

Member notice

23 JULY 2021

This notice provides you with important information about the restructuring of the Socially Responsible investment option and recent changes to some of Mercy Super's other investment options as part of our regular review process.

Socially Responsible investment option restructure

In February 2021 we advised members of the decision to redeem the assets supporting this option which, at the time, were wholly allocated to the AMP Capital Ethical Leaders Balanced Fund. While we investigated appropriate alternative arrangements for the underlying investments for this option, an interim measure was implemented with the investments temporarily allocated to the same strategic asset allocation as Mercy Super's MySuper Balanced option.

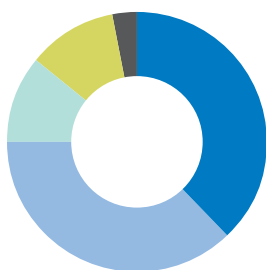
We're pleased to advise that this investigation is now concluded and a restructured Socially Responsible option was implemented from 30 June 2021. Any member accounts invested within the Socially responsible option have been automatically reallocated to the new investments of this option.






Features of restructured Socially Responsible investment option

The Socially Responsible investment option specifically takes into account social, environmental, ethical and other responsible investment considerations when selecting underlying investments. This is primarily done by excluding inappropriate assets from the underlying investments, while maintaining an otherwise passive focus to retain relative alignment with performance benchmarks at reasonable fees.

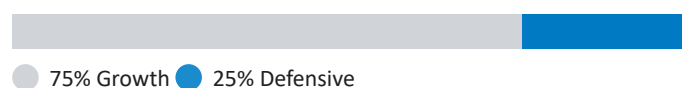
In addition to taking into account broad exclusions of poor social, environmental and ethical factors, this option also seeks to consider the risk of climate change and carries reduced fossil fuel exposures and overall carbon intensity than would otherwise apply when tracking investment indexes.

The following provides details of this option which were implemented from 30 June 2021:



Asset class	Strategic Asset Allocation	Dynamic Asset Allocation range
 Australian Equities	38%	28 – 48%
 International Equities	37%	27 – 48%
 Australian Fixed Interest	11%	1 – 20%
 International Fixed Interest	11%	1 – 20%
 Cash	3%	0 – 10%
Currency Exposure	25%	15 – 35%

Growth/Defensive assets



Suitable for

Members seeking returns above the rate of inflation over the long term and with an investment timeframe of at least five to 10 years.

Overview

Seeks to provide moderate to high returns, with a higher level of risk by investing in a diversified mix of equity and fixed interest investments with a bias towards growth assets.

The option seeks to generate competitive returns within a sustained and responsible framework by utilising investment manager products that take into account the environmental, social and ethical considerations of the underlying assets.

Investment objectives

Achieve returns net of fees and tax at least equal to CPI + 2.5% over rolling 10 year periods.

Likelihood of a negative annual return

Four to less than six in every 20 years (5.97)

Investment option changes

We frequently review our investment strategy to ensure our investment options continue to align with member needs and provide strong long-term returns. As a result some changes were made to our investment options effective 1 July 2021:

- The structure of the Balanced option for Income Accounts is now identical to that for the MySuper Balanced option for Super Accounts.
- The Strategic Asset Allocation for the MySuper Balanced, Balanced, Growth, Conservative and Stable options changed.
- The likelihood of a negative return and Standard Risk Measure changed for most options.
- The investment objectives for MySuper Balanced, Balanced, Growth, Australian Shares and International Shares options changed.

Asset allocation changes

The following provides details of changes made to the Strategic Asset Allocation (SAA) and Dynamic Asset Allocation (DAA) ranges from 1 July 2021:

Asset class	MySuper Balanced/Balanced options*				Growth option			
	From 1 July 2021		Previously		From 1 July 2021		Previously	
	SAA	DAA	SAA	DAA	SAA	DAA	SAA	DAA
Australian Equities	27%	17 – 37%	25%/21%	16 – 36%/11 – 31%	32%	22 – 42%	32%	22 – 42%
International Equities	28%	18 – 38%	24%/18%	13 – 33%/8 – 28%	33%	23 – 43%	28%	18 – 38%
Alternative Growth	3%	1 – 8%	6%/11%	1 – 11%/6 – 16%	7%	2 – 12%	10%	5 – 15%
Property	12%	7 – 17%	12%/12%	7 – 17%/7 – 17%	12.5%	7 – 18%	12.5%	7 – 18%
Infrastructure	12%	7 – 17%	12%/12%	7 – 17%/7 – 17%	12.5%	7 – 18%	12.5%	7 – 18%
Australian Fixed Interest	4.5%	0 – 12%	6%/6%	0 – 14%/0 – 14%	-	-	-	-
International Fixed Interest	4.5%	0 – 12%	6%/6%	0 – 14%/0 – 14%	-	-	-	-
Alternative Defensive	6%	1 – 11%	6%/9%	1 – 11%/1 – 17%	-	-	-	-
Cash/Enhanced Cash	3%	0 – 12%	3%/5%	0 – 12%/0 – 13%	3%	0 – 11%	5%	0 – 13%
Growth (Defensive) assets	73% (27%)		70% (30%) / 66.5% (33.5%)		84.5% (15.5%)		82.5% (17.5%)	
Currency Exposure	20%	10 – 30%	17.5%/17.5%	5 – 25%/5 – 25%	24%	14 – 34%	24%	14 – 34%

*Prior to 1 July 2021 the MySuper Balanced investment option (for Super Accounts only) and Balanced investment option (for Income Accounts only) had different Strategic and Dynamic Asset Allocations. From 1 July 2021 these investment options will have identical allocations.

Asset class	Conservative option				Stable option			
	From 1 July 2021		Previously		From 1 July 2021		Previously	
	SAA	DAA	SAA	DAA	SAA	DAA	SAA	DAA
Australian Equities	16%	6 – 26%	12.5%	2 – 23%	10%	0 - 20%	8.5%	0 – 18%
International Equities	17%	7 – 27%	11.5%	1 – 22%	11%	0 - 21%	7.5%	0 – 17%
Alternative Growth	4%	1 – 8%	8%	3 – 13%	-	-	-	-
Property	12%	7 – 17%	12%	7 – 17%	10%	3 - 15%	8%	3 – 13%
Infrastructure	12%	7 – 17%	12%	7 – 17%	10%	3 - 15%	7%	3 – 13%
Australian Fixed Interest	6%	0 – 14%	8%	0 – 16%	10%	2 - 18%	12%	4 – 20%
International Fixed Interest	6%	0 – 14%	8%	0 – 16%	10%	2 - 18%	12%	4 – 20%
Alternative Defensive	10%	2 – 16%	8%	0 – 16%	12%	0 - 18%	8%	0 – 16%
Cash/Enhanced Cash	17%	10 – 25%	20%	12 – 28%	27%	7 - 37%	36%	28 – 44%
Growth (Defensive) assets	54% (46%)		48% (52%)		37% (63%)		28% (72%)	
Currency Exposure	9%	0 – 19%	9%	0 – 19%	4%	0 – 14%	4%	0 – 14%

Changes to the likelihood of a negative annual return

Our modelling of investment options calculates the likelihood of a negative annual return over any 20-year period for each investment option. This is used to form an industry prescribed Standard Risk Measure which assists in comparing investment options.

The following provides details of changes to the likelihood of a negative annual return measure for all options as a result of the recent review and changes to asset allocations:

Investment option	Likelihood of a negative return	
	From 1 July 2021	Previously
MySuper Balanced/Balanced	Four to less than six in every 20 years (4.68)	Three to less than four in every 20 years (3.99/3.46)
Growth	Four to less than six in every 20 years (5.03)	Four to less than six in every 20 years (4.34)
Conservative	Three to less than four in every 20 years (3.66)	Two to less than three in every 20 years (2.48)
Stable	Two to less than three in every 20 years (2.79)	One to less than two in every 20 years (1.93)
Socially Responsible	Four to less than six in every 20 years (5.97)	Less than five in every 20 years
Australian Shares	Six or greater in every 20 years (7.09)	Six or greater in every 20 years (6.79)
International Shares	Six or greater in every 20 years (6.73)	Six or greater in every 20 years (6.04)
Cash	Less than 0.5 in every 20 years (0.00)	Negligible

Investment objective changes

The modelling from our recent review also resulted in the investment objectives for the following investment options changing from 1 July 2021:

Investment option	Investment objective	
	From 1 July 2021	Previously
MySuper Balanced/ Balanced	<p>Super Accounts and Pre-Retirement Income Accounts: Achieve returns net of fees and tax at least equal to CPI + 3.0% over rolling 10 year periods.</p> <p>Post-Retirement Income Accounts: Achieve returns net of fees and tax at least equal to CPI + 3.5% over rolling 10 year periods.</p>	<p>Super Accounts (MySuper Balanced): Achieve returns net of fees and tax at least equal to CPI + 3.5% over rolling 10 year periods.</p> <p>Income Accounts (Balanced): Achieve returns net of fees and tax at least equal to CPI + 4.0% over rolling 10 year periods.</p>
Growth	<p>Super Accounts and Pre-Retirement Income Accounts: Achieve returns net of fees and tax at least equal to CPI + 3.5% over rolling 10 year periods.</p> <p>Post-Retirement Income Accounts: Achieve returns net of fees and tax at least equal to CPI + 4.0% over rolling 10 year periods.</p>	<p>Super Accounts and Pre-Retirement Income Accounts: Achieve returns net of fees and tax at least equal to CPI + 4.0% over rolling 10 year periods.</p> <p>Post-Retirement Income Accounts: Achieve returns net of fees and tax at least equal to CPI + 4.5% over rolling 10 year periods.</p>
Socially Responsible	Achieve returns net of fees and tax at least equal to CPI + 2.5% over rolling 10 year periods	Achieve returns net of fees and before tax which are above the return from the performance benchmark of the option's underlying funds and at least equal to CPI + 3.5% over rolling five year periods.
Australian Shares	Achieve returns net of fees and tax at least equal to the S&P/ASX300 index over rolling 10 year periods.	Achieve returns net of fees and tax at least equal to CPI + 5.0% over rolling 10 year periods.
International Shares	Achieve returns net of fees and tax at least equal to the MSCI All Countries World ex-Australia (25% unhedged and 75% hedged) Index over rolling 10 year periods.	Achieve returns net of fees and tax at least equal to CPI + 5.0% over rolling 10 year periods.

Investment fee changes

The following provides details of changes to the estimated Investment fee of all options:

Investment option	Estimated Investment fee	
	From 1 July 2021	Previously
MySuper Balanced/Balanced	0.794%	0.840% / 0.854%
Growth	0.902%	0.887%
Conservative	0.764%	0.777%
Stable	0.614%	0.588%
Socially Responsible	0.339%	1.334%
Australian Shares	0.478%	0.493%
International Shares	0.602%	0.624%
Cash	0.072%	0.113%

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