

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

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

UniSuper

- UNI91QW:** Please provide the titles of all externally commissioned reports over the past five years that have reviewed any of the following:
- a. Performance of funds.
 - b. Investment strategies for funds.
 - c. Conflicts of interest for funds.

Answer: The Trustee (through the Board) is responsible for all of UniSuper's investment related matters. In practice, however, these matters are handled by the Investment Committee, the CEO, the CIO, the Investment Department and the Board. UniSuper does not engage the services of a third-party Asset Consultant.

- a. Unisuper has not commissioned any external reports over the past five years on the performance of any of its investment strategies.
Reporting on performance is completed internally by Management for review by the Investment Committee and the Board. The underlying calculation of investment performance is completed independently by an external party, BNP Paribas (UniSuper's Custodian), and is measured relative to external benchmarks and against the performance of relevant peers as calculated by external agencies such as Chant West and SuperRatings.
- b. UniSuper's Investment Policy Statement (and its investment objectives and strategies) are subject to review at least annually. The two external reports regarding UniSuper's Investment Governance Framework that have been commissioned over the past five years are:
 - 'SPS 530- Comprehensive Review of the Investment Governance Framework'. Completed by KPMG, 2019.
 - 'Review of Investment Governance Framework as required by SPS 530'. Completed by Drew Vaughan, 2016.
- c. UniSuper has commissioned two reports in the past five years on its Conflicts Management Framework.
 - 'UniSuper Conflicts Management Framework Comprehensive Review Report 2016. Completed by KPMG, 2016.
 - 'Comprehensive Review of the USL Risk Management Framework and Conflicts Management Framework'. Completed by Ernst & Young, 2019.

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UniSuper

UNI92QW:

For each fund where more than 30 per cent of capital is managed by another entity, please complete the below table including:

- a. The name of the fund.
- b. The allocation of capital as a percentage of the total capital held by the fund.
- c. The allocation of capital of the total capital held by the fund.
- d. The entity managing the capital.
- e. Whether you are a shareholder in that entity.

Answer:

UniSuper does not have any Investment Options where more than 30 per cent of capital is managed by an entity other than UniSuper Management Pty Ltd (USM).

USM is a company wholly owned by UniSuper on behalf of its members and is engaged by the Trustee to provide administration and investment management services. USM operates solely to provide these services to the Trustee.

| Fund | Allocation of fund capital | | Managing entity | Share holder |
|----------|----------------------------|--------------|-----------------------------|--------------|
| | % | \$ | | |
| UniSuper | 76 | 64.5 billion | UniSuper Management Pty Ltd | i.e. Yes |

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UniSuper

UNI93QW: If you do have capital managed by another entity that you are also a shareholder in, please identify how you manage conflicts of interest.

Answer: UniSuper Management Pty Ltd (USM) is appointed by the Trustee of UniSuper (UniSuper Limited) to provide administration and investment management related services to UniSuper. The constitution of USM provides that the company exists solely for the purpose of enabling the Trustee to fulfil its duties as trustee of UniSuper.

All shares of USM are owned by the Trustee on behalf of UniSuper and its members. To the extent that any USM fees represent retained earnings, these earnings will increase the value of USM and UniSuper members will benefit from this increase in valuation. For these same reasons, if dividends are paid by USM this will be accretive to members retirement savings.

For these reasons, the Trustee has concluded that the interests of the Trustee and USM are aligned.

More generally there are a range of measures that exist to manage conflicts of interest, including but not limited to the following:

- The Trustee maintains a Conflicts Management Framework as required under Prudential Standards. This framework is reviewed by an operationally independent consultant every three years.
- Members of the Trustee's Committees are required to adhere to the Code of Conduct which, among other things, sets out UniSuper's expectations in respect of the disclosure of conflicts of interest;
- Members of the Board and/or the Investment Committee are not to be appointed as nominee directors of entities in which UniSuper has invested;
- A Restricted Securities Policy governs the conduct of investment personnel who trade in financial products and certain other persons to avoid any impropriety. It outlines the measures that have been implemented by UniSuper to manage and/or avoid conflicts and insider trading;
- When conducting due diligence for a new investment or external investment manager, the Investment Department is to give due consideration to any potential or actual conflicts of interest that may be present or may arise.

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UniSuper

UNI94QW: Please provide details of the following reduction to remuneration packages since 11 March 2020:

- a. Board members.
- b. The chief executive.
- c. Executive management.

Answer: Since 11 March 2020, we have not reduced any remuneration packages for these three cohorts. Our financial year ends on June 30, and then, during August, the Remuneration Board Committee will consider fixed and variable remuneration implications for Board, CEO and Executive team.

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UniSuper

UNI95QW: Is the fund considering divestment from pure play fossil fuel producers in order to mitigate climate-related financial risks and to increase the cost of capital for those producers?
If not, how has the fund arrived at the conclusion that this approach would not be in members' best interests?

Answer: UniSuper has very low exposure to pure play fossil fuel producers (below 0.5%), mainly from investments in passive index strategies. UniSuper has no exposure to pure play thermal coal.

All investment decisions are based on UniSuper's trustee and statutory duties to act in the best financial interest of members. UniSuper's investment process considers the financial merits of each investment, including the industry in which any company invested in operates. This encompasses our view on future returns and risks including environmental, social and governance matters. Among the issues we consider is how resilient will the company be in a decarbonising world and the timeframe over which we expect this to occur. These considerations largely explain our lack of exposure to pure play fossil fuel companies.

Consistent with our duties to act in the best financial interest of members, UniSuper does not believe that divestment is an appropriate strategy for dealing with our fossil fuel exposures. Nevertheless, divestment is always an option available to us if we believe that a company's return and risk profile merits it.

Our preferred method for dealing with climate related financial risk is engagement with management and boards of relevant companies. In our view, many of our investee companies are critical to dealing with climate risk and we have been pleased with their efforts in this regard.

We are aware of the arguments supporting divestment as a way of increasing the cost of capital for these companies. We do not have a concluded view on the merits of these arguments. However, we note that if the intention of this approach is to reduce carbon emissions, we believe its impact may be very long dated and we believe that our engagement strategy is likely to achieve more impactful outcomes much sooner.

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UniSuper

UNI96QW: 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:

Since 1 January 2020:

- a. The value of UniSuper's Funds Under Management (FUM) reached its highest value on 20 February 2020, being: \$89.9 billion.
- b. The value of UniSuper's Funds Under Management (FUM) reached its lowest value on 23 March 2020, being: \$72.5 billion.
- c. There were 21 working days between these two dates.
- d. FUM decreased by \$17.3 billion between these two dates.
- e. FUM decreased by 19.3% between these two dates.
- f. 0 days. The S&P ASX All Ordinaries Total Return Index reached its lowest level on 23 March 2020, the same day as UniSuper's lowest FUM.
- g. 0 days. The value of UniSuper's 'unlisted assets' reached its lowest value on 23 March 2020, the same day as the lows of the S&P ASX All Ordinaries Total Return Index.
- h. 16,658 members had one or more switch requests processed during this period to a total value of \$4,401,511,717.
- i. Nil
- j. 1 member, who is also an executive of the Fund, had one or more switch requests processed during this period to a total value of \$445,368.
- k. 93 members, who are also employees of the Fund, had one or more switch requests processed during this period to a total value of \$13,644,974.
- l. UniSuper manages the conduct risks which can arise in connection with personal share trading (including switching between Investment Options) through its Restricted Securities Trading Policy and its Conflicts Management Policy. The Restricted Securities Trading Policy outlines the controls in place to manage the risk of insider-trading, front-running and associated risks. The Conflicts Management Policy is concerned with managing the potential for conflicts of interest to arise noting that a conflict of interest may be actual, potential or perceived, pecuniary or non-pecuniary and may arise either in the course of business activities or because of an

individual's personal arrangements. Where a conflict of interest or duty may pose an unacceptable risk to, or impact on, USL's Trustee's duties, the conflict should be avoided by the relevant trustee, executive and employee.

Additional measures are imposed upon investment personnel who are required to obtain clearance from either the Chief Investment Officer or the Head of Investments Legal or a lawyer in the Investments Legal team prior to entering into any transaction involving securities or financial products. The Chief Investment Officer is required to obtain clearance from either the Chief Executive Officer or the Head of Investments Legal.

Clearance is required for all transactions involving securities and financial products including superannuation withdrawals, rollovers and switches between Investment Options.

In deciding whether to grant clearance, regard is given to amongst other matters whether there is any reason why the proposed transaction would be contrary to the best interests of the members of UniSuper and whether the relevant person would be gaining an improper advantage on account of having access to relevant internal information: for example:

- Revaluations of unlisted assets;
- Crediting rates;
- Knowledge of major transactions which may impact the relevant market; and
- Knowledge of major redemptions or investments into or out of managed funds.

Personnel covered by the Restricted Securities Trading Policy are not permitted to enter into any transaction if clearance has not been obtained. A failure to comply with the terms of the Restricted Securities Trading Policy is a serious matter. Any breach of the Policy by an officer or employee is handled in accordance with the Code of Conduct (UniSuper Limited and UniSuper Management Pty Ltd) Policy. Consequences of a breach may include suspension or termination of employment.

With respect to members (including all UniSuper employees and Trustees) ability to switch between Investment Options, in addition to the controls stated above, UniSuper has controls in place to prevent any arbitrage opportunities that might otherwise arise due to the timing of valuation cycles.

UniSuper's members remain exposed to market movements for a window of approximately one and half days prior to any

switch between Investment Options being processed. For example, if a member requests to switch Investment Options prior to 2pm on any business day, then the member's request will be processed using the next business day's closing market prices. If the switch request is made after 2pm on any business day, then the switch will be processed using the closing market prices in 2 business days from the date of request.

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UniSuper

- UNI97QW:** 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:

- a. UniSuper employs a number of staff members to provide a wide-range of advice services to our membership nationally. The number of financial advisers employed to provide non-intrafund advice (i.e. comprehensive advice – beyond the scope of intrafund advice) over the past five financial years is described below, noting that these advisers also provide intrafund advice, general advice, factual information and other member services.

| | |
|----------|----|
| 2015/16: | 31 |
| 2016/17: | 36 |
| 2017/18: | 43 |
| 2018/19: | 43 |
| 2019/20: | 44 |

- b. The revenue generated by financial advisers employed to provide non-intrafund advice (i.e. comprehensive advice – beyond the scope of intrafund advice) over the past five financial years is described below.

| | |
|----------|-------------|
| 2015/16: | \$5,724,501 |
| 2016/17: | \$6,373,200 |
| 2017/18: | \$6,412,642 |
| 2018/19: | \$6,668,508 |
| 2019/20: | \$7,561,115 |

- c. All financial advisers employed to provide non-intrafund advice (i.e. comprehensive advice – beyond the scope of intrafund advice) provide intrafund advice as well as general advice, factual information and other member services. The number of such staff members employed over the past five financial years is described below.

| | |
|----------|----|
| 2015/16: | 31 |
| 2016/17: | 36 |
| 2017/18: | 43 |
| 2018/19: | 43 |
| 2019/20: | 44 |

- d. All financial advisers employed to provide non-intrafund advice (i.e. comprehensive advice – beyond the scope of intrafund advice) provide intrafund advice as well as general advice, factual information and other member services. All financial advisers are paid a salary from a single source and are eligible for a bonus based on adequately satisfying the duties required for their role. The duties required of their role includes the provision of factual information, general advice, intrafund and non-intrafund advice.

- e. The cost of non-intrafund advice is covered by the revenue generated by the service.
- f. Generally, our financial advisers from intrafund advice do not provide non-intrafund advice. Our non-intrafund financial advisers can provide non-intrafund advice (i.e. comprehensive advice – beyond the scope of intrafund advice), intrafund advice, general advice, factual information and other member services. The cost of non-intrafund advice is covered by the revenue generated by the service.
- g. The cost for non-intrafund financial advisers over the past five financial years is described below, noting that the answers provide the costs associated with delivering that advice.

| | |
|----------|-------------|
| 2015/16: | \$4,851,994 |
| 2016/17: | \$5,180,024 |
| 2017/18: | \$6,487,040 |
| 2018/19: | \$7,099,342 |
| 2019/20: | \$7,872,205 |

- h. The remuneration level/range for the financial advisers employed to provide non-intrafund advice to our members over the past five financial years is described below.

| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|----------------|----------------|----------------|----------------|----------------|
| i. Aggregated cost of their remuneration | \$3,584,058 | \$3,805,854 | \$4,679,569 | \$5,096,154 | \$5,584,927 |
| ii. Aggregated cost for their employment (i.e. the sum of the aggregated cost of their remuneration and their on-costs) | \$4,851,994 | \$5,180,024 | \$6,487,040 | \$7,099,342 | \$7,872,205 |
| iii. Aggregated cost for their on-costs, including but not limited to, superannuation, leave, training support and office space | \$1,267,936 | \$1,374,171 | \$1,807,471 | \$2,003,188 | \$2,287,278 |

| | | | | | |
|--|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| iv. Aggregated cost for marketing their services | \$232,077 See note 1 below | \$296,049 See note 1 below | \$205,471 See note 1 below | \$406,640 See note 1 below | \$177,970 See note 1 below |
| v. Aggregated cost for administrative support services | \$745,165 | \$695,187 | \$937,292 | \$1,172,052 | \$1,083,379 |
| vi. Aggregated cost for professional insurance and indemnity | See note 2 below | | | | |
| vii. Aggregated cost for compliance oversight | \$146,555 See note 3 below | \$138,781 See note 3 below | \$141,194 See note 3 below | \$140,615 See note 3 below | \$138,119 See note 3 below |
| viii. Aggregated cost for legal oversight | See answer provided in UNI97QW(h)(vii) and note 3 below | | | | |
| ix. Aggregated cost for other regulatory oversight | See answer provided in UNI97QW(h)(vii) and note 3 below | | | | |
| x. Aggregated cost for the unit, including overheads, that provides non-intrafund financial advice | \$4,717,783 | \$5,919,043 | \$8,511,775 | \$9,187,299 | \$9,303,355 |
| | | | | | |

Notes

1. Marketing is a shared service across the fund and marketing and advertising activities are generally done to promote UniSuper more broadly. We have estimated this figure based on the headcount of non-intrafund financial advisers.
2. Our financial lines' insurance policies include a combined policy for Directors' and Officers' Liability, Professional Indemnity (PI) and Financial Institutions' Crime Insurance. Cover for our financial planning activities is embedded within the PI component of cover. Over the years, we have sought advice from an insurance broker to split the premium across items covered. We have been told splitting is highly subjective and that it would be highly unlikely to obtain standalone PI cover for financial advisers for

less than what we pay for the combined policy. We have not disclosed the premium for the policy on the basis that we are required to keep this information confidential.

3. We employ a number of staff members to provide legal, risk and compliance services to UniSuper. These staff members would be employed to provide these services even if we did not provide our members with financial advice. As such, we do not separately measure these functions.

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UniSuper

- UNI98QW:** 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:

- a. UniSuper employs a number of intrafund advisers to provide a wide-range of advice services to our membership nationally. The number of advisers employed to generally provide intrafund advice (i.e. strictly limited to advice on our fund for the member only - not spouse) over the last five financial years is described below, noting that these advisers also provide general advice, factual information and other member services.

| | |
|----------|----|
| 2015/16: | 5 |
| 2016/17: | 7 |
| 2017/18: | 11 |
| 2018/19: | 11 |
| 2019/20: | 12 |

- b. The remuneration level/range for the financial advisers employed to generally provide intrafund advice to our members over the last five financial years is described below.

| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|------------------------------|------------------------------|------------------------------|-------------------------------|------------------------------|
| i. Aggregated cost of their remuneration | \$321,402 | \$412,172 | \$738,270 | \$844,022 | \$1,014,891 |
| ii. Aggregated cost for their employment (i.e. the sum of the aggregated cost of their remuneration and their on-costs) | \$489,945 | \$639,300 | \$1,170,831 | \$1,357,961 | \$1,613,087 |
| iii. Aggregated cost for their on-costs, including but not limited to, superannuation, leave, training support and office space | \$168,543 | \$227,129 | \$432,560 | \$513,939 | \$598,196 |
| iv. Aggregated cost for marketing their services | \$38,680 See note 1 below | \$56,690 See note 1 below | \$52,461 See note 1 below | \$106,080 See note 1 below | \$47,459 See note 1 below |
| v. Aggregated cost for | See note 2 below | | | | |

| | | | | | |
|--|---|------------------------------|------------------------------|------------------------------|------------------------------|
| administrative support services | | | | | |
| vi. Aggregated cost for professional insurance and indemnity | See note 3 below | | | | |
| vii. Aggregated cost for compliance oversight | \$24,426 See note 4 below | \$26,575 See note 4 below | \$36,050 See note 4 below | \$36,682 See note 4 below | \$36,832 See note 4 below |
| viii. Aggregated cost for legal oversight | See answer provided in UNI98QW(b)(vii) and note 4 below | | | | |
| ix. Aggregated cost for other regulatory oversight | See answer provided in UNI98QW(b)(vii) and note 4 below | | | | |
| x. Aggregated cost for the unit, including overheads, that provides intrafund advice | \$760,933 | \$1,150,925 | \$2,177,431 | \$2,350,239 | \$2,537,279 |
| | | | | | |

Notes

1. Marketing is a shared service across the fund and marketing and advertising activities are generally done to promote UniSuper more broadly. We have estimated this figure based on the headcount of intrafund financial advisers.
2. Intrafund advisers do not receive administrative support services.
3. Our financial lines' insurance policies include a combined policy for Directors' and Officers' Liability, Professional Indemnity (PI) and Financial Institutions' Crime Insurance. Cover for our financial planning activities is embedded within the PI component of cover. Over the years, we have sought advice from an insurance broker to split the premium across items covered. We have been told splitting is highly subjective and that it would be highly unlikely to obtain standalone PI cover for financial advisers for less than what we pay for the combined policy. We have not disclosed the premium for the combined policy on the basis that we are required to keep this information confidential.
4. We employ a number of staff members to provide legal, risk and compliance services to UniSuper. These staff members would be employed to provide

these services even if we did not provide our members with financial advice. As such, we do not separately measure these functions.

- c. The revenue generated by financial advisers employed to provide intrafund advice (i.e. strictly limited to advice on our fund for the member only - not spouse) over the last five financial years is described below.

| | |
|----------|-----------|
| 2015/16: | \$440,475 |
| 2016/17: | \$651,680 |
| 2017/18: | \$764,414 |
| 2018/19: | \$786,027 |
| 2019/20: | \$808,272 |

- d. Financial advisers employed to provide intrafund advice (i.e. strictly limited to advice on our fund for the member only - not spouse) only provide such advice within the fund. The number of such staff members employed over the past five financial years is described below.

| | |
|----------|----|
| 2015/16: | 5 |
| 2016/17: | 7 |
| 2017/18: | 11 |
| 2018/19: | 11 |
| 2019/20: | 12 |

- e. Financial advisers employed to provide intrafund advice (i.e. strictly limited to advice on our fund for the member only - not spouse) are paid a salary from a single source, and are eligible for a bonus based on adequately satisfying the duties required for their role. The duties required of their role includes the provision of factual information, general and intrafund advice.
- f. Yes, however our members are charged a fee for the delivery of intrafund advice services. While there is no legal obligation to charge members for intrafund advice, we believe it is important that those who receive the service pay for the advice they receive. There is no legal requirement for these charges to cover the cost in part or in full of delivering these services and the service is paid for through a combination of explicit personal charges as well as collective charging.
- g. The cost for the intrafund advice unit over the past five financial years is described in UNIW98(b)(x) above.
- h. See answer to UNIW98(c) above.
- i. Yes, however our members are charged a fee for the delivery of intrafund advice services. While there is no legal obligation to charge members for intrafund advice, we believe it is important that those who receive the service pay for the advice they receive. There is no legal requirement for these charges to cover the cost in part or in full of delivering these services

and the service is paid for through a combination of explicit personal charges as well as collective charging.

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SUPERANNUATION SECTOR**

UniSuper

- UNI99QW:** Do you allow members to use their funds to pay for:
- a. Financial advice?
 - b. Internal financial advisers?
 - c. External financial advisers?

Answer:

- a. Yes
- b. Yes - to the extent that it relates to superannuation and retirement planning.
- c. No

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UniSuper

UNI100QW: Do you allow external financial advisers access to online facilities to charge for external financial advisers consented by members using their funds?

Answer: No.