



MINUTES OF MEMBERS' MEETING
LOCAL GOVERNMENT SUPER

**Held at The Lyceum Room, Wesley Conference Centre, 220 Pitt Street, Sydney and
via Webinar on 4 March 2020 at 5.30 pm**

LGS DIRECTORS

Kyle Loades, Chair and Independent Director
Craig Peate, Deputy Chair and Member Nominated Director
Bruce Miller, Deputy Chair and Employer Nominated Director
Claudia Bels, Independent Director
Gordon Brock, Member Nominated Director
Domenico Figliomeni, Employer Nominated Director
Karen McKeown, Employer Nominated Director
Greg McLean, Member Nominated Director
Sandi Orleow, Independent Director

IN ATTENDANCE

Phil Stockwell, Chief Executive Officer
Donna Heffernan, Deputy Chief Executive Officer & Company Secretary
Craig Turnbull, Chief Investment Officer
Brett Dolling, Chief Experience Officer
Andrew Gledhill, Chief Risk Officer
Michelle Hopwood, Chief Marketing Officer
Daniel Musson, Chief of People and Transformation Officer
Moya Yip, Head of Responsible Investment
Peter Judge, Client Relationship Manager
Lisa Judge, Financial Planner
Ian Ornelas, Financial Planner
Matthew Hoang, Financial Planner

Rita Da Silva, Auditor, Ernst & Young
Richard Boyfield, Fund Actuary, Mercer

AGENDA

1. Welcome to the meeting
2. Welcome from the Board Chair
3. Update on our super fund
4. Our responsible investment strategy
5. Update on our investments
6. Question & answer panel

The Annual Members' Meeting commenced at 5.30 pm Australian Eastern Standard Time.

An introductory video was shown of LGS' key achievements and interviews with LGS staff.

Item 1 Welcome to the meeting

Ms Judge welcomed Members to Local Government Super's (LGS) Annual Members' Meeting (AMM) and acknowledged the Gadigal people of the Eora Nation as the Traditional Custodians of the land and paid respects to Elders past, present and emerging.

Ms Judge highlighted upcoming dates for the LGS Member Information Forums and that financial information on the LGS Superannuation Fund (the Fund) for the 2019 financial year was available in the Annual Report on LGS' website.

Ms Judge provided an overview of the Agenda for the AMM and introduced the Chair.

Item 2 Welcome from the Chair

The Chair welcomed Members to the AMM and provided an overview of his experience in member-based organisations.

The Chair introduced the current LGS Directors and provided an overview of the superannuation landscape in Australia, including trends. Key points included:

- The increasingly competitive landscape with the rise of mega funds as well as new fintech super funds.
- LGS being well positioned to grow and deliver additional services and benefits to Members in the future.
- The role of the Board is to represent Members, work in Members' best interests and to govern in line with regulatory requirements.

The Chair introduced the Chief Executive Officer (CEO).

Item 3 Update on our super fund

The CEO welcomed Members to the AMM including those attending via webinar.

The CEO provided an update on the Fund including its achievements and activities over the 2019 Financial Year. Key points included:

- The challenges faced by Members and Employers during the 2019 Financial Year, including the extended drought, flooding, and more recently bush fires, and took the opportunity to thank all those directly involved for their efforts in the affected communities.
- Highlighting the Fund's 5-star rating with Heron Partnership in 2020.
- LGS was awarded a carbon neutral certification by the Australian Government for the Fund's direct property portfolio and was the first property portfolio to receive this certification.
- LGS was identified as being in the top 10% of firms that are called asset owners by the United Nations Principles for Responsible Investment (UN PRI), putting LGS in the UN PRI leaders' group.

- The Fund has had steady growth since the GFC in 2007, and this was attributed to strong market returns combined with Member and Employer contributions.
- The Fund had reached a milestone in July 2019 with more than \$12 billion in funds under management.
- Members consolidated their superannuation into LGS in 2019 which contributed to over \$76 million in new assets.
- Strong investment performance and employer contributions helped to return the Defined Benefit Scheme to a sound financial position in December 2019.
- COVID-19 had recently caused volatility in the financial markets, and that the Chief Investment Officer would provide an update later in the AMM.
- The LGS Team were preparing for any business disruption COVID-19 may cause.
- Over 5000 Members attended information forums held by Client Relationship Managers and over 4000 face to face discussions were held.
- The Dedicated Member Services Team took over 60,000 phone calls from Members and their advisors and conducted over 4000 live chats.
- LGS' Team of Financial Planners had over 6,700 meetings with Members.
- The LGS mobile application was launched during the 2019 Financial Year.
- Member feedback indicated that LGS' focus on personal and local service was highly valued.
- Whilst the Hayne Royal Commission had had a substantial impact on the financial services industry, outcomes were viewed as positive for Members and that regulatory change would continue.
- The LGS Team remained committed to delivering high value outcomes for all Members, achieving investment targets, delivering high levels of service, and to do so at a fee that is at a reasonable level, whilst continuing to look after communities and the environment.

The CEO thanked Members for their ongoing support and invited the Head of Responsible Investment to address the AMM.

Item 4 Our responsible investment strategy

The Head of Responsible Investment spoke to LGS' responsible investment approach. Key points included:

- LGS' Environmental, Social and Governance (ESG) risk framework is used to invest Members' money to deliver the best possible returns.
- Responsible investment strategies are employed across the whole Fund and in every asset class.
- LGS' approach to responsible investment is comprised of ESG integration (positive screening, negative screening and investment practices) and active ownership (company engagement, voting, transparency and collaborating with industry bodies).
- LGS employs a range of negative screens that limit exposure to high risk industries.
- LGS seeks out investments that have a positive impact.
- LGS regularly monitors ESG risks and measures carbon emissions.
- In 2019 LGS voted at 100% of meetings, voted on over 8000 resolutions, and in 900 cases, voted against certain resolutions such as executive remuneration, lack of diversity on boards, human or social issues and board independence.
- LGS addresses climate risk by utilising negative screening and by making positive investments in innovative renewable energy, recycling and sustainable agriculture.

- In 2019 the Responsible Investment Association Australasia (RIAA) named LGS in the top 14 funds for responsible investment.

The Head of Responsible Investment invited the Chief Investment Officer to address the AMM.

Item 5 Update on our investments

The Chief Investment Officer provided an update on the Fund's performance. Key points included:

- Accumulation Scheme Member option returns were strong for the 12-month period to January 2020. However, when the market turned down in February 2020 due to COVID-19, the High Growth and Conservative options declined.
- All options except Managed Cash exceeded their performance objectives as at January 2020.
- The US and China trade war in 2019 negatively impacted global growth but fortunately the two countries agreed a truce in January 2020. However, news of COVID-19 disturbed financial markets again in February.
- COVID-19 has taken the lives of many people and the toll is rising daily. COVID-19 has led to travel restrictions, factory closures and has hurt economic growth globally.
- Interest rates continued to drop during the 2019 Financial Year.
- Australian shares performed strongly particularly in the first half of 2019.
- Within the Australian share portfolio LGS invests in ResMed, a global leader in breathing devices and is performing well with global sales of more than \$1 billion and profits up 21%. LGS also invests in Cleanaway, a waste collection company that works for over 100 councils around Australia, and it was noted that not only had it been a good investment for Members but it's practices also helped the environment.
- Returns were up 29% for the US market in 2019 but suffered a downturn in the last few weeks due to COVID-19.
- By employing active managers, the performance of all LGS investment options had improved.
- COVID-19 will reduce growth in 2020, has already disrupted economic activity and will continue to do so for some time. Once COVID-19 is under control, good recovery in the economy is expected in the second half of the year.

Item 6 Question & answer (Q&A) panel

Ms Judge invited questions from the floor and those participating by webinar.

Ms Judge noted that several questions had been received prior to the AMM relating to Members' personal circumstances and advised Members how to contact LGS staff following the closure of the AMM.

Ms Judge commenced the Q&A session by addressing a pre-submitted question.

Question 1

What are the current major commitments or guidelines followed by LGS regarding fossil fuel investments and carbon emissions?

Response from Head of Responsible Investments

LGS employs negative screens, has a restrictions list and conducts revenue screens with respect to companies involved in, for example, tobacco, controversial weapons, gambling and coal. LGS also seeks out investment opportunities that have a positive impact and has over \$1 billion of positively themed assets.

Ms Judge invited questions from the floor.

Question 2

With respect to the Defined Benefits Scheme, and considering recent hardships for local councils and their communities, including drought and bush fires, what is the rationale for continued employer contributions?

Response from CEO

The CEO acknowledged the amazing work done by local councils and their communities to manage and support those impacted by the recent extreme weather events.

The Retirement Scheme holds the retirement savings of over 8000 Members and was closed to new Members in the 1990s.

The role of LGS as a Trustee of defined benefits schemes is to ensure that:

- the retirement savings of all Members within the defined benefits schemes can be met as and when required; and
- the defined benefits schemes are maintained in a sound financial position as required by APRA.

LGS assesses the defined benefits schemes annually to ensure its sound financial position, including seeking the advice of an independent actuary to determine the level of funding required.

Question 3

What is LGS' strategy to engage younger Members and how will the engagement of younger Members impact the future growth of LGS?

Response from CEO

LGS having a social media presence is essential for the engagement of younger Members and continuing to build LGS' brand. LGS currently uses social media platforms like Twitter, Facebook and LinkedIn.

The Engagement of younger Members (particularly those Members in the 20-30 age demographic) and providing education on the importance of superannuation contributions is a key focus for LGS and forms part of the Board's strategic plan.

Question 4

By LGS making investment decisions based on ESG principles, will investment returns continue to be good for Members over the next 5 years?

Response from Chief Investment Officer

In terms of selecting managers and investment strategies for Member portfolios, LGS looks for all strategies to be good, long-term investments, that can outperform in the

long-term. From time to time markets change, and in consultation with JANA, one of Australia's leading asset consultants, recommendations are made to LGS' Board Investment Committee to consider and approve new strategies.

Question 5

What is the likelihood of a super fund the size of LGS being forced to join another super fund and what would be the impact on insurance and returns?

Response from the Chair

It is expected that there will be a reduction in the number of super funds in the future and some consolidation. LGS is looking to build on its current strengths and its history to ensure LGS is well positioned for the future.

The Chair highlighted the importance of competition remaining in the market, and that as this stage no one can really say what the optimum size for a super fund will be.

There are a range of dynamics that need to be considered prior to partnering with another super fund. There is a good possibility that LGS would partner with another super fund in the future, however, LGS is a long way away from that scenario at present, but if we proceed, it would be well planned so that the optimum result is achieved for both current and future Members.

Question 6

Will LGS provide its Members with a balanced index fund investment option?

Response from Chief Investment Officer

The introduction of a balanced index fund investment option has been considered by the Board Investment Committee and determined that the best results for Members can be achieved with LGS' standard funds. An index fund concentrates on investments in the public markets and loses the opportunity to diversify and will accordingly decline considerably if markets take a sudden downturn. However, LGS is keen to receive feedback from Members and if enough Members were interested in this type of fund, the Board would consider it.

Comment from audience in relation to Question 2

A Member of the audience commented in respect to question 2, and provided his view that the responsibilities of LGS as trustee for the defined benefits funds versus what it is not responsible for, and was of the view that Local Government should be appropriately funded by State and Federal Government to support affected communities and their local councils.

Response from the Chair

The Chair acknowledged that it is a complicated issue, that LGS will focus on continuing to grow and strengthen the Fund, and noted that there will be a point in time that employer contribution requirements will change for the Defined Benefits Scheme, but in the meantime LGS will continue to manage the interests of all Members.

Question 7

Panic buying has been increasingly reported in the media, do I need to go out tomorrow and buy 7 dozen toilet rolls?

Response from Chief Investment Officer

It is important to be sensible in terms of public meetings, hygiene and travel plans generally.

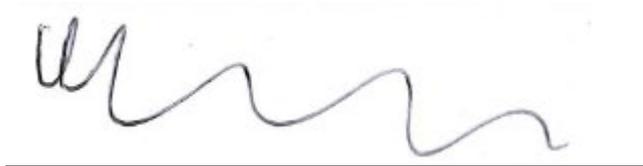
Ms Judge reiterated that several questions had been received that were personal in nature, and as such, were not appropriate to address in this forum, and that LGS would be reaching out to each of those Members individually.

Meeting Close

Ms Judge thanked Members and advised that LGS staff would be available to answer Member specific questions following the conclusion of the AMM.

The AMM concluded at 6.50 pm Australian Eastern Standard Time.

Chair Signature

A handwritten signature in black ink, appearing to read 'Kyle Loades', written over a horizontal line.

Name:

Kyle Loades