

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

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

NULIS

NU134QW:

Since 1 January 2020, for each fund, please outline:

- a. The date and value at the highest valuation of the fund?
- b. The date and value at the lowest valuation of the fund?
- c. The number of business days between the highest and lowest valuation for the fund?
- d. The nominal value between the highest and lowest valuation for the fund?
- e. The percentage value between the highest and lowest valuation for the fund?
- 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?
- 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?
- h. What volume of switching of investments occurred between funds between the highest and lowest valuations?
- 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?
- 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?
- 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?
- 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?

Answer:

The information below is provided by NULIS Nominees (Australia) Limited (NULIS) as the Registrable Superannuation Entity (RSE) licensee for the MLC Super Fund (MSF), the MLC Superannuation Fund (MLCSF), the DPM Retirement Service (DPMRS), and the PremiumChoice Retirement Service (PCRS) (the last three funds referred to collectively as the MLC Wrap Funds).

- a. The date and value at the highest valuation of the fund.

	MSF	MLC Wrap Funds
Date	20-Feb-20	20-Feb-20
Fund Value	A\$83,337,833,228	A\$23,020,043,761

b. The date and value at the lowest valuation of the fund.

	MSF	MLC Wrap Funds
Date	23-Mar-20	24-Mar-20
Fund Value	A\$68,962,147,467	A\$18,401,530,287

c. The number of business days between the highest and lowest valuation for the fund.

	MSF	MLC Wrap Funds
Business days	21	22

d. The nominal value between the highest and lowest valuation for the fund?

	MSF	MLC Wrap Funds
Nominal value	A\$14,375,685,761	A\$4,618,513,474

e. The percentage value between the highest and lowest valuation for the fund.

	MSF	MLC Wrap Funds
% value	17%	20%

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.

	MSF	MLC Wrap Funds
Number of business days	0 days (same day)	1 day

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.

	MSF	MLC Wrap Funds
Number of business days	9	The members of the Wrap funds invest in a mix of MLC Wealth manufactured options and externally manufactured options, NULIS is unable to do a "look through" to the underlying composition and pricing frequency of those component parts, including unlisted assets, of the externally manufactured options in order to adequately respond to this question.

h. What volume of switching of investments occurred between funds between the highest and lowest valuations.

	MSF	MLC Wrap Funds
\$ value of net transactions per investment option	A\$2,163,908,253 - this is provided as an indicative \$ value, it is the absolute value of net transactions by investment option from 29th Feb to 31 March. This value increased significantly from Feb to March.	For Wrap funds all transactions for individual members go in and out of their cash account. It is difficult to separate switching from other transaction activity.

- 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.
- 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.
- 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.

For questions i., j. and K. there was no switching between the funds.

- 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.

For the MSF and the MLC Wrap Funds, there are a number of integrity measures that are designed to operate collectively to limit arbitrage opportunities for all members (including trustees, executives, and employees); these measures include fund unit pricing based on a 'forward pricing' policy and the need for member application and redemption instructions to be received prior to 3pm. Member instructions properly received by 3pm will receive the end of day price with the end of day price calculated the following morning and applied to member instructions received the previous day.

All employees must adhere to the Group's personal trading policy and code of conduct (which reflects NULIS' policy position).

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NULIS

NU135QW:

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:

- a. How many do you employ (or are you paying for through outsourced arrangements)?
- b. What is the revenue generated from these non-intrafund advisers?
- c. How many financial advisers within the fund also provide intrafund advice?
- d. If you have non-intrafund financial advisers within the fund also providing intrafund advice, how is their remuneration determined from different sources?
- e. Is there any cross-subsidisation for non-intrafund financial advisers within the fund from activities funded through intrafund advice?
- f. Is there any cross-subsidisation for financial advisers from intrafund advice to non-intrafund financial advisers within the fund?
- g. What is the total budgeted cost and actuals for financial advisers?
- h. What is the remuneration level/range for the financial advisers employed to provide non-intrafund advice to your members?
 - i. What is the aggregated cost of their remuneration?
 - ii. What is the aggregated cost for their employment?
 - iii. What is the aggregated cost for their on-costs, including but not limited to, superannuation, leave, training support and office space?
 - iv. What is the aggregated cost for marketing their services?
 - v. What is the aggregated cost for administrative support services?
 - vi. What is the aggregated cost for professional insurance and indemnity?
 - vii. What is the aggregated cost for compliance oversight?
 - viii. What is the aggregated cost for legal oversight?
 - ix. What is the aggregated cost for other regulatory oversight?
 - x. What is the aggregated cost for the unit, including overheads, that provides financial advice within the fund?

Answer:

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MSF & MLC Wrap Funds

Neither NULIS nor the funds employ financial advisers to provide non-intrafund advice, and NULIS consequently does not charge advice fees. All advice arrangements are conducted on the basis of the member's direct engagement with a financial adviser of their choice. NULIS deducts fees on behalf of members to allow them to pay for comprehensive advice provided by third party advice licensees, some of which are part of the NAB group and related parties to NULIS.

The facilitation of fee payment does not constitute NULIS providing advice or an outsourcing arrangement by NULIS, and the adviser's relevant Licensee is responsible for the conduct of the adviser and the costs associated with operating the licensee's business.

NULIS considers that members are best served accessing comprehensive advice through an adviser of their choice, and that members should agree payment terms with their adviser specific to the advice provided to them. Members can choose how to pay for these services, including whether to pay via a deduction from their superannuation account.

NULIS' approach to non-intrafund advice services avoids any potential for cross-subsidisation, as each member bears the cost applicable to the advice arrangements they have agreed with their adviser, and does not bear the cost of advice for any other member.

On this basis, none of the questions a. to h. apply to NULIS.

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NULIS

NU136QW:

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:

- a. How many do you employ (or are you paying for through outsourced arrangements)?
- b. What is the remuneration level/range for the financial advisers employed to provide intrafund advice to your members?
 - i. What is the aggregated cost of their remuneration?
 - ii. What is the aggregated cost for their employment?
 - iii. What is the aggregated cost for their on-costs, including but not limited to, superannuation, leave, training support and office space?
 - iv. What is the aggregated cost for marketing their services?
 - v. What is the aggregated cost for administrative support services?
 - vi. What is the aggregated cost for professional insurance and indemnity?
 - vii. What is the aggregated cost for compliance oversight?
 - viii. What is the aggregated cost for legal oversight?
 - ix. What is the aggregated cost for other regulatory oversight?
 - x. What is the aggregated cost for the unit, including overheads, that provides intrafund advice?
- c. What is the revenue that intrafund advisers have generated?
- d. How many financial advisers providing intrafund advice also provide it within the fund?
- e. If you have financial advisers providing intrafund advice also providing it within the fund, how is their remuneration determined from different sources?
- f. Is there any cross-subsidisation for financial advisers providing intrafund advice from revenue funded through activities within the fund?
- g. What is the total budgeted cost and actuals for the intrafund advice unit?
- h. What is the revenue generated from these financial advisers?
- i. Within your fund, is there any cross-subsidisation for intrafund advice services?

Answer:

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MSF

NULIS engages an external advice licensee who is part of the NAB group and a related party to NULIS to provide intrafund advice via online digital tools to members. The cost of these services is paid for by NULIS out of fee revenue and does not involve additional costs to members.

Neither NULIS nor the funds employ financial advisers to provide intrafund advice.

NULIS recognises that phone-based / face-to-face intrafund advice is an important aspect in helping super members access specific advice at a reasonable cost. NULIS intends to explore opportunities to enhance its intrafund advice offering and the channels through which it is delivered. Clearer regulatory definition of the scope of intrafund advice with a clear distinction between general advice and comprehensive personal advice would support enhanced intrafund advice offerings to members.

Currently, all face-to-face advice arrangements are conducted on the basis of the member's direct engagement with a financial adviser of their choice, and in certain circumstances members can request NULIS to deduct amounts from their account to pay fees for their financial adviser. The facilitation of fee payment does not constitute NULIS providing advice or an outsourcing arrangement by NULIS, and the adviser's relevant licensee is responsible for the conduct of the adviser and the costs associated with operating the licensee's business.

On this basis, in the context of financial advisers employed by NULIS, none of the questions a. to i. apply.

The cost of intrafund advice provided to members via online digital tools is paid for by NULIS out of fee revenue and does not involve additional costs to members. For transparency, NULIS advises that its cost for these services was \$2.8m for FY19 (being 1 October 2018 to 30 September 2019).

MLC Wrap Funds

Access to the products offered within the MLC Wrap Funds is currently limited to members receiving their own financial advice, and as a consequence NULIS does not provide intrafund advice services for this membership. Consequently, none of the questions a. to i. apply.

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NULIS

NU137QW:

Do you allow members to use their funds to pay for:

- a. Financial advice?
- b. Internal financial advisers?
- c. External financial advisers?

Answer:

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MSF

Most of the products available within MSF enable members to direct NULIS to deduct fees for the payment of financial advice (Adviser Service Fee) to their nominated adviser (who might be an independent financial adviser or an adviser representing a NAB group licensee).

MLC Wrap Funds

All of the products available within the MLC Wrap Funds enable members to direct NULIS to deduct fees for the payment of financial advice (Adviser Service Fees) to their nominated adviser ((who might be an independent financial adviser or an adviser representing a NAB group licensee).

For MSF and the MLC Wrap Funds, the amount of Adviser Service Fees deducted from the member's account is reported to members in their annual statement and available through online reporting. Members may change and cancel the Adviser Service Fee at any time.

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NULIS

NU138QW:

Do you allow external financial advisers access to online facilities to charge for external financial advisers consented by members using their funds?

Answer:

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MSF and MLC Wrap Funds

Member instructions for the deduction of fees for the payment of financial advice (Adviser Service Fees), can be provided from the Adviser via online facilities however these instructions must be signed by the member and received by NULIS before any fees are deducted from the member's account. This applies when an Adviser Service Fee is added or changed on a member's account.

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NULIS

NU139QW:

According to reports (Parliament to question NAB 'cross-selling', *Australian Financial Review*, 27 June 2020), the 'MLC Wealth subsidiary charged customers more to access external managed funds', therefore:

- a. Are customers charged more for accessing external funds?
- b. Are customers charged more for accessing internal funds?
- c. If so, what is the difference in charges between internal and external funds?
- d. Can you please provide detail on the different products and fee schedules for comparable products?
- e. What is the basis for any difference between internal and external funds?
- f. Are fees disclosed to customers in making a choice between internal and external funds?
- g. What remunerative benefits are there for employees where they choose an external and internal fund?

Answer:

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Background

NULIS advises the Committee that the *Australian Financial Review* article of 27 June 2020 related to the administration fee arrangements for the MLC Wrap Funds. To assist the Committee, NULIS provides some background about wrap products in general.

Wrap products are an administration service that provides members with access to a broad range of managed investment schemes, listed securities (such as ASX equities and Exchange Traded Funds) and term deposits.

Wrap platforms are generally used by advised members with higher account balances providing similar investment benefits to a self-managed super fund in an APRA regulated environment. They provide a wide choice for advisers to find solutions appropriate to their clients' differing needs and for advisers to administer those portfolios efficiently. The adviser can pick and choose to satisfy their best interest duty to their client. Advisers often use multiple platforms from different providers. Wrap products do not cater for 'default' members.

The MLC Wrap is available to all financial advisers in the market. It has approximately 380 managed funds, as well as equities, ETFs, SMAs and a range of other investments.

The RSE licensee of a wrap product only charges an administration fee to members. The issuer of the investment schemes set and deduct investment fees and associated investment costs. This is

different to RSE licensees of Industry or Public Sector Funds which charge both the administration and investment fees to members.

NULIS response

MSF

MSF operates under a similar structure to that of Industry and Public Sector Funds, and although NULIS offers members the ability to invest in a small range of investment options constructed by external managers, it does not charge different administration fees for investing in internal or external options (in response to questions a. and b.). Questions c. to g. are not applicable to MSF.

MLC Wrap Funds

NULIS provides the following direct responses to the Committee's questions regarding the products offered to members in the MLC Wrap Funds:

- a. Are customers charged more for accessing external funds?

Yes. There is a higher administration fee where members choose to invest in managed investment schemes that are issued by unrelated parties to NULIS.

- b. Are customers charged more for accessing internal funds?

No. There are two fee structures available. Members that access the Full Investment List (which provides access to a broader range of funds) are charged a higher administration fee compared to Members that access the Core Investment List (which provides access to a smaller range of investment products offered by related parties).

- c. If so, what is the difference in charges between internal and external funds?

The offers are differentiated by the complexity of the investment menu, and administration fees are dependent on the member's selection. The smaller investment menu operates at a lower cost and enables lower administration fees to be charged to members.

1. Full investment List – this service offers members the choice to invest in circa 380 managed investment schemes, ASX listed securities and term deposits. The administration fee structure of the Full Investment List includes an additional administration fee of 0.10%pa of the value held in any managed investment scheme or term deposit that is not managed by a related entity of NULIS.
2. Core Investment List – this is a more focused menu of 13 managed investment schemes that are issued and managed by entities related to NULIS. This is similar to the investment menu of Industry and Public Sector Funds.

- d. Can you please provide detail on the different products and fee schedules for comparable products?

It is important to note the Core Investment List and Full Investment List menus exist within the same MLC Wrap Funds product and are offered to members under the one Product Disclosure Statement. This means members can easily transition between the menus as and when their needs change.

NULIS does not default members into one or other of the offers. Members apply for the option that suits their needs supported by their personal financial adviser.

The characteristics of each offer and their fee scales are shown below.

	MLC Wrap Series 2 (full)	MLC Wrap Series 2 (core)
Design characteristics	Offers members the ability to invest in 380 managed investment schemes, ASX listed equities and term deposits	Simplified investment menu consisting of 13 managed investment schemes issued by NULIS related entities
	Series 2 full service (pa)	Series 2 'Core Wrap' (pa)
Asset based fees	0.40% First \$200k 0.15% Next \$300k 0.03% Over \$500k	Nil
Additional fees		
- Non MLC/NAB options	0.10%	Not applicable
- Listed securities	0.15%	Not applicable
Fixed fees	Nil	\$260
Max admin fee caps	\$2,400	
Super admin fee	0.025% (up to \$600)	Nil
Super Govt Levy recovery	0.023% (up to \$40)	0.023% pa (up to \$40)
Cash Account fee	0.75%	0.75%

The structure of the MLC Wrap Funds above, i.e. a simple menu of related party investment schemes and a more complex menu of options, is a standard feature of wrap products across the market. It reflects the differences in operational costs and target markets of each offer.

MLC's Series 2 full wrap administration platform fee structure was put in place in 2014.

- e. What is the basis for any difference between internal and external funds?

Differential in fees is based on the following:

- Core Investment List (new from April 2020) – reflects the low complexity of the offer and the consequent lower cost of administration. The investment schemes selected by NULIS for this menu are a subset of only MLC options, mainly those with scale.
- Full Investment List – as a more complex offer, fees are higher to reflect the additional infrastructure required to support transaction and service capability, and a series of “user pays” fees.

- f. Are fees disclosed to customers in making a choice between internal and external funds?

Yes. The MLC Wrap Funds' Product Disclosure Statements (PDS) fully disclose the fee arrangements, and the associated investment menus highlight the investment schemes that attract the additional fee. This provides complete fee transparency, and as stated previously wrap products are generally used by advised members, they do not cater for default members.

- g. What remunerative benefits are there for employees where they choose an external and internal fund?

There are no remuneration benefits for employees linked to member choice of external or internal funds. In addition, there is no incentive for advisers to place clients into related party investment schemes.