Company: Commonwealth Superannuation Corporation
Title: Commonwealth Superannuation Corporation Annual Member Meeting 2022
Date: 10 November 2022
Time: 18:00 AEDT

Start of Transcript

Peter Jamieson: Well, good evening everybody and welcome to our annual member meeting for CSC for 2022. My name is Peter Jamieson and I'm the Chief Customer Officer for CSC and we really appreciate you coming out and joining us this evening. We've still got a few folks joining us so apologies for the interruption as we seat everybody but we have an online audience as well. So, we're going to start right on 6:00pm.

I'd like to start by acknowledging the country that we are meeting on tonight, that of the Ngunnawal people, the traditional owners of this land and pay our respects to the work that they've done to continue culture and connection to this land. Of course we have an online audience this evening as well, so I'd like to pay my respects to the traditional owners of all lands from which you are joining us tonight. We pay our respects to the Elders, past, present and emerging and extend that respect to any Aboriginal or Torres Strait Islanders joining us here this evening.

So, thank you. Thank you for joining us both here in person for the first time that we're able to hold an annual member meeting with a live audience, so thank you very much for coming out. And of course to our virtual audience joining us from around Australia and the world. We really thank you for joining us tonight as well. So, on behalf of our Board and our executive team, welcome.

Tonight you're going to hear from our Chair, our Chief Executive and our Chief Investment Officer. We have our Board and Executive here to assist with your questions. We're also joined by our auditors and our actuary. But most importantly of all, thank you to all of you whether you're here in the room with us or online. You, our customers, drive everything that we do and we really appreciate you taking the time to come and hear from us tonight and ask your questions that we can respond to.

Turning to the agenda for this evening. As I said, we're going to hear from our Chair, Garry Hounsell, our Chief Executive, Damian Hill and our Chief Investment Officer, Alison Tarditi. Then we'll have a Q&A session where we will respond to your questions both here in the room and online. At that point, I'll just remind everybody online that we're taking your questions right now. The button at the bottom of your screen will allow you to submit your questions and I can see that we're already starting to receive a number of those, so thank you and we look forward to responding to those later on this evening.

I will also take the time just to remind you that we won't be taking questions about your individual circumstances this evening. We do, however, have many members of our CSC team here that are more than happy to assist you with any question you might have about your own individual circumstance.

Canberra
GPO Box 2252
Canberra ACT 2601
Australia
P. +61 2 6275 7000

Sydney
GPO Box A2614
Sydney South NSW 1235
Australia
P. +61 2 9240 4888

csc.gov.au

So let me introduce you to our Board of Directors all of whom are joining us here this evening. Garry Hounsell, our Chair, Air Vice-Marshal Margaret Staib, Alistair Waters, the Honourable Chris Ellison, Ariane Barker, Melissa Donnelly, Juliet Brown, Jacqueline Hey and our newest director, Rear Admiral Lee John Goddard who joined us earlier this year.

We're also joined this evening by our executive team led by Damian Hill, our Chief Executive, Alison Tarditi, our Chief Investment Officer, Andy Young, our Chief Operating Officer, Andrew Matuszczak, our Chief Transformation and Information Officer, Rob Firth, our Chief Risk Officer, Alana Scheiffers, our general counsel, Paul Abraham, our Executive Manager Investment Operations, Catharine Armitage, our Executive Manager People and Adam Nettheim, our Executive Manager Customer Operations. Thank you to all of our executive team for joining us here this evening also.

So, we'll now commence the formal part of this evening and kicking us off is our Chair's report from Garry Hounsell. Over to you, Garry.

Garry Hounsell: Good evening ladies and gentlemen. Thank you for coming here tonight and also thank you for those that are actually online and attending that way tonight. As we celebrate our one hundredth year this year, it's pleasing to see so many of you here, both in person and online, as we deliver this meeting tonight in both hybrid form and for the first time both together online and together.

Before we get into the investment side of things, I'd like to touch on a few board related matters. First, to take the opportunity to farewell and thank Air Vice-Marshal Tony Needham for his dedication, hard work and detailed analysis and contribution to the CSC board. Tony's final board meeting took place with us on 28 June following a six year tenure. Second, I'd like to extend a warm welcome to Rear Admiral Lee Goddard who was appointed to the Board on 1 July this year. Rear Admiral Goddard was appointed to the Board as a nominee of the Chief of Defence following a distinguished 24 year naval career. He commanded warships and joint taskforce of every senior rank and was awarded the conspicuous Service Cross in the Australia Day 2007 honour list. He continues to serve as a member of the Australian navy active reserve and is a member of the Australian Institute of Company Directors. And third, to extend my gratitude to our other Board members, Juliet Brown, the Honourable Chris Ellison, Miss Melissa Donnelly, Jacqueline Hey, Air Vice-Marshal Margaret Staib, Alistair Waters and Ariane Barker. It's a wonderful board to work with and they all have your interests firmly at heart.

During the year the term of Ariane Barker was extended until 30 June 2025 and I'm extremely proud of the Board and our diversity of perspective for the depth of experience on the Board.

Turning now to investments. Many of you customers have pure defined benefits and for them, or for you, the return from our investments has no impact on the retired income that you or they will ultimately receive from us. However, for our customers in our open accumulation products, or those in our hybrid schemes, investment returns do have an impact. Following the stellar returns of 2020 and 2021, nearly all Australian superfunds have experienced negative returns for the 2021/2022 financial year. CSC is not immune from this with a negative 3.5% return. I do understand these one year returns may be concerning for some of you but I encourage you to

Canberra
GPO Box 2252
Canberra ACT 2601
Australia
P. +61 2 6275 7000

Sydney
GPO Box A2614
Sydney South NSW 1235
Australia
P. +61 2 9240 4888

csc.gov.au

consider them in the context of the solid long term results that we have delivered as you can see on this slide which shows the one and 10 year returns for PSSap.

While this downturn may have come as a surprise to many, it was in fact signalled by our Chief Investment Officer, Alison Tarditi at this meeting last year. Alison will take you through how CSC has prepared for and responded to these challenging conditions in her presentation shortly.

Of course while short term results can be volatile, super is a very long term proposition and it’s beholden on us as stewards of your retirement savings to consider the risks and protect your super as much as we’re able from these megatrends. And we focus on your longer term retirement income rather than shorter term impact on account balances or lump sums.

As you know, the greatest risk to not just super returns but our overall quality of life is climate change. I’m very proud of the fact that CSC have been pioneers in considering non-financial environmental, social and governance issues for many years. We engage with industry participants, specialists, specialist managers and service providers to increase the disclosure, transparency and availability of quality data to price and quantify these emerging risks.

We take an active but integrated approach to climate change. We consider our entire investment portfolio taking into account all relevant risks. For climate related investments, our approach is to support a smooth transition to a low emission world. This includes investing in renewable energy assets and supporting a disciplined transition away from coal. This means investing in relatively cleaner producers in Australia who are investing in renewables. In this way we improve our carbon footprint over time via well-planned appropriate and considered steps.

From the board level through to our dedicated people, I can assure you that your retirement savings are in excellent hands. Our CSC team is passionate about serving those who serve our country.
A myriad of exciting projects are bubbling away which Damian will soon talk about in more depth. Once again, I want to thank you for attending tonight’s meeting and I hope that you have lots of questions for us. Thank you.

Peter Jamieson: Well, thank you very much, Garry. Great to hear from the Chair to get our evening started. A bit remiss of me to not mention a couple of logistics for those of us in the room. First and foremost it’s a little bit warm. We are seeking to get the temperature decreased so apologies for any short term discomfort, or hopefully it will be short term. If there is a need for us to move out of the room before the meeting concludes, or out the way we came, bathrooms for those who haven't located are out the door to your right and then left and right. But without further ado, let me invite our CEO, Damian Hill, to join us and provide some commentary about our operations. Damian.

Damian Hill: The first thing I’ll say before I even get to welcome you so you don’t have to worry about that, this is not my speech. So, we won't be here for hours on that regard. But I will get to what I’ve actually got there as well. So, good evening and thank you for your attendance at the 2022 Annual Member Meeting. It’s excellent to see our CSC customers both in person and that’s been a bit of a struggle over the last few years and, as Peter said, for the first time right here in the room and many of you online as well.

Canberra
GPO Box 2252
Canberra ACT 2601
Australia
P. +61 2 6275 7000
Sydney
GPO Box A2614
Sydney South NSW 1235
Australia
P. +61 2 9240 4888
csc.gov.au

As we reflect on another year, I think we would all agree that while the external influences have continued to challenge us in many different ways, life has also started to resemble some kind of normality. I don't know what normality is yet going forward but we're sort of getting closer to our expectations. In line with the new virtual world we now live in, we're pleased to be holding the 2022 meeting in a hybrid format and allowing you to join us in person or from wherever you may be in the world and that's part of the unique customer base that we have in that they can be located at all places of the globe.

This year has been especially significant for CSC as Garry has mentioned as we have celebrated our hundred years of service. We have a proud long heritage and tonight, and this is where this comes in, I'm holding our first annual report. It actually is our first 50 annual reports in here. It opens with the Commonwealth of Australia Superannuation Act commencing on 20 November 1922, only a few weeks away from actually the hundredth birthday.

Contributions by employees started on 5 January of 1923. Did I say - I said 1922 before, didn't I? 1923, and the total amount received by the close of the financial year was £129,137. Okay, we're going to get back to the pounds. There's not many in the room that I think would come from that era but maybe a few of our customer base. It's noted here in the annual report that that was highly satisfactory. So, we're also looking forward to formally marking this milestone in December at an afternoon tea at Parliament House where we will be joined by the Minister for Finance, Senator the Honourable Katy Gallagher. I'd better just put this down I think now Peter, just so I don't destroy it given that it is a bit old.

Now when I commenced in CSC in July 2020, the Board and I determined that, in order to deliver the best results for our customers over the long term, CSC would need to undergo a transformation of our business. This is particularly in regards to how we use your information to provide more personalised guidance and solutions, how we enable our team to support you. We simplify the work we do to make it easier for you and also to update and rationalise the technology we use to ensure that you have what you need when you need it.

We are nearing the end of Year 2 of our five year transformation program, the result of which will be a more connected and customer centric organisation. Two years into the program, while you as customers might only be seeing small changes as yet, I can assure you that the CSC team is working hard across multiple areas. As many of you would know, delivering large scale projects is complex with the initial foundation work required not immediately showing up in changes to your experience. However, this foundational work is critical to ensure that we can make significant improvements over time.

Having said that, I'm delighted to announce that one of our program's first major customer facing initiatives was delivered in June this year and that was with a complete redesign of insurance claims at CSC. Claims can be stressful, probably more stronger than that. They are stressful. Whether you are claiming because you no longer are able to work or because a loved one has passed away. The experience you have with us at that time will be instrumental in your ability to grieve, to process and to move forward. So now, if you ever need to claim, and we don't wish that on anyone, but if you do need to claim, your claim will be handled by one person from start to finish. They will bring in other experts as needed but you will always have a single point of contact. Plus your CSC claims consultant will also coordinate any other agencies and there can be many involved, as well as follow

Commonwealth Superannuation Corporation (CSC)
ABN: 48 882 817 243 AFSL: 238069
RSEL: L0001397

Canberra
GPO Box 2252
Canberra ACT 2601
Australia
P. +61 2 6275 7000

Sydney
GPO Box A2614
Sydney South NSW 1235
Australia
P. +61 2 9240 4888

csc.gov.au

up after your claim to make sure that you are doing well and haven't fallen through the cracks. In the background we are also updating all the claims forms to make them as helpful as possible as well as reflecting the updates on our website. To move forward further, this change follows significant improvements in our annual statements, digital statements etc over the last two years.

But looking forward, the next major difference that you will see is our new online services. One very clear piece of feedback, it's probably the clearest piece of feedback we ever, ever get, is over many years is how frustrating it is not to be able to see all your CSC super accounts in one place. We have tens of thousands of customers who have multiple memberships of our different schemes. In addition though, feedback has also highlighted the difficulties in logging in and indeed, these have been a key topic seen in our net promoter scores. So, our new online services will deliver on this feedback. So, you will be able to see your entire CSC retirement savings via one single log in.

In terms of progress, our new online services have been built and we are now integrating it with our backend systems as well as doing extensive testing including with some of our customers to ensure that you have a great experience when it goes live. At this stage we're expecting our new online services to be available early next year, fingers crossed, we might be able to bring it in late this year. But I'll only commit to early next year at this stage.

Another major initiative for us this year has been the development of our retirement income strategy, otherwise known as our RIS and you'll probably be aware that both superannuation and government like acronyms, so RIS is a new one for you. This framework has been designed to govern and drive an expanded range of product and service offerings for those of you who are retired, about to retire or looking for a different way to manage your retirement benefit. Now that our strategy is in place, the next step is implementation.

In the coming year we will release a number of enhancements to the existing support and guidance we already offer to customers who are in or nearing the retirement phase of their life. These enhancements will feature a more tailored approach to our diverse customer base, be easy to understand and guide you to make an informed choice. It will help you to balance the three competing priorities you have as you plan for retirement.

Firstly, the stability and surety of income in retirement. So many of our customers tell us that just tell me what I'm going to get after tax in the hand and I'll work with that. The second one is people still want to maximise investment returns because you're going to be retired for a long time, even if that means that your income could fluctuate. Finally and thirdly, the need for access in case of planned or perhaps unplanned capital outlays.

I'm pleased to say that our RIS has already drawn a favourable response externally. Earlier this year the investment magazine reviewed responses to the RIS from a number of different funds singling CSC out as having provided an in depth statement of what we offered and what was to come. Our aim here as always is to guide all customers to achieve comfort in retirement and our RIS is another exciting new example of this.

Turning now to our potential merger with AvSuper. While this proposed merger is still under negotiations, we are delighted at the prospect of welcoming AvSuper members into the CSC fold. AvSuper, like ourselves, is a profit to members superannuation fund. It is dedicated to the aviation and aviation safety industries and I believe there are strong similarities between us. Most significantly, we are both committed to serving those who serve. AvSuper have approximately 6,000 members and like CSC, a significant proportion of the fund is defined benefit. Timing wise, due diligence is currently underway and notwithstanding any issues, we expect the merger to complete in the next 12 to 18 months.

Now whilst presentations such as this are always the opportunity to present a highlights reel of the year gone by, it would be remiss of me to paint an unrealistic picture of perfection. There is much work still to do. We have been measuring our Net Promoter Score or NPS since 2017 through our Voice of Customer program called the Compass. Over this period we saw some common customer feedback to improve access to clear information about how superannuation and CSC schemes work because we do run 11 schemes. Tailored information about the relevant consideration for different life stages from career starters to pre-retirees to pensioners. How benefits are calculated and whether and how they fluctuate with investment markets or inflation and clearer information about fees, investment choice and insurance. We have been diligently addressing these across the business and our transformation program is vital in delivering the improvements that you, our customers, expect to see. To start with, we're improving the navigation of our website and have a renewed focus on producing valuable information that meets your needs wherever you are in your journey to retirement.

We're also improving the support we provide you in making decisions about your retirement. This includes both new and some enhanced education seminars making our financial planning services more accessible and better supporting the broader financial planning community who we know is so important for our customers. We are already starting to see results from these improvements. Our overall NPS for the 2021/2022 financial year was minus 7, an improvement of 5 points from the 2020/2021 financial year.

Now among all the achievements, challenges, reflections and visions for the future, I want to wrap up by going back to the people at the core of everything we do - you, our customers. I want to reaffirm our commitment to you and the pride that I and all of the people - all of our people take in serving those who serve our country through the Australian public service and the defence force. We know our customer base is unique and indeed, that's what makes it so special and allows us to tailor our services to you. Rest assured we continue to do everything we can to help you to get to a comfortable retirement.

Again, I would like to thank you all for your attendance this evening and I look forward to taking part in the Q&A session later on this evening. Thank you.

Peter Jamieson: Thank you very much, Damian. I appreciate your comments and a full report on the many activities that we have underway to improve your retirement outcomes. Before I hand over to Alison Tarditi, I just wanted to reflect once again on a comment that Garry made about the difference between our two types of superannuation schemes that you are members of. The first is our defined contribution schemes, PSSap, ADF Super and CSCri which are highly impacted by three key things: your contributions, the investment returns that we generate on those contributions and the composition of the portfolio that we use to generate those returns which is all about risk and how our team led by Alison manages that risk ion your behalf. So Alison's comments are going to be highly relevant to customers of our defined contribution schemes.

The second type of scheme we operate is our defined benefit schemes and I've already spoken to a number of you who are members of those schemes. They are of course linked predominantly or primarily to your final average salary and your defined benefit multiple which is comprised of your years of service in the scheme. So, they are not impacted by investment returns but if you have one of our - and that is PSS - but if you have one of our hybrid schemes, then you have a bit of both. You have a defined benefit and you also have an element predominately your own contributions which is impacted by investment returns and so Alison's comments will be relevant to those customers. So, I just wanted to make that clarification both for those in the room and those online tonight, the difference between our three types of scheme. And with those comments, I'll now pass over to our Chief Investment Officer, Alison Tarditi. Thank you, Alison.

Alison Tarditi: Thanks Peter. Good evening and let me add my welcome to that of our Chair, Chief CEO, sorry, and our Chief Customer Officer. Welcome in particular to the two youngest customers as I look around the room that I can see at the back of the room. You're never too young to start investing.

Now my investment team is small, specialised and really laser-focused on delivering all of you a comfortable retirement outcome. So, I'm really pleased to be able to have the opportunity to share some of our thinking with you this evening. Now as Peter noted, again my comments are most relevant to our defined contribution schemes. However, for others of you in the room who may have savings outside of super, I hope that my comments on our investment landscape are of some value to you also.

Now we invest according to enduring principles that have really defined our guardrails since the outset. But I'm mindful again as I look around the room of Voltaire's comments who said the secret of being really boring is to say everything. So, with that in mind, I won't cover all of our principles. I have tried to focus on just four of the most important of those to try and give you some insight and to illustrate how we translate our investment insights into captive value for you.

Now it will come as no surprise to you at all I think that paramount amongst our principles is that of risk control. In rising markets taking higher risks can certainly result in above average returns but those excess returns can evaporate quickly when the good times turn bad and that's what this slide tries to illustrate. We're really focused on what lies under the surface, the things that you can't see.

Investment performance that fluctuates between top 10 results in great years and bottom 10 results in bad years makes your retirement date very risky. By prioritising loss prevention and stewarding our portfolio assets conscientiously, the outcomes to all of our customers will be superior we believe because they'll be more dependable. The results of our risk controls are observable consistently in all of our products, so let's look at our default product, the My Super option. As this slide tries to depict, the past decades increasingly speculative market place has resulted in a wide range of returns for balanced funds. Our My Super product has returned around the median of those available in the market place. Strong in absolute return terms at around 7.4% per annum but not the best available.

Now when you consider the risk of losses that you have to continue to bear in order to achieve those returns by retirement, something that's independently assessed by super ratings, our performance as you can see in this chart is consistently above that of the median fund. It's this relative ranking that is the better indicator of the quality and reliability of your investments and thereby your retirement outcomes. But this discipline requires a strong stomach in more speculative markets where our returns might look less exciting relative to those of others whose risks have yet to surface. Undercompensated risks only become evident when market prices revert to their fundamental values as they're doing right now.

In these periods historically, we've preserved between 30% and 40% more of your savings than the median fund has been able to when equity markets fall precisely because of our risk control processes. And official comparisons today are even more complicated because different funds treat private asset values very differently. League tables have likely understated our performance relative to other funds over the past 12 months because when the price of companies and infrastructure assets fall on publicly listed markets, we objectively and systematically revalue their unlisted counterparts in our portfolios. Many other funds only revalue their unlisted assets when they receive information from their managers with a considerable lag. You may have seen this referred to in public commentary about regulatory investigations of some funds because of this activity.

Our approach, which has been consistent, provides transparent and fair outcomes to all of our customers, whether you're retiring soon or have many years to go.

Our second principle recognises the power of diversification and specialisation to life stage because we believe this offers the surest path to the results that you need both at the beginning and the later stages of your life journey. Almost 20% of our defined contribution customers, PSSap and AVF customers, have actively chosen one of our life stage options and for those of you who have not made these choices, I do encourage you to talk to your financial planner because this is one of the most important determinants of your retirement outcome. For our younger customers or those happy to take a higher investment risk, our aggressive option is a consistently strong performer. You can see that, I hope, in this chart which replicates the discussion I took you through for our default option. Our aggressive option accepts higher volatility compared to our balanced fund but only from targeted risks that we expect you to be compensated for taking while avoiding unintended risks and diversifying to reduce the impact from risks that simply cannot be avoided. The result is strong relative returns regardless of market direction.

For our older customers, or those preferring to take less investment risk, our income focused option purposefully targets a lower level of risk compared to both the balanced and aggressive options but still delivers very strong performance. So, you can invest, we hope, with confidence knowing that your savings are both safe but also growing over time because we wish you all a very long and active life post-retirement. So, you want those savings to continue to work for you.

Our third principle respects the very important difference between risk and genuine uncertainty. Now investment risk, back to that boring category, is generally discussed in statistical terms. You will see, for example, that all superfunds must state their expectations for the number of negative years that options are probably going to experience out of every 20. That's very probabilistic. But uncertainty, far less boring, is also much less black and white and in my view, that is the real risk because it involves surprises and unknowable outcomes.

Now soothsayers and stargazers predict investors prepare a far less glamorous role unfortunately for me but considerably a much more reliable service. So, instead of forecasting macroeconomic outcomes, we analyse the performance of your portfolios under multiple different but plausible future scenarios to find their vulnerabilities and then to proactively address them. We believe this is the best way to achieve consistently excellent and dependable long term performance. Remember that over the six or seven decades of economic, political and market cycles that make up your working and retirement lives and to which your savings are exposed, much can change. I suspect we all need a little reminding of that after the past two and a half years of pandemic induced lockdowns all around the world accompanied by economic and social adjustment never experienced, at least in my lifetime.

Now for the 40 years before 2020, we had relatively stable and positive economic growth and low inflation. They were called the Goldilocks Era. Globalised supply chains could always find lower cost substitutes to meet our demands in an integrated competitive but relatively peaceful planet. These conditions seem to imply an increasingly low risk world and financial markets responded [rationally] by valuing financial assets at ever higher prices. But that equilibrium has now broken. You can see that central banks in this chart are now withdrawing liquidity and today, as we enter the final quarter of 2022, exactly what lies ahead is not clear to anyone, including our own policymakers which is why their commentary is continuously changing.

Now you might recall this next graphic. I showed this at last year's annual member meeting. Our view then was that risks were building, with inflation a particularly underappreciated threat. This was not a consensus view then either within the investment or central bank communities and despite that, and as I noted at the time, we resisted the fear of missing out in public equity markets. In our view they were no longer supported by the pathways realistically available to policymakers. Instead we gradually added to your inflation protection because it was recognised by us as a persistent risk to your savings and we invested before that persistent risk was recognised by others and these assets became expensive which is what they are today.

Now it's difficult for any portfolio anywhere in the world to generate a strong positive real return through an extreme inflation spike and a sharp rise in interest rates central banks are using to try to combat it. But inflation resilience can be built gradually to reduce the erosion in purchasing power of your savings over the long term and that was our priority for you last year and the year before that. Your portfolios today contain numerous assets with revenues that are contractually linked to inflation via high creditworthy counterparties and that last point is important - highly creditworthy counterparties. Characteristics designed to grow your savings sustainably and to protect their real value and the real value of your retirement income.

Now I can only show you a brief few examples, again mindful of being boring, on this chart. But our August 2021 acquisition of an interest in Amplitel, which is Australia's largest telecommunications tower infrastructure provider, is a case in point. Amplitel's revenues benefit from decades long inflation linked leases and its capital value can grow with the roll out of 5G and mobile data demand that is expanding at more than 20% per annum.

Our fourth principle, and the last one that I'll discuss with you this evening at least, is to leverage our unique comparative advantages to access opportunities that individual retail investors usually can't. Now I think we all appreciate that public markets are very efficient at processing financial information because they have a large number of participants including in an increasing rate superfast computer algorithms with access to very big databases. We prefer to focus where our knowledge and operational advantages enable us to access opportunities beyond the range of individual investors and where markets are far less efficient at pricing value.

As well as assets with inflation linked cashflows that have already mentioned, we take a proactive interest in assets and businesses that are well positioned to benefit from long term productivity and secular trends. This makes your savings much more resilient to fluctuations or disruptions in economic activity and growth that are cyclical. Examples include private digital assets like broadband fibre internet providers across the United States, the Netherlands and also back home here in Australia via Unity Group. Datacentres like the Canberra datacentres originally based in Canberra and now with extensions across Australia and across the Strait into New Zealand. This investment has achieved exceptional growth performance of 46% per annum since we acquired it back in 2016. We've more recently made additional complementary datacentre investments in Asia and the US to leverage what is now a domain expertise for us and take further advantage of the unremitting advance of digitalisation.

Now I think we all know that investing is competitive. So the best returns come from identifying opportunities well before others do and we recognised the needs of energy transition early, investing first in windfarms. As these assets appreciated strongly as others recognise their value and our domain expertise increased, we've been able to recycle that capital into higher returning development platforms, platforms that build new renewable assets across solar, wind, biomass and hydro. These businesses are valuable to your retirement outcomes because their financial returns are largely insulated from short term economic conditions. Instead their cashflows benefit from long term power purchase agreements or regulated inflation linked tariffs. But they're also impactful in the world beyond your portfolios because they're adding to the stock of renewable assets, not just trading existing ones. Even Bill Gates now argues that what matters most for environmental improvement is not so much what you don't invest in but rather what you do invest in.

We also partner with skilled specialists like Blackstone Life Sciences to invest in promising new medical innovations. Again, activities that are resilient to business cycle dynamics and impactful in the real world beyond finance. Anthos Therapeutics is just one example. Its development of novel anti-coregulation medication is relevant to improving the lives of a large population of patients with a broad range of cardiovascular and metabolic diseases. I encourage you to take a look at our website for further examples of the health collaborations we're making. I'm most proud of these.

There are many other aspects to your portfolios which I don't have the time to take you through. For example, we build new investment management businesses so that you can own the engines that generate your active public market returns. This means you all share in the revenue of those managers as they manage money not just for you but for investors all over the world.

The point is this: diversified sourcing of real returns does not mean that we can completely avoid negative return years or deliver you the highest return when public equity markets are running super-hot. But it does mean that we're able to improve the resilience of your savings so that both inflation and recession risk matters less, so that the buffer compounded through good years that you can see across each of our options sustains to and through retirement.

Now today's primary economic challenge a question I get asked more than many is no longer inflation risk, it might surprise you to hear me say that. But that's because inflation risk has now been recognised. The open question that remains is where the developed market policymakers can combat that inflation the highest rate across the developed world since the 1980s without requiring deep recessions or triggering financial crises. US inflation at over 8% per annum as it is today is currently four times their central bank target and unemployment, a reasonable indicator of the strength of future demand, remains at an historical low despite 3.75% point rises in the US policy rate over a very short six month period.

Now exactly how rising interest rates interact with historically high levels of post-pandemic debt across the developed world, political instability arising in my view from the hollowing out of the middle classes across much of the developed world and financial markets are customed to, actually addicted to, excessively plentiful low cost capital and low economic volatility is all genuinely uncertain. Geopolitical fracturing and changes in the structure of our economies to incentivise the shift away from fossil fuel dependency are additional new challenges. Energy is complex because it is a foundational input into societal function and the critical issue around that is that demand cannot adjust easily, costlessly or quickly. Instead the most expedient route that is being taken is through skyrocketing prices to ration use. That’s a regressive process that has to continue until the availability and affordability of substitutes is achieved. Hence our investments into renewables development and innovation platforms and the inflation proofing assets that we've been investing in for you for more than three or four years now. As our third principle you might recall guides, markets don’t like uncertainty.

So, there are complex and unusual risks around the outlook for financial assets and for world growth. As policymakers balance on one hand the costs of temporary recession and the structural change in our energy system with on the other hand the costs of unchecked and broad-based inflation that will erode living standards permanently. Uncertainty itself creates its own dynamic. But there's also a plethora of innovation occurring. It’s occurring across health, new energy storage and transmission, digital security, robotics, automation, water and waste reduction to name just a few and I've tried to take you through some of the examples in your portfolios that are working in these areas. There’s every chance that one or more of these will be genuinely disruptive enabling the world to leapfrog some of the challenges that today feel insurmountable. As I've tried albeit briefly to example to you this evening your capital importantly managed for the risks of doing so is working precisely to enable this and that’s not boring at all.

The big picture I leave you with is that we have entered a very different environment. Investing requires us to put your capital at risk to earn a return sufficient to generate you a comfortable retirement. But the market conditions of the past, in particular the past two decades, masked many of the risks that were accumulating under the surface. Decision making will be, or at least should be, much more disciplined now that risks are clearer and present for established businesses, for entrepreneurs, for governments and for investors. In this world, as I cautioned last year, it is more important than ever to focus on risk adjusted returns. That simply means focus on the iceberg, not the tip to paraphrase Paul Keating.

The paper returns reported by any fund at any point in time are no guarantee of a comfortable retirement outcome and there I'm paraphrasing someone I really admire, my mum. But it is also a world in which we’re able to play to our demonstrated investor strengths building and stewarding portfolios that prioritise two things: the avoidance of permanent capital loss so that your savings are not running to stand still and secondly, the early provision of capital to future fit companies with secular tailwinds so that your savings benefit from those who are running to catch up. As I said before, I won't pretend that it’s possible to avoid losses through a period of high

Canberra
GPO Box 2252
Canberra ACT 2601
Australia
P. +61 2 6275 7000
Sydney
GPO Box A2614
Sydney South NSW 1235
Australia
P. +61 2 9240 4888
csc.gov.au

inflation or its corollary a recession should that come to pass. But your investments are fit, they are high quality and they are able to recover fully and strongly. And we will be scanning for opportunities to reinvest your cash buffers as high quality assets see their prices fall below fundamental value and we can once again step into purchase them with confidence.

We remain focused on ensuring that our defined contribution customers achieve a comfortable financial outcome in retirement, something our defined benefit customers are assured. Now it's been impossible for me to do justice to all that I'd like to cover in the time allotted to me this evening but I do hope, as my colleagues do, to be able to address the issues that are important to you or that are worrying you at this point in time through our question time. So, thank you for listening.

Peter Jamieson: Well, thank you very much, Alison, for a really comprehensive overview of what is a highly complex environment and not getting any simpler. So, I hope you found that as valuable as we do in getting a better understanding of the dynamics that are impacting us all.

That brings us to our question and answer part of the evening. An opportunity for you to pose us some questions both online and here in the audience. We'll start this process in a moment but just a couple of things to remember. Just to be fair to everyone, one question at a time. If we have an opportunity, we'll take more questions. If we don't get time to answer everybody's questions, we will ensure we answer all questions through our report which will be available online. Once again, if we can avoid questions which relate to your individual circumstances. We have our team here to be able to assist to that.

Now we've got our three panel members that you've heard from already. We also have our board and our executive here available to answer your questions. So, the opportunity now is to ask those questions. So, I'd invite anybody in the room that wants to ask a question to commence stepping through to one of the available microphones. We do have some questions online, so we may start there first. We've got, and only because we've had quite a few customers come through. So, I'll just start with an online question and then I'll come to the question down at that microphone there. So, the microphone is yours as soon as we've taken this question.

The first question comes from Janice, one of our online participants tonight. In 2021 Janice says, I asked CSC to provide evidence that it had influenced fossil fuel companies to reduce emissions. I didn't receive a satisfactory answer. Since 2021 Woodside has forged ahead with exploiting Scarborough and is pushing ahead with Browse. Santos has progressed its Pikka Phase 1 oil project in Alaska. These companies are investing billions. What evidence can CSC provide to show it attempted to influence Woodside and Santos to decrease emissions in line with the Paris Agreement and will CSC escalate its engagement with them or divest? This is a question from Janice. Thank you very much, Janice, for your question and an opportunity for Alison to perhaps provide a few more comments about how we address and think about this really complex issue. Alison.

Alison Tarditi: Thank you, Janice, for your question. This is really the topic du jour, isn't it? Climate, Paris Agreement targets. I really think this is an exceptionally important discussion so I might take more than a couple of minutes to answer this question. I'd like, if it is possible, for somebody to find and put up the chart that I've used before on 2 Degree investing.

Commonwealth Superannuation Corporation (CSC)
ABN: 48 882 817 243 AFSL: 238069
RSEL: L0001397

Canberra
GPO Box 2252
Canberra ACT 2601
Australia
P. +61 2 6275 7000

Sydney
GPO Box A2614
Sydney South NSW 1235
Australia
P. +61 2 9240 4888

csc.gov.au

So, this chart is from the 2 Degree Investing initiative. By way of background, the 2 Degree Investing initiative is an independent global not for profit that coordinates some of the world's largest research projects on sustainable finance. They're very credible and they're a very practical team. Now I understand, Janice, and I hope I'm understanding correctly, that what your question is motivated by is wanting to contribute to a reduction in greenhouse gas emissions into the world. I think that's our objective too.

I also understand that some customers like sending a signal via divestment of fossil fuel companies and that many financial institutions cater for that customer preference. But I hope as this slide by a credible third party illustrates, and research undertaken now at Harvard University, Oxford University and most recently Zurich University supports, there's a very consequential but poorly understood distinction between portfolio impact which is what divestment delivers and the top half of this slide tries to illustrate and real world impact which is rather more complex to achieve and illustrated in the lower panel.

Now the exclusion of all fossil fuel producers from your portfolio, which I understand is desirable to some customers, may reduce the risk of any potential write down in the value of your super should all those assets become stranded and stranded simply means those assets become worthless before or during your retirement period. But it does not actually reduce greenhouse gas emissions into the world, a phenomenon that we've long understood but that is now increasingly recognised by scientists, investors and activists alike as green wishing. CSC has not therefore made a public commitment to achieve net zero greenhouse gas emissions within our investment portfolio. Nevertheless we have actually managed to reduce the risks to your retirement outcomes by divesting from what we consider to be potentially stranded fossil fuel assets defined as companies that have little prospect of transitioning because they derive 70% or more of their revenue from thermal coal production and generation. Examples globally of those companies that we have divested from are Coal India, Peabody Energy Corporation, New Hope and Whitehaven in Australia.

Now it's important to note that here is a short term financial cost to you from not holding exposure to these sorts of companies, for example, Whitehaven Coal over the last eight or nine months has had a 181% rise in its share price. Now that has had a negligible impact on your superannuation outcomes representing 0.09% negative return which is very small because of all of the other investments that we have made for you that diversify the risk of not owning that company in the short term. So, divestment is a tool for portfolio long term risk mitigation and, if simply extrapolated, the risk mitigations we have taken in your portfolios to date actually do put them in line with what others measure as Paris alignment. That's a 50% reduction in the public company carbon emissions from your portfolio by 2030 and 100% by 2050 if we can maintain the pace and I can't guarantee that that is possible but if we can.

But this work which is relevant to your financial outcomes has no impact on the amount of greenhouse gas emitted into the world because divestment is not a withdrawal of funding from the company. It's merely selling your stake to someone who by definition values the company more. More importantly in my opinion, divestment is ineffective and regressive because it focuses on the company supplying fossil fuels instead of focusing on demand. Demand is about energy efficiency and improving that. Supply constraints drive higher fossil fuel prices and higher fossil company or industry profits. Exxon made record profits in September 2020, US$20 billion or thereabouts which is about what Apple made. Profits that investors and companies themselves encouraged by long term investors could recycle into new renewable infrastructure.

Canberra
GPO Box 2252
Canberra ACT 2601
Australia
P. +61 2 6275 7000
Sydney
GPO Box A2614
Sydney South NSW 1235
Australia
P. +61 2 9240 4888
csc.gov.au

Any impact that rations use of an inelastic product, and by inelastic I mean as I mentioned in my formal points, demand for energy can't be shut off quickly, costlessly or easily because every company in the world outside of nuclear jurisdictions relies on fossil fuels to make the things that the world consumes. So, focusing just on supply and rationing through price means that you have effectively a regressive tax. It prevents parts of the developing world from accessing refrigerated transport for vaccines. It makes it unprofitable to transport or even to make some wind turbines but it's unlikely to have much effect on people who use private jets for a Christmas shopping spree.

So, while we haven't focused on marketing our progress towards net zero within your investment portfolios, because that would be an easy win, but it isn't genuine, we have committed to help accelerate progress towards a net zero global economy to the extent and speed possible consistent with our fiduciary duty to all our customers. And we've done that in three ways and I'll be very brief but happy to go into greater detail.

The first thing I mentioned in my prepared comments is innovation capital. Capital allocation supports decarbonisation only when it finances real world decarbonisation projects that wouldn't otherwise happen. We do this by investing a measurable share of your risk budget, more than $1 billion of your capital, into innovation, technology and development platforms focused on new renewable sources of energy and the infrastructure required to make them firm and scalable. These investments are reducing emissions in the real world by 251,000 tonnes per annum compared to servicing a similar level of energy demand using companies in the global energy index.

We also do it, as this question sort of implies, through active ownership and engagement. Now our influence is strongest where the link between CSC as financier and the activity being financed is direct and that's obvious right, because we have control over those sorts of assets. So, we all know that the operations of buildings contribute 25% of global emissions. Our directly owned buildings use energy efficient technologies, electric chillers, LED lights, those sorts of things and energy reduction management systems and electrical alternatives to fossil fuel based plant and equipment and we purchase 100% renewable power for all of our buildings. Now that sequencing, energy efficiency first and then the purchase of renewable power is actually really important because it means we're reducing real demand for fossil fuel energy, not just earmarking apportion of the renewables in the grid for our use.

Advocacy is the third leg of what we're doing to try and improve the world that we live in. In our view real world impacts require practices aimed at aligning markets in their pursuit of a fair financial return to their purpose of creating value in the real economy and we have long defined value both by tangible things like plant and equipment as well as intangible things like institutional integrity, healthy population and clean air. They're prerequisites to a sustained and inclusive prosperity that I think we all want.

To that end we work collaboratively with global peers, so other investors around the world, but also with development banks, scientists, NGOs, entrepreneurs and others towards developing sustainable investment vehicles that meet our customers' requirements for return and mobilise fresh capital that is additive to building a zero emissions economy. This is why we also don't offer a standalone ESG option which would be an easy marketing win for us but not necessarily part of the real world solution.

Peter Jamieson: Thank you very much, Alison. Once again, really comprehensive explanation of what is a really complex subject. We'll turn now to our first question in the room and thank you for being patient and waiting. We'll take your question now.

Customer: This question's for Damian. You mentioned negative and some letters MPR?

Damian Hill: NPS.

Peter Jamieson: NPS.

Damian Hill: Actually, do you want to take this one, Peter? I get the question.

Customer: I don't quite understand what was negative and what the letters were and what the topic was.

Peter Jamieson: Yes, okay. Thank you very much. Really appreciate the question and thank you once again for being patient and standing there. Net Promoter Score, it's a measurement system around customer satisfaction. It measures to what degree all of you are happy with us. Our score has been negative for a number of years and we are on a path to change that. The score is a calculation of those customers who think we're doing a good job, less those customers who think we're not doing such a good job. So, a negative result says overall there's more customers that think we've got further to go but we have improved as you heard. It's one of those measurements that takes into account the broadest range of experiences based on your investment performance, how you think about engagement with us, what you think about the way in which your salary deductions are handled from your employer. So, it's trying to capture as much as we possibly can. So, I hope that helps.

Damian Hill: If I can add maybe just a couple of things. So, the score can range from minus 100 for - and whether anyone would ever get that, that every customer they have hates them, so I don't know why they're customers any more, to positive 100. But as Peter said, it takes a whole breadth of the operations and services that we provide. So, it's quite typical say in periods of poor investment markets, customers don't necessarily feel as buoyant when they see the returns on their statements. So, for lots of funds or all funds that are struggling with those negative returns, they would probably see that contributing to a downward trajectory in the short term on their Net Promoter Score.

Peter Jamieson: Thank you, Damian. I'll just remind everyone here, if you have a question, feel free to make your way to a microphone. We do have another online question though which I'll go to now. This is from Millicent so thank you very much, Millicent. This is a comment about a topic that's really on the top of mind for everyone, so I think this one is coming to you as well, Damian. Knowing the recent data hack issues with Optus and most recently Medibank, how seriously do you take the safety of our nest eggs and what are you currently doing to ensure its safety? Damian.

Damian Hill: Thank you, Millicent. Probably the thought that this was some version of this might come up. I don't think that's necessarily a surprise but thank you for expressing it. Yes, so look, we're very conscious of our

Canberra
GPO Box 2252
Canberra ACT 2601
Australia
P. +61 2 6275 7000

Sydney
GPO Box A2614
Sydney South NSW 1235
Australia
P. +61 2 9240 4888

csc.gov.au

responsibilities in this area and it's not just the general responsibilities. Given the nature of our customer base, we have customers in various sensitive workplaces in a number of cases as well. So, the absolute protection of that data is fundamental to our considerations on a day to day basis.

Over the last probably couple of years now, we've been increasing our investment in the cyber security area, appointed a new cyber security expert to lead that team, a gentleman by the name of Daminda, who comes to us with over 10 years' experience in listed companies in the cyber security area. There can be no guarantee in any of this, however, but we understand the concerns. If I address sort of some of the maybe closer to specifics with regard to the two major ones that are out there at the moment, what we understand, and obviously information hasn't been released publicly on a lot of this stuff so some of it is supposition, but we understand that Optus you might have seen in the press, there was a weakness in what are called APIs.

Now APIs are things that sort of allow data to go from one system to another particularly if you outsource or send stuff out there. So, that's particularly what they are and in effect, there was a weakness in one of those APIs that was exploited by the criminals in that case. We put systems in place a couple of years ago to try and pick that up automatically. Nevertheless when it did come out and we understood that that was the reason or potential reason for that, we went through, we've got 28 of these things, went through systematically each and every one of them to make sure that there were no vulnerabilities and I'm pleased to report that that was the case.

In regard to Medibank private one, that's seems to be, again the information is scarce, a different thing where someone who has really high privileges on your main corporate systems, their account was exposed and the criminals used that to get access, really high access within their systems. In actual fact, that was probably, can't say categorically, a human error and in any cyber security, you can talk about all the tools etc, and they are important, but still the greatest risk is probably with the most flawed part of the whole system and that's the human element.

So, we continue to train our staff. I, as the CEO and my executive team here, and our executive assistants we are number one in regard to getting that training because we are actually the most likely target because criminals would expect that we have the most influence on the systems. In actual fact, you don't want to let me near the system, they don't let me near the system so you don't want my level of capability running those things.

But I'm not trying to be glib; it's just trying to also address the human element of these aspects as well. It's an area where we see - we will continue to need to invest. Indeed it was the discussion at a board committee, the risk committee today to some degree about there is no standing still. If you're standing still, you're going backwards and don't know how much we're going to have to continue to invest but because of the unique nature of our customer base, it remains at the forefront of our mind. Thank you, Millicent, for the question.

Peter Jamieson: Yes, thanks Millicent and thanks Damian. Okay, if there's no other question in the room at the moment, we'll keep going with our online questions and we've got a three part question here from [Reece]. I'll try - maybe we'll start with Damian on the first part. The question is are divestments, dividends received on investments made by CSC; which I suspect may be getting to do we show the elements of the returns that we receive on our investments, and is there a reason why individual returns aren't shown on the information we provide to our customers?

Canberra
GPO Box 2252
Canberra ACT 2601
Australia
P. +61 2 6275 7000
Sydney
GPO Box A2614
Sydney South NSW 1235
Australia
P. +61 2 9240 4888
csc.gov.au

Damian Hill: All right, I'll try and have a go at this. Thanks, Reece for the question. I'm not sure I fully understand it, but certainly in our - on our dividends that we receive by owning companies and stocks that Alison's talked about, yes, obviously, yes, we receive those, and when we sell assets, et cetera, obviously the capital returns come into that. That all goes into the returns that are distributed to people either through interest rates or unit prices.

We do try and we do have the individual returns for the options that Alison talked about on our website. If the question is - there are a few funds that are trying to calculate individual return for each account, yes, we aren't necessarily at that stage as yet. That's a future innovation that we would look to get to, so that each - whilst we might promote the average return for that option, depending on cash flows, when your contributions come in, you could all have a slightly different individual return. That's - I'm only suspecting that's where Reece is going, that we will be looking to do that.

I'm aware that some funds are doing it, but it's not the highest priority in our transformation program at the moment, but we do want to be as transparent as possible about what we own. You can go on the website about what stocks we own, et cetera, like that and our returns, and particularly as Alison was pointing out, it's not just the raw return or paper returns or profits. You've got to look through the cycle and what risk has been taken to get that, and that's really important. That's what you don't see in a lot of the public commentary. They'll compare apples and oranges and just say what's the highest absolute return, without having any nuance to what risk was actually taken to produce that. So I just always take some of those lead tables or headlines with a bit of a grain of salt to understand it.

Peter Jamieson: Thank you, Damian. I should mention that we have had a few different questions around this particular topic of additional functionality that we may build into our online services. We've also had some questions about will customers be able to see how their investments are performing during the year. That has a similar response to what Damian has said. We understand that that's becoming an increasing requirement for customers, particularly some of our younger customers, who are used to seeing what's happening quite dynamically. So it is part of our future plans, but it's not as high a priority at the moment.

Of course, we understand that customers want to project where they're going to be, and so we have some tools available, but we are going to enhance those tools, as well, to ensure that all customers are able to try and project where they're going to be in retirement and not just do that once a year, when we provide them with an annual statement. So I hope that helps with some of the other questions that we've received online around that topic, and once again, thanks to [Millicent] for that very detailed question. Thanks to Reece for that very detailed question.

The next question is pretty straightforward, and I think this one's for Alison. It's coming from our online customers. This question is to Alison, do you invest in social housing? Alison?

Alison Tarditi: Yes, the short answer to that is no. We don't have any exposure to social housing at this point in time. A number of years ago, I travelled through the United States to look at social housing opportunities there, and they weren't compelling at that time in terms of the returns given the risks associated with their build and the quality of the social housing being offered. We are still open to investing in social housing, but to date, it hasn't provided a compelling relative return.

Damian Hill: I'd just add, obviously conscious of the Government's announcements at the budget in that regard, and there's obviously a path that's going forward and a conversation that will take place with institutional investors around the globe, not just Australian superannuation funds on this. But we need to understand, and this is the point that investors such as ourselves have been trying to make, that there are structural issues with how things are taxed, et cetera, in Australia in particular, that actually are an impediment to investing - getting a return for the risk taken in the Australian market.

Obviously, we'd be hopeful that maybe some of those settings might change, and I would say they would need to change in order for us to balance the risk with a return for your portfolio. But we remain open to all opportunities around the globe, should they make sense.

Peter Jamieson: Thank you, Alison. Thank you, Damian. We will continue with our online questions. The next question comes from [Cath]. Thank you, Cath. Can you tell us more about the new retirement income strategy that you talked a little bit about in your remarks earlier, Damian, and what it means to customers?

Damian Hill: All right, thanks, Cath, for the question. So as I said - I did mention it, so we've got our strategy about what we're planning to build, and you can find that on our website. Okay, so if you go into our website and search for retirement income strategy, you can actually find the strategy document. But in my speech, I talked about the implementation. We've done a lot of research of our customers in building the retirement income strategy, and it's not just our DC customers, ADF and PSSap. It's also our DB customers, because you may not be aware, but we have over 230,000 existing pensioners. Given 100 years of history, you tend to acquire pensioners along the line, and we wish them a long life in that regard.

So we've got 230,000. We want a leverage of that. Now, they aren't DB pensions at this stage, but understanding a lot about them is critical to actually putting it in place. We also pay between $9 billion and $10 billion a year in pensions to these customers, and so we've got a lot of existing data, and we wanted to enhance that with the further research.

The fundamental here is that we're trying to construct a solution for people who don't necessarily have just a DB pension, so that they can balance those three competing aspects, and it's one of those cases where you can't have it all, that you need to make trade-offs. So that was the stability and surety of income. It was maximising returns still, and it was, no, but I want access to all my money in case something untoward, unplanned comes up. So they are three critical decisions that any retiree has to consider, and what we've done through our research and then the extensive modelling that we've done in putting our strategy forward is come up with a group of six different cohorts of customers. Depending on how they prioritise those three things, we can come up with a solution. We can manufacture a solution that will provide the outcome that they're seeking in that regard.

You can have a purely accessible, fully accessible - you won't necessarily get the highest returns. You won't necessarily get the stability of income. So in doing that, we are going to build on our existing allocated pension or account-based pension, along with some what's called longevity products, things that - because the other major question you can't answer is when are you going to die? How long does it need to last? So these longevity products tie that in and guarantee you an income for a period of time, life expectancy or longer than that, say up to 100 years of age.

By melding those various products for the different cohorts, we can provide an answer that will provide, say, stability of income if that's the most important thing. So we are sourcing that. We know what our solutions are, but we've still got to bring them all together, which we'll be doing over 2023, and as part of that, to help you make the right choice, we're really looking at our guidance and advice mechanisms so that we can help you go through that process. It's a very personal journey, about answering those questions, answering it with your partner as to, okay, what do we mean jointly in that regard?

So that's what we're looking to do, so that we can cater for however you answer that question individually or as a couple. I hope that helps, Cath.

Peter Jamieson: Yes, thank you, Cath. Thank you, Damian. We'll keep going with online questions if there's nobody in the room, and the next question comes from [Eric]. This is probably a question for you, Alison. You discussed that you have some great performing assets, and you highlighted our Canberra datacentre asset returning 46% per annum since acquisition. But of course, there must be in any investment portfolio some less performing, and perhaps you could share a little bit about your experience with less performing assets and how we think about that and how do you think that's going to translate into future investment?

Alison Tarditi: Yes, if there was a gold star for questions, it would go to Eric. That's an awesome question, and it's the sort of thing I would ask myself. Let me - I'll Canberra datacentre as an example, by the way, because we are here in Canberra, and I think it's nice that - and we've been able to make an investment into Australia through Canberra in particular.

The way I would answer this question is to say what I am proud of about our investment process and the governance model that we use, and the fact that we're quite innovative, is that we actually do concentrate legitimately on missing things under the water. So when I talk about the iceberg, I'm really thinking about the distribution of returns looks like that. Everybody reaches to the right to get the best investments. Our DNA means that we're always trying to avoid the worst investments, so that just by doing that, we shift the average return available to you to the right.

So I can honestly say that we are very proud of the fact that we had no CDOs through the GFC. We've had no liquidity events in hedge funds. We've had no liquidity events across the fund. We've never had an increase in defaults across our private equity portfolio, beyond what you would expect in a normal cycle. So I don't think about the worst investments we make in terms of capital write-down, because we haven't written your capital down. We have got a P&L, so some days, we're in profit, some days we're in loss, but they're not permanent impairments to your capital.

That's a feature of our investment approach that is differentiating versus our competitors. But I do think about your question in terms of opportunity cost, because every decision that we make is a decision that we're not making in a different direction, and sometimes, that has an opportunity cost, which means you don't get the best return available. But you're not getting an impairment of capital. If I think about it in that way, I could think about the thing that comes to mind most recently is that we reduced our - your exposure to government bonds across the portfolio, because we were worried about inflation being underrepresented in a market's thinking, and that rates could rise quite aggressively. But we didn't go to a zero weight for bonds, which intuitively felt right, but you always have to think about the circumstance where you're wrong about something, because unless you're God or Madoff, you're not right all the time.

That was an opportunity cost, because US treasuries, so US government bonds of maturities 15 years and greater, which are a traditionally very defensive asset class, lost 27% of their value over the last 12 months. That compares to just a 20% loss in value from equity, so perversely, you were better off in equities than bonds. So we reduced your exposure, but we didn't reduce it to zero, so that was an opportunity cost for you.

The second, if I have to think of a second one, I think it was the speed at which we've rotated away from established investment managers to the new investment managers. We call them seeded investment managers, because we're the initial investor and we build the business with the investment manager. We've started rotating towards that style of public market active management about six years ago, and I think the opportunity cost to you is that we didn't move faster in that direction. We were a first mover amongst many of our competitors, but if we'd moved faster, those funds have done much better than the established. The reason for that is we've built them, purpose built them, to deliver returns for you, so I'd say that's the second opportunity cost.

I think the third opportunity cost is, optimally, over the last 10 years, it's fair to say that the best allocation of capital has really been in five technology stocks until it wasn't. So our criticism would be, well, you missed that. So we're trying to build diversified portfolios that will be able to withstand any kind of environment, a technology shock to the negative, a technology shock to the positive, a recession and inflation, to make sure that through the decades in which your savings are exposed to the world, they're resilient.

But in doing that, we're not capturing the best returns, and also we're avoiding the worst returns, and so that in some people's minds is a mistake. In my view, it's just a prudent way to manage savings that you're going to depend on in retirement, but they'd be the three opportunity costs that I'd talk to in answer to that question. But it's a great question, and I reassure you that we diagnose every investment decision that we make, because we're a learning organisation, and the best learnings come from your failures, or in our cases, the opportunities that we've missed.

Peter Jamieson: Gold star to Eric. Thank you very much, Eric, for that great question, and thanks, Alison. We're coming back to you though with - sorry, we have a question in the room, so we will go there. Apologies. We can take your question.

Customer: Yes, we can. Sorry, this is a question for Alison, if I might, as a follow up. There was recently a book by Nouriel Roubini, an American economist, on the 10 megatrends and looking at the Fed's drive to reduce inflation and driving up interest rates and the potential recession that might be coming over the next year or two. What are your - I know this is crystal gazing, but I'm just wondering what are your thoughts over the next, say, two

Canberra
GPO Box 2252
Canberra ACT 2601
Australia
P. +61 2 6275 7000
Sydney
GPO Box A2614
Sydney South NSW 1235
Australia
P. +61 2 9240 4888
csc.gov.au

years in terms of the financial markets? In terms of how the impact of the potential recession might have and - in the financial markets, thank you.

Alison Tarditi: Yes, look, thank you very much for your question. I appreciate it, and I'm humbled to be asked a question that Nouriel Roubini has written a book on, because he's much more famous than I am. I don't have a crystal ball, which is why we try not to construct portfolios on the basis of a prediction for the next two years, because we genuinely are in a world of high uncertainty. It's not just the fact that inflation is the highest since the 1980s. We really see an extreme culmination of various trends, geopolitical, competition, technology's move from the trade vector to the security vector. People have recognised that pushing to the lowest cost and the most efficient outcome has actually lost quality in that process, and so countries and companies and individuals, I might add, are starting to recognise that maybe paying a little bit more for high quality is better than the cheapest thing.

We're manufacturing. We've built societies that are dependent on consumerism. At the same time, we're worried about the change in the climate, so you've got all of these structural issues, which are systemic in nature. Capital markets, which is why we don't oversell what we can do as investors against climate change or any systemic risk that people are worried about, because they're very complex problems.

So I think the road for financial markets in the next two years is a volatile one as we swing between high inflation, high rates, and then the other side of that. Because nobody's quite sure how high rates have to go in order to combat this inflation. But everybody understands that hyperinflation is a very bad thing. It's very corrosive. It's bad for households, because your cost of living goes through the roof. It's bad for businesses, because you can't plan anything. You don't know how much inventory to have. It's bad for investors, because the value of everything gets eroded. So we know that that's a bad - and central banks have very clearly stated that they're going to lean against that, because they understand how bad it is if it becomes embedded.

The open question is, does that cause a recession? Can they engineer a soft landing? I could talk to you about this for days, but we've prepared your portfolios for a more volatile period ahead, one where inflation on average is higher. That doesn't mean equities can't rally, and they typically rally from a seasonal perspective after a midterm election in the United States into the year end. But from my perspective, at least, that's not a rally to be chased. Does that answer your question?

Peter Jamieson: Thank you very much for the question, and thank you for all of the questions. We are drawing to the end of this part of the evening, as well, and to the end of the evening. But I will just acknowledge that we have some additional questions online, including some follow ups on some of the earlier answers, so I just acknowledge that [Jamie] has asked a follow up question, [Alice Jillian] has also asked a follow up question around some of the topics we've talked about earlier. There are other questions there, as well. So we will make sure that we answer all of those questions, including follow ups to answers that we've given tonight. I'd encourage, if there is anybody here in the audience that hasn't had an opportunity to ask your question, or what you've heard has prompted something that you reflect on, then you can see our folks outside, lodge that question online, and we'll make sure that gets covered off in the report from this evening.

But that does bring us to the end of this evening's meeting, and I'd really like to once again thank you all for joining us, whether you be online or here in the room with us. I hope what you've heard tonight is where our focus is, and our focus is you, our customers. Everything we do is about your - supporting you into your retirement, and then supporting you in that retirement, as Damian talked about, through our new retirement income strategy.

We're also all about improving, and as the question about net promoter score indicated, we know we're not yet where we need to be, but we're about getting better. What is really important for us to get better is to hear from you, and so we hear you. We appreciate your feedback, and to that end, you'll be receiving a survey tomorrow asking for your feedback about this evening. So I really appreciate you completing that service, letting us know what worked for you, what didn't, about this evening, and what we can do to improve how we look after you through your working life and into and through retirement.

Once again, thank you. Thank you for being CSC customers. If you've chosen us, thank you. If you came to us many years ago, thank you for staying. We really appreciate the opportunity to look after you. We value the trust that you put in us, and we appreciate that you have joined us here this evening. On that note, I'll close our 2022 annual member meeting. Goodnight and thank you. Travel safely.

End of Transcript