



# SMF Eligible Rollover Fund

## Annual report 2017

Issued by IOOF Investment Management Limited ABN 53 006 695 021, AFSL 230524 (IIML) as Trustee for the SMF Eligible Rollover Fund ABN 82 810 851 250 (Fund). IIML is also the investment manager and administrator of the Fund. IIML is part of the IOOF group, comprising IOOF Holdings Ltd ABN 49 100 103 722 and its related bodies corporate. The information in this report is factual only and not financial advice.

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## Message from the Trustee

I am pleased to present the annual report to members of the SMF Eligible Rollover Fund (Fund) for the year ending 30 June 2017. This report has been prepared by IOOF Investment Management Limited as Trustee of the Fund.

For over 170 years IOOF has helped Australians secure their financial independence. Today, we are one of the largest independent financial services group in Australia, with \$147.2 billion in funds under management, administration, advice and supervision, and we currently provide services to more than 530,000 customers around Australia\*.

As we grow, one thing won't change however. Just as in our beginning in 1846, we remain as committed as ever to helping you secure your financial independence.

In this report you will find general information about the Fund, including abridged financial statements and changes to the Fund that have occurred during the 2016/17 financial year.

On behalf of the Board of Trustee directors, thank you for your ongoing support.

Yours sincerely,



**Christopher Kelaher**

Managing Director

IOOF Investment Management Limited

as Trustee of the SMF Eligible Rollover Fund

\*As at 30 June 2017

# Government reforms in superannuation

## Changes and developments in superannuation

### Super reforms commenced 1 July 2017

New reforms to the tax treatment of superannuation commenced on 1 July 2017. These reforms were originally announced in the 2016 Federal Budget and were passed into law in November 2016.

The key changes are:

- **Transfer balance cap**

This is a limit of \$1.6 million to the amount of super benefits that can transfer to the tax-free pension phase. The cap applies to the value of existing retirement-phase pensions on 30 June 2017 and any new pensions that commence from 1 July 2017. The amount counted against the cap is reduced by any lump sum withdrawals or rollovers from the pension after 1 July 2017 and any amounts that relate to compensation for personal injury.

Before December 2017, the Trustee will report to the ATO the 30 June 2017 value of all existing pensions and the commencement value of new pensions, along with any post 1 July 2017 withdrawals from pension accounts and personal injury compensation contributions.

- **Tax on earnings of transition to retirement (TTR) pensions**

From 1 July 2017, investment earnings on TTR pensions will be taxed at 15 per cent - the same basis as accumulation super accounts. The value of TTR pensions are not counted under the transfer balance cap or reported to the ATO until age 65 or earlier retirement.

- **\$100,000 non-concessional contributions (NCC) cap**

The annual NCC cap has reduced to \$100,000 from 1 July 2017, or up to \$300,000 over 3 years if under age 65. Also this cap will drop to \$0 for 2017/18 if the member's total super balance across super and pension accounts on 30 June 2017 is \$1.6 million or more. Where balances are between \$1.4 million and \$1.6 million, the ability to bring forward any future years' cap entitlements will be restricted. This total super balance is assessed 30 June each year to determine the ability to make non-concessional contributions for the following financial year.

- **Tax deductible personal super contributions for employees**

From 1 July 2017 employees with assessable income will be able to claim a tax deduction for personal contributions to super. This means many more members will be able to make pre-tax super contributions, without having to enter into salary sacrifice arrangement with their employer.

Before claiming all personal contributions as a tax deduction, members should consider any potential Government co-contribution if no tax deduction was claimed.

- **\$25,000 concessional contributions cap**

The annual concessional contributions cap has reduced to \$25,000 per annum for 2017/18. For the 2018/19 and later years, if your total superannuation balance is below \$500,000 any unused cap amount can be carried forward and contributed in a later year for up to 5 years, but only capturing unused amounts accruing from 1 July 2018.

- **Other tax changes from 1 July 2017**

The income threshold for additional tax on concessional contributions for high income earners (Division 293 tax) has reduced to \$250,000. Also the spouse income threshold for a tax offset for spouse contributions has increased to \$37,000 per annum. However anti-detriment payments for lump sum death benefits are abolished where death is after 30 June 2017 or where the death benefit is paid after 30 June 2019.

## Superannuation thresholds for 2017/18

<b>Concessional contributions cap</b>	\$25,000
<b>Non-concessional contributions (NCC) cap</b>	\$100,000; or \$300,000 over 3 years if under age 65 and less than \$1.4 million in super and pension on 30 June 2017; or \$200,000 over 2 years if under age 65 with between \$1.4 million and \$1.5 million in super and pension on 30 June 2017. \$0 with \$1.6 million or more in super and pension on 30 June 2017.
<b>Superannuation guarantee (SG) rate</b>	9.5%
<b>SG maximum contributions base</b>	\$52,760 ordinary time earnings per quarter or \$211,040 p.a. (up from \$51,620 per quarter 2016/17)  The maximum contributions base cannot generate an annual contribution amount that would exceed the concessional contributions cap.
<b>Preservation age</b>	Age 56 for those who turned age 56 before 1 July 2017
<ul style="list-style-type: none"> <li>• <b>Benefits can be accessed on retirement</b></li> <li>• <b>0% tax on low rate threshold (below)</b></li> </ul>	Age 57 for those who turn age 56 after 30 June 2017
<b>Low rate threshold</b>	\$200,000 (up from \$195,000 for 2016/17)
<ul style="list-style-type: none"> <li>• <b>0% tax under age 60 for cash lump sums</b></li> </ul>	
<b>CGT cap amount</b>	\$1,445,000 (up from \$1,415,000 for 2016/17)
<ul style="list-style-type: none"> <li>• <b>excluded from NCC cap</b></li> </ul>	
<b>Government co-contribution income</b>	Full co-contribution - \$36,813 p.a. or less (up from \$36,021 p.a. 2016/17)  No co-contribution - \$51,813 p.a. or more (up from \$51,021 p.a. 2016/17)
<b>Spouse contributions tax offset</b>	Maximum of \$540 if annual spouse income less than \$37,000 (up from \$10,800 2016/17). Offset ceases at \$40,000 (up from \$13,800 2016/17)
<b>Departing Australia Super Payment tax rate</b>	35% on taxable component (65% for working holiday makers)
<b>Centrelink Age Pension age</b>	Age 65 if you turn age 65 before 1 July 2017 Age 65 and 6 months if you turn age 65 after 30 June 2017 Age pension age increases by 6 months every 18 months from 1 July 2017 until it reaches age 67 by 1 July 2023.

## Proposed super reforms to commence

### 1 July 2018

The Government has proposed further changes to super to commence 1 July 2018. These changes have been introduced to parliament, but are not yet law.

#### First home saver super scheme.

From 1 July 2018, super fund members will be able to request a withdrawal of voluntary contributions (personal contributions and salary sacrifice contributions) made since 1 July 2017 to help purchase a first home. Voluntary contributions of up to \$15,000 a year or \$30,000 in total plus ATO calculated earnings can be withdrawn. Note that only 85 per cent of voluntary concessional contributions are able to be accessed. Members have 12 to 24 months after the funds are released to enter into a contract to purchase or build their first home.

#### Downsizer contributions to super

Members and spouses aged 65 or more can contribute up to \$300,000 each of the proceeds of the sale of their main residence, where the sale occurs after 1 July 2018. The contributions are not counted under the NCC cap and no maximum age or work test applies. To make downsizer contributions, the individual or their spouse must have owned the property for at least 10 years and made the contribution within 90 days of settlement. This contribution is only able to be triggered once, even if the full \$300,000 is not used future sales will not qualify for additional contributions.

#### Super guarantee to exclude salary sacrifice

Salary sacrifice contributions will no longer count under an employer's obligation to make compulsory Super guarantee contributions. From 1 July 2018 an employer will be required to make contributions of 9.5 per cent of ordinary time earnings before any salary sacrifice contributions are determined.

#### Fund choice for new enterprise agreements

Enterprise agreements and workplace determinations signed from 1 July 2018 must ensure that employees have full choice of which super fund can receive compulsory employer contributions. Employers will be required to issue new employees with a Standard Choice Form and provide a form to existing members on request. Currently an enterprise agreement can fix which super fund(s) contributions can be made to, and employees are 'deemed' to have made a choice of fund by voting to approve the enterprise agreement.

## ATO developments

### Single Touch Payroll to start 1 July 2018

Single Touch Payroll is where employers report employee payments and PAYG withholding amounts to the ATO at the time they are paid. Payments include salary, wages, bonuses, termination payments. Employers are also required to report super contributions when they are paid. Employees will be able to see payment details and amounts withheld through their myGov account.

Single Touch Payroll reporting is compulsory from 1 July 2018 for employers with 20 or more employees on 1 April 2018, and the Government intends to extend it to smaller employers from 1 July 2019.

As part of Single Touch Payroll, the Government announced it will introduce streamlined processes for providing TFN declarations and choice of super fund forms. New employees can provide their TFN declaration and can make a choice of fund electronically using their new employer's payroll software, payroll provider or through myGov as part of their commencement process.

### Super funds to report to the ATO on a real time basis in 2018

Currently super funds make an annual report to the ATO after the end of the financial year of all the contributions received during the year plus the account balances at the end of the year for all pension and super accounts. For the 1 July 2017 super reforms, there is an additional report setting out the values of existing retirement-phase pensions on 30 June 2017, the value of any new pensions plus any withdrawals or commutations from pension accounts after 1 July 2017. This report will be provided on a monthly basis for new pensions and new withdrawals from November 2017.

Over the calendar year 2018 these reports will be replaced by two ongoing reports to the ATO:

1. Member Account Attribute Service from April 2018. This provides account identification details to the ATO, such as TFN, member details, account number etc. Once reported to the ATO, only new or changed information will be reported to the ATO within 5 business days the change, such as a new account opening, an account closing, name change etc.
2. Member Account Transaction Service after 1 July 2018. This report will provide all contributions received; new pension accounts commenced, and any withdrawals from pension accounts within 10 business days of the transaction occurring. The July report will also include the 30 June values of the withdrawal benefit and the account balance for all super and pension account in the fund.

Where possible information reported by the Trustee to the ATO will be uploaded onto the individual's myGov account as soon as available.

# The year at a glance

## Changes to the Trust Deed

The Trust Deed for the SMF Eligible Rollover Fund was not amended during the 2016/17 financial year.

A copy of the current Trust Deed is available to members upon request by calling our client services team or may be inspected by arrangement during business hours at the office of the Trustee.

## Investment return

For the year to 30 June 2017, your account was adjusted to reflect a crediting rate of 3.90 per cent per annum.

The average fund crediting rate for the last five years was 5.18 per cent per annum.

## Operational risk financial reserve (ORFR)

Prudential Standard SPS 114 (SPS114) – Operational Risk Financial Requirement requires that the ORFR provide an unrestricted commitment of financial resources to address losses arising from an operational risk event in a timely manner. To ensure that access to funds is readily available the ORFR must be invested in cash and short term money market interests.

Investment earnings generated by the ORFR are credited to the ORFR account.

The ORFR may be invested in:

- Cash and / or cash equivalents;
- Unlisted unit cash trusts; and
- Term deposits.

As part of the Trustee's regular review of the Fund's investment strategy, the Product Investment Committee and the Trustee will review and revise, as necessary, the investment strategy of the ORFR.

# How your Fund works

The SMF Eligible Rollover Fund has been designed as a temporary repository to accept the benefits of members with low balances leaving or changing employment or who have become 'lost' or uncontactable. The Fund operates on an accumulation style basis; benefits are based on the balance of your account at the time you leave the Fund. The balance consists of any amounts transferred to the Fund, less any deductions that may apply, together with earnings credited to the date of leaving which may be positive or negative (after fees, taxes and other expenses are deducted).

The Fund offers a single conservative investment strategy, does not provide an income stream (normally referred to as a pension) and does not provide any insurance benefits. IIML holds professional indemnity insurance.

# Fund investments

The Trustee invests members' money with the aim of achieving competitive returns at an acceptable level of risk. To achieve this aim, the Fund is wholly invested in a single conservative investment strategy which is the IOOF MultiMix Conservative Trust (Trust). The Fund also maintains a small portion in cash to facilitate cashflow. The Fund has the following investment objectives and strategy.

As Trustee, we regularly monitor the investment options available to members in the Fund. Any investment option currently available may not continue to be available in the future. If we remove an investment option from the Fund, we may transfer your investments in the investment option that is no longer available, to another investment option of the Fund. We will attempt to notify you before we take this action. Neither IIML nor any service provider to the Fund guarantee investment performance, the repayment of capital or any particular rate of return for the Fund. If you require further information about investment options available through each product, please refer to the PDS of the investment option and relevant product and speak to your financial adviser or our Client Services Team.

## Objectives

To provide stable returns over the medium term by investing in a diversified portfolio of defensive assets with some growth asset exposure, and to achieve a total return after fees in excess of the Trust's benchmark over a rolling three-year period.

## Strategy

The Trust generally gains its exposure to a diversified portfolio of investments through a mix of investment managers.

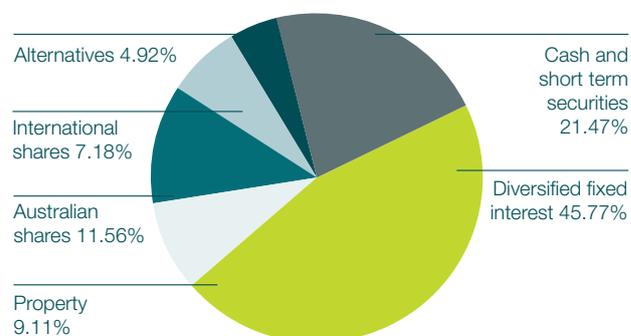
The conservative nature of the Trust means it has a greater exposure to income bearing assets such as cash, fixed interest and alternative-debt with some exposure to growth assets such as Australian and international property and shares.

The Trust is authorised to utilise approved derivative instruments for risk management purposes subject to the specific restriction that the derivative instruments cannot be used to gear portfolio exposure.

The underlying investment managers may utilise strategies for the management of currency exposure. The level of currency hedging used for the Trust will vary from time to time. The Trust has the capacity to apply a currency overlay to manage the Trust's currency risk.

## Asset allocation

Asset allocation of IOOF MultiMix Conservative Trust as at 30 June 2017:



The Fund will vary the asset allocation around prescribed benchmarks and within the broad ranges set by IIML as detailed below:

Asset Class	Range %	Strategic Benchmark %
Cash and short term securities	10-35	23
Diversified fixed interest	30-55	42
Alternative defensive assets	0-15	5
Property	0-20	10
Australian shares	0-20	11
International shares	0-20	9

## Investment manager

The IOOF MultiMix Conservative Trust is managed by IOOF's investment team. The investment team is well experienced in managing multi investment manager funds and consists of experienced investment and research professionals who undertake the analysis, selection and monitoring of the investment managers who will manage the assets of the Trusts.

# Fund performance

## Fund earning and crediting rates

The net earning rate is the investment return on the assets of the Fund after payment of investment management fees and taxes. As at 30 June 2017, the underlying investment manager fee was 0.73 per cent including GST (after application of performance fees).

The crediting rate is the investment return credited to your account annually, based on the amount earned on the Fund's investments after investment management fees, trustee management fees, recovery of fund expenses, government charges and taxes. The crediting rate may be positive or negative.

The difference between the two rates is that the crediting rate includes both the investment manager's fees, the Trustee's fees, Fund expenses and taxes.

The average net fund crediting rate for the last five years was 5.18 per cent per annum. Past performance is not a reliable indicator of future performance.

## Crediting rate policy

The Trustee has a crediting rate policy in place that outlines the crediting rate framework and policies for allocating investment earnings to members.

Interim crediting rates are calculated on an ongoing basis and include investment earnings, fees, expenses and taxes up to date of calculation. The declared interim crediting rate is used on exit of members and for valuation purposes effective the end of the calculation period. If a member leaves the Fund before the declared interim crediting rate has been determined, the previous interim crediting rate is allocated to the members' account up to the date of that member exiting the Fund. The interim crediting rates may be positive or negative.

The Trustee will determine an annual earnings rate to be allocated to member's accounts after taking into consideration the actual returns for the year minus any relevant tax, fees, expenses or any amounts retained or allocated from the reserves of the Fund. Annual crediting rates are reviewed and approved by the Product Investment Committee before being applied to the members of the Fund. Annual crediting rates may be positive or negative.

The declared annual crediting rate is allocated to each members' account effective 30 June each year. If a member leaves the Fund before the declared annual crediting rate has been determined and allocated to member's accounts, an interim crediting rate is allocated to the member's account up to the date of that member exiting the Fund.

## Reserving policy

The Trustee will pass all investment earnings, whether positive or negative (less fees, expenses and taxes) to members in accordance with the crediting rate policy. The Trustee does not maintain investment reserves.

# Taxation

## Tax on investment earnings

The Fund's investment earnings are taxed at a maximum rate of 15 per cent.

## Taxation of benefits

A lump sum withdrawal from the Fund may be subject to tax, unless rolled over into another complying superannuation, rollover or pension fund. How your withdrawal is taxed will depend on its components and your age at the date of withdrawal. If you have been classified as a lost member and your account balance is less than \$200, you can withdraw your benefit tax-free.

# Member information

## Trust Deed

The Trust Deed sets out the rules of the Fund. The PDS summarises the major provisions of the Fund, which is at all times governed by the Trust Deed. If there is a conflict between the PDS and the Trust Deed, the Trust Deed prevails.

## About the Trustee

As the Trustee, we have met all of the necessary APRA requirements to operate as a trustee of the Fund and we maintain an AFS Licence under the Corporations Act 2001.

We monitored the Fund's compliance with the relevant legislative requirements during the 2016/17 financial year, and confirm that the Fund:

- is a resident regulated superannuation fund within the meaning of the *Superannuation Industry (Supervision) Act 1993*
- has not received a notice of noncompliance from APRA.

## Directors of the Trustee

Dr Roger Neil Sexton (Chairman) (retired 24 November 2016)

Ms Jane Margaret Harvey (resigned 17 March 2017)

Mr George Venardos (Chairman from 24 November 2016)

Mr Christopher Francis Kelaher

Mr Allan Raymond Griffiths (resigned 31 January 2017)

Ms Elizabeth Mary Flynn (resigned 31 January 2017, reappointed 29 August 2017)

Mr Martin Walsh (appointed 31 January 2017)

Ms Dawn Patricia Oldham (appointed 31 January 2017)

John Selak (appointed 31 January 2017)

## Access to information

You may view copies of the following information at any office of the Trustee during business hours:

- The annual report of the Fund.
- The audited accounts and auditor's report of the Fund.
- The Trust Deed of the Fund.

All enquiries relating to the Fund should be directed to our client services team on 1800 677 306.

# Abridged financial statements

Set out below are the abridged financial statements detailing the Fund's financial transactions for the year ended 30 June 2017.

If you would like to obtain a copy of the full audited fund financial statements and related audit reports for the year (free of charge), please contact our Client Services Team or email us.

The auditor has issued an unqualified opinion in respect of the financial statements.

Extract of accounts as at 30 June	2017 (\$)	2016 (\$)
<b>Revenue</b>		
Investment income	4,977,133	3,737,882
Sundry income	9,221	171
Transfers from other funds	882,040	615,669
<b>Total revenue</b>	<b>5,868,394</b>	<b>4,353,722</b>
<b>Expenses</b>		
Benefits paid	13,355,731	14,245,989
Management Fees	1,483,821	1,555,440
General administration expenses	9,288	11,941
ORFR Levy	-	49,242
Superannuation contributions surcharge	-	944
Income tax (benefit)/expense	288,796	(244,496)
<b>Total expenses</b>	<b>15,137,636</b>	<b>15,619,060</b>
Transfers to reserves	-	(48,969)
<b>Increase in members' funds</b>	<b>(9,269,242)</b>	<b>(11,216,369)</b>
<b>Balance brought forward</b>	<b>90,038,616</b>	<b>101,254,988</b>
<b>Net Assets available for Member Benefits</b>	<b>80,769,374</b>	<b>90,038,616</b>
<i>Represented by</i>		
<b>Assets</b>		
Investments	75,375,668	80,416,953
Cash and cash equivalents	1,153,676	3,995,653
Sundry debtors	3,696,122	4,498,719
Current tax asset	188,401	297,994
Deferred tax assets	481,812	959,009
<b>Total Assets</b>	<b>80,895,679</b>	<b>90,168,328</b>
<b>Liabilities</b>		
Creditors and accruals	126,305	129,712
<b>Total liabilities</b>	<b>126,305</b>	<b>129,712</b>
<b>Member Benefits</b>	<b>80,548,241</b>	<b>89,776,061</b>
<b>Net Assets</b>	<b>221,133</b>	<b>262,555</b>
<b>Equity</b>		
ORFR	218,465	218,148
General Reserve	2,668	44,407
<b>Total Equity</b>	<b>221,133</b>	<b>262,555</b>

## ORFR

The ORFR has been established to meet the requirements of Prudential Standard SPS 114 – Operational Risk Financial Requirement. The prudential standard requires the Trustee to maintain adequate financial resources to address losses arising from operational risks that may affect the Fund.

Reserves	2017 (\$)	2016 (\$)	2015 (\$)
Opening balance	218,148	169,179	85,606
Transfer to reserves	317	48,969	83,573
Closing balance	218,465	218,148	169,179

Should an operational risk event occur in the future, additional deductions against members' accounts may be required to restore the Operational Risk Financial Reserve (ORFR) back to the target amount.

## Concentration of assets of the Fund

The Trustee advises that at 30 June 2017:

- the IOOF MultiMix Conservative Trust is an underlying investment of the Fund which has a value of more than five per cent of the total assets of the Fund
- no direct shareholding of the Fund constituted an investment whose value was more than five per cent of the value of the Fund.

## Derivative policy

Derivatives may be used in accordance with the investment strategy and objectives of the Fund and at the investment option level in order to:

- to protect the investment from upward or downward movements in rates or prices through hedging
- protect funds from the range of market risks
- change the overall asset allocation in a timely manner without exposure to the timing and liquidity constraints or higher transaction costs associated with the physical market
- permit ongoing management of funds invested during periods of uncertainty where liquidity is not available in the physical market
- minimisation of transaction costs associated with spread on physical market transactions
- facilitating switching between asset classes or as an alternative to physical investment.

Derivatives will not be used to gear funds, for speculative purposes or trading.

The investment managers of the underlying funds may use derivatives such as options, futures, and swaps. The Trustee has controls and procedures in place relating to the investment managers' derivative use in order to ensure that it is suitable to the Trustee's and its members' own investment strategies and objectives.

# Contact us

## Client services

Telephone: 1800 677 306  
Email: [email@ioof.com.au](mailto:email@ioof.com.au)  
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## Postal address

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