

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS  
SUPERANNUATION SECTOR**

<b>First State Super</b>	
<b>FSS96QW:</b>	<p>Since 1 January 2020, for each fund, please outline:</p> <ol style="list-style-type: none"><li>a. The date and value at the highest valuation of the fund?</li><li>b. The date and value at the lowest valuation of the fund?</li><li>c. The number of business days between the highest and lowest valuation for the fund?</li><li>d. The nominal value between the highest and lowest valuation for the fund?</li><li>e. The percentage value between the highest and lowest valuation for the fund?</li><li>f. The number of business days between the date of the ASX's lowest valuation, and the lowest day for the valuation of the fund?</li><li>g. The number of business days between the date of the ASX's lowest valuation, and the lowest valuation of unlisted assets in the fund?</li><li>h. What volume of switching of investments occurred between funds between the highest and lowest valuations?</li><li>i. What volume of switching between funds occurred in that time by trustees of the fund that are also members of the fund, between the highest and lowest valuations?</li><li>j. What volume of switching between funds occurred in that time by executives of the fund that are also members of the fund, between the highest and lowest valuations?</li><li>k. What volume of switching between funds occurred in that time by other employees of the fund that are also members of the fund, between the highest and lowest valuations?</li><li>l. What integrity measures were taken to prohibit trustees, executives and employees switching between funds from taking advantage of arbitrage of any gap between the lowest valuation date of the ASX and any revaluation of the fund?</li></ol>
<b>Answer:</b>	<p>a to c. See table below. For these responses, we have:</p> <ul style="list-style-type: none"><li>• Interpreted "fund" to mean "investment option";</li><li>• Used the unit price to determine the "value" of the relevant investment option;</li><li>• Used the period 1 January to 30 June 2020. Note that the cash options are invested in interest-bearing securities that modestly accrete every day so their highest valuation was at 30 June.</li><li>• Displayed the First State Super accumulation options which are broadly representative of the overall fund.</li></ul>

Investment option	a. Date of highest valuation	a. Unit price	b. Date of lowest valuation	b. Unit price	c. Bus days
Australian Equities	20/Feb/20	2.637368	23/Mar/20	1.79131	23
Aust Eq Socially Responsible	20/Feb/20	2.527534	23/Mar/20	1.74668	23
Australian Fixed Interest	9/Mar/20	2.013163	19/Mar/20	1.94469	9
Balanced Growth	20/Feb/20	6.203314	23/Mar/20	5.47967	23
Cash	30/Jun/20	3.057069	2/Jan/20	3.04148	n/a
Conservative Growth	20/Feb/20	5.277718	19/Mar/20	5.01201	21
Diversified Socially Responsible	20/Feb/20	1.987907	23/Mar/20	1.67593	23
Growth	20/Feb/20	8.564170	23/Mar/20	7.22991	23
High Growth	20/Feb/20	7.756269	23/Mar/20	6.24254	23
International Equities	20/Feb/20	2.382002	16/Mar/20	1.86263	18
International Fixed Interest	9/Mar/20	1.959691	19/Mar/20	1.85525	9
Property	21/Feb/20	2.220206	23/Mar/20	1.54662	22

d. Changes in the nominal value reflect market movements as well as member contributions, withdrawals and switches. For First State Super, the change in the nominal value of the fund between 20 February 2020 (the highest valuation point) and 23 March 2020 (the lowest valuation point) was a decrease of \$14.2bn.

e. -14% for the entire fund.

f. 0 business days.

g. 19 business days.

h. See table below.

Investment option	Total switches out (no.)	Total switches out (\$)	Total switches in (no.)	Total switches in (\$)
Australian Equities	1,006	-86,934,182	1,282	63,840,278
Aust Eq Socially Responsible	456	-35,845,781	582	20,186,406
Australian Fixed Interest	960	-111,921,977	1,836	226,522,690
Balanced Growth	4,943	-1,016,507,473	6,711	476,543,633
Cash	872	-166,107,862	9,901	1,958,001,121
Conservative Growth	2,368	-451,041,322	5,020	693,542,046
Diversified Socially Responsible	751	-85,948,228	1,133	46,025,286
Growth	9,073	-1,291,955,127	8,518	163,806,515
High Growth	3,266	-462,520,564	3,770	112,960,651
International Equities	1,174	-121,265,505	1,241	52,092,471
International Fixed Interest	460	-47,523,953	958	80,330,102
Property	1,019	-102,187,439	1,630	85,908,214

i. See table below.

Investment option	Director switches out (no.)	Director switches out (\$)	Director switches in (no.)	Director switches in (\$)
Australian Equities	1	-13,113	1	2,920
Aust Eq Socially Responsible				
Australian Fixed Interest			1	11,297
Balanced Growth	1	-12,579	1	988
Cash			1	33,890
Conservative Growth				
Diversified Socially Responsible				
Growth	1	-12,929	1	1,374
High Growth				

International Equities	1	-13,518	1	1,669
International Fixed Interest				
Property				

j. No executives switched during the relevant time frame.

k. See table below.

Investment option	Staff switches out (no.)	Staff switches out (\$)	Staff switches in (no.)	Staff switches in (\$)
Australian Equities	5	-64,375	16	386,737
Aust Eq Socially Responsible	1	-2,354	3	5,741
Australian Fixed Interest	8	-64,638	8	82,969
Balanced Growth	9	-2,245,370	12	592,032
Cash	14	-250,800	27	4,454,893
Conservative Growth	2	-117,025	8	601,332
Diversified Socially Responsible	3	-1,162	3	58
Growth	21	-2,711,654	23	467,166
High Growth	28	-1,726,086	26	352,414
International Equities	9	-56,503	15	395,829
International Fixed Interest	9	-56,763	7	73,908
Property	6	-265,016	14	148,668

- i. For exchange traded instruments that have an observable/quoted market price and are traded on a regulated exchange at the close of business each day in the relevant marketplace, the Custodian receives daily exchange-traded security prices from independent data vendors (e.g. IDC, Bloomberg and Reuters) and values each security according to their security pricing policy.

When a member submits an investment switch request, we apply the unit price for the day the request is received, as long it's before 4 pm (AEST/AEDT) on a business day. This means there is no potential for arbitrage because the cut-off for submitting investment switches corresponds with the ASX market close.

There are a number of additional controls in place:

- The Insider Trading Policy prohibits directors, officers and employees from placing personal trades while in possession of market sensitive or inside information. Breaches of the Insider Trading Policy are managed by the Risk and Compliance team in conjunction with Human Resources. Employees, officers and directors whose role means they have or could have access to material non-public information are considered Identified Persons for the purposes of the Insider Trading Policy. Identified Persons have additional obligations related to Insider Trading. There are a number of information protocols in place to limit the flow of material non-public information to only those that strictly need to know.
- There is an automated process for Identified Persons to obtain pre-trade approval prior to entering personal account trades for ASX Listed Stocks. The approval process for all other relevant personal account trades involves a review by Risk and Compliance of the proposed trade against the restricted securities lists.

	<ul style="list-style-type: none"><li>• In addition, there are controls notifying Identified Persons that they are in possession of material non-public information that may affect the unit price of a First State Super investment option and requiring that all Identified Persons seek pre-trade approval before making investment switches.</li><li>• The Risk and Compliance team also review employee investment switches in First State Super products on a regular basis, and will log any issue as an Incident and review accordingly.</li></ul>
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<b>First State Super</b>	
<b>FSS97QW:</b>	<p>On financial advisers providing non-intrafund advice (i.e. comprehensive advice - beyond the scope of intrafund advice) within the fund over the past five financial years:</p> <ol style="list-style-type: none"><li>a. How many do you employ (or are you paying for through outsourced arrangements)?</li><li>b. What is the revenue generated from these non-intrafund advisers?</li><li>c. How many financial advisers within the fund also provide intrafund advice?</li><li>d. If you have non-intrafund financial advisers within the fund also providing intrafund advice, how is their remuneration determined from different sources?</li><li>e. Is there any cross-subsidisation for non-intrafund financial advisers within the fund from activities funded through intrafund advice?</li><li>f. Is there any cross-subsidisation for financial advisers from intrafund advice to non-intrafund financial advisers within the fund?</li><li>g. What is the total budgeted cost and actuals for financial advisers?</li><li>h. What is the remuneration level/range for the financial advisers employed to provide non-intrafund advice to your members?<ol style="list-style-type: none"><li>i. What is the aggregated cost of their remuneration?</li><li>ii. What is the aggregated cost for their employment?</li><li>iii. What is the aggregated cost for their on-costs, including but not limited to, superannuation, leave, training support and office space?</li><li>iv. What is the aggregated cost for marketing their services?</li><li>v. What is the aggregated cost for administrative support services?</li><li>vi. What is the aggregated cost for professional insurance and indemnity?</li><li>vii. What is the aggregated cost for compliance oversight?</li><li>viii. What is the aggregated cost for legal oversight?</li><li>ix. What is the aggregated cost for other regulatory oversight?</li><li>x. What is the aggregated cost for the unit, including overheads, that provides financial advice within the fund?</li></ol></li></ol>
<b>Answer:</b>	<p>Over the last five financial years, there have been several changes to the First State Super advice model, reflecting changes in the broader advice industry, improvements to the offer to members, the integration of the StatePlus financial planning business and other organisational restructures designed to improve efficiency and productivity.</p>

From FY16 to FY19, the StatePlus business was run as an integrated advice, superannuation and investment operation and accounted for as a single entity. While the direct costs of advisers were known, specific accounting was not produced for each line of business, particularly as it related to support units such as marketing, legal, compliance and regulatory oversight, amongst others.

During the last five financial years, all advisers providing comprehensive and/or intrafund advice operated under the various entities holding the requisite Australian Financial Services License.

	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>
No of Advisers <sup>1</sup>	184	208	214	217	190
Total Employment cost <sup>2</sup>	\$28m	\$29m	\$31m	\$28m	\$26m
Total Revenue	\$112m	\$117m	\$122m	\$113m	\$104m

<sup>1</sup> During this period, advisers could provide both intrafund and comprehensive advice. The specific intrafund team comprised between 10-14 people.

<sup>2</sup> Employment cost includes base, bonus, super, payroll tax, workers comp etc.

Advisers are salaried with their remuneration benchmarked to market data. The remuneration (i.e. base salary and super) ranges were as follows:

	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>
Low	\$78k	\$75k	\$78k	\$75k	\$100k
High	\$153k	\$152k	\$153k	\$153k	\$160k

The direct costs of providing comprehensive advice are paid by the member receiving the comprehensive advice.

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<b>FSS98QW:</b>	<p>On financial advisers providing intrafund advice (i.e. strictly limited to advice on your super fund for the member only - not spouse) within your fund over the last five financial years:</p> <ol style="list-style-type: none"> <li>a. How many do you employ (or are you paying for through outsourced arrangements)?</li> <li>b. What is the remuneration level/range for the financial advisers employed to provide intrafund advice to your members?             <ol style="list-style-type: none"> <li>i. What is the aggregated cost of their remuneration?</li> <li>ii. What is the aggregated cost for their employment?</li> <li>iii. What is the aggregated cost for their on-costs, including but not limited to, superannuation, leave, training support and office space?</li> <li>iv. What is the aggregated cost for marketing their services?</li> <li>v. What is the aggregated cost for administrative support services?</li> <li>vi. What is the aggregated cost for professional insurance and indemnity?</li> <li>vii. What is the aggregated cost for compliance oversight?</li> <li>viii. What is the aggregated cost for legal oversight?</li> <li>ix. What is the aggregated cost for other regulatory oversight?</li> <li>x. What is the aggregated cost for the unit, including overheads, that provides intrafund advice?</li> </ol> </li> <li>c. What is the revenue that intrafund advisers have generated?</li> <li>d. How many financial advisers providing intrafund advice also provide it within the fund?</li> <li>e. If you have financial advisers providing intrafund advice also providing it within the fund, how is their remuneration determined from different sources?</li> <li>f. Is there any cross-subsidisation for financial advisers providing intrafund advice from revenue funded through activities within the fund?</li> <li>g. What is the total budgeted cost and actuals for the intrafund advice unit?</li> <li>h. What is the revenue generated from these financial advisers?</li> <li>i. Within your fund, is there any cross-subsidisation for intrafund advice services?</li> </ol>
<b>Answer:</b>	<p>See FSS97QW.</p> <p>There is no specific revenue attributable to the provision of intrafund advice. Intrafund advice is one of many services that the trustee makes available to all of its members, as explicitly contemplated by the 2012 Stronger Super</p>

reforms and reflected in S 99F of the SIS Act. The cost of providing this service is covered by the administration fee charged to members.

The trustee pays an amount to the AFSL holder for the direct costs of providing intrafund advice, as shown below.

<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>
\$3.2m	\$2.6m	\$2.0m	\$1.9m	\$2.5m



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<b>First State Super</b>	
<b>FSS99QW:</b>	Do you allow members to use their funds to pay for: a. Financial advice? b. Internal financial advisers? c. External financial advisers?
<b>Answer:</b>	a. Yes, as far as it pertains to their superannuation interest.  b. Yes, as above.  c. No.

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<b>First State Super</b>	
<b>FSS100QW:</b>	Do you allow external financial advisers access to online facilities to charge for external financial advisers consented by members using their funds?
<b>Answer:</b>	No.