IOOF Portfolio Service Superannuation Fund

IOOF Investment Management Limited ABN 53 006 695 021

Trustee of the IOOF Portfolio Service Superannuation Fund ABN 70 815 369 818 (Fund)

Responses to member questions not answered during the 2023 Annual Members' Meeting

Important information: The answers to member questions may contain general advice that does not take into account your objectives, financial situation or needs. Before you act on any general advice, you should consider whether it is appropriate to your individual circumstances. Before making any investment decision you should obtain and read the Fund's product disclosure statement which is available at https://www.ioof.com.au/forms or by calling 1800 913 118. Past performance is not an indicator of future performance.

1. Is America heading towards a recession?

The US economy surprised in 2023 by avoiding the recession that many expected. Despite the banking crisis in March 2023 and rising interest rates, the US economy remained resilient.

Consumers drew down on their savings to cope with higher living costs. For American workers, there was also the benefit of higher wages from a strong jobs market. Importantly as well, most American mortgages are at fixed interest rates for 30 years[1]. This insulated many households from rising interest rates.

The US economy seems set to slow down in 2024 given such a strong performance last year. Interest rates are still high, and savings have diminished. However, a recession does not appear on the immediate horizon. Yet we are conscious that no one can exactly predict recessions. Dramatic events such as global conflict or a pandemic can cause a recession as well as high interest rates.

Hence it is vital that investors are prudent in their decisions and remain well diversified. As history remind us, recessions occur in the economic cycle. So, amidst the current "blue sky" thinking, we need to remember that the weather can turn and that 'dark clouds' can return.

2. If Trump wins the election will it make markets more volatile?

American politics is extremely polarised and that is worrying for the world as the United States is so pivotal to global stability, including economic stability. Mr Trump's known economic proposals centre on an "America first" theme which has several broad elements.

First, high tariffs on Chinese goods, which would raise their price and thus feed into higher prices for American households and businesses. Second, and related to the first - Mr Trump is hostile to the open global trading system. Third, he has promised to "dismantle the administrative state", which would entail undoing many regulations, including those related to the environment and workplace safety. His 2016-2020 administration was certainly deregulatory.

Fourth, he appears determined to cut taxes, which is what he did when he was president.

Finally, he would pull the United States out of the Paris Agreement under which countries signed up to:

"…substantially reduce global greenhouse gas emissions to hold global temperature increase to well below 2°C above pre-industrial levels and pursue efforts to limit it to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change."

https://www.un.org/en/climatechange/paris-agreement

Allied to this, Mr Trump and his advisers have said that they will encourage fossil fuel exploration and production and wind down support for the clean energy transition.

Aspects of Mr Trump's proposals would probably be welcomed by financial markets, such as those related to lower taxes and business deregulations. Other elements may be more contentious, such as hostility to the open global trading system.

That said, the United States economy did grow strongly during his 2016-2020 presidency (as did the US share market) until COVID related disruptions.

3. ***Why can't I buy more symbols besides for the ASX200 and can I buy US based securities?***

Members who invested in IOOF Personal Super, the listed security offering is the ASX 300 plus a select list of securities approved by the trustee.

We continue to develop our superannuation products to address the broad needs of members within the regulatory framework and recognise that some potential features may expose members to unreasonable cost, risk and/or complexity. For these reasons, and current low member demand, we are unlikely to introduce the ability to trade US stocks in the near future.

4. ***Is there going to be a market crash in the USA?***

There have been dramatic market crashes in the past and there is likely to crashes in the future. If one examined Wall Street's experience over the past century, three "market crashes" are prominent – October 1929 and the Great Depression, October 1987 and March 2020. While economists and historians still debate the causes for these crashes in 1929 and 1987– the most likely catalysts are expensive share prices, rapidly rising interest rates or a dramatic event that damages investors' confidence.

Notably the US share market and particularly technology shares are currently showing expensive valuations. If one examined the very high Price to Earnings ratios (" P/E ratio henceforth), US technology shares such as Microsoft, Nvidia and Tesla have very high P/E ratios given investors' optimism over Artificial Intelligence ("AI") . The prospect of lower US interest rate settings in 2024 has also given a tailwind to these valuations.

We consider this optimism as being stretched to the upside and are more cautious given the current global risks. The impact of higher interest rates and bond yields in the past two years is still impacting and is likely to slow the global economy and constrain corporate profits in 2024. The continued tragic Russian-Ukraine War and Hamas-Israel conflict are also key threats to global economic stability. National elections in Britain, India, Indonesia, Mexico and the United States could also transform the global political landscape in 2024.

Accordingly, we are taking a very cautious view on global share markets for 2024 by ensuring that our investments are disciplined and diversified.

5. ***When will IOOF be able to offer some new retirement products or have a head of retirement products role introduced?***

   IOOF regularly reviews its products to ensure that they continue to meet the needs of our members. And we have recently established the position of Chief Client Officer, whose primary focus will be to improve the wellbeing of our members throughout their financial journey, including into retirement.

6. ***How do IOOF clients (drawing a pension) without a financial adviser cope or operate and does IOOF have their own financial advisers. Does it cost ?***

   IOOF have Financial Coaches that provide general advice, at no additional cost, to our members on super and various financial matters to help you better understand and optimise your retirement savings. We also offer comprehensive financial advice which tailored strategies to your personal situation and goals, guiding you through different stages of your retirement journey. Please note that this service incurs a fee. To find out more about our advice offerings, you can start by having a discussion with our Financial Coaching team.

   To book a consultation, visit https://www.ioof.com.au/financial-advice.

7. ***With interest rates on fixed income for large amounts of money around 6% would it be advisable to cash in on record share prices and lock in for a couple of years .then when the next big correction occur to buy back***

   Trying to 'market time' by converting super (as well as non-super investments) to cash ahead of possible market downturns is very difficult to do successfully and repeatedly, even for experienced institutional investors like super funds. Then trying to 'market time' back into the share market, after downturns, is no less easy to do successfully and repeatedly.

   It's an adage, but true, that time in the market is a more effective long-term wealth building strategy than trying to 'market time.'

   Think about this. Share markets fell sharply over March/April 2020 on the back of COVID-related shutdowns across the world. However, markets then staged very strong recoveries after governments and central banks, like the US Federal Reserve and Reserve Bank of Australia, stepped in to support communities, businesses, and economies. It would have been very difficult for most experienced investors to anticipate both scenarios and time their actions effectively.

   Members who stuck 'by their guns' participated in the financial market recovery while those who tried to 'market time' likely missed out because they may have waited for the 'perfect time' to get back into the market.

8. ***Regarding account security, is there an intention to increase IOOF Expand account security through Multi-Factor Authentication?***

   We take the protection of our members' personal information very seriously and continue to look at opportunities to enhance our overall platform security to combat potential fraud risks. Recently, we upgraded our user authentication to further strengthen our fraud prevention measures. This upgrade adds to our existing multi-layered security system, including password and authentication codes for key transactions such as online registration and super consolidation.

9. ***Our Financial Adviser has let us know that MLC Super was acquired by IOOF. Has it, or will it be of advantage to the Expand 55+ pension fund members?***

   Insignia Financial (formerly IOOF) completed the acquisition of MLC Wealth from National Australia Bank (NAB) in May 2021.

   Before the acquisition, we expanded the investment options available in Expand Essential. This included introducing lower-priced index-like options and real-return/inflation-focused options, potentially benefiting pension members. We will be introducing separately managed account portfolios for the first time, providing greater transparency and addressing some of the concerns investors may have investing in managed funds. And with our increased scale, we're continuing to invest in improving our products and services.

10. ***What is IOOFs current thinking on the threat to financial markets posed by the Evergrande collapse, and how IOOF is minimising any adverse impact that is foreshadowed?***

   Evergrande's financial collapse appears to be a major setback to China's growth prospects given that this was the largest property developer a few years ago. Evergrande's shareholders and debt investors face significant losses while customers confront even more extended delays in construction and finalisation of their housing purchase.

   However, the impact on the global economy and financial markets appears to be contained and manageable for now. This reflects the fact that Evergrande has been in crisis mode for the last three years. Given considerable time, financial markets have adapted to the prospect of an Evergrande collapse. Within the IOOF Balanced Investor Trust we have no exposure to Evergrande or other Chinese property developers as at 29 February 2024, helping to minimise any further impacts from this sector should they arise.

   In terms of the economic impact more broadly, the weakness of Chinese property developers has weighed on the global iron ore price. Yet this has been mitigated by China's strong demand for iron ore and steel for car production (particularly electric vehicles), infrastructure (e.g. bridges) and transport (e.g. nail and shipping).

[1] https://www.bankrate.com/mortgages/historical-mortgage-rates/