper balanced option, in which a majority of members are invested, achieved its highest ever annual return of 17%;
 - importantly, as superannuation is a long-term investment, legalsuper's long-term performance remains strong with MySuper balanced option delivering an average return of 8.3% per annum over the last 10 years;
- from July 2021, legalsuper delivered a reduction in overall fees to members, eg for MySuper, a 14% reduction in fees for an account with a \$50,000 balance;
- increasing regulation, oversight and scrutiny of the industry has been a continuous theme over the last financial year, and the sector is subject to ongoing scrutiny and reform. As part of the reforms, APRA introduced a performance test for all funds in 2021 as part of the Your Future, Your Super legislation and, pleasingly, legalsuper passed the inaugural performance test;
- the superannuation industry is accustomed to ongoing debate on public policy and further changes and reforms, and legalsuper will continue to focus on keeping members informed and supported as changes occur, so that the impacts on their retirement savings are understood by members and so that they can take action accordingly;
- employers and members continue to provide feedback that they place high value on personal service, firmly reinforced over the last 18 months since the beginning of the pandemic when uncertainty has prevailed in investment markets and COVID-19 restrictions have applied to how we all live and work. For this reason, in 2021 legalsuper maintained its high priority on keeping in touch with members and employers to answer questions and provide information and reassurance – this priority on personal service is an important point of difference for legalsuper. Through different media it is continuing to make

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- contact with members and employers to keep them apprised of developments including investment market updates, the COVID early release scheme and ongoing government reforms;
- in the year, increased demand from employers for online information has also been addressed and video-conferencing enabled the delivery of and virtual attendance at nation-wide information seminars;
- the Super Blueprint tool was launched in 2021 which helps members consider which investment option or level of insurance is appropriate to their needs, allowing members to engage with their superannuation as and when it suits them;
- in 2021 as part of its support for the legal community, legalsuper continued to support the professional development programs of Australian law societies, bar associations, the Australian Legal Practice Management Association and conveyancing and law student associations;
- legalsuper's Mental First Aid Training program continued its successful roll-out – it is an evidence-based first aid course focussed on providing knowledge and skills to help legal professionals showing signs of a developing mental health issue. 578 people completed the course in 2021 and are now accredited mental health first-aiders;
- the legalsuper team has continued to work throughout much of 2021 from home, and a range of measures were implemented to ensure that staff were healthy, connected and supported; including a buddy system implemented for all team members, pulse surveys and whole-of-team online meetings to keep staff connected while working remotely;
- in terms of ESG considerations which impact the way in which legalsuper invests, as members come from a range of different walks of life, this diversity is reflected in the ESG policies that are adopted so as to act in the best interests of members, to maximise the value of members' retirement savings over the long term within acceptable risk parameters;
- legalsuper was recognised in Rainmaker's Top 20 most ESG super funds. legalsuper believes that ESG factors have an influence on long-term investment outcomes and, accordingly, needs to consider all risks and opportunities, including ESG factors;
- managing and mitigating cyber risk is an ongoing operational challenge for all companies and businesses, and legalsuper has engaged a leading cyber-risk management company to perform regular penetration testing, vulnerability assessments and phishing attack exercises;
- during 2021, there was an independent assessment of legalsuper's compliance with APRA's CPS324 (Information security standard). legalsuper also requires each material outsourced service provider to provide, on an annual basis, an information security attestation; and
- the legalsuper team looks forward to the year ahead and continuing to deliver strong outcomes for members and maximising the accumulation of wealth for members to access on their retirement.

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3 Investment strategy update

10. The Chief Investment Officer spoke to the following matters:

- 2021 has been a year where significant events influenced financial markets, including:
 - Initially the global spread of COVID was accompanied by mass lockdowns and later came optimism with the development of vaccines;
 - the US presidential election; and
 - the implementation of the UK leaving the European Union;
- notwithstanding these events, legalsuper's investments experienced strong returns during 2021/21, with the MySuper balanced option, in which a majority of members are invested, achieving its highest ever annual return of 17%, and even higher returns for other growth orientated investment options including 19.7% for the Growth option; 22.8% for the High Growth option and 20.9 % and 29.3% for the Australian Shares and Overseas Shares single sector options respectively;
- the strong investment returns have been sustained into the new financial year, with the MySuper option returning 17.9% for the year to 30 September 2021 – this result has outperformed the median of 204 options of comparable funds by 0.5% (SuperRatings Balanced survey);
- the investment environment ahead is one in which the risks need to be monitored closely, with the ever-present threat of COVID and its new variants, high inflation and the potential for interest rate rises, and ongoing geopolitical risks all being factors that could stall the global economy;
- these risks need to be balanced against positive factors which are being seen, including strong earnings growth by companies, benefits from the reopening of economies and the ongoing willingness of governments to provide support for businesses and households;
- Investment strategy and recent enhancement to the investment portfolio including:
 - the reduction in fees, eg for MySuper, a 14% reduction in fees for an account with a \$50,000 balance;
 - changes in strategy over the last 12 to 18 months were made to ensure sustainability and long-term returns to the portfolio;
 - legalsuper's view that active management leads to superior risk-adjusted returns, particularly in emerging markets and smaller segments of Australian and Global share markets – currently 86.4% of legalsuper's MySuper balanced option is actively managed;
 - legalsuper's size means that it can access niche or specialised segments of the markets where there are opportunities for better returns (such as investments in health care property, specialised sectors in private equity and private lending and investing in Australian small-caps including exposure to emerging businesses before they list on the stock market);
 - the legalsuper portfolio also has a tilt towards the thematic of innovation and technology;
- these differentiators are features of the current portfolio and will continue to evolve in the future;
- in relation to Responsible Investment:
 - it is an integral part of the investment program;

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- legalsuper needs to act in the best interests of its members to maximise the balances of members' superannuation savings over the long term within acceptable risk parameters;
 - ESG factors have an influence on the long-term investment outcomes for members;
 - the investment process integrates ESG considerations in decision making, from the Investment Team, to the Investment Committee and to the Board;
 - legalsuper is committed to active ownership, voting on directly held shares and engaging with like-minded investors on ESG issues – shareholder engagement is the most effective way to achieve positive outcomes on issues such as corporate governance and climate change;
 - for certain industries where legalsuper consider the risks to be unacceptable investments are excluded from the portfolio, including companies involved in the production of tobacco, controversial weapons or those with a material exposure to the mining of thermal coal;
 - the portfolio includes a high level of active management, and the investment managers integrate ESG factors when selecting investments;
 - a tangible benefit of this active approach means legalsuper is better placed to voice any concerns around emerging ESG risks by identifying and acting on these risks before they occur, which helps to better protect the portfolio from the unfavourable financial impacts of ESG issues;
 - as part of its investment options, legalsuper offers a dedicated ESG option – the Balanced Socially Responsible option – which has an exposure to securities in industries which demonstrate leading ESG considerations and ethical practices, and a wider range of exclusions including fossil fuels, alcohol, gambling and others; and
- while strong returns have been delivered in recent periods, the future will always have elements of uncertainty, and legalsuper will continue to closely monitor and manage the portfolio through these challenges, however there is confidence that the investment strategy focussing on active management in partnership with highly skilled investment managers, domestically and globally, and the level of diversification in the portfolio will continue to deliver strong financial returns for members into the future.

4 Governance & Board

11. The Chair spoke to the following matters:

- on behalf of the Board, the Chair expressed her appreciation to the Chief Executive Officer, Chief Investment Officer and the legalsuper team for their dedication and diligence in working to support and manage the savings of legalsuper members, particularly while grappling with the personal consequence of COVID and continuing to adapt, innovate and enhance operations, investment strategy and member services to maintain legalsuper's position as a top performing superannuation fund;
- responsible, ethical and intelligent management is part of legalsuper's DNA;
- all board members are legal professionals with a deep understanding of and a commitment to the highest levels of corporate governance and member needs and expectations and have an abiding commitment to help members achieve their retirement aspirations;

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- during the year, Geoff Hone and Phil Kennon QC retired from the Board, having served the maximum term under the constitution. Adam Awty and Jim Peters AM QC were welcomed to the Board during the year as new directors; and
- pursuant to the regulatory changes introduced during the year, there is now an expressly legislated requirement that fund expenditure be in the best financial interests of members – the best financial interests of members have always been top of mind at legalsuper when expenditure is considered. There are rigorous policies, processes and reporting in respect of expenditure, and legalsuper does not spend on paid advertising or pay bonuses to employees.

5 Member questions & answers

5.1 Questions received prior to the AMM

Q1. Why does the Board not have any female employer directors?

Response:

- There are four female directors on the Board, including the independent Chair. 40% of legalsuper's executives are female and 45% of all employees are female.
- Diversity is an important principle for legalsuper and is important in supporting a collaborative and high performing workplace which values individual differences of thought, experience and capabilities to contribute to its success.
- This underpins and is underpinned by legalsuper's commitment that in all that it does, it is guided by the best interests of the organisation and its members.

Q2. What is legalsuper's approach and strategies regarding responsible investment and climate change

Response:

- As discussed earlier, responsible investment and ESG is integrated into the decision-making process for all investment options.
- Climate change is a major part of ESG, but a broad topic.
- Combatting climate change requires a combined effort from everyone at every level – from governments, investors, businesses and households.
- For legalsuper, as an investor, the most effective way to address climate change is to be an active investor and to engage with those businesses where there may be a concern and to encourage them to adapt their business model in the face of climate risk – shareholder engagement has been successful in influencing business changes in major companies such as in BHP, AGL and Origin Energy.
- Companies whose financial risks from climate change is assessed by legalsuper as being too high and who are unable to change their business practices are excluded from investment.
- Overall, legalsuper's portfolio has less carbon exposure than the average Australian super fund.
- There are opportunities for climate change through direct investments or exposures to renewable energy generation.

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Q3. Has the fund considered changing the supplier of insurance to members to offer better value or better policy? Who is underwriting the insurance? How often are policy terms being provided to members?

Response:

- Insurance is a valuable benefit for members for cover for death or disablement, and insurance arrangements are continually monitored and to ensure that the benefits are keeping up with what is on offer in the market as well as addressing the concerns of those working in the legal sector.
- The Fund is currently undertaking an insurance benefit design review, ensuring the benefits are superior to what is on offer in the market having regard to what is appropriate for employees in the legal sector.
- The competitiveness of cost and suitability of cover of insurance was reviewed by Money Magazine which found that legalsuper had the best value insurance within superannuation.
- Despite external and industry-wide pressures, insurance premiums have remained constant.
- The terms and conditions of our insurance offerings are always available to members in the Product Disclosure Statement on legalsuper's website.
- Members will be informed of the outcome of the current insurance benefit design review once it has concluded.

Q4. What data is available on the payment of member insurance claims?

Response:

- In 2021, \$21.1m was paid in insured benefits to members.
- The Trustee applies the terms of the policy in assessing any member claims and acts in the best interests of members.
- OnePath/Zurich has been legalsuper's insurer since 2005.
- Over that period, on average 98.5% of all death claims and 82% of all total and permanent disability claims were accepted.

Q5. Does legalsuper have adequate procedures to protect against phone scammers?

Response:

- Procedures are in place to confirm the identity of members when they telephone the contact centre – legalsuper needs to ascertain that its employees are talking to the member who has made the call.
- If a member is contacted by legalsuper and prefers not to provide information, the member is given the option of calling back and to ask for the person who called them by name.

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Q6. CEO – longevity of service**Response:**

- In the 19 years that Andrew Proebstl has served legalsuper assets under management have grown from \$200m to \$5.1bn.
- There are a number of long-standing employees within legalsuper – a testament to the strong culture that exists at legalsuper, and the business reaps the benefit of this in a variety of ways such as a strong understanding of the business, deep superannuation expertise and strong stakeholder relationships.
- At the same time the Board has a close eye on succession plans in place for key roles within the business to ensure member outcomes continue to be delivered to a high standard.

Q7. Can more information be provided to members in the standard letter when members make withdrawals?**Response:**

- This member's feedback had been taken on board and changes to the information being provided by legalsuper are being made.

Q8. Why has legalsuper not merged with a bigger fund, has it had negotiations?**Response:**

- The Board has over time considered several merger proposals.
- The Board remains open to approaches from any other superannuation funds, and any proposal for merger will be considered carefully to ascertain whether such a merger would be in the best interests of members.
- The Board has adopted criteria against which merger proposals are evaluated and to date due diligence has resulted in the Board concluding that the interests of its members are best served by legalsuper's continued existence for the reasons outlined earlier by the CEO.

Q9. Was there a farewell dinner with the Board for the former Chair of the Board?**Response:**

- In accordance with normal practice, legalsuper held a farewell dinner for the former Chairman upon his retirement after 12 years' service, which took place around 4 years ago. The dinner was paid for by legalsuper.
- The Board approves an annual operating budget for all expenditure including expenditure on functions for directors, which might include where directors retire from office and to thank them for their contribution.
- legalsuper's Expenditure Policy requires that all travel, meals and accommodation expenditure must relate to the proper operation of the fund, be reasonable, prudent and in the best interests of the members, and these requirements are fully abided by management and the Board.

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Q10. Has legalsuper interviewed or employed indigenous Australians?

Response:

- It is not the practice of legalsuper to enquire about the cultural backgrounds of applicants during interviews for roles with legalsuper.
- It is not believed that any of the current staff have identified as having an indigenous background.

Questions submitted during the AMM

Q11. The CIO mentioned ESG considerations – while there are ESG fund options, is ESG considered generally as part of the investment process?

Response:

- Yes.

Q12. How does legalsuper compare to AustralianSuper in performance and costs?

Response:

- Responding to questions about investments in different funds would amount to personal advice, which legalsuper is not authorised to provide under its AFSL. The member should consider seeking financial advice from a financial adviser.
- All information relating to the performance of legalsuper can be found on the website.

Q13. As to mergers, given ASIC's and APRA's recent statements regarding sustainable fund size, what is legalsuper doing in this area around mergers and futureproofing?

Response:

- This question has already been substantially answered in previous questions.
- Re size of fund, any fund should be best judged on its outcomes it delivers rather than the size of the organisation.
- AustralianSuper has a membership of some 2.4 million people, while legalsuper has a membership of 41,000 people – one difference would be the personal service that legalsuper is able to provide given its smaller size, which is an important and valuable point of difference to members.
- All superannuation funds are looking at and watching all models being developed and implemented across the sector, and any learnings are being brought back to the legalsuper membership.
- There can be dis-economies of scale as well as economies of scale, and these should not be overlooked, such as being able to invest large sums of money in investments which will have the impact performance, and hence having flexibility and ability to invest in niche segments alongside of other investments and to provide high levels of service to members.

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Q14. Why doesn't legalsuper have non-lapsing binding nominations?**Response:**

- legalsuper does have binding death nominations, however by law these need to be refreshed periodically.

Q15. The CIO gave an example of an investment focussed on innovation and technology – are there any other examples that can be shared?**Response:**

- A recent investment Committee approval was to invest in an Australian venture capital manager with the Artesian/Scale Female Leaders Fund which focusses on emerging companies led by exceptional female founders which have historically received less external funding than male-led start-ups funding.
- This is seen to be a good opportunity to support innovation and female entrepreneurship in Australia and an opportunity to invest in an underfunded segment of the market.
- Given the scarcity of capital that has been directed at these companies, this could generate sustainable and long-term returns.

12. There were no further questions.

6 Other business

13. There was no other business.

7 Meeting close

14. On behalf of the Board and legalsuper executive team, the Chair thanked all members for attending the AMM and closed the meeting at 1.50pm.

Confirmed:  _____

Kirsten Mander, Chair