

Member Outcomes Assessment Pension option comparisons

 **legalsuper**

(for the year ended 30 June 2023)

Purpose of this document

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

This document sets out the annual Member Outcomes Assessment for legalsuper's Pension product for the year ended 30 June 2023.

It compares the returns, fees and costs and investment risk for legalsuper's Pension product with comparable products, as well as the other attributes that contribute to good long-term outcomes. It also concludes that the financial interests of its members are being promoted by the Trustee.

Assessment

In determining for each product whether the financial interests of the beneficiaries of the entity who hold the product are being promoted, the Trustee has regard to the requirements of the SIS Act and Superannuation Prudential Standard 515 (SPS 515) including the following factors. The overall determination is based on a balanced review of each of these factors and their impact on members' financial interests, shown in order of importance.

- a. the return for the product (after the deduction of fees, costs and taxes);
- b. the fees and costs that affect the return;
- c. the level of investment risk for the product;
- d. whether the options, benefits and facilities offered under the product are appropriate to those beneficiaries;
- e. whether the investment strategy for the product, including the level of investment risk and the return target, is appropriate to those beneficiaries; and
- f. any other relevant matters, including the matters set out in SPS 515, (a. whether, because

of the scale of, and within, the RSE licensee's business operations, those beneficiaries are disadvantaged; b. whether the operating costs of the RSE licensee's business operations are inappropriately affecting the financial interests of those beneficiaries; and c. whether the basis for the setting of fees is appropriate for those beneficiaries.)

Trustee determination

Having had regard to the matters set out in sections 52(9)-(11) of the SIS Act for the year ended 30 June 2023, Legal Super Pty Ltd as Trustee of legalsuper has determined that the financial interests of members of its Pension product are being promoted by the Trustee.

Introduction

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

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

Investment goal

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

Investment beliefs

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

Trustee determination

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

Pension option comparisons

legalsuper offered 11 pension products as at 30 June 2023:

- 4 single asset class options: Cash, Enhanced Cash*, Australian Shares & Overseas Shares.
* The Enhanced Cash option was terminated on 30 September 2023 following a review of the option by the Trustee.
- 7 blended asset class options: Conservative, Conservative Balanced, Balanced Index, Balanced SRI, Balanced, Growth & High Growth.

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

The table below shows the extent to which one, five and ten year returns for each Pension investment option exceeded or underperformed the median of comparative options in the relevant SuperRatings (all funds) universe. A plus symbol indicates returns met or exceeded the median and a minus symbol indicates returns were below the benchmark.

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

Investment option	1 year (%)	5 years (%)	10 years (%)
Cash	-0.37	-0.42	-0.27
Enhanced cash*	+0.06	-0.15	-0.57
Conservative	-0.54	+0.00	-0.22
Conservative balanced	-0.94	-0.12	-0.12
Balanced	-1.16	+0.14	+0.12
Balanced index	+0.65	-0.59	-0.67
Balanced SRI	-1.63	-0.83	-1.03
Growth	-1.87	-0.49	-0.40
High growth	-2.84	-0.35	-0.07
Australian shares	-2.44	-1.30	-0.60
Overseas shares	-2.53	+0.00	-0.39

Key findings: Relative performance

1year returns to 30 June 2023 were below the SuperRatings median for the majority of the Pension products. Enhanced Cash and Balanced Index options outperformed whilst all the other Pension options underperformed. The key contributor to the underperformance to the relevant SuperRatings median by legalsuper's blended asset class products was manager relative underperformance in Australian Shares and Overseas Shares. Tilts towards smaller companies within Australian shares, and listed infrastructure within Infrastructure, also dragged on performance. This followed mostly strong comparative performance for the year to 30 June 2022 due to strong sector and manager relative outperformance from active investing.

2. Key findings: Fees and costs

- As at 30 June 2023, legalsuper's fees for all Pension options are noted in the table below based on a \$50,000 and \$250,000 account balances.
- While the median fee level for each investment option universe decreased over the year to 30 June 2023, legalsuper Pension options remained below the median.

The following table shows legalsuper's fees and costs for each Pension investment option when compared with the SuperRatings median for the relevant All Funds universe.

Investment option	legalsuper fee based on \$50,000 account balance	SuperRatings All Fund median fee based on \$50,000 account balance	legalsuper fee based on \$250,000 account balance	SuperRatings All Fund median fee based on \$250,000 account balance
Cash	\$233	\$275	\$892.60	\$1000.00
Enhanced cash*	\$268	\$430	\$1067.60	\$1840.00
Conservative	\$423	\$530	\$1842.00	\$2316.55
Conservative balanced	\$458	\$585	\$2017.60	\$2512.50
Balanced	\$528	\$579	\$2367.60	\$2575.00
Balanced index	\$278	\$433	\$1117.60	\$1687.50
Balanced SRI	\$498	\$498	\$2217.60	\$2227.00
Growth	\$523	\$653	\$2342.60	\$2772.50
High growth	\$513	\$673	\$2292.60	\$2937.50
Australian shares	\$478	\$650	\$2117.60	\$2775.00
Overseas shares	\$423	\$646	\$1842.60	\$2928.00

Source: SuperRatings Member Outcomes report - 30 June 2023

As measured by APRA's Quarterly MySuper statistics from September 2020 to September 2023, legalsuper's administration fee is slightly above the APRA median. This analysis aligns with the SuperRatings data from the Member Outcomes report and is consistent across multiple account balances from \$5,000 to \$500,000. It should be noted that, along with a number of other funds, legalsuper offers an administration fee rebate for large balances. Such a cap provides incentive for high balance members to stay with legalsuper and make additional super contributions. When assessing the split between flat and variable administration fees, legalsuper's \$67.60 pa flat fee is below the All Fund median of \$78.00 pa, however the variable fee of 0.29% pa is above the All Fund median of \$0.25% pa.

3. Investment risk

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

Name of Choice product	Risk profile
Cash	very low
Enhanced cash*	very low
Conservative	low to medium
Conservative balanced	medium
Balanced	medium to high
Balanced index	high
Balanced SRI	high
Growth	very high
High growth	high
Australian shares	high
Overseas shares	very high

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

legalsuper.com.au

Options, Benefits and Facilities offered to Members

Independently awarded & highly rated

The strength of legalsuper's overall offering is evidenced by high ratings from the four major rating agencies. legalsuper was awarded a SuperRatings Gold rating for MySuper, employer sponsored and personal, and a Platinum rating for its pension product in 2022/23.

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

Higher personal service for members/beneficiaries

legalsuper offers higher levels of personal service to members via our national Member Service Manager team. Our team helps members in their goal of building their savings for retirement (e.g. provision of factual information and general advice about legalsuper superannuation products, as well as intra-fund advice on a limited range of topics). Our team met with both members and employers to answer their questions and provide information and support to increase their understanding of super and also facilitate workplace seminars and one-on-one consultations. This information and support provides real value to members to make good decisions regarding their superannuation accumulation and management.

Meetings with members were facilitated in a face-to-face setting, or remotely online.

- 3,377 meeting meetings were facilitated for the year;
- 15,882 emails to members;
- 4,348 phone calls with members.

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

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

Information, tools & other support

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

Retirement income products

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

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

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

legalsuper members receive age-based retirement-related guidance to help them prepare for retirement. This includes emails, seminars, webinars, education material, Member Service Manager phone support and online tools and calculators. Over the past 12 months legalsuper has increased the quantity and quality of these assistance tools in recognition of the growing need by members for help in achieving a dignified retirement.

Management has conducted analysis on members' projected retirement income relative to the ASFA comfortable standard. The results of this analysis show that approximately only 20% of members will reach the ASFA standard at retirement. Management notes that this low percentage is affected by the inclusion of all members with an accumulation account, therefore a significant percentage of members are projected to not achieve a comfortable retirement balance because of a range of factors including:

- SG contributions being made elsewhere;
- Inactive members;
- Zero balance members who have not yet closed;
- Insurance only type members (that have made partial rollouts to SMSFs but retained their insurance).

Research & insights

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

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

Investment Strategy

Investment strategy

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

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

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

Environmental, social & governance

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

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

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

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

Insurance Strategy

Insurance is not available for members in Pension account.

Other relevant matters

Sustainability outcomes

For the year to 30 June 2023, SuperRatings Member Outcomes data shows that growth in the number of legalsuper members of -0.5% was slightly below the universe median of 0.72% but above the bottom quartile of -3.06%. legalsuper's market share has increased in this time by 0.25%, above the SuperRatings median of -3.01%.

Scale

legalsuper has acquired scale through its partners

legalsuper has sufficient scale to negotiate competitive services and fee structures with large and specialist skilled and resourced outsourced providers including investment managers, fund administrator, custodian and insurer. Material outsourced providers are periodically subject to tender or reviewed to ensure services and fees are competitive. To the best of our knowledge, there have been no instances where members/beneficiaries have been disadvantaged by legalsuper's size and scale. legalsuper's cost per member has risen annually since 2018, as measured by SuperRatings in their Member Outcomes analysis dated 30 June 2023. This is in line with the All Fund median as costs per member have risen across the universe of funds.

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

At 30 June 2023 legalsuper managed \$5.46 billion on behalf of 41,566 members, with an average account balance of \$119,568, just below the SuperRatings Member Outcomes median.

As a smaller fund, with a market share ranking of 44 out of 77 funds measured by SuperRatings as at 30 June 2023, legalsuper can be nimble in identifying and securing investment opportunities that are less accessible to larger funds and make a material contribution to overall performance. legalsuper makes investment decisions more efficiently and quickly and takes decisive and timely action to add or remove investments from the portfolio.

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

Operating costs

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

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

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

Rigorous operating cost management

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

The Fund's operating cost increased for the 12 months to 30 June 2023, due to a number of one-off expenses aimed at improving the Fund's robust

governance model. Although the cost per member has risen and is higher than the All Fund Median as measured by SuperRatings, we pride ourselves on providing a higher level of personalised service to members, as evidenced by us having a greater number of Member Service Managers per member than our peers and giving more seminars per member than other funds.

The Fund has set the operating cost budget so as to maintain unchanged administration fee rates. Investment fees are the subject of ongoing review and negotiation, especially at times when new investment managers are being appointed. In the 2022/23 financial year, investment fees remained largely unchanged.

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

- 🌐 legalsuper.com.au
- ☎ 1800 060 312
- ✉ Locked Bag 5081
Parramatta NSW 2124



Dated: 15 February 2024

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

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

Legal Super Pty Ltd ABN 37 004 455 789 AFSL 246315 as Trustee for legalsuper ABN 60 346 078 879.