

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

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

Equity Trustees (for Zurich Master Superannuation Fund)

ET02QON: **CHAIR:** Thank you very much, Mr O'Brien. As the trustee of Zurich Master Superannuation Fund – firstly, can I clarify: what other funds are you the trustee of?

Mr O'Brien: I might let Mark cover that.

Mr Blair: We are the trustee of, I think, 14 funds. I could list them if that would be helpful, or I can give you a flavour of them. Would you like me to list them?

CHAIR: Give me a flavour. If we could take them on notice, that would be good.

Answer: **ETSL is the Trustee for the following funds:**

AMG Super Fund
AMP Eligible Rollover Fund
Aon Master Trust
Aracon Superannuation Fund
Centric Super Fund
Crescent Wealth Superannuation Fund
CUBS Superannuation Fund
L&H Group Superannuation Fund
Meyer Family Superannuation Fund
National Mutual Pro Super Fund
National Mutual Retirement Fund
Super Retirement Fund
SuperTrace Eligible Rollover Fund
University of New South Wales Professorial Superannuation Fund
Zurich Master Superannuation Fund

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ET03QON: Dr **MULINO:** Thanks, Chair. Thanks for coming to give evidence today. I had a few questions specifically on Zurich, just to narrow it down a bit, but I understand your role is broader. My understanding is that Zurich offers a range of products – no MySuper products but there are a range of products, one of which is called a balanced option –

Mr O'Brien: Yes, that's correct.

Dr **MULINO:** Would you be able to provide some summary information on one-year returns and, say, six-year returns on that balanced option?

Mr Blair: Yes, I would be happy to do that. I don't have that to hand. May I come back with that information?

Dr **MULINO:** Yes. Are you aware of where your balanced option sits relative to peers?

Mr Blair: Yes, we are. In fact, that was disclosed in the member outcomes assessments that we spoke about earlier. We are broadly aware of where all of the options lie against the market and compared to –

Dr **MULINO:** Where does the balance sit?

Mr Blair: It sits below medium.

Dr **MULINO:** Can you give me a percentile?

Mr Blair: No, I can't. I would have to [inaudible].

Dr **MULINO:** [inaudible] would be great, thanks. Of the 16 how many are above median and how many are below?

Mr Blair: Again, I'm sorry but I don't have the granularity to hand. If I could make a general comment, the member outcomes assessments, which are publicly available – I have got that to hand – list five options that are below the median and it also comments on the action. As a trustee, what we need to do when that happens, which will happen from time to time, is exercise our oversight responsibilities. If what we are doing right now is of interest, we have an independent asset consultant reviewing all of the options and they're about to report to the full trustee board on that matter.

Dr **MULINO:** It'd be great to get all of that on notice. I know some of it's on the public record, but could you consolidate it.

Mr Blair: Yes.

Answer: The Zurich Superannuation Plan offers a choice of investment options ranging from the more conservative cash option through to Australian and international share options, and a collection of other options in between. The product is flexible because of the wide scope investors have with regard to the level of contribution, the type of contribution, insurance options and investment choices.

Net investment performance of the Fund investment options is based on the entry fee option selected by the investor and the historical performance of all investment options to 31 May 2021 are detailed in the 2 tables below:

Performance - Entry Fee Options¹

As at 31 May 2021	Inception date	1 Month %	3 Months %	1 Year %	3 Years %pa	5 Years %pa	10 Years %pa	Since Inception %pa
Zurich Cash	6 Feb 1998	-0.1	-0.2	-0.9	-0.2	0.0	0.6	2.0
Zurich Fixed Interest	28 Feb 2000	0.1	1.0	-0.9	2.3	1.6	2.8	3.2
Zurich Capital Stable	6 Feb 1998	0.5	2.0	5.4	2.9	3.0	4.0	4.1
Zurich Balanced	28 Feb 2000	0.9	4.0	11.0	4.8	4.8	5.5	4.7
Zurich Managed Growth	6 Feb 1998	1.2	5.7	16.4	6.4	6.5	6.8	5.6
Zurich Australian Property Securities	28 Feb 2000	1.5	8.5	21.0	3.5	3.7	8.9	5.5
Zurich Global Property Securities	19 Nov 2007	1.9	11.1	23.2	2.9	2.5	5.0	1.9
Zurich Priority Growth	1 Oct 1999	1.5	6.9	19.8	7.2	7.6	7.7	5.9
Zurich Australian Value Share	28 Feb 2000	2.3	7.9	27.4	3.1	4.8	5.1	5.9
Zurich Managed Share	6 Feb 1998	1.8	7.1	23.7	9.7	9.4	8.4	6.7
Zurich Global Thematic Share	6 Feb 1998	1.4	7.8	18.9	13.0	11.2	10.4	5.1
Zurich Global Growth Share	3 Mar 2014	1.0	6.9	18.7	13.7	12.5	N/A	11.6
Colonial First State Australian Share	6 Feb 1998	-2.9	4.4	27.8	13.6	11.0	9.6	7.9

Performance - Nil Entry Fee Options¹

As at 31 May 2021	Inception date	1 Month %	3 Months %	1 Year %	3 Years %pa	5 Years %pa	10 Years %pa	Since Inception %pa
Zurich Cash	7 Nov 2000	-0.1	-0.2	-1.2	-0.7	-0.6	0.0	1.4
Zurich Australian Fixed Interest	7 Nov 2000	0.1	1.0	-1.1	1.8	1.0	2.3	2.5
Zurich Capital Stable	7 Nov 2000	0.5	2.0	5.0	2.4	2.4	3.4	3.4
Zurich Balanced	7 Nov 2000	0.9	4.0	10.7	4.3	4.2	4.9	3.9
Zurich Managed Growth	7 Nov 2000	1.2	5.7	16.1	5.9	6.0	6.2	4.4
Zurich Australian Property Securities	7 Nov 2000	1.5	8.5	20.7	3.0	3.2	8.3	4.7
Zurich Global Property Securities	19 Nov 2007	1.9	11.1	22.9	2.4	2.0	4.4	1.3
Zurich Priority Growth	7 Nov 2000	1.5	6.9	19.5	6.7	7.0	7.1	4.8
Zurich Australian Value Share	7 Nov 2000	2.3	7.9	27.1	2.6	4.2	4.5	5.0
Zurich Managed Share	7 Nov 2000	1.8	7.1	23.4	9.1	8.9	7.8	5.0
Zurich Global Thematic Share	7 Nov 2000	1.4	7.8	18.6	12.5	10.6	9.8	3.1
Zurich Global Growth Share	3 Mar 2014	1.0	6.9	18.4	13.2	11.9	N/A	11.0
Colonial First State Australian Share	7 Nov 2000	-2.9	4.4	27.4	13.0	10.4	9.0	6.8

When reporting the performance of the Zurich Superannuation Plan, the Nil Entry Fee (NEF) option has historically been used, as it had previously been the option with the higher fee structure. NEF members had chosen to pay an upfront entry fee and instead had an incremental ongoing management fee of 60 bps. This additional incremental fee ceased from 1 December 2020 following the removal of grandfathered conflicted remuneration across all products.

Further performance details can be found at <https://www.zurich.com.au/content/dam/au-documents/personal/superannuation/performance/zurich-australia-zurich-superannuation-plan-performance.pdf>

For the Managed Growth investment option (the option which sits in the "Balanced" peer group, ie those with an exposure to growth assets of between 60-76%) the overwhelming majority of members have elected the Entry Fee Option.

For data on the comparative performance of the Zurich diversified options (Capital Stable, Balanced, Managed Growth and Priority Growth) against their respective Peer Groups please see our response to ET04QON.

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ET04QON: Dr **MULINO:** Obviously, with some of your products being below the benchmark, that's going to be setting off alarm bells. Now, that's going to happen sometimes; you can't have everybody above average, by definition. But obviously particular alarm bells will go off where certain products are significantly below the median and where that's sustained, so it would be good to get a sense of whether that's the case. Sorry – I should have clarified: when you're talking about performance, are you talking about net returns?

Mr Blair: Yes. Performance, as you allude to, is registered in a number of ways and probably the better way to look at it is using what has been asked to be used publicly, which is net of all fees – net of administration and investment fees. That's probably the best way to do it. In fact, that is what is used for the public disclosures.

Dr MULINO: It would be great to get that information.

Mr Blair: Yes.

Answer: To clarify our response, we note that performance against objectives and performance against comparable investment options in other super funds are 2 separate measures.

The table below provides a comparison of the latest performance data for each diversified investment option against both their respective investment objective (represented as a CPI+ target over a rolling period) and a representative peer group.

The data shows there has been consistent outperformance against each of the diversified options investment objectives over all time periods.

Based on the SuperRatings data, over the longer periods (5+years) the Zurich investment options are in the lower quartile of performing super funds compared to like peer groups.

More recent short-term performance shows an improvement against both peers and benchmarks. This improvement is partially a reflection of the reduction in administration fees due to the removal of grandfathered conflicted remuneration across all products effective at 1/12/20.

Growth					
	<i>1 year</i>	<i>3 years</i>	<i>5 years</i>	<i>7 years</i>	<i>10 years</i>
ZMSF Priority Growth	21.8	6.9	8.0	6.8	7.5
CPI + 3% over rolling 7 year period	7.0	4.7	4.9	4.7	4.9
Median Peer Group - Growth (77-90)	22.3	9.2	9.8	8.8	9.2

Balanced					
	<i>1 year</i>	<i>3 years</i>	<i>5 years</i>	<i>7 years</i>	<i>10 years</i>
ZMSF Managed Growth	18.0	6.1	6.7	5.8	6.5
CPI + 2.5% over rolling 5 year period	6.4	4.2	4.4	4.2	4.4
Median Peer Group - Balanced (60-76)	17.6	7.9	8.4	7.8	8.3

Moderate					
	<i>1 year</i>	<i>3 years</i>	<i>5 years</i>	<i>7 years</i>	<i>10 years</i>
ZMSF Balanced Option	11.8	4.4	4.7	4.3	5.1
CPI + 2% over rolling 4 year period	5.9	3.7	3.8	3.7	3.9
Median Peer Group - Conservative Balanced (41-59)	12.6	6.2	6.4	6.2	6.7

Conservative					
	<i>1 year</i>	<i>3 years</i>	<i>5 years</i>	<i>7 years</i>	<i>10 years</i>
ZMSF Capital Stable	5.6	2.4	2.7	2.7	3.5
CPI + 1% over rolling 3 year period	4.9	2.7	2.8	2.7	2.8
Median Peer Group - Capital Stable (20-40)	7.6	4.6	4.6	4.5	5.3

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ET05QON: Dr **MULINO:** A lot of other funds have been recording significant positive returns in the last 12 months, and, on average, over the last three years. This fund has been declining over the last three years. There was that one year, obviously, with fairly low returns, but, over the last three years, some funds have averaged over nine percent. There must be a component of investment returns; there must be a component of people voting with their feet in that?

Mr Blair: That's correct. I can't talk to the motivation of people, but the reason that the fund is declining is because of negative cash flow. There have not been new members coming in. So you're right – there have not been new members coming in, and so it is effectively closed, and of course people leave, retire, and so the negative cash flow is the primary issue, and we expect that to continue as well.

Dr MULINO: Yes. It would be useful if you could provide data on how much of that negative cash flow is from people retiring and how much is from people shifting to other funds. Again, this is just to look at Zurich as an example of a smaller fund, just to get a sense of some of the dynamics. I'd be interested in your observations on what some of the challenges are for a fund of that size. That must limit investment strategies.

Answer: In terms of negative cashflow derived from benefit payments, in 2021 (to current date) approximately 40% of the cashflow was payable as either partial or full redemptions, with the balance of 60% payable as rollovers to other Funds (including to SMSF's).

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ET06QON: Dr **MULINO:** You had a discussion with the chair about some of the fee structures. Sometimes these structures can get quite complex where you've got entities that might own a super fund, or sometimes it can have multiple layers of ownership. For me, ultimately it comes down to net returns for members over the long run. I guess I'm just interested: can you summarise what the flow of payments is up the chain to, say, the owners of Zurich through the various fees you are talking about? What does that constitute of the fees that are taken off investment returns?

Mr Blair: I'm not sure I fully understand the question. I can refer to the member outcomes assessments, which provide the overall fees, which is what we think is the relevant piece. If it's helpful, the total administration and investment fees – it varies a little bit between products, but it's in the order of 1.2 to 1.3 per cent.

Dr MULINO: I'm just trying to drill down into that. What are the components of that?

Mr Blair: There is an investment management fee which goes to third party investment managers –

Dr MULINO: And how much would that be, roughly, of the 1.2?

Mr Blair: I would have to take that on notice, but yes, something in that order. I would need to confirm that, but it would be something in that order.

.....

Dr MULINO: But it's ultimately important in terms of understanding what members are getting in net terms through different products. There's a big debate that goes on within the sector around the benefits of paying more fees for a more active value-added approach and whether that is value for money, and that obviously depends on context. Yes, it certainly would be useful to get a little bit more detail on that 1.2 or 1.3.

Answer: The Fee structure for the Fund disclosed in the PDS is set out in the table below. The example provided is based on the Managed Growth investment option.

There are 13 investment options and the Indirect Cost Ratio (Investment Management Costs) vary by option and are reviewed annually. The latest update to ICR's was at 30 /11 /20 and full details can be found at <https://www.zurich.com.au/personal/superannuation/product-disclosure-statements.html> under the "Updates" tab on the webpage.

	Zurich Superannuation Plan Managed Growth Option	Zurich Account-Based Pension Managed Growth Option																	
Type of fee	Amount	Amount	How and when paid																
Investment fee ⁷	Nil	Nil	Not applicable																
	There is no fee deducted directly from your account as an Investment fee. Fees relating to the investment may be charged indirectly as a deduction from investment returns and are reflected in the 'Indirect cost ratio' below.																		
Administration fee ¹ (Portfolio Management Charge)	<table border="1"> <thead> <tr> <th>Account Balance</th> <th>Portfolio Management Charge %pa[*]</th> </tr> </thead> <tbody> <tr> <td>Less than \$100,000</td> <td>1.00% (0.85%)[^]</td> </tr> <tr> <td>\$100,000 – \$249,999</td> <td>0.88% (0.75%)[^]</td> </tr> <tr> <td>\$250,000+</td> <td>0.59% (0.50%)[^]</td> </tr> </tbody> </table> <p>[*] Based on total account balance. Subject to a minimum charge of \$26.23 (\$22.30) per month.</p>	Account Balance	Portfolio Management Charge %pa [*]	Less than \$100,000	1.00% (0.85%) [^]	\$100,000 – \$249,999	0.88% (0.75%) [^]	\$250,000+	0.59% (0.50%) [^]	<table border="1"> <thead> <tr> <th>Adjusted Investment Amount #</th> <th>Portfolio Management Charge %pa[*]</th> </tr> </thead> <tbody> <tr> <td>\$20,000 – \$99,999</td> <td>0.95%</td> </tr> <tr> <td>\$100,000 – \$249,999</td> <td>0.85%</td> </tr> <tr> <td>\$250,000+</td> <td>0.60%</td> </tr> </tbody> </table> <p># The Adjusted investment amount is your initial investment less any amount withdrawn inclusive of withdrawal fees. Note that regular income payments are not considered as withdrawals.</p> <p>[*] Subject to a minimum charge of \$22.30 per month.</p>	Adjusted Investment Amount #	Portfolio Management Charge %pa [*]	\$20,000 – \$99,999	0.95%	\$100,000 – \$249,999	0.85%	\$250,000+	0.60%	This fee is charged as a percentage of your total account balance at the date of the fee deduction and is deducted by withdrawing units from your investment option(s) monthly (on the same day of the month as the commencement date of your plan) in proportion to the balances in your investment option(s).
Account Balance	Portfolio Management Charge %pa [*]																		
Less than \$100,000	1.00% (0.85%) [^]																		
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\$20,000 – \$99,999	0.95%																		
\$100,000 – \$249,999	0.85%																		
\$250,000+	0.60%																		
Buy-sell spread ³	Nil/Nil	Nil/Nil	A buy/sell spread is the difference between the buy unit price and the sell unit price of an investment option that applies when there is a contribution, withdrawal or switch. It is payable to meet transaction costs (eg brokerage, clearing costs and stamp duty on investment transactions).																
Switching fee	Nil	Nil	Not applicable																
Advice fees relating to all members investing in a particular investment option	Nil	Nil	Not applicable																
Other fees and costs ²	Refer to the 'Additional Explanation of Fees and Costs' in the " ZSP/ZABP Fee Guide and Additional Information " document located at www.zurich.com.au/ZSPandZABP for information on other fees and costs that may apply.																		
Indirect cost ratio ^{1#} (Investment Management Costs)	0.57% pa (0.48% pa) [^] (estimated)	0.48% pa (estimated)	These amounts are factored into the investment returns of the underlying assets. They are reflected in the daily unit price for each investment option.																

[^] This is the actual fee payable after the taxation deduction benefit has been applied that Zurich passes on to you in the form of a reduced fee.

Based on the above, an example of the fees payable by a member is as follows:

Example of annual fees and costs

These tables give an example of how fees and costs for the Zurich Managed Growth investment option for these products can affect your investment over a one year period. You should use these tables to compare these products with other superannuation products.

Example: ZSP Managed Growth Option – Balance of \$50,000		
Investment fees	Nil	For every \$50,000 you have in the ZSP Managed Growth option you will be charged \$0.00 each year
PLUS Administration fees	1.00% (0.85% pa)*	And for every \$50,000 you have in the ZSP Managed Growth option you will be charged \$500 (\$425*) each year
PLUS Indirect costs for the ZSP Managed Growth option	0.57% (0.48% pa)*	And , indirect costs of \$285 (\$240)* each year will be deducted from your investment
EQUALS Cost of product	If your balance was \$50,000, then for that year you will be charged fees of \$785* (actual net costs of \$665)* for the ZSP Managed Growth option.	

Note: *Additional fees may apply. And, if you leave the superannuation entity, you may be charged a buy/sell spread which also applies whenever you make a contribution, exit, rollover or investment switch. The buy/sell spread for exiting is 0% (this will equal to \$0 for every \$50,000 you withdraw).

Important: What it costs you will depend on the investment option you choose and the fees you negotiate with your financial adviser.

*Please note that for the purpose of this table we have shown both the management costs before the impact of the tax benefit that Zurich passes on to you in the form of a lower fee, and the actual maximum cost that you will be charged (ie the amounts shown in brackets).

The two key fees highlighted above (Administration and Indirect Costs) are paid to Zurich to provide all administration and investment services.

For Administration, Zurich are subsequently responsible for the payment of all 3rd party costs in regard to external services engaged to manage the Fund (ie Audit, Trustee, Regulatory Fees).

The Indirect Costs charged to members include all fees that are paid to Investment Managers. The Indirect Cost Ratio (ICR) for the Managed Growth investment option (which was reduced at 30/11/20 and varies from the data is the PDS shown above) is currently 0.43% pa, which consists of an investment charge of 0.36% which is paid to Zurich and underlying transaction costs of 0.07%.

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ET07QW: Please provide as separated data, what the base salary and bonuses were, or are set to be, paid in the 2019/2020 and 2020/21 financial year for your:

- a. Chief Executive Officer or equivalent?
- b. Chief Investment Officer or equivalent?

Answer: The Fund does not have these roles and the Trustee does not have these roles.

The Trustee relies on Equity Trustees Holdings Limited (EQTHL) for all executive resourcing. EQTHL is a plc and executive remuneration is fully disclosed in the Company Annual Report.

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ET08QW: Do you support superannuation funds delisting public companies?

Answer: ETSL has no official stance on superannuation funds delisting public companies, we expect all the investment managers that ETSL has a relationship with to make investment decisions on a risk/return basis.

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- ET09QW: Property investments
- a. Do you have any current investments in the National Housing Finance and Investment Corporation? If so, what is the size of your investments?
 - b. Please provide information on the rental income for any residential property investments held for each year for the last five financial years.

Answer: No

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ET10QW: What arrangements, including donations, commissions, marketing expenditure or partnerships, do you have that lead to payments to research organisations or 'think tanks'?
Please provide;
a. Names of the think tanks.
b. Payments made over the last five years.

Answer: The Trustee does not have any arrangements, donations, commissions, marketing expenditure or partnerships that have that lead to payments to research organisations or 'think tanks'.