insight

Member newsletter

Winter 2019

vision super

Investment update

Industry vs retail funds

Superannuation and insurance

What it means to live and invest sustainably

Investment update

The 2018-19 financial year was a good year overall and all of our options performed positively. The default 'Balanced growth' option for our super members returned 7.4%, ahead of its return objective of 3.5% above inflation.

The headline numbers are positive, though it was a year with ups and downs. In fact, shares performed quite poorly in the December quarter, before turning around and recovering back this underperformance and more.

The global economy had two key themes that affected markets over the financial year – a slowing global economy and an abrupt turn in central bank policy.

Slowing global economy

The slowing global economy contributed to the initial weakness, particularly centered on China. This was exacerbated during the year by the ongoing trade war between China and the United States. As tariffs (taxes on imports) were exchanged and rhetoric escalated, share markets faltered as hope of a quick resolution faded. It also became clear that more is at stake than simply trade. Both countries have stated goals to grow their economies internally, and direct controls on technology and supply chains have been ratcheted up.

Central bank policy

During this time the US central bank, the Federal Reserve, had been indicating a continued path of higher and higher interest rates. In recent years, US interest rates have slowly been lifted from the emergency levels that were set during the financial crisis. Last year share markets became fearful that US interest rates would be lifted too sharply and this coincided with weakening economic growth and led to large share market sell offs.

In late December the Federal Reserve changed course suggesting it would be "patient" in raising interest rates, and over 2019 to date has suggested there is room to cut interest rates. Financial markets have now fully priced in falling global interest rates and this led to a large recovery in share markets.

Domestically the Australian economy continued to show decent growth. Over the year there were concerns about the very high level of debt held by Australian households, particularly given recent falling property prices. Australian shares were also affected by the global change in sentiment in the December quarter. However, the second half of the year was exceptionally strong for Australian shares. Our central bank, the RBA, signaled it may cut interest rates, and ultimately did. The pricing of Australian iron ore producers leapt when global supply fell sharply. There was also a surprise win by the Coalition in the federal election, which has led to a short term boost to markets from the effect of forthcoming tax cuts, as well as many in the share market considering this reduces the risk of a domestic recession due to a housing market bust.

Looking forward

Economies and investment markets move in cycles and it has been a long run of good global growth and strong returns for our members. While the decline in interest rates has helped support short-term pricing across all asset classes, some of this decline has brought forward some of tomorrow's return to today. For example, investors have already priced in lower interest rates for high-yielding shares. We still expect decent returns over the next ten years, but not as strong as the last ten.

For the latest investment returns, unit prices and financial market updates visit visionsuper.com.au/investments

$10 billion! We're proud to announce we've reached $10 billion funds under management, which is a great reflection of your trust in us.

Industry vs retail

When it comes time to choose a super fund, do you know the difference between an 'industry' and a 'retail' fund?

At the end of the March 2019 quarter superannuation was a $2.8 trillion industry[1], and is growing every day. Compare that to Australia's total GDP which is sitting at $1.89 trillion (AUD) - doesn't that put it into perspective! Super isn't something that we can ignore and while you may only have a small slice of that $2.8 trillion, it's likely to be one of your largest assets upon retirement.

Did you know, though, that not all super funds are created equal? There are some very important differences between retail and industry funds which could affect your final retirement income, and this handy guide will help you navigate the different types of superannuation funds.

Industry funds

Vision Super is an industry fund, and like many industry funds, our beginnings lie with trade unions and employer associations, whose aim was to provide Australians with a place to put away money for retirement. They are profit-to-member organisations and put members first in everything they do. Most industry super funds are now open to the public, so if you change your job you can still stay with Vision Super.

Retail funds

On the other hand, retail super funds are generally operated by financial institutions like banks and wealth management companies. They are usually recommended by financial advisers who may be paid for their advice by fees and/or a commission, though commissions are now being made illegal. Most retail funds range from mid to high cost, but some offer a low cost or MySuper alternative, and the company that owns the fund aims to make a profit[2] before you get any investment returns.

The main difference between retail and industry superannuation funds is what they do with their profits. Retail super funds return their profits to shareholders and investors whereas industry super funds generally return profits to their members[3].

Australian workers are well aware of this. In the 12 months leading to January 2019, industry super fund scored 62.1% satisfaction with financial performance, well above retail funds who scored only 57.3%[4].

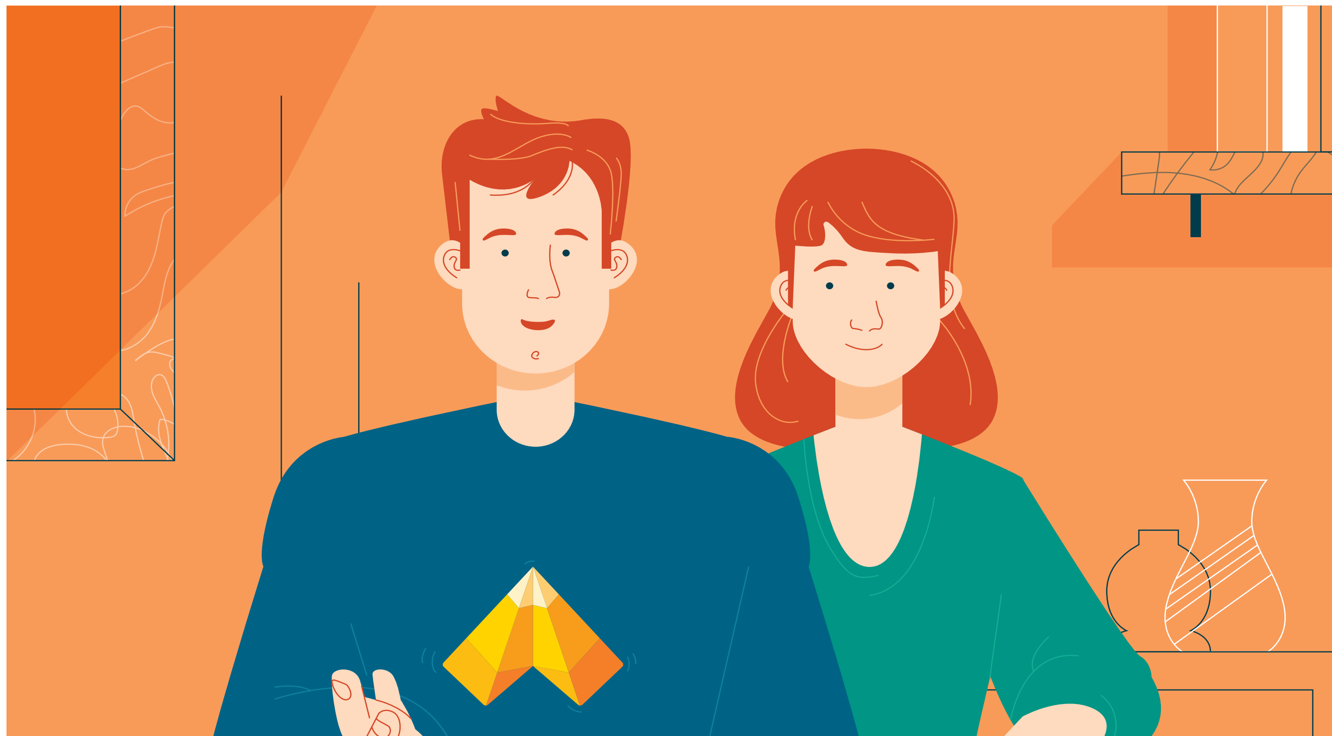
So why is this important?

When starting a new job, you're given the choice to pick a super fund or to have your employer pay the contributions into the organisation's chosen fund, creating a new super account in the process. Often you keep this account open for years, and if you don't make sure it's set up correctly for you, you might be paying extra for things you don't need. So, it's important to start off on the right footing with a good superannuation foundation.

Research by AIST has shown us that 19% of the retail super members they surveyed believed they were in an industry fund and a further 35% were either unsure or thought they were part of neither. Of those surveyed, half believed that going with the employer's default fund means they'll get put into an industry fund[5], which often isn't the case.

When you change jobs, you can take Vision Super with you. We'll accept contributions from your new employer and you can continue with your account as you intended. If you have a loved one who is in a non-industry fund, encourage them to research the differences and make the change to an industry fund.

1 www.superannuation.asn.au/resources/superannuation-statistics
2 www.moneysmart.gov.au/superannuation-and-retirement/how-super-works/choosing-a-super-fund/types-of-super-funds
3 www.canstar.com.au/superannuation/industry-vs-retail/
4 www.roymorgan.com/findings/7888-superannuation-satisfaction-201902250519
5 www.aist.asn.au/media/1309749/understanding_the_decision-making_process.pdf



Insurance in super

The importance of insuring yourself

The last 12 months has seen significant change to insurance within superannuation, and we've tried to keep you informed every step of the way. Today, we highlight some more of these changes and the benefits of insurance.

You insure your car and your home, but nothing is more important than your life and your ability to make a living. It would make good sense then to insure your greatest asset – you!

As your circumstances change, you can update your insurances at any time to make sure you're covered to provide a safety net for you and those you love most.

Many Australians, however, don't have enough insurance1 and unfortunately don't realise this until it's too late:

- 50% of Industry Super Fund members are under insured by $100,000 for life insurance
- 37% of Industry Super Fund members believe life insurance is a low priority given other financial commitments
- 74% of Industry Super Fund members are under insured by $100,000 for Total and Permanent Disability (TPD)
- 83% of Australians have insurance for their car, but only 31% have income protection (IP)[1]

Why do I need insurance?

There are certain life stages that prompt Australians to look into their death, TPD and IP cover such as marriage, buying a home and/or having a child. If you're adequately covered, insurance can help protect and provide for you and your family during times of unexpected hardship, even if you're young and healthy now.

With a Key Life Event application form, you can apply to add additional cover to your Death and TPD if any of the above has happened to you, within 90 days. Other key life events include divorce, death of a spouse, child's first day at primary or secondary school, or the commencement of a carer allowance payable by Centrelink.

You can log into your Member Online account at any time and check your level of cover to make sure it suits your needs. The amount you should be covered for will depend on your individual circumstances, but our insurance calculators can be a good starting point to help you.

For more info go to visionsuper.com.au/insurance or call us on **1300 300 820** Mon to Fri 8.30am - 5pm for an appointment with a financial advisor

Regulatory and policy change

The Insurance Code

Vision Super has started to implement the Insurance in superannuation Voluntary Code of Practice (the Code) from its commencement on 1 July 2018. We believe it will help our members to better understand and make more informed choices about their insurance cover.

The Code is the superannuation industry's commitment to high standards when providing cover to members. It's a first for our industry and introduces standards that will provide greater transparency and consistency across the superannuation industry.

Vision Super already meets many of the Code's standards and we're developed a transition plan for the remaining items. For new members, we'll also provide clearer information about automatic insurance and the options available.

Protecting your super

Something to be aware of is the recent changes to superannuation legislation entitled "Protecting Your Super", which means you might lose your insurance automatically as a result of having an inactive account. 70% of people have their life insurance cover in super, yet more than half don't realise they're at risk of losing it[2].

An inactive account is one where Vision Super (or your other super fund) has not received a contribution or a rollover from another fund for 16 continuous months. We will write to you and let you know if you are about to lose your insurance so please keep an eye out for this information and make an election if you want to maintain your cover.

Not only is your insurance at risk of ceasing, but if your insurance is cancelled due to 16 months inactivity and your account balance is less than $6,000, your benefit may need to be transferred to the Australian Taxation Office. For more details on inactivity and these changes, call one of our friendly contact centre staff on 1300 300 820, Monday to Friday between 8:30 am and 5 pm.

Have you had a salary change?

We know a lot of employees receive salary increases on June 30 and often need to adjust their IP to match. If you've had an increase to your salary due to EA increase or you've been in receipt of a pay rise, you can update your IP insurance by a maximum of 3 units within 60 days without going through underwriting.

All you need to do is fill out an insurance form and attach a letter from your employer confirming your new salary and the date you were notified of the salary increase. Log in or contact us and we'll tell you how much cover you currently hold and what to do.

[1] lifewise.org.au

[2] www.sbs.com.au/news/more-than-half-of-australians-unaware-of-superannuation-shake-up

Making time for *walking*

Victoria Walks has collaborated with Arup to look at an economic case for walking.
Victoria is experiencing rapid population growth, and the need for cost-effective and eco-friendly alternatives to driving harbors safe and healthy communities.

If Australians reduced physical inactivity by 10% through walking this would result in -

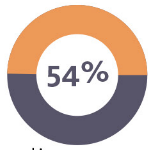
6,000 fewer incidents of disease

2,000 fewer deaths

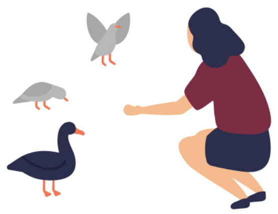
25,000 more disability-adjusted life years

Physically active people have up to **30%** reduced risk of becoming depressed

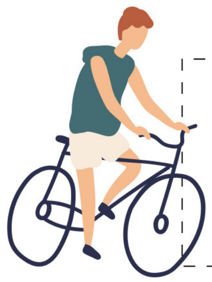
Australian men



Australian women



are currently insufficiently active



If half of short private vehicle trips (0-0.9 km) in Melbourne and Geelong were converted to walking, there would be **2.4 million** fewer vehicle trips each week, with savings of **$165 million** each year.

Walking already accounts for 1 in 6 of Melbourne's weekday trips.

Victoria Walks, The Economic Case for Investment in Walking, http://www.victoriawalks.org.au/Economics-of-Walking

Sustainable living and investing

In recent years there has been a greater increase in awareness about sustainability than there has been in the last few decades combined. No longer is sustainability considered a matter only for millennials and activists, now it has become everyone's responsibility.

Sustainability means long-term thinking about how we better manage doing business and creating the momentum to encourage more and more people to opt into the future we're working to create, invest in social and economic spending, and plan for the future. This requires vision and leadership, and above all, citizen engagement. Furthermore, sustainable investing is also about investing in progress, and recognising that companies are solving the world's biggest challenges.

The 2018 Australian energy consumption statistics showed an increase of 1.1%[1], and while overall it's gone up, the good news is Australia is now using around 20% less energy per person than at the start of this century. What's more, this positive impact can be extended by making investment choices in superannuation that influence sustainability.

Sustainable investing

In the evolving world of investing, sustainability has well and truly arrived and is making a big impact. An impact that has been felt strongly among nine out of ten Australians who now expect their super to be invested responsibly and ethically[2].

There has been unprecedented growth in ethical and responsible investing, both locally and globally. In Australia, responsible investments have more than quadrupled over the past three years[2].

At Vision Super we're not surprised by this. In the last five years we created the "Sustainable Balanced" investment option when superannuation funds and other investors appeared to pay little regard to environmental, social and governance (ESG) considerations when formulating their core investment portfolios.

Vision Super has recently announced we are divesting from direct holdings in companies with material investments in tobacco, tar sands and in thermal coal production. You can find more about our approach online at visionsuper.com.au/sustain and visionsuper.com.au/investments/active-ownership.

Sustainable investing is often used as a broad term encompassing a range of investment approaches. At its heart it's about ensuring long-term success – of an investment, a company, returns – and the broader systems that support that investment.

Sustainable living

While we take the time out to make sure our super is sustainably invested, it's important to regularly assess whether we are doing everything we can to live responsibly too. Three of the top ten tips for living sustainably according to Sustainability Victoria are:

1. Reduce your food waste

The average Victorian household throws out approximately $2,200 worth of food each year. Food thrown into your garbage bin ends up in landfill and breaks down in a way that can create greenhouse gasses.

2. Go paper free

Reduce the paper clutter in your home and save some trees by going paper free. Almost everything from your phone bill to your credit card statement can be viewed online. Contact your banks, utility providers and other service providers to go paperless. You can also change your preference to "digital" when you log in online to change how you receive your Vision Super statements. And while you're at it, switch to recycled toilet paper.

3. Use a reusable cup like a KeepCups

Australians consume more than an estimated 1.2 billion takeaway hot drink cups every year[3]. Sadly, these cups, which are made from virgin materials rather than recycled paper, cannot be put in your kerbside or workplace recycling bins. Take a cup with your or have your drink to stay.

Vision Super believes that a sustainable approach to investing and living are vital to the long-term protection of the planet and will have a positive impact on the value of our investments. We are committed to incorporating consideration of ESG issues into our decision making, and to ensuring that our own business is a responsible user of finite resources.

[1] 2018 Australian Energy Statistics, https://www.energy.gov.au/sites/default/files/australian_energy_update_2018.pdf
[2] RIAA "From values to riches", November 2017, http://bit.ly/2XmGv6m
[3] www.biopak.com.au/others/downloads/1619944399_papercup-consumption-feb2016.jpg

vision super

Your **quarterly** newsletter

Log in to **Vision Online** to keep up to date with your account and what's happening at Vision Super.

Your membership number

YOUR 2018/19 STATEMENTS ARE COMING SOON

Your annual statement will be made available in your online account shortly

When your statement is ready

- Log in to Member Online
- Click Benefit Details from the home page
- Click "Previous Statements" from the drop down on the left hand side

Remember, your statement is not yet available but soon will be!

While you're there, go to

- "My details" on the left hand side
- Check that your preferred communication method is set to "email"
- Check that your email address is listed

This means next time we send you this quarterly update, it will be delivered to your email address and much sooner than the post!