EOFY 2022 Member Webinar Questions

All responses have been made based on information available at August 31, 2022.

PERFORMANCE

I understand only a few super funds had positive returns last financial year. I am interested in why this happened and how Rest plans to position the portfolio going forward with a high inflation environment and central banks tightening?

The one-year return for financial year 2021-2022 was negative for many super funds. Our EOFY webinar and our June 2022 investment commentary have provided some insights into markets, the role of inflation and how we are managing in the current market environment.

To recap, the impact of Covid reshaped consumer activity, people moved more to online shopping and having the benefit of government supported incomes, and prices for goods came under pressure. Fears over rising oil, gas and commodity prices added to inflation concerns which reached a new level after the Russia and Ukraine conflict started in February 2022. In order to curb inflation, Central banks began responding with significant interest rate rises, and as a result we experienced both bond and equity markets falling together – making it a challenging time to invest.

Rest was increasingly cautious of this inflation risk. By September last year we established a new allocation to listed infrastructure. This, alongside strong returns from our established property, infrastructure and agriculture assets helped cushion total returns from the full impact of market downturns. With the expectation of challenging markets, we had started positioning the portfolio generally more defensively in January. We reduced overall equity exposure and the overall credit exposure. We also started increasing cash in the portfolio, allowing us to maintain some flexibility to take advantage of weaker markets if we saw opportunities for long-term benefits with lower priced assets. Positioning our debt allocation to be less sensitive to interest rates rises through this period also helped outcomes. We continue to keep this allocation given we currently expect to remain in a lower growth and higher inflation environment throughout the remainder of this calendar year. We have confidence that many of our more inflation-resilient investments, like commodity shares, infrastructure, private equity, property, and agriculture, will continue to serve our members well.

Returns were negative last year. What happened to my money, and should I change my super?

We hope the end of year presentation and investment updates have given you some context and insight around the 2022 financial year's performance, and that many super funds delivered negative returns last year in a challenging environment.

Markets were driven up by consumer demand and government income support, and then down by conflict, inflation and interest rates rises.

Despite the small negative return last year, Rest performed relatively well in relation to both world markets and to other super funds. To put our results in context, the average super fund returned -3.44%; Rest returned -2.37% over the same period. Rest's return for the 2022 financial year was in the top 15 of 50 comparable peers. *

Furthermore, a quarter of these funds lost more than 4% over the year. It's also important to note that the financial year is a point in time measure only, and the returns into the new financial year for Core Strategy are positive to end August.

We have confidence that many of our more inflation-resilient investments, like commodity shares, infrastructure, private equity, property, and agriculture, will continue to serve our members well. By actively managing our investments and staying diversified, we believe your Super remains in safe hands with Rest. If you would like to get advice about super, Rest offers both digital advice and personal advice for members. Have a look at https://rest.com.au/tools-advice/advice to get started.

Is it true that returns can be manipulated by using cash reserves?

There were some recent reports in the media suggesting a super fund was manipulating end of financial results by moving cash out of the reserves into the fund. We can confirm that the fund was not Rest - we do not, and would never, use this practice to manipulate returns.

*Source: SuperRatings Fund Crediting Rate Survey – June 30, 2022, SR50 Balanced (60-76) Index. Returns are net of investment fees, tax, and implicit asset-based administration fees. Explicit fees such as fixed dollar administration fees, exit fees, contribution fees and switching fees are excluded. Returns for periods greater than one-year returns have been annualised. Past performance is not an indicator of future performance. Ratings, awards, or investment returns are only some of the factors that you should consider when deciding how to invest your super. SuperRatings Pty Limited does not issue, sell, guarantee, or underwrite this product. Go to superratings.com.au for details of its ratings criteria.

YOUR FUTURE YOUR SUPER TEST

Lowering fees can help super funds pass the Your Future Your Super (YFYS) performance test. Rest has recently reduced fees – is this to help you pass the test?

Rest, as an industry super fund, has always been focused on delivering value with profits to members and low fees. We continue to deliver on our commitment to keeping fees as low as possible. At Rest our fees are lower than many super funds, thanks to the scale of our 1.9 million members. Also, because we're not paying shareholders, our profits go back to members. Rest's fees have historically been low and fees for Rest's Core Strategy (our default investment option) are in fact, 25% lower than the default super average*.

Rest Core Strategy passed the APRA (Your Future Your Super) performance test last year and has also passed the APRA performance test for the 8-year period ended 30 June 2022. Low fees can help with the fund's overall performance against the test; however, this benefit is only temporary. We track our performance against the YFYS benchmark internally and do not include fees in our internal assessment so that we can be confident in our overall performance and ability to pass the test regardless of fees.

Can the team comment on the strategy to improve performance and meet the APRA benchmark?

Rest passed the benchmark test for the eight years to 30 June 2022 with an improved margin over the test result for the seven years to 30 June 2021.

Our investment approach has worked to deliver our members in Core Strategy an average annual return of 8.25% since the fund started in 1988, with above-average returns over a 10-year horizon and top-quartile returns for the 15- and 20-year period.**

*SuperRatings, Superannuation Market Analysis and Research Tool (SMART), 27 June 2022. Rest's Core Strategy is compared against the default investment option of all publicly available superannuation products tracked by SuperRatings. Fees are subject to change and are only one factor to consider when investing super. Taxes, other fees and costs may apply.
**Source: Rest, June 30, 2022. Returns are net of investment fees, tax and implicit asset-based administration fees. Explicit fees such as fixed dollar administration fees, exit fees, contribution fees and switching fees are excluded. Returns for periods greater than one-year returns have been annualised. Past performance is not an indicator of future performance. Ratings, awards or investment returns are only some of the factors that you should consider when deciding how to invest your super. SuperRatings Pty Limited does not issue, sell, guarantee or underwrite this product. Go to superratings.com.au for details of its ratings criteria.

The early part of the 8-year period to 30 June 2022 (particularly 2018 and 2019) favoured investors who were prepared to take on a greater risk profile. At Rest, we took a more conservative investment approach, focusing our efforts on choosing investments that would be resilient if the market went down.

However, markets rallied more than we expected, particularly in higher-risk growth stocks making this traditionally more conservative approach less effective over this period relative to our peers.

Since then, we've switched our asset mix and readjusted our portfolio. Over the last year to 30 June 2022 there have been many ups and downs in the investment markets as just a few difficult months in the second half of the year resulted in weaker annual investment returns across super funds. The average return for super funds last year was -3.44% with a large number of funds losing more than 4%.

At Rest, our Core Strategy, whilst producing a negative return in the last financial year, weathered the storm relatively well helped by our carefully diversified mix of investments. The Core Strategy returned -2.37% to 30 June 2022. This is only the 4th time the Core Strategy ended a single financial year with a negative return. While investments can go up and down and past performance is not necessarily indicative of future performance this negative return also follows the Core Strategy's return of 17.43% in the previous financial year.

INTEREST RATES AND MARKETS

Does the Reserve Bank increasing interest rates have an effect on share prices and superannuation?

The Reserve Bank have been raising official cash rates since May 2022, as they aim to tackle rising inflation. Share prices are typically negatively impacted by high inflation. Inflation increases costs for a business, flowing through to lower profits and lower growth. This is in turn, causes share prices to fall. So, inflation generally causes both markets and prices to fall, whilst central banks try to limit its effects by making borrowing more expensive in order to slow growth. Share prices fall more when the inflation is unexpected, but generally adjust to working with higher inflation over time.

With interest rates rising and inverted US yield curves, how does Rest plan to position its core portfolio?

Given the rising rate environment, we have selected bonds that are less sensitive to interest rate rises as we expect interest rates will remain elevated for the remainder of the calendar year and well into the next one. We are also increasing our exposure to high quality bonds. Having a slightly higher cash weighting means we are ready to go when investment opportunities present themselves.

We are still slightly underweight shares currently and favour Australian shares over Overseas ones as the effects of higher inflation continue to impact overseas markets more than local markets. This is because inflation rates remain lower in Australia than many other countries. We remain well-diversified with our investments in infrastructure, private equity and agriculture, all of which have greater inflation resilience than shares.

How is Rest managing geo-political risks such as China and Russia exposures?

Rest had limited exposure to Russia at the start of this calendar year and Russian exposure was less than 0.1% of total assets at the point of the Ukraine invasion. We announced our intent to divest and remaining direct holdings of Russian securities in accordance with our members' best financial interests shortly thereafter.

China is a different decision and should not be automatically grouped with Russia. The Australian economy is of course more inextricably linked to China. Any economic sanctions here would have significant impact, but we cannot be immune to the risks associated with investment in any geography. This is why we constantly stress-test our direct and indirect portfolio exposures against a range of criteria, including geopolitical risk. We use these insights to build resilience into our strategies. This allows us to have confidence in how we can adapt our holdings and our exposures to address problems as they may arise.

What's the view from Rest on the current Australian real estate market, and what changes, if any, will you apply to the investment strategy?

Direct (unlisted) property has been a very strong performer over the last financial year, with rising property prices supported by strong employment data, rising wages, a shortage of high-quality property and historically low interest rates.

Rest’s high quality Australian office portfolio has outperformed the wider market with a flight to quality buildings for tenants after Covid. This has led to prime office space experiencing strong investor demand. Direct property also offers inflation protection for our members, as rents tend to rise in line with inflation. Listed property, both Australian and Overseas, had a more challenging year in terms of performance. As share markets fell over concerns about rising inflation, listed property fell as well. We remain positive on the outlook for high quality direct property but more cautious on listed property and shares, and our current portfolio positioning reflects this view.

CLIMATE CHANGE, RESPONSIBLE INVESTING AND FOSSIL FUELS

Does REST invest in coal, gas, uranium, armaments or logging? Does REST invest in renewable energy

- We exclude certain industry sectors or companies from all of our actively managed investment options during our screening process.
- We do not invest in companies directly involved in controversial weapons (cluster bombs, landmines, depleted uranium weapons and chemical and biological weapons).
- Rest will not invest in listed companies that derive 10% or more of total annual revenues from thermal coal mining, unless certain climate-related criteria can be met, noting that thermal coal is the type of coal used in electricity generation.
- Rest has a Sustainable Growth option, which excludes companies that:
- Materially contribute to environment issues (logging)
  • Own fossil fuels (thermal coal, metallurgical coal, oil and gas) reserves
  • Derives any revenue from: oil and gas exploration and production or power generation from thermal coal, oil and gas or
  – the leasing, mining and processing of coal and coke; and uranium, radium, and vanadium mining are also excluded.

REST does invest in renewable energy. We are the only Australian super fund to wholly own a wind farm, Collgar Wind Farm, located in Western Australia. We also own a stake in Capistrano Wind Partners, which owns and operates wind farms in North America. As at 30 June 2022, Rest had $1.1 billion invested in physical renewable energy and low-carbon solution assets, as well as $1.3 billion invested in listed companies classified as 'low-carbon solutions.'

There is a lot of information on our website regarding climate change and responsible investments if you would like to read more. We'd suggest starting at: https://rest.com.au/investments/how-we-invest/approach-to-responsible-investing and follow through the links of interest.

Fossil fuel sectors have performed very well over the past six months. As Rest moves toward zero by 2050, how do you replace the high returns from fossil fuel assets when they are outperforming?

Fossil fuels have had a great uptick in performance over the last few months. The conflict in Russia and Ukraine is a key reason. We watch these markets very closely and our Core Strategy is invested in companies that have a diverse range of revenue incomes. Rest members will be benefitting from this uptick, in particular from companies that are also transitioning to net zero or low carbon as part of the energy transition theme.

How do you justify not investing members' money in mining assets when they are delivering good returns?

We are investing in what essentially is a transition to a lower carbon world in the best financial interests of our members. Rest will not invest in listed companies that derive 10% or more of their annual revenues from thermal coal mining *unless* certain climate change criteria can be met, such as a credible 2050 transition plan. This doesn't mean we don't invest in mining and commodities, and our shares in these sectors performed very well over the last financial year, especially following the surge in energy and commodity prices driven by the knock-on impacts of the Russian invasion of Ukraine.

We may also continue to invest in securities of companies with:
- diversified revenue streams that include exposure to non-thermal metallurgical coal (hard coking coal), which is used as a component in the production of steel. This is different to thermal coal which is used as a source of fuel for coal-fired power stations.
- we may also invest in companies that have exposure to gas within their revenue stream.

A number of our Australian shares are also benefitting from the theme of energy transition as well, as we navigate through the recent period of volatility. We have modelled our portfolios against three future climate scenarios - doing nothing with carbon emissions, reaching net zero by 2070 and net zero by 2050. The modelling indicates that member returns are better under the 2050 scenario. This allows us to invest with conviction in the transition to a lower carbon economy.

WHAT WE INVEST IN

Do we have access to all the companies you are investing in the Core Strategy?

This information is on REST's website at: https://rest.com.au/investments/how-we-invest

If you scroll down to the section titled "What we invest in" you'll find each option, including the Core Strategy. This information is updated semi-annually and published on our website within 90 days of each semi-annual update (published by 31 March and by 30 September each year).

Does Rest utilise Private Equity funds in any investment options?

Rest utilises private equity investing in many of our investment options. It's increasingly becoming a larger part of the market. We have had two very strong years of performance in private equity. In an era of increasing interest rates where the cost of investment funding is going to get higher, private equity opportunities will likely continue to grow. Private equity allocations are part of our diversified portfolio and one area that we are steadily growing.

Does Rest invest in new technologies? Such as electric cars, solar batteries. etc.

Rest already invests in, and supports new technologies, including "green technology". We may do so through investing in technology company shares, direct investment and through private equity investments. We continue to assess the opportunities presented through technology advancements and the long-term benefits they can bring to our members. We are the only Australian super fund to wholly own a wind farm, Collgar Wind Farm, located in Western Australia. We also own a stake in Capistrano Wind Partners, which owns and operates wind farms in North America. Within our private equity investments, we also have existing investments that support technological advances for example in healthcare.

Does Rest have exposure to the precious metals and miners? Do you hold gold bullion as a diversifier?

We have exposure to metals and miners through our Overseas and Australian shares. Our exposure to these types of shares has been a strong performer for us last year. We do not currently hold physical gold or silver although they are permitted investments.

Super funds like Rest receive money automatically each year from customers and this will increase in coming years with the employer contributions lifting to 12%. Where is the growth for Rest? Where are you looking for new investment options?

We don't take for granted the trust that our members place in us to manage their hard-earned contributions and we think very hard about where is the best place to invest every dollar we receive. Going forward, thinking more broadly, and more globally may be part of the answer. This is not just thinking geographically, but also making use of the full capital market funding spectrum. This means that private funding may play a bigger role in the portfolio, particularly in forms of debt and lending. We have already seen the growing importance for companies of private funding through private equity. We think that the different forms of debt will also increase in importance, especially as traditional methods of financing become harder in a higher interest rate environment. We are already making a significant investment into private debt in Australia where some parts of the banking system have withdrawn from lending to quality small and mid-sized corporations who we believe are worthy recipients.

We expect to see disruption in all parts of the economy. Technology is inevitably going to keep moving forward and improving productivity, and boost investment returns and one of the best ways to access that trend is through the private markets. We think that there is a big opportunity to help with the transition that needs to occur from a fossil fuel-based energy system to a renewable system. The investment in renewable energy around the world is most likely to come from large superannuation and pension funds, like Rest. Super funds may be best placed to be part of the change and the solution to drive the long-term financial benefits from which members can benefit.

INVESTMENT OPTIONS

Will REST offer its members a spot Bitcoin ETF investment option or a cryptocurrency option?

Super is a long-term investment, growing your funds over many years to fund your retirement. Given the current speculative and unregulated nature of digital currencies we are not looking to offer access to these types of instruments at this time.

Will REST offer an infrastructure only fund?

There are no current plans to offer an infrastructure only fund.

Does REST has a published Modern Slavery Statement? If yes, where can member access it?

Rest does have a published modern slavery statement and we have published this for the last 2 years. We analyse for modern slavery risks throughout out investment portfolio. This forms part of our environmental, social and governance assessment as well as being a regulatory requirement. Our process as to how we go about this for our investment portfolio, in both listed and unlisted markets is available on our website at: https://rest.com.au/why-rest/about-rest/sustainability/sustainable-development-goals

Does Rest invest in any research and development projects?

Rest can invest in research and development projects and opportunities. This might be through shares in a listed company, but more commonly through our private equity that supports technological advances, for example in healthcare.

Is Rest invested in Australian Infrastructure?

Rest does invest in Australian infrastructure. Our approach to investing in infrastructure is to diversify the portfolio of investments we offer our members with assets that provide reliable income streams and less-volatile capital growth over the long term. Infrastructure is a ‘mid-risk’ investment that offers a mix of growth and defensive investment characteristics for our members – these investments tend to be less volatile than shares and other asset classes. Our infrastructure exposure is diversified with different types of assets across different geographic locations which includes Australia. Australian assets include airports, critical energy distribution assets in NSW, a windfarm in WA as well as debt facilities to support road network developments.

More information on our holdings can be found on REST's website at: https://rest.com.au/investments/how-we-invest

OUTLOOK

What is your forecast return/loss % for the Core Strategy in the next financial year (22-23)?

We do not generally seek to forecast a return at a point in time as markets are notoriously hard to accurately predict, but rather we focus on ensuring that we can meet the long-term investment objectives for our members. We also feel it is important to build resilience into our portfolios to ensure that the risk is managed for a number of the market scenarios that may evolve. The first two months of FY23 have actually shown a positive bounce particularly across a number of global share markets, but we are not certain that this is a return to a positive trajectory. As we head into Autumn in the northern hemisphere the energy price impact may prove challenging and weigh on returns again. However, history has shown us that markets can be quick to price in bad news, and more measured when absorbing good news. They do usually find a way through volatility over the longer-term if you stay the course though. At the moment we believe it is unlikely that we will see negative returns offer FY23, and the worst is hopefully behind us, but it may not be a smooth path.

Can you comment on what actions central banks are likely to take to limit inflation?

Current debt levels around the world are much higher now than they were before the pandemic, significantly increasing sensitivity to interest rate hikes. We are already seeing signs of a cooling in the Australian housing market in the face of recent interest rate hikes. To varying degrees this is mirrored across households, corporates and government giving smaller hikes more impact. Secondly, we are already seeing some commodity price inflation falling. Copper, oil and iron ore are trading lower than the peaks seen earlier this year which should help to bring goods inflation down. We believe that by early next year some inflationary indicators may have cooled allowing the US and Australian central banks room to pivot from their current hawkish stance. They are likely to seek to avoid recession if possible and rates may have peaked by the second quarter of next calendar year. This may not be the case globally though as the natural gas crisis is having a disproportionate impact in the UK and Europe where inflation levels, and indicators are more worrying. We believe recession in these economies is more likely and it is less clear how the central banks here will respond although consensus is that faster and more aggressive rate hikes may be needed from the Bank of England and the European Central Bank.

Should we be expecting another year of negative return for the Core Strategy in FY 2023?

We do not expect another year of negative returns, and whilst we accept financial market returns are hard to predict, we think the worst is behind us. We feel that most of the bad news such as the conflict in Ukraine, higher inflation and supply shortages have been understood by markets in the first 6 months of the year, and this has been priced in. From here, we think there's less opportunity for bad news to impact returns and more opportunity for slightly good news to increase returns on the upside. We have seen this during July and August where returns have improved back to their longer term normal ranges even though higher inflation is still around. Markets generally react quickly to bad news and adjust and normalise over time.

GENERAL

Do you feel that by becoming a bigger fund Rest will be able to give better returns to its members?

Rest is one of the larger Australian super funds with $65.6 billion at June 30, 2022 and nearly 1.9 million members. At Rest our fees are lower than many super funds, thanks to the scale of our 1.9 million members. Also, because we're not paying shareholders, our profits go back to members. Rest's fees have historically been low and fees for Rest's Core Strategy (our default investment option) are in fact, 25% lower than the default super average*.

Having a larger scale also means that Rest may be able to access investment opportunities that are only open to larger investors with greater funding. At this size we are nimble enough to seek out the opportunities for our members, and big enough to have the advantages of scale.

Should Rest finance investments that are the responsibility of governments? Is this good for members?

Our investments are all assessed on the basis of the potential financial outcome and benefit they offer for our members. Our members also tell us that other topics, such as affordable housing are important to them, so we continue to look for solid financial investments in this area. This is important given our 1% impact investing target. Last year we looked at a number of affordable housing proposals in the UK, Europe and Australia. When we find an opportunity that aligns to our risk and return criteria, we

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will be keen to invest. Super funds are well-placed to be part of the change and the solution. This can allow members to access the long-term financial benefits some of these opportunities present.

FEES

Are fees going to go up like inflation?

We work hard to keep our fees low, so more money stays in your account. We continue to review our fees and aim to keep them low, and in fact we reduced the asset-based component of our administration fee in June 2022, from 0.12% per annum down to 0.10% per annum of your account balance, making our admin fee even lower. You can find details of our other fees and costs in the relevant Product Disclosure Statement. Our aim is to continue to be a low-cost fund through the smart use of technology to deliver the services our members want and using our economies of scale to keep our costs low.

Why is REST still charging % fees based on super balance?

Rest is still charging percentage-based administration fees (also known as 'asset-based' fees) to help our fees to be fair for our members.

Rest's administration fee is made up of two parts – a flat fee of $1.50 per week ($78 per annum), plus an asset-based fee of 0.10% of your account per annum*.

We aim to deliver lower, fairer fees for Rest members, and we recently reduced the asset-based percentage component, making our administration fee even lower. In fact, fees for our default super option, Core Strategy, are at least 25% lower than the average default super option fees**, and for Rest Pension, fees for our Core Strategy are around 35% lower than the average fees for pension products' default and balanced options in the industry***.

* Other fees and costs apply. Further information on fees and costs can be found in the relevant PDS at rest.com.au/pds

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REST ADVICE

What advice does Rest make available on investments, and do I need to pay for this?

The Rest investment guide can be a good place to start. It's available here from our website. Then you can try our Investment Choice Solution or talk to our Advice team by calling 1300 183 361. There is no cost for information or simple advice about your Rest investment options^. For more complex advice, the cost will depend on the topic and your circumstances. The Advice team will talk to you about any fees before you proceed.

I'm nearing retirement and worried about my super balance fluctuating awkwardly. I have no financial experience and I'm concerned about what to do. How can Rest help me decide what to do?

It has been a very difficult investment period over the past 9 months, but our Advice Team is here to help. Call 1300 183 361 to speak to an Adviser who can see if we can assist you navigating the future. Generally, simple advice about your rest account is at no additional charge - it's all part of being a Rest member^. For more complex advice, the cost will depend on the topic and your circumstances. The Advice team will talk to you about any fees before you proceed.

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