

# Annual Outcomes Assessment



Financial year ending 30 June 2023

The information is published in accordance with the requirements of s52(9) of the Superannuation Industry (Supervision) Act 1993 ('legislation').

| Product                                  | Trustee  | Super Fund                        | Category           |
|--|--|-----------------------------------|--------------------|
| Virgin Money Super (the <b>Product</b> ) | Mercer Superannuation (Australia) Ltd ( <b>MSAL or Trustee</b> ) | Mercer Super Trust ( <b>MST</b> ) | MySuper and Choice |

## Purpose

As required by legislation, this document contains:

- the Trustee's determination as to whether the financial interests of the beneficiaries holding the Product are being promoted by the Trustee having regard to the assessments and comparisons prescribed by legislation; and
- a summary of the assessments and comparisons upon which the Trustee's determination is based. The Trustee's determination is as of 22 February 2024 and is based on information for the year ended 30 June 2023, as well as changes to the Product made after that date.

## Overall Determination

The Trustee has determined that the financial interests of the beneficiaries holding the Product are **being promoted**. This is based on the assessments and comparisons summarised below. In doing so, the Trustee compared the Product against MySuper products and other Choice investment options offered by regulated superannuation funds.

## Summary of the Trustee's assessment

When carrying out the assessment, the Trustee considered a number of factors including, fees and costs, investment performance and options, insurance fees and options, and the overall size and scale of the Mercer Super Trust. The assessment consists of two sections. The table below provides a summary of the factors considered for each Section.

| Factor                           | Rating  |
|----------------------------------|---|
| <b>Section One</b>               |   |
| Fees and costs                   | Members' financial interests are promoted.        |
| Investment returns               | Members' financial interests are promoted.        |
| Investment risk                  | Members' financial interests are promoted.        |
| <b>Section Two</b>               |   |
| Options, benefits and facilities | Members' financial interests are promoted.        |
| Investment strategy              | Members' financial interests are promoted.        |
| Insurance strategy               | Members' financial interests are promoted.        |
| Insurance fees                   | Members' financial interests are mostly promoted. |
| Scale                            | Members' financial interests are promoted.        |
| Operating costs                  | Members' financial interests are promoted.        |
| Basis for setting fees           | Members' financial interests are mostly promoted. |

## Section One: Summary of our performance assessment

### Guide to reading this section

#### Comparison Table Key

| Quartile  | Colour Rating |
|---|---------------|
| Bottom 25% of Products (Bottom Quartile) (Q4)     | Red           |
| Bottom 50% to 25% of Products (Below Median) (Q3) | Yellow        |
| Top 50% to 75% of Products (Above Median) (Q2)    | Green         |
| Top 25% of Products (Top Quartile) (Q1)           | Dark Green    |

For Fees and costs, Above Median refers to the fees being less expensive than the median. Below Median refers to the fees being more expensive than the median.

For Investment returns, Above Median refers to the returns being higher than the median. Below Median refers to the returns being lower than the median.

This section provides the outcome of the Trustee's assessment of Fees and costs, Investment returns and Investment risk compared to peers and benchmarks.

### 1. Fees and costs

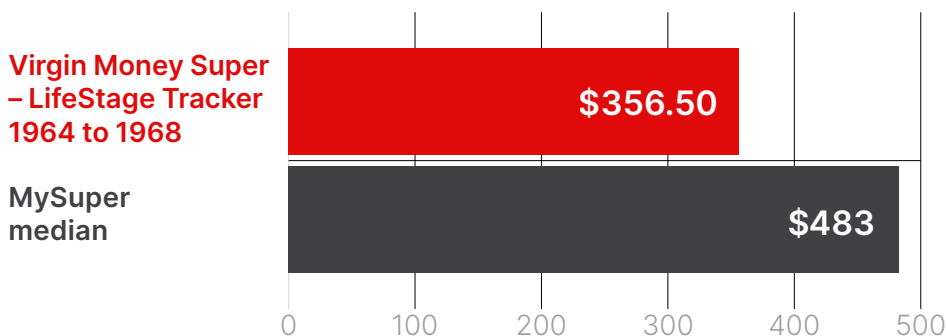
| Determination                             | Assessment  |
|---|---|
| Members' financial interests are promoted | <p>MySuper - Lifestage Tracker 1964 to 1968 achieved a Quartile 1 ranking relative to all MySuper products for the year to 30 June 2023 based on an assessment of fees and costs.</p> <p>Choice - The Choice fees and costs are mid-market or better for most options. The \$25,000 and \$50,000 balance comparisons have all options ranked at Quartile 1 or Quartile 2.</p> |

Effective 1 April 2023, the Trustee reduced the estimated costs associated with product and strategic services from 0.036% per annum of MST assets to 0.017% per annum.

As demonstrated by the transition of members through the BT Successor Fund Transfer (SFT), the Trustee has a continued strategic focus on building scale within the MST, with the aim of passing benefits to members by way of providing lower fees.

#### MySuper

Table 1 – Lifestage Tracker MySuper annual fee comparison compared to the APRA MySuper median<sup>1</sup>



<sup>1</sup>Source: APRA Quarterly MySuper Statistics Tables 2a and 2b SRF 700.0 – Item 4 (30 June 2023) and based on a balance of \$50k.

## Choice

Table 2 – Choice fees and costs competitor rankings for \$25,000 balance

| For \$25,000 balance |                                      |                               |           |         |          |
|----------------------|--------------------------------------|-------------------------------|-----------|---------|----------|
| Fee category         | Investment option                    | Administration fees and costs | Total fee | Rank    | Quartile |
| High Growth          | Indexed Diversified Shares           | 0.64%                         | 0.88%     | 4 / 76  | Q1       |
| Growth               | Enhanced Indexed Growth              | 0.64%                         | 0.92%     | 7 / 77  | Q1       |
| Balanced             | N/A                                  | N/A                           | N/A       | N/A     | N/A      |
| Conservative         | Enhanced Indexed Conservative Growth | 0.64%                         | 0.94%     | 26 / 74 | Q2       |

Table 3 – Choice fees and costs competitor rankings for \$50,000 balance

| For \$50,000 balance |                                      |                               |           |         |          |
|----------------------|--------------------------------------|-------------------------------|-----------|---------|----------|
| Fee category         | Investment option                    | Administration fees and costs | Total fee | Rank    | Quartile |
| High Growth          | Indexed Diversified Shares           | 0.53%                         | 0.77%     | 5 / 76  | Q1       |
| Growth               | Enhanced Indexed Growth              | 0.53%                         | 0.81%     | 8 / 77  | Q1       |
| Balanced             | N/A                                  | N/A                           | N/A       | N/A     | N/A      |
| Conservative         | Enhanced Indexed Conservative Growth | 0.53%                         | 0.83%     | 26 / 74 | Q2       |

## 2. Investment returns

| Determination                                    | Assessment  |
|--|---|
| Members' financial interests are mostly promoted | MySuper - Lifestage Tracker achieved predominantly a Quartile 2 ranking relative to peers over 1, 3, and 5 years to 30 June 2023 (net of fees and taxes). |
|  | Choice - Choice returns are mid-market or better.   |

## MySuper

Under the Government's Your Future, Your Super reforms, which came into effect on 1 July 2021, APRA is required to conduct an Annual Performance Assessment (APA) for MySuper products. The APA assesses the investment performance and administration fee of a product over an eight-year time horizon. Based on the APA results released by APRA on 31 August 2023, the Product passed the APA.

The returns for the VMS LifeStage Tracker cohorts will generally be higher for options in the pre glide stage, with returns decreasing for cohorts in glide and post glide phases. This is due to the nature of lifecycle option, where in-glide and post-glide cohorts as per the glidepath have reduced allocation to growth assets as members age. This is consistent with providing downside risk protection for older members.

Table 4 – LifeStage Tracker net investment returns for a representative member (account balance of \$50,000) as at 30 June 2023<sup>2</sup>

| Lifecycle Stage   | 1 yr. net return (% p.a) <sup>3</sup> | 3 yr. annualised net return (% p.a) | 3 yr. annualised net return (% p.a) | Stage of glidepath <sup>4</sup> |
|-------------------|---------------------------------------|-------------------------------------|-------------------------------------|---------------------------------|
| Born pre-1949     | 6.41                                  | 3.25                                | 3.65                                | Post glide                      |
| Born 1949 to 1953 | 6.39                                  | 3.37                                | 3.82                                | Post glide                      |
| Born 1954 to 1958 | 6.92                                  | 4.28                                | 4.31                                | In glide                        |
| Born 1959 to 1963 | 8.94                                  | 5.71                                | 5.13                                | In glide                        |
| Born 1964 to 1968 | 11.00                                 | 7.17                                | 5.94                                | In glide                        |
| Born 1969 to 1973 | 12.53                                 | 8.21                                | 6.51                                | Pre glide                       |
| Born 1974 to 1978 | 12.44                                 | 8.33                                | 6.56                                | Pre glide                       |
| Born 1979 to 1983 | 12.43                                 | 8.28                                | 6.57                                | Pre glide                       |
| Born 1984 to 1988 | 12.58                                 | 8.38                                | 6.61                                | Pre glide                       |
| Born 1989 to 1993 | 12.54                                 | 8.26                                | 6.58                                | Pre glide                       |
| Born 1994 to 1998 | 12.33                                 | 8.24                                | 6.54                                | Pre glide                       |
| Born 1999 to 2003 | 12.15                                 | 8.01                                | 6.42                                | Pre glide                       |
| Born 2004 to 2008 | 11.90                                 | 7.92                                | 6.54                                | Pre glide                       |
| Born 2009 to 2013 | 12.58                                 | 8.33                                | 6.68                                | Pre glide                       |
| Born 2014 to 2018 | 12.19                                 | 8.16                                | 6.53                                | Pre glide                       |

<sup>2</sup> Quartile rankings are based on risk bands to provide a more accurate assessment compared to ranking against all MySuper funds

<sup>3</sup> Values only provided for options funded as at 30 June 2022

<sup>4</sup> VMS LifeStage Tracker cohorts sit on a glidepath. Younger cohorts (with members aged under ~55 years of age) will be classified as pre-glide as their growth assets haven't begun to decrease. While older cohorts could be classified as in-glide or post-glide depending on whether their growth allocation for their age cohort has reached the terminal growth asset allocation, of roughly 60%.

## Choice

APRA has recently introduced APA for Trustee-directed Products, from 1 July 2023 onwards. All choice options surveyed within the 2022-23 APA, **passed** the APA.

Investment returns will vary according to the asset class or level of risk taken for each Choice investment option.

Table 5 – Choice investment return rankings against comparable investment options<sup>5</sup>

| Investment option                    |                      | 1 Year   |          | 3 Years   |          | 5 Years  |          |
|--------------------------------------|----------------------|----------|----------|-----------|----------|----------|----------|
|                                      | Peer group           | Rank     | Quartile | Rank      | Quartile | Rank     | Quartile |
| Cash                                 | Cash                 | 40 / 66  | Q3       | 47 / 66   | Q3       | 31 / 65  | Q2       |
| Enhanced Indexed Conservative Growth | Capital Stable       | 18 / 89  | Q1       | 56 / 85   | Q3       | 20 / 79  | Q1       |
| Enhanced Indexed Growth              | Balanced             | 27 / 178 | Q1       | 113 / 168 | Q3       | 58 / 156 | Q2       |
| Indexed Australian Property          | Listed Property      | 3 / 37   | Q1       | 12 / 33   | Q2       | 19 / 32  | Q3       |
| Indexed Australian Shares            | Australian Shares    | 11 / 76  | Q1       | 40 / 73   | Q3       | 11 / 71  | Q1       |
| Indexed Diversified Shares           | High Growth          | 6 / 58   | Q1       | 7 / 56    | Q1       | 3 / 49   | Q1       |
| Indexed Overseas Shares              | International Shares | 6 / 73   | Q1       | 6 / 70    | Q1       | 4 / 68   | Q1       |

## 3. Investment risk

| Determination                             | Assessment  |
|---|---|
| Members' financial interests are promoted | MySuper - Most of the Lifestage Tracker options are taking a level of investment risk in line with comparable MySuper products.   |
|   | Choice - The Trustee ensures that it has a range of options available for members to choose from, with different risk characteristics and investment objectives. During the last review in 2023 the Trustee confirmed that it was comfortable with the level of investment risk in each choice investment option. |

<sup>5</sup> The options surveyed include all available investment options. The rankings are sourced from the SuperRatings FCRS Survey as at 30 June 2023.

## MySuper

The level of investment risk for MySuper products has been measured using the methodology set out in *APRA Reporting Standard SRS 700.0 Product Dashboard*.

Most of the VMS LifeStage Tracker options are taking a level of investment risk in line with comparable MySuper products. Options that are ranked Q3 or Q4 are in glide and outliers in their category. Over time these options will continue to decrease their growth asset allocation given the lifecycle design.

Table 6 – LifeStage Tracker rankings against other MySuper products with the same risk label

| Lifecycle Stage   | Estimated number of negative net investment returns over a 20-year period | Stage of glidepath <sup>4</sup> |
|-------------------|---|---------------------------------|
| Born pre-1949     | 3.70  | Post glide                      |
| Born 1949 to 1953 | 3.70  | Post glide                      |
| Born 1954 to 1958 | 3.90  | In glide                        |
| Born 1959 to 1963 | 4.30  | In glide                        |
| Born 1964 to 1968 | 4.60  | In glide                        |
| Born 1969 to 1973 | 4.80  | Pre glide                       |
| Born 1974 to 1978 | 4.80  | Pre glide                       |
| Born 1979 to 1983 | 4.80  | Pre glide                       |
| Born 1984 to 1988 | 4.80  | Pre glide                       |
| Born 1989 to 1993 | 4.80  | Pre glide                       |
| Born 1994 to 1998 | 4.80  | Pre glide                       |
| Born 1999 to 2003 | 4.80  | Pre glide                       |
| Born 2004 to 2008 | 4.80  | Pre glide                       |
| Born 2009 to 2013 | 4.80  | Pre glide                       |
| Born 2014 to 2018 | 4.80  | Pre glide                       |

The benefit of the lifecycle strategy is that it is designed with a whole of life approach in mind. The level of investment risk will adjust accordingly for each cohort, with pre-glide and in-glide cohorts taking on more levels of investment risk, while post-glide cohorts taking on lower levels of investment risk but better downside protection.

## Choice

There is no publicly available information which provides a breakdown of the level of investment risk for each Choice product and therefore it is difficult to make reasonable comparisons against the industry. However, the net returns assessment above implicitly takes into account a comparison of investment risk.

The Trustee performs an annual review of each Choice investment option to understand the level of investment risk inherent in each option and whether that would be in line with the expectations of the members who are invested in that option. During the last review in 2023 the Trustee confirmed that it was comfortable with the level of investment risk in each Choice investment option.

## Section Two: Summary of the assessment factors

The Trustee's assessment of the Product as at 30 June 2023 is based on the following criteria specified by the legislation.

| Factor                                  | Determination   |
|---|---|
| <b>Options, benefits and facilities</b> | <p><b>Members' financial interests are promoted</b></p> <p>The options, benefits and facilities are appropriate for Virgin Money Super members having regard to the financial interests of beneficiaries in this product.</p> <p>The MST offers access to a broad range of investment options from lifecycle to choice options. Insurance coverage is across approximately half the membership with excellent ratings across all offerings by external ratings houses such as Chant West and SuperRatings. The Trustee is focused on continuing to uplift the member and digital member experience, as well as enhancing the advice offering that supports our members' journey into and in retirement.</p>   |
| <b>Investment strategy</b>              | <p><b>Members' financial interests are promoted</b></p> <p>The last annual investment strategy review was completed for the LifeStage Tracker and choice options in November 2023.</p> <p>The review identified that for each cohort the probability of achieving the relevant stated investment objective remains satisfactory. Changes to asset allocations have been approved or are under investigation which are expected to improve investment diversification and member outcomes.</p> <p>The review identified that the investment strategy for the options remains appropriate.</p>  |
| <b>Insurance strategy</b>               | <p><b>Members' financial interests are promoted</b></p> <p>The last comprehensive independent review of the Insurance Management Framework (<b>IMF</b>), including insurance strategy, occurred in September 2023. The outcomes of the review concluded that the IMF and insurance strategy are operating effectively in members' best financial interests.</p> <p>The Trustee's insurance strategy underpins a strong insurance offer, making a range of insurance benefits available to members (i.e. Death, Total and Permanent Disablement, and Income Protection). The nature of the insurance offer reflects the differing needs of members. Where default cover is provided on an automatic basis members can adjust or cancel their cover at any time to ensure the types and amounts of cover they hold is appropriate and affordable for their circumstances.</p> <p>For insured members, there is a continuing focus to reduce frictions in the member servicing model and improving claims admittance rates and claims durations.</p>   |
| <b>Insurance fees</b>                   | <p><b>Members' financial interests are mostly promoted</b></p> <p>Ensuring that insurance fees charged in relation to a product are affordable and do not inappropriately erode the retirement income of beneficiaries is a key objective of the Trustee's insurance strategy.</p> <p>The approach applied by the Trustee to meet this objective is that the cost of default cover provided to members on an automatic basis should not generally exceed 1% of a member's estimated salary. For Virgin Money Super the cost of insurance provided to members on an automatic basis does not generally exceed 1% of an estimated salary.</p> <p>On balance, insurance fees for members are broadly aligned with the financial interests and needs of beneficiaries. The Trustee continues to focus on ensuring affordability of insurance premiums and that these do not unduly erode member retirement balances.</p> <p>For members insured through Virgin Money Super, insurance fees are not overly competitive (i.e. some results in Q4) for white collar members, as compared with Chant West's July 2023 survey. As part of the 2023 rate review, it was determined that it was in members' best financial interests to maintain current insurance arrangements with Zurich.</p> |

## Section Two: Summary of the assessment factors (continued)

The Trustee's assessment of the Product as at 30 June 2023 is based on the following criteria specified by the legislation.

| Factor                        | Determination  |
|-------------------------------|--|
| <b>Scale</b>                  | <p><b>Members' financial interests are promoted</b></p> <p>Scale has increased significantly with the BT Successor Fund Transfer (<b>SFT</b>) and other SFTs throughout the year. The number of member accounts across MST increased to 740,000 with funds under management of \$65 billion.</p> <p>Virgin Money Super and MST both have sufficient scale to be sustainable. While this Annual Outcomes Assessment is for Virgin Money Super specifically, the product benefits from the full scale of the Trustee's operations and therefore the comparison has been completed at the most comparable level for the Trustee which is Registrable Superannuation Entity level.</p> |
| <b>Operating costs</b>        | <p><b>Members' financial interests are promoted</b></p> <p>The Trustee incurs operating costs in ensuring the efficient and effective operation of the MST, including Virgin Money Super. Both current and projected operating costs per member are reasonable with the net operating income per account remaining stable and sustainable.</p>   |
| <b>Basis for setting fees</b> | <p><b>Members' financial interests are mostly promoted</b></p> <p>One of the Trustee's strategic objectives is to deliver competitive products and services. The Trustee recognises that the manner in which fees are charged to MST members is a material consideration in assessing the promotion of members' financial interests.</p> <p>The Trustee annually assesses the appropriateness of the fees charged to Virgin Money Super beneficiaries, and continues to enhance policies.</p>  |

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