Spirit Super Annual Member Meeting
25 November 2021 – 6pm to 7.30pm
All member questions and responses

Note: This document is for general information only and the answers here don't take into account your objectives, financial situation or needs. You should assess your financial position, personal objectives and needs before making a decision based on this information.

If you're considering acquiring or continuing to hold a particular financial product, you should obtain the *Product disclosure statement* relating to the product and consider it before making any decision. Read the relevant Spirit Super ***Product disclosure statement*** (the ***Member guide*** or ***Pension guide***) and ***Target market determination*** or call us on **1800 005 166** for a copy.

1. **What is the environmental impact of the investments made through Spirit Super and what principles are considered when investing?**

   A general observation up front - when you're investing in real assets and real companies every investment has some social, ecological impact.

   The central focus of our policies and our ESG policy essentially is to ensure that this impact is on balance positive one. Jumping straight to the heart of this question, which is essentially around climate change and what Spirit Super is doing in terms of investment in fossil fuels. Spirit Super categorically believes that not only is climate change very real but it's also one of the most significant risks in fronting our portfolio, we are absolutely committed to mitigating those risks where they exist in the portfolio.

   Now there's really two parts to the solution to this - one part of it and it's the focus of a lot of media and the like is the focus is all around carbon reduction in fossil fuels and carbon emissions. The other part of the equation now is about investing in new infrastructure to support the transition to a low carbon economy. Spirit Super is committed to both of those things, and recently the Board signed off on a carbon reduction strategy that the books to reduce our carbon footprint by 50% by 2030.

   It's not the only part of our strategy - the international economic agency has recently indicated that, for the world to make the gap that's left from fossil fuel related energy generation that some $4 trillion dollars of investment needs to be made around the world, between now and 2030. That's a really big part a big role for superannuation funds to play in that and Spirit Super sees itself at the forefront of that movement to provide that capital where it's sensible to do so to support that transition so as you'll see our ESG policy and the impact of our strategy that we've developed is not just simply about divesting a few stocks and pretending the problem doesn't exist it's a much more meaningful and real commitment to reducing our carbon footprint, but also supporting the transition to a low carbon economy over time.

2. **You mentioned that climate change is something Spirit Super takes seriously. Given this statement, what is Spirit's view on divesting in fossil fuels ASAP?**

   See Question 1.

3. **What does investment performance look like for the next 12 months, given COVID and Australia's soured relationship with China?**

   It looks tough. The reality is that investing has always been difficult, it's always been challenging and the world is always had very significant risks. Every investment we look at has its own set of significant risks. There are some very significant challenges now. There is the withdrawal of fiscal stimulus and the risks that has to the economic recover. We're in a period where is a strong bouncing in economic activity has borders and restriction as borders open and restrictions ease.

   A watch point for us, inflation is a big issue. It's something that impacts all asset classes and can feed through into interest rates, the cost of debt for companies and assets. The central banks around the world have been reasonably benign about it, but there is a lot of commentary now to say that there may be some more enduring aspects to inflation. The valuation of some equity markets and some stocks around the world do look very stretched. There are some very highly valued companies around the world that's not lost on us it to is a very significant watch point. For most of the last 12 months, we had a fairly significant overweight to growth assets. We had a risk on approach to the investment strategy but particularly around some of the risks around inflation and interest rates, it has given us pause for thought about what and we're in the process of bringing some of that exposure back in line with our strategic asset allocation.

   There are lots of risks in the world and the very first line of defence for us is diversification. We diversify by asset class, and also by region and different industry sectors. There are other things we are doing within those asset classes to de-risk portfolios in some areas. We have reduced the level of duration, which means the level of sensitivity we have to rising interest rates within the portfolio. We've also just taken a little bit of risk off in terms of equity portfolios.

4. **How does our fund performance stack up against other industry funds?**

   We try not to spend too much time looking over our shoulder at our peers and trying to second guess what they're doing.

   We are very focused on setting our own strategy. A strategy that embodies our highest conviction ideas. We're always taking a forward-looking approach to setting the investment strategy. We're very focused on ensuring we have the highest quality fund managers and where we're managing assets internally ourselves and having the highest quality assets in the portfolio. You've got to be careful, looking at league tables and the like because it varies a lot. Some funds may describe themselves as a balanced option, some are more balanced than others or less balanced than others. Some are much more growth oriented and riskier in nature, and so they are always going to outperform a bit when markets are running strong. The flip side is when there is a correction in markets those funds will tend to underperform as well.

In most time frames, we've been broadly in line with the median return for a broad set of industry funds here in Australia and they are very strong returns and returns that we're proud of.

5. **What is Spirit Super doing to lower fees and improve return?**

   We are looking at driving efficiencies through our operations and this was seen as part of the merger. We're also looking at contracts and critically assessing them each step of the way so where there is capacity, we can renegotiate so we're getting the most competitive fees and costs. The other thing to remember, as well, when we're looking at costs is the other side of that in that we do want to invest in ourselves, we want to invest in the fund so that we're able to give more back to members to enhance that experience. It's ensuring that not only do we have the operational costs managed but we're also giving back to members and ensuring that along every step of the way we are providing a little bit more. It was touched on in the meeting as well regarding the IT strategy so that we continue to grow, and we continue to provide even more to members.

6. **Who is the fund's insurer and is it owned by Spirit Super?**

   Our current provider of group life insurance is MetLife Australia. We partner with MetLife. They are not owned by Spirit Super and in fact that couldn't take place. We work very closely with MetLife to look at our insurance design and premiums to make sure that the product that we're offering really is, in our member's best financial interests. There has been a lot of changes in the insurance space over the years so we are of course continually looking at that and liaising with MetLife as our current provider what's best for our members currently.

7. **What functions are now in Hobart and what are in Canberra.**

   We run with two main campuses, one in Hobart and one in Canberra. What's really important about this is when we went into the merger there was never a takeover. It was always about partnering. Again, that focus on partnering and we wanted to take the best of what both funds had to offer. So, in terms of functions that are in Hobart we have a quality contact centre and our administration. Head office is here in Canberra.

   What's most important is that when the two funds came together, we had two main campuses. So our business units actually comprise people who might work in Hobart and might work in Canberra. For example, I'm here in Canberra, and I'm also joined by the CFO and Chief of Governance Risk and Compliance as well as other members of the executive team and in Hobart there is the Chief Operations Officer, Chief of Strategy and Chief of People & Culture. So it's truly a partnership. The largest number of our staff are in Hobart, and that's a result of our in-house administration and our contact centre being located there. But as I mentioned before we are a national fund, with offices everywhere and don't forget that fabulous, passionate field force team who cover all of the regional areas.

8. **How did this merger come about and why?**

   Both funds were looking to be bigger, because there's a sweet spot for superannuation fund size and in order to do the kind of investments we wanted - the exciting stuff like the impact investing into renewable energy projects directly, and some of the investing into impact investing around employment for small businesses in Australia. You need to be at least a $20 billion fund and so both funds were looking for a partner to access those great local and global investments, but also to push down fees. Once the funds started talking, we realised that we would be able to maximise the synergies and the benefits for our members. We leapfrogged to that strategic size where we could start to make investments that weren't available to us as a $10 or $12 billion fund.

   We would be able to put our administration systems together, administering all internally and providing a great friendly contact centre. Also, we could take out some costs, which you have seen on day one with a reduction in member fees. We also had similar cultures with a focus on community, regional areas and working for everyday Australians.

9. **What actions are you taking to attract new members to the fund?**

   See Question 16.

10. **How does Spirit super compare to others on fees?**

    Spirit Super is Platinum rated by SuperRatings, which means we're a 'best value for money' super fund that's well balanced across all key assessment criteria – investments, fees and charges, insurance, member servicing and administration in a robust, secure and proven governance/risk framework.

    Following the merger on 1 April 2021, we reduced our flat-rate administration fee from $1.50 per week to $1.30 per week, and our total administration fee cap reduced from $528 per year to $517.60 per year. That was a real saving for all our members from the start We also brought all service operations in house.

    On 5 October 2021, the estimated investment fees reduced for seven of our nine investment options.

    Options included in the estimated reductions were Growth, Balanced (MySuper), Moderate, Conservative, Australian shares, International shares, Diversified fixed interest and Long-term.

While our estimated investment fees have dropped on most investment options, our Cash option remained the same, and our Sustainable option increased from 0.91% to 1.00%.

For the Balanced (MySuper) option — our most popular investment option — we estimate a reduction in investment fees from 0.74% of your total account balance to 0.64%.

This means, if you have a balance of $100,000 in the Balanced (MySuper) option, your overall investment fees are estimated to reduce from $740 per year to $640 — a saving of $100 per year. Example of fee changes on a $100,000 balance below.

Type of fee	**Amount (Balance $100,000) prior to 5 October 2021**	**Amount (Balance $100,000) from 5 October 2021**	**Total Fee reduction From 5 October 2021**
Investment fee	0.74% **$740**	0.64% **$640**	**$100**
Plus Administration Fee	$78 plus 0.15% of your account balance ($150) each year **$228**	$67.60 plus 0.15% of your account balance ($150) each year **$217.60**	**$10.40**
Plus indirect costs for the Balanced (MySuper) option	**$0**	**$0**	$0
EQUALS Cost of product	**$968**	**$857.60**	**$110.40**

Investment option fee changes below:

Investment option	**Estimated fee before 5 October**	**Estimated fee after 5 October**
Growth	0.81%	0.73%
Sustainable	0.91%	1.00%
Balanced (MySuper) and Balanced	0.74%	0.64%
Moderate	0.59%	0.56%
Conservative	0.51%	0.46%
Australian shares	0.84%	0.51%
International shares	0.78%	0.57%
Diversified fixed interest	0.30%	0.28%
Cash	0.05%	0.05%
Long-term	0.71%	0.58%

Spirit Super does not charge any Buy-sell spreads and there is no cost to switch investments. If you have insurance with Spirit Super your premiums will also be deducted from your account. Further details are contained in the attached - Fees and Costs

As the merger of Tasplan and MTAA Super to form Spirit Super is fairly recent we fully expect to be able to continue to look at ways of further reducing fees as discussed during the meeting. In relation to our fee competitiveness compared to other funds, I refer you to the Australian Taxation Office YourSuper Comparison - https://www.ato.gov.au/YourSuper-Comparison-Tool/

NOTE: As at 13 December 2021 - The ATO site has not yet been updated to reflect our lower investment fees (which changed on 5 October) reducing the total fee comparison to $462.60. When looking at fees it is also important to compare investment returns, as cheap administration fees with lower than average investment returns does not end up having a positive impact.

Other direct benefits from the merger include:

Direct Investment Opportunities: With increased scale, Spirit Super has the opportunity to bid for large-scale direct assets. For example, in December 2021 the fund settled a contract to purchase Parliament Square – a prestige property in Hobart housing government offices and a luxury hotel. Spirit Super is confident that this asset will deliver strong returns to members across the long-term. The size of this transaction would not have been feasible for either Tasplan or MTAA Super as stand-alone entities.

Increased Investment Team Specialisation: Spirit Super has reconfigured its Investment Team by merging expertise from both Tasplan and MTAA Super. The Investment Team has increased use of asset class specialist investment managers. Through the development of specialist expertise, Spirit Super is better equipped to manage the unique risks within each asset class and work with our external advisors and investment managers to identify opportunities to add increased value to all Member Investment Options.

11. **You mentioned earlier about fees of the balanced pre mixed option coming down. Do we have specifics on the other premixed options? Specifically, the growth option?**

    See question 10.

12. **I don't think over $450 pa is competitive for admin fees compared to other funds that do admin in-house. Please advise.**

    See question 10.

13. **Has Spirt Super had any issues with the government and or regulators in the last 12 months?**

    We have strong governance frameworks and oversight of our processes to ensure we comply with the relevant laws. We actively engage with our regulators and openly share information. Currently, we do not have any Commonwealth penalties and have complied with all regulations.

14. **Is Spirit Super planning to / have exposure to cryptocurrencies?**

    When something goes from $2 to $60,000, it's hard to ignore and so we didn't ignore it. The investment Team did a lot of work last year, looking at cryptocurrencies - Bitcoin, Ethereum, a number of those currencies. Really just trying to understand what they were and what the nature and the characteristics of it was particularly the risks involved with cryptocurrencies. In the time we were looking at it, it went from $60,000 back to $30,000, and I think it's back to $60,000 now. So that gives you a taste of just how volatile cryptocurrencies can be and of course there is no government or central bank that stands behind those types of digital currencies at this stage. We concluded that it was just something that was not suitable for an institutional investor, like Spirit Super.

    It's something we continue to look at because the value of real assets of real estate, of shares, cryptocurrencies, gold, all those things, is really a flip side of the fact that central banks around the world have been printing currency, fiercely for the last few years and effectively debauching the value of a lot of the currencies around the world. So, it is a watch point for us and what's been very interesting is the advent potentially of central bank digital currencies. And there's been some talk of the digital yuan in China so it is something we're continuing to look at. But at present it's not something that we've considered suitable for the fund.

15. **What does the merger mean for support of Tasmania and the Motor Trades Industry?**

    Spirit Super is proud to have hard-working members from all walks of life and all industries. Before the merger, two-thirds of MTAA Super’s members were from the motor trades, with the rest from the broader public. Tasplan was the major fund in Tasmania, particularly for workers in the public sector.

    We’re proud of our history and work hard to keep what’s unique and special about each fund. However, we’re also excited about the future and believe the combined strengths of both funds allow us to offer great value, improved service and better support to all members of Spirit Super.

    Importantly, we are a national super fund, with offices in Canberra, Hobart, Launceston, Devonport, Sydney, Melbourne, Brisbane, Adelaide, and Perth and a passionate field force team committed to supporting and servicing rural and regional areas. Apart from providing better access to face-to-face support and advice to members across the country, this will allow us to offer more hands-on support to employers across all industries.

16. **What does the future hold for Spirit Super?**

It's a very big question. What we would like it to hold, is more of the same sort of things that have been good - continuing a strong commitment to high levels of servicing and Spirit Super being a top quartile performer. We're not the most inexpensive fund, but we have high value for money and very high levels of servicing to our members. We have real offices where you can walk in and talk to people. We have a friendly contact centre who are very happy to spend time talking with you on the phone for no fee or charge to help you to understand your super and you make good decisions. We want to continue that commitment to our stakeholders.

We have strong and long-term relationships into the motor trades, long-term relationships and commitments to Tasmania and the bus and coach industry in New South Wales, so we want to continue that good national footprint. The new things that we'd like to do in the next 12 months - we want to grow that focus in terms of regional areas across Australia and have extra focus giving to some hardworking places around Australia, like Newcastle and stuff who were kind of outside of Sydney and Melbourne. We've got a lot of work we need to do with that decarbonisation targets and our ESG projects talked about with our renewable investments. We need to continue to roll those out. We also have a lot of fantastic, exciting investment initiatives happening.

We also talked about Horizon our new incubator hub. We want to be developing and growing our outreach to new members because they're a real key for any fund now, with the new stapling system in place. We know that members want to have good apps that they find convenient. Our incubator hub, Horizon is going to be rolling out new and exciting initiatives in ways for young members to join our fund and we will continue our work with the apprentice schemes throughout Australia. We'll have a busy next 12 months and so far, our investment markets have been going well this year. Our cost management is strong. We're doing exciting ESG initiatives, and I think it'll be more of the same, but hopefully a little bit more straightforward for our members as hopefully, Australia and the various states have come out of lockdown and people will start to be able to reconnect with their family and their loved ones.

17. **Why did the merger cause such a long outage for members?**

When we launched Spirit Super, there was lots of work to do in the background that unfortunately limited what you could do in your account. So, thank you for your patience.

We worked hard to transfer all your information safely and securely into our new administration system.

Some services became available from 22 April 2021, and full access to all services and transactions became available from 30 April 2021.

The merger introduced a lot of change, so naturally, a lot of members had questions. This meant we had a large increase in the number of calls and emails to our contact centre.

We worked hard to answer as many calls and emails as efficiently as possible during this time. We redeployed extra resources from across the business and actively recruited extra staff to get you the information and support you needed.

At Spirit Super, we take great pride in our service excellence. We apologise for any inconvenience the delays in the early days caused and appreciate your patience and understanding as we continued improving our processes.

18. How to choose the best Investment options?

This is going to depend on a range of circumstances including your personal goals, attitude towards risk, investment timeframe (how long you plan to invest) and personal comfort levels with market fluctuations. If you are unsure as to the best way to invest your money inside your super, our recommendation would be to book in a time with one of our licensed Super Advisers on 1800 005 166. In this meeting (at no additional cost to you as the cost is included in your membership) the Super Adviser will ask you a series of questions to create a risk profile of your attitude towards risk and will make a recommendation based on your risk profile.

19. Can you discuss fees charged by spirit super?

See question 10.

20. Can you please get great returns so I can retire one day?

We're doing what we can to get the best retirement outcomes possible for our members, it's what where here for. It's worth also noting that we have a number of different investment options to suit different attitudes towards risk.

If you are unsure as to the best way to invest your money inside your super, our recommendation would be to book in a time with one of our licensed Super Advisers on 1800 005 166. In this meeting (at no additional cost to you as the cost is included in your membership) the Super Adviser will ask you a series of questions to create a risk profile of your attitude towards risk and will make a recommendation based on your risk profile.

21. **Are our pension investments going to get better in the months ahead, than they are at present.**

See Questions 28, 31, 34, 36, and 38.

22. **The economic and financial impact of COVID lockdowns on Spirit super funds in 20-21 and projection for 21-2022. How are you factoring COVID recovery into investments? and what is the projections on inflation and its impact investment strategy?**

The impact of COVID-19 on financial markets highlights the importance of superannuation assets being managed to maximise returns to members over the long-term. As shown in the table below, the returns across all of Spirit Super's investment options were below long-term expectations across the 2019/20 financial year when COVID-19 affected markets, but then above long-term expectations across 2020/21 as markets recovered. For members who were fully invested across the entire two-year period, investment returns approximately equated to the long-term average returns for each investment option:

	Conservative	Moderate	Balanced	Sustainable	Growth
			Accumulation Returns		
2019/20	0.57%	1.72%	-0.94%	0.70%	-1.14%
2020/21	6.48%	10.04%	17.43%	15.03%	21.98%
Average p.a.	3.48%	5.80%	7.86%	7.62%	9.81%
			Pension Returns		
2019/20	0.57%	1.97%	-1.18%	0.57%	-1.41%
2020/21	7.48%	11.15%	19.49%	16.32%	24.51%
Average p.a.	3.97%	6.46%	8.67%	8.16%	10.80%

While equity markets have recovered to their pre-covid highs, the pandemic has created two longer-term implications for financial markets.

First, central banks around the world helped to mitigate the full economic impact of COVID-19 by significantly lowering interest rates and buying government bonds and other securities environment where fixed income assets, such as bonds, have low expected returns. As this monetary stimulus is eased, it has the potential to constrain business growth and lower bond prices.

Second, the lockdowns that were observed in the aftermath to COVID-19 disrupted industrial production, reducing the supply of key inputs into many consumer goods. Further, increased border controls and lack of capacity for long-haul transport caused further blockages to global supply chains. The temporary reduction in the availability of some goods due to these supply chain constraints has caused upward inflation pressures. If this inflation proves to be persistent it could have adverse impacts on some sections of the economy and is likely to force central banks to increase interest rates earlier than they previously planned, adversely affecting bond prices.

Spirit Super's Investment Team expects some of the inflation observed across 2021 to persist into coming years. The impact of this inflation on members' returns can be mitigated via Spirit Super's allocating a large proportion of its equity and fixed income assets to active fund managers. These active managers are not constrained to a benchmark so they can hold significant exposures to subsets of securities that perform relatively better during inflationary periods. Spirit Super also protects its portfolio against inflation via diversification. Each of Spirit Super's pre-mixed investment options have exposures to unlisted infrastructure and property assets. These assets have historically provided a hedge against inflationary pressures.

23. **In simple terms what is the management fee per $100,000 invested.**

    See question 10.

24. **How have fees changed since amalgamation? What have been the benefits of the combined fund?**

    See question 10.

25. **How to invest my super I have no idea?**

    This is going to depend on a range of circumstances including your personal goals, attitude towards risk, investment timeframe (how long you plan to invest) and personal comfort levels with market fluctuations. If you are unsure as to the best way to invest your money inside your super, our recommendation would be to book in a time with one of our licensed Super Advisers on 1800 005 166. In this meeting (at no additional cost to you as the cost is included in your membership) the Super Adviser will ask you a series of questions to create a risk profile of your attitude towards risk and will make a recommendation based on your risk profile.

26. **Is there any chance for me to let to trade some good cost to manages of it on my knowledge in trading? Hopefully you let me?**

    We allow our members to switch between our existing investment options at no additional cost to them. However, in the short term we are not looking to expand our investment options. We would encourage members to select an investment option that is appropriate based on their needs, goals and objectives and recognise that super is a long-term investment and ideally not a speculative tool.

27. **What is the government contributions tax? This is more than 10% of employer contributions each month**

The government contributions tax is a 15% tax that applies to all super contributions that have been paid into a fund from pre-tax money including employer contributions, salary sacrifice and any contribution that you claim a tax deduction on. This tax is referred to by the ATO as a concessional rate as it is substantially lower than most people's marginal tax rate.

28. **To safe-guard against substantial market down-turn should there not be automated safe-haven for member funds?**

Spirit Super safe-guards member funds through portfolio construction. All our pre-mixed investment options are diversified across asset classes that are expected to perform well across different periods in the economic cycle. This approach to safe-guarding funds accords with our philosophy of managing all options in accordance with the best long-term financial interests of members.

Attempting to pick the highs and lows of markets is very difficult. There is no one ringing the bell at the top of the market nor at the bottom. Focusing attention on this aspect of investing has risks should the timing not be quite right, so instead focus most of our time on the longer-term implications for returns. A large issue being even if you are right in picking the top, you still need to pick the bottom when getting back into markets. For example, if members funds were invested in the Balanced superannuation option across the first half of 2020 and then switched to cash for the second half of 2020 after the COVID-19 financial market drawdown, the member would be returned -4.58% across the year. However, remaining invested in the Balanced superannuation option across the entire year returned 3.23%.

If you are unsure as to the best way to invest your money inside your super, our recommendation would be to book in a time with one of our licensed Super Advisers on 1800 005 166. In this meeting (at no additional cost to you as the cost is included in your membership) the Super Adviser will ask you a series of questions to create a risk profile of your attitude towards risk and will make a recommendation based on your risk profile.

29. **Does Spirit Super plan to stop investing hundreds of millions in gas fracking company Origin Energy?**

See Question 1

30. **Given the increasing threat of climate change, should Spirit Super be prioritising divestment from fossil fuels?**

    See Question 1

31. **Do you see any major correction to share prices internationally and in Australia during next 12 months?**

    Overall, shares have performed strongly since the test of time when stock markets began in the middle of the 19th century. However, there have been many prolonged periods of corrections and crashes. The Equities asset class is, by nature, more volatile than other asset classes. Over the last decade there has been at least episodes where shares markets have fallen by 10% or more.

    There is no certainty as to when and how much equity markets can fall or whether it will occur. Therefore, it is difficult to say with certainty what will occur over the next 10 years, let alone 12 months. Equity market returns are based on current and future perceptions of valuation, a multitude of macroeconomic variables (of which many are unknown as of today) as well as a plethora of other factors not in an individual's control, including geopolitical concerns or another Covid variant that is more virulent than anything we have seen.

    Noting this, equity markets are not cheap by historical standards, though this has been the case for most of the last decade. We have however over that period seen interest rates decline and massive level of stimulus from Central Banks and Governments that has been a positive support, as has economies lifting out of Covid induced lockdowns, which has lifted earnings. Should you be concerned about a near term correction and not be able to ride out some volatility, this may be a good opportunity to have a discussion with one of our superannuation advisers who can help you determine an appropriate asset allocation strategy for you based on your own personal circumstances and needs.

32. **Do you see the current housing market overpriced and if yes, what plans have you got in place when a correction occurs?**

    Spirit Super's economic outlook is for interest rates across most countries, including Australia, to increase across the next 3-5 years. Interest rates tend to be negatively correlated with prices in the residential housing market, so we would not expect Australian residential property prices to continue to grow at the pace that has been observed across the last 18 months. However, it is not possible to predict whether the expected rise in interest rates will cause a correction in housing prices or simply see zero to low growth in prices for a period.

    Spirit Super has very little direct exposure to the Australian residential property market. We do not expect that any of our investment options will be materially impacted if a house market correction were to eventuate.

33. Why is the 2 month and the 10-year return so low?

We suggest that all members assess the performance of an investment option across its stipulated minimum investment horizon as financial markets can be volatile across short-term periods. All of Spirit Super's pre-mixed investment options have delivered returns to members that exceed their return objective across this minimum investment horizon. For example, the Balanced superannuation option returned 8.70% per annum over the 7-year period to 30 June 2021 against an investment objective of 4.69%.

34. **Why has performance not been as good this financial year so far?**

The 2020/2021 financial year was an exceptional year from an investment performance perspective, with markets sharply recovering from the lows which resulted from a significant market selldown due to Covid19 in early 2020. It would be unrealistic to expect such returns to be sustainable. As a long-term investor, we focus on long term investment returns and with our Balanced (MySuper) option returning an average of 8.66% pa over the last 10 years at 31 October 2021, our members have benefited with substantial growth over this time.

If you are unsure as to the best way to invest your money inside your super, our recommendation would be to book in a time with one of our licensed Super Advisers on 1800 005 166. In this meeting (at no additional cost to you as the cost is included in your membership) the Super Adviser will ask you a series of questions to create a risk profile of your attitude towards risk and will make a recommendation based on your risk profile.

35. **What is your policy AND investment actions re not supporting fossil fuel industry and Tasmanian salmon industry?**

See Question 1

36. Given exposure to bonds and the negative future outlook, will exposure to them be lowered in the conservative pension choice?

Our Investment Team undertakes an annual review of the investment strategy of each investment option. Within the scope of this review, Spirit Super considers whether each investment option's Strategic Asset Allocation (SAA) is suitable in the context o our long-term outlook and the characteristics of the members invested in each option. Where the future outlook for any asset class deteriorates and an investment option is deemed to be at-risk of not meeting its return objective, the exposure to that asset class would be reduced. While it is possible that we will reduce our exposure to fixed income given the current low yield environment, it is unlikely we would ever completely divest from the fixed income asset class given these assets provide diversification benefits and are a source of liquidity during market downturns.

The Fund also has the opportunity to adjust exposure to particular asset classes relative to their SAA based on our short horizon economic outlook, within the limits of a risk budget. Since the merger, our average exposure to fixed income in the Conservative pension option has been lower than its SAA. This positioning has reflected our negative outlook for this asset class over the last six months.

37. **Can we expect you to have plans to offer non fossil fuel investment options soon?**

    See Question 1

38. **How long can shares keep their strong performance?**

    It is very difficult to say with any great certainty as to what may happen within stock markets due to a variety of unknown variables that can change the outcome of returns at any time. It is also worth noting that each market (be it Australia, the US, Asia or the EU) can and does at times behave differently in accordance with region specific issues and concerns.

    In focussing on financial markets as a whole across most growth asset classes, one could observe that valuation levels on the whole are not cheap by historical standards. Offsetting this we have seen a massive level of stimulus from Central Banks and Governments that has been a positive support, as has economies lifting out of Covid induced lockdowns, which has lifted earnings. All of these factors may impact future returns, as could geopolitical concerns, and even a new Covid variant. Attempting to pick the highs and lows of markets is very difficult, as there is no one ringing the bell at the top of the market nor at the bottom. Saying this we have neutral position to equity or share markets currently based on our current longer-term outlook for shares versus other asset classes.

    Noting this, equity markets are not cheap by historical standards, though this has been the case for most of the last decade. We have however over that period seen interest rates decline and massive level of stimulus from Central Banks and Governments that has been a positive support, as has economies lifting out of Covid induced lockdowns, which has lifted earnings. Should you be concerned by a near term correction and not be able to ride out some volatility, this may be a good opportunity to have a discussion with one of our superannuation advisers who can help you determine an appropriate asset allocation strategy for you based on your own personal circumstances and needs.

39. **The risk inflation and increasing interests rates presents to bond and fixed interest instrument holders are well known and widely documented (see for example *https://www.investopedia.com/articles/bonds/09/bond-market-interest-rates.asp*). The Reserve Bank currently reports inflation between 2.1% and 3% depending on the inflation measurement metric (see "*https://www.rba.gov.au/inflation/measures-cpi.html#year_ended*"). Longer term fixed rate home loans on offer from Australian banks**

are generally higher priced than short term and variable rates. Increasing inflation and interest rates are therefore widely anticipated, even if not yet officially acknowledged.
1. Please confirm inflation and increasing interest rate risks are already factored into Spirit Super investment options, defensive investment options especially. That is to say, Spirit Super investments in bonds and fixed interest instruments discussed in the above paragraph already have increasing inflation and interest rates than officially acknowledged factored into member defensive investment target performance levels (for example Conservative Pension choice aims for CPI plus 1.5%, see "*https://www.investopedia.com/articles/bonds/09/bond-market-interest-rates.asp*".
If you are unable to confirm 1. above please state what Spirit Super is doing to protect member and ensure the investment target discussed in Paragraph 1. continue to be met.

It is correct that bond prices are negatively related with changes in interest rates. As central banks often increase (or decrease) interest rates in response to inflation, changes in expectations of inflation have a similar impact on bond prices. If this inflation proves to be persistent it could have adverse impacts on some sections of the economy and is likely to force central banks to increase interest rates earlier than they previously planned, adversely affecting bond prices.

Spirit Super's Investment Team closely monitors the macroeconomy and regularly undertakes modelling to forecast the expected impact of key macroeconomic variables on members' returns across all options. The Investment Team's current expectation is that a portion of the inflation observed across 2021 to persist into coming years and has positioned the portfolio accordingly.

Spirit Super protects its portfolio against inflation via diversification. Each of Spirit Super's pre-mixed investment options, including the more defensive options, have exposures to unlisted infrastructure and property assets. These assets have historically provided a hedge against inflationary pressures.

The impact of this inflation on members' returns can also be mitigated via Spirit Super's allocating a large proportion of its equity and fixed income assets to active fund managers. These active managers are not constrained to a benchmark so they can hold significant exposures to subsets of securities that perform relatively better during inflationary periods.

Finally, Spirit Super has developed an internal Dynamic Asset Allocation model, which allows the Investment Team to modify to exposures to particular asset classes within risk limits. Since the inception of Spirit Super in April 2021, there has been a tilt towards lower duration bonds. The prices of low duration bonds are less sensitive to interest rates and inflation. Across the last six months, the team has also had a small tilt out of Fixed Income and into alternatives strategies. This tilt is intended to increase returns to members in the current low yield environment without an undue increase in risk.

40. **Reported investment performance (see "*https://spiritsuper.com.au/investments/Our-Performance*") is NET of actual compounded CPI as described in your email. Furthermore, performance reports need to state that reported outcomes are net of compounded CPI during each reporting period (between one to ten years as the case may be).**
The need for reporting transparency is important to members as they weigh up inflation risk bearing in their defensive investments and business volatility risks generally bearing on their growth investments.

Transparency is also important to us – which is why we have a section on our website where we provide daily crediting rates and performance across various horizons (see https://spiritsuper.com.au/investments/Our-Performance). Please note that these crediting rates are the returns that accrue in your account. They are net of investment fees and taxes, but not net of CPI.

Unfortunately, it is not possible to provide our CPI+ target or inflation-adjusted returns in real-time performance reporting as the ABS only reports inflation data quarterly and with a lag. For example, on October 27 the inflation data was released for the quarter from July – September. However, in our annual report we do provide the performance of each option and the return of the investment objective across the period of the investment return objective. For example, on page 25 of the Annual Report it states "*The super objective for the 2020–21 year was to outperform (after fees and tax) the Consumer Price Index by 3.0% a year over rolling 7-year periods. The super option returned 8.70% a year over the 7-year period to 30 June 2021 against an investment objective of 4.69%.*"

We assess the performance of all our pension options relative to their objectives using the methodology stipulated by APRA. The CPI data is taken from the Consumer Price Index published by the Australian Bureau of Statistics (ABS) and is available on their website. The ABS provides quarterly CPI data, which we can convert to monthly. For options with a CPI + objective, such as all our pre-mixed investment choice pension options, the target performance is calculated monthly as the sum of the monthly inflation and the monthly target. We always use time weighted returns when calculating averages to reflect compounding of returns. For example, if an option has a target return of CPI + 3% and inflation across the last month was 0.2%, then the target return for the month would be: 0.2% + [(1+3%)^(1/12) -1] = 0.447% per month.

We compound these monthly target returns across the minimum investment horizon to calculate an annualised objective. This return can be compared against the actual crediting rates which are available on our website.

The process described above can be replicated for any of our investment options to assess performance relative to their objectives over long horizons. In the meantime, we have provided both the returns and objectives across all pension options across their minimum time frames in the table below. As you can see, all of our pension options have outperformed their objectives:

Pension Option	Minimum Time Frame (Years)	Target Return (p.a.)	Performance (p.a.)
Conservative	4	3.06%	5.05%
Moderate	5	4.31%	7.10%

Balanced	7	4.80%	9.70%
Sustainable	7	N/A	N/A
Growth	10	5.89%	10.72%

Note that the Sustainable Option is N/A as it does not have 7 years data since inception.

41. **The investment risks presented by the lack of Chinese property developer liquidity are well known, broadly reported and substantial (for example see *https://www.bbc.com/news/business-58579833* and "*https://en.wikipedia.org/wiki/Evergrande_liquidity_crisis*"). Those risks extend to bonds issued by those businesses, shares in them and investment in Australian raw material suppliers and associated businesses in Australia.**
1. Please confirm those risks are already factored into Spirit Super investment classes including a reduction in Australian iron and steel exports to China associated with reduced property development in that market. That is to say, Spirit Super investments in shares and bonds in businesses discussed in the above paragraph have been reduced by Spirit Super to a small enough portion of member portfolio that substantial reduction in Chinese property development will not reduce Spirit Super investment classes below the stated target performance levels (for example Balanced Pension choice aims for CPI plus 3.5%, see "*https://spiritsuper.com.au/investments/Investment-Options/Balanced-A2?tab=pension*".
2. If you are unable to confirm 1. above please state what Spirit Super is doing to protect member investment and ensure the investment targets discussed in Paragraph 1. continue to be met.

This is very topical at the moment, with a lot of media reporting on the current issues regarding Evergrande. These issues have emerged across the last year due to a shift in Chinese government policy towards "common prosperity" – a model of society where all citizens share in the opportunity to be wealthy. The Chinese government enacted this change because it perceived regulatory change had not kept up with the speed of liberalization within the Chinese economy since the commencement of its "open door policy" in 1978. Rapid growth in newly privatized businesses across the last few decades has created enormous wealth for a small number of individuals, but also led to the development of mega businesses that do not have the systems and processes to sustain their growth. The Chinese property development segment is one example, with companies such as Evergrande growing on the back of an enormous amount of debt and the need for substantial appreciation in property prices to continue to service that debt. It should be noted that Evergrande was challenged prior to this year - the shift towards "common prosperity" just bought those issues to the surface as the government began to crack down on highly leveraged businesses that were contributing to the increased cost of living. Overall, the company remains in a very poor position, with the $3.5 Billion of offshore bonds due in 2022 causing the most concern. This has seen debt payments missed (and some made). Under the "common prosperity" edict, no Chinese company is too big to fail so it is unlikely that China will bail out this company. However, the Chinese government has stress tested its financial system and put in place backstops to mitigate the contagion of a default event across the Chinese economy. Evergrande has been required to sell off assets to try to remain afloat and repay its debt.

Recent events in China does create risk, and this risk has been well telegraphed to markets. However, prior to discussing managing this risk, we first need to provide a quick overview of how your assets are managed. For shares listed on global share markets and bonds traded in the global market place, we utilise specialist asset managers to pick the various individual investments. It is our role to ensure that the managers selected are good stock pickers and aggregate to a well-diversified portfolio able to navigate these issues. The internal Spirit Super team will then, where deemed appropriate, take larger big picture macro decisions should we see either risks or opportunity arise.

On the individual managers, there has been an aggregate underweight to China cross our portfolios based on the risks these managers have perceived in this market arising from the Chinese Evergrande concerns. We did have an EM bond manager, however recently removed them from our portfolio based on concerns they were adding unnecessary risk to our credit portfolio. This is the market in which Evergrande bonds trade. We believe the managers we have in place are well positioning to deliver strong results against their respective benchmarks.

Our Australian equity managers have been performing well even as commodity prices have come under pressure. It should be noted that even prior to the Evergrande saga, China had been making proclamations that it would be limiting the purchase of Australian Iron ore. This combined with the deleveraging being pushed through the Chinese economy was always going to offset some of the re-bound we have seen in economies post the worst of the Covid pandemic. In discussions will our domestic equity managers, we believe that all are very aware of these risks and have been positioned well to avoid the worst of this fall.

While over shorter time periods it is very difficult to avoid the systemic risks that see entire stock markets fall, we believe that the Investment Strategy we have in place should continue to deliver on our longer term stated objectives.

We should note that we believe that while there are certainly issues within China across the short term, and that it is very likely a number of highly leveraged property developers will go bankrupt, the Chinese government is not likely to cut of its nose despite its face. Housing and infrastructure have been major growth drivers for the economy. Should the current situation begin to have a substantial impact on economic growth, we would expect a targeted stimulus package to be deployed to support the sector, just not a handout to these larger leveraged businesses or wealthy individuals. We have already seen a number of packages aimed at supporting buyers and mitigating a complete collapse of the sector. Across the long-term, the “common prosperity” policy is designed to create more sustainable businesses and broaden the base of wealth to increase spending across the Chinese economy – both of which would be well-received within financial markets if achieved.