vision super

Insight

MEMBER NEWSLETTER **AUTUMN 2021**

Grow your super

Recent changes to superannuation mean you can now add more into your super without hitting the ‘concessional cap’.

Concessional contributions

It can be tricky to get your head around all the different types of contributions, but the most common type of payment into your account will most likely be concessional. These are the payments your employer makes into your account (the superannuation guarantee, or SG), and any additional salary sacrifice you may choose to contribute.

Changes to concessional contribution caps

The concessional contribution cap for the 2020/2021 financial year is set at $25,000 regardless of your age, but eligible members are now able to add extra into super in order to ‘catch up’ on what they did not use in previous years, up to a maximum five years.

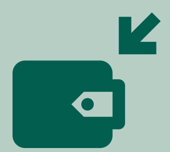
To be eligible for catch up contributions, your total superannuation balance at the end of June 30 of the financial year prior to the year of contribution must be less than $500,000.

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Catch up year 0							
Catch up year 1							
Catch up year 2							
Catch up year 3							
Catch up year 4							
Catch up year 5							
Catch up year 6							

What does this mean for you?

Sandra
2019/2020

Sandra took 12 months’ maternity leave from 1 July 2019 and didn’t make any concessional contributions within the financial year.



2020/2021

When she returned to work the next year, her total concessional contributions for the 2020/21 financial year equalled $10,000 (which is $15,000 less than the annual $25,000 cap).

This means Sandra can carry forward the **$25,000** of unused concessional contributions for the 2019/20 financial year, and the **$15,000** she didn’t use the year after, allowing her to make a lump sum concessional contribution of **$40,000.**

How do I know how much I can put in?

In the lead up to the end of financial year, you may want to check in and view how much of this cap you have left to contribute. All you need to do is log in, scroll down and click “Make extra contributions” and on the side from the drop-down menu, select “Contribution caps”

Note that contributions you see on this page are calculated based on what you put into your Vision Super account. Make sure you add any contributions made into other super funds (including contributions that your employer or spouse might make on your behalf) to the total because It’s the total contributions that count towards the caps for the financial year.

Contributions need to be received by 30 June to be counted towards this financial year’s contribution cap. There are a few ways you can contribute, including EFT (bank transfer), cheque and Bpay. You can find the relevant details when you log in to your Vision Super account.

Non-concessional contributions

These types of contributions are also known as after-tax contributions or personal contributions. Non-concessional contributions are contributions you choose to pay into your super from your after-tax income or savings. You can do this at any time, either as a regular transfer or a one-off payment from your bank account. And, because you’ve already paid tax on your income, after-tax contributions are not taxed again when you deposit them into your super account. You might also be able to claim a tax deduction, to reduce the amount of tax you pay in a financial year.

The total non-confessional contributions you can put in is $100,000 for the 2020/2021 financial year.

If you are under age 65 at any time in a financial year you may effectively bring-forward up to two years’ worth of non-concessional cap for that income year, allowing you to contribute a greater amount (ie up to $300,000 in a given financial year) without exceeding your non-concessional cap. This is known as the ‘bring-forward rule’. There are other eligibility criteria you need to know about so give us a call or speak to a financial adviser if you’re unsure.

Please remember, that while these caps are correct for the 2020/2021 financial year, they are always changing and will be different again in the next financial year.

We’re here to help

Contributing money into the low tax environment of superannuation can be beneficial, but the rules surrounding eligibility and contribution caps are complicated and changing, so before contributing money into superannuation, you should contact your accountant to confirm which contributions limits apply to your personal circumstances. If you’d like to have a chat with us about how to make your savings grow, call us on 1300 300 820 Monday to Friday 8:30am to 5pm.

Divestment - a complex matter

The intent of the divestment movement is to make the world a better place to live by withdrawing investment and capital from companies that fail to align with environmental, social and governance values to hinder their growth – and maybe even shut them down. But this way of thinking can be flawed.

If there is not sufficient investor and public support then, divesting from shares in fossil fuel companies does not stop a single gram of carbon being emitted. Every time an investor sells a share, another investor must purchase it. This of itself doesn't prompt companies to take action or reduce carbon emissions. Investors are simply moving money around to no effect, unless there are far more sellers at a given price than buyers. And we would lose a voice at the table as a shareholder and the ability to put resolutions to company AGMs.

Think of it like this – in Australia, we have people who believe the government should take more action on climate change, and people who think that they shouldn't. If every citizen in Australia who wanted action on climate change decided to emigrate because the government isn't acting fast enough, would that make the government more likely to take action? Arguably, it would actually make the problem worse, because the only citizens voting in elections would then be the people who don't think action should be taken. It's the same with divestments – we need shareholders in big companies to be concerned about climate change, and to base their votes at company AGMs on those concerns – not just to sell their shares to investors who don't care.

The issues

Listed companies do receive funds when they sell shares through an initial public offering (IPO) – also referred to as 'going public' or 'listing on the stock exchange'. But when these shares are then traded on the secondary market on the stock exchange between buyers and sellers, this does not change the initial capital that the company received through the IPO. Share prices go up and down all the time, with no effect on the company's profits or emissions.

But share prices going up and down does have an effect on returns for our members, and outcomes for our members are the lens we look at everything through. We think some energy companies' shares are priced too high, because governments around the world will eventually implement policies that will see fossil fuel use reduced. The longer this takes, the sharper and more abrupt the transition will be, with correspondingly larger losses to shareholders of these companies. Many investors aren't recognising this yet.

Vision Super's portfolio

To reduce the risks, including the risk of stranded assets, that will accompany a transition to a low carbon economy, our passive portfolios have a lower carbon intensity than the indexes they track. We have adopted low carbon benchmarks for international and Australian equities index portfolios and have also decreased the carbon intensity of our Australian corporate bond portfolio. This approach covers all emissions in the global economy, not just energy companies. Every sizable company has substantial carbon emission associated with it; directly, by its customers and suppliers, and by the infrastructure it relies on. We are proactively seeking ways to further reduce our exposure to climate risk and raise our exposure to companies adopting low carbon solutions. We have divested from tar sands and thermal coal, which are two of the worst contributors to climate change. We continue to look to divest from the most at-risk assets in more detail in accordance with the latest scientific consensus. We are also working on a detailed plan to achieve our published objective of being carbon neutral by 2030.

At the same time, we work actively with the companies we still invest in to improve the environmental, social and governance (ESG) choices they make. One of the ways we do this is to ensure that we actively participate in shareholder voting - a far more effective way to encourage those companies to change than simply divesting. We want to make sure that the companies that we invest in are doing their best to minimise their impact on the environment and to act ethically, so we exercise our shareholder vote. This gives us the opportunity to support businesses that are doing the right thing and oppose actions that will intensify climate change.

Voting and filing resolutions

In 2019, we co-filed a resolution on climate change at the BHP annual general meeting and we also regularly voted in favour of climate change resolutions at companies we own. We were also recognised for the second year running as one of Australia's top funds when it comes to voting for climate resolutions. If we own shares in companies, we're able to use that vote to try to change their behaviour – that's one reason why our approach is more nuanced than just divestment.

Divesting

However, we do divest where we don't believe that engagement can make a difference and where we think there is a material pricing risk. In addition to thermal coal and tar sands, Vision Super does not invest in controversial weapons such as nuclear bombs and cluster mines, or in tobacco. No amount of engagement will make cluster mines any less likely to kill civilians, or make a tobacco company's products any less likely to kill their customers.

We have also divested from tar sands and thermal coal, two of the worst contributors to climate change – because we believe there is a material pricing risk.

When determining which companies we won't invest in, we set a materiality threshold at 25% of revenue with a 5% buffer.

Fossil fuels

We don't believe any fund can truly claim to be "fossil fuel free" while fossil fuels are integrated into the global economy. Some of the biggest customers of fossil fuel energy are technology companies, aerospace companies, transport companies, agriculture, and industrial companies - in fact any company connected to a transmission grid fed by fossil fuel energy plants. "Divesting" without thinking about demand as well as supply will not solve the climate crisis - we need to transition our entire way of life away from emissions production, and we will need to learn as we go. This is not easy, and will not be achieved by simply selling shares in some companies.

Vision Super has a comprehensive ESG policy which we use to guide our decision-making and to monitor the impact we have on communities and the environment. There's a growing body of evidence proving that the consideration of ESG factors, when integrated into investment analysis and portfolios, improves long-term investment performance.

You can read more about how we manage climate risk in our annual Corporate responsibility reports on our website.

Leadership in a time of climate change

When Vision Super is investing for our members' retirements it's essential that we take a long-term view. Climate change is one of the biggest risks we consider because it is and will continue to have a massive impact right across the economy. The actions we take now will have a positive effect later.

ESG (environmental, social and governance) factors are known to have an impact on companies' long-term performance, so it's important for us to consider how well companies manage these factors to get the best returns we can for you. There is growing evidence that ESG factors, when integrated into investment analysis and portfolios, can offer potential long-term performance advantages too. This means that your super performs better over the long term when it's invested ethically.

Our votes

As an ethical profit for member industry super fund, if the companies that we invest in are not doing their best to minimise their impact on the environment and act ethically, we are able to exercise our shareholder vote. This gives us the opportunity to support businesses that are doing the right thing, and oppose actions such as the use of cheap labour in unsafe conditions or excessive pay for executives. Engaging with companies on their ESG policies builds a better future for everyone.

We consider each resolution on its merits. Our votes can help push companies to vote for:

- Gender diversity on Boards
- Better human rights and other labour disclosures
- Proposals asking companies to develop greenhouse gas reduction goals, recycling programs, and other proactive means to mitigate their environmental footprint
- Better climate change disclosures
- Proposals requesting that a company consider energy efficiency and renewable energy sources
- Increased disclosure on public health and safety issues
- Proposals asking companies to stop political spending.

ESG and our investment beliefs

When we say investment beliefs, we mean the principles that guide all of our work. Overarching principles are great as guides when making decisions on our investments.

The Board of Vision Super is committed to fostering healthy debate, a diversity of views and transparency within the context of these beliefs. These are six of our beliefs that apply to the whole Fund:

1. We believe that diversification is an important source of risk reduction. Asset class diversification is our major source of diversification.
2. We believe that environmental, social and governance (ESG) issues and sustainability considerations are important within the context of optimising net long-term risk-adjusted returns.
3. We believe that managing money on behalf of other people requires us to have high standards of openness and transparency. We take this responsibility seriously and commit to being at the forefront of disclosure within our industry and to reviewing our internal practices regularly to ensure that they meet best practice standards.
4. We believe that effective decision making is facilitated by appropriate delegation and reporting governance structures.
5. We believe that complex strategies increase operational and investment risk and stronger conviction is required to justify such strategies.
6. We believe an appropriate timeframe for investment decisions to pay off is three to five years.

ESG considerations are included in our fund-wide investment beliefs, which guide the decisions we make about our investment portfolio on behalf of our members. If you'd like to see all of our beliefs, please visit our website.

A super super fund

Vision Super's approach to active ownership and stewardship activities is actioned through our proxy voting, collaborative initiatives, company engagement and through policy advocacy work through our proxy research advisers and on occasions directly when required.

We believe that ESG considerations need to be integrated into investment oversight and decision-making, in order to fulfil our duties to act in the best interests of our members.

Investment Update

The investment environment in the first quarter of 2021 was favourable, with the Balanced Growth Investment Option returning 3.15% and the Pension Balanced Growth option returning 3.58%.

Recent developments

Governments and central banks continue to provide considerable support to the global recovery. With the US Democratic Party gaining control of Congress, another stimulus package (worth USD1.9 trillion) was passed in March and the Democrats have recently outlined a USD2.2 trillion infrastructure proposal. Recent data suggests the efforts to reflate the US economy seem to be working. For example, the US unemployment rate has fallen from a peak level of 14.8% in April 2020 to 6.0% in March 2021.

In Australia, the economy grew by 3.1% in the final quarter of 2020, which was faster than expected. Activity in that quarter was only 1.1% below that in the last quarter of 2019. The economic impact of COVID-19 on Australia has been much less than most other countries to date. This mainly reflects the benefits of tighter restrictions that have been used to control the spread of the virus.

With vaccine rollouts well underway in some parts of the developed world, investors are contemplating a path to "normality". The percentage of the population that has received a first dose of a COVID-19 vaccine is around 50% in the UK and 30% in the US. In Europe and Australia, the progress with vaccination deployment has been slow so far.

The recent US stimulus and vaccines have resulted in investors becoming more confident about the outlook. Reflecting this, money has continued to move out of sectors that benefited from COVID-19 (e.g. technology) into sectors that are more sensitive to improvement in the economy (e.g. energy, financials and industrials).

Greater confidence in the global recovery has resulted in increasing bond yields, with the Diversified Bonds Option returning -3.02% during the quarter (Pension Diversified bonds option returning -3.36%). When the yields of bonds increase, their prices fall. During the first quarter of 2021, rising yields provided a headwind for some equities. This headwind was more pronounced for high growth companies as the current value of their future earnings is more sensitivity to changes in interest rates. As the Innovation and Disruption Investment Option invests in high growth companies, the return from that option (0.08%) (0.48% in the Pension Innovation and Disruption option) was materially lower than that for the International Equities option (5.66%) (Pension International Equities option returned 6.40%).

Outlook

Our base case involves a continuation of the recovery in global activity, underpinned by a progressive boost from the deployment of vaccines as well as policy support. We expect that economic and earnings growth globally and in Australia will be well above average in 2021, with economies and companies moving closer to their potential operating levels. Equity markets are expected to rise over this period, although at a slower pace than the strong gains experienced since March 2020.

While many measures of equity valuations are high in absolute terms, they are currently supported by low interest rates. Based on their guidance, central banks are expected to increase interest rates much later than is typically the case. While this allows higher equity valuations, it makes equity markets vulnerable to an eventual change in policy. We are monitoring for changes in US Federal Reserve policy very closely, as this central bank can have a large impact on investment markets.

The current key downside risks to our base case view are rising bond yields resulting in falling equity markets and lower effectiveness of vaccines in controlling COVID-19. In terms of upside risk, policy may eventually be too stimulatory for economies that are operating closer to potential, resulting in stronger than expected growth. If central banks do not adjust their forward guidance, this may initially result in strong gains in equities before inflation concerns eventually emerge leading to equity market falls.

Your quarterly newsletter

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