# SMF Eligible Rollover Fund

## Annual report 2016

Issued by IOOF Investment Management Limited ABN 53 006 695 021, AFSL 230524
Part of the IOOF group

# Contents



# Message from the Trustee

I am pleased to present the following annual report to members of the SMF Eligible Rollover Fund (Fund) for the year ending 30 June 2016. This report has been prepared by IOOF Investment Management Limited as Trustee of the Fund.

This year at IOOF we celebrate 170 years of helping Australians secure their financial independence. Since our beginnings in the 19th century – when we visited the sick, relieved the distressed, helped bury loved ones and educated orphans – our goal has always been to put clients first. Today, IOOF is the largest independent financial services group in Australia, and we remain steadfastly committed to this goal. We are an ASX top 100 company with $131.1 billion in funds under management, administration, advice and supervision, and we currently provide services to more than 600,000 customers around Australia*

Within the report you will find general information about the Fund, including abridged financial statements and changes to the Fund that have occurred during the 2015/16 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 2016

**Important Information**

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 general information only and does not take into account your financial circumstances, needs and objectives. Before making any decision based on this report, you should assess your own circumstances or seek advice from a financial adviser. You should obtain and consider a copy of the Product Disclosure Statement available from us or your financial adviser before you acquire a financial product. The information is given in good faith and is believed to be accurate and reliable at the time of publication.

# Government reforms in superannuation

## Changes and developments in superannuation

### Superannuation reforms announced in the 2016 Federal Budget

The Government has announced a number of important reforms to superannuation will start on 1 July 2017. The package of reforms was first announced in the 2016 Budget, with some further modifications announced in September 2016. These changes have been passed by Parliament.

The key reforms are:

- The concessional contribution cap will reduce to $25,000 pa. However, starting 1 July 2018, members with less than $500,000 in super will be able to carry forward and contribute unused cap amounts for up to 5 years.
- Personal superannuation contributions will be fully tax deductible. This means that employees will be able to claim tax deductions for personal contributions. Currently only those with less than 10% of total income from employment as an employee can claim tax deductions for personal super contributions. Members will continue to be required to meet a work test to make voluntary contributions between ages 65 and 75.
- The spouse income threshold for the 18% tax offset for spouse contributions will increase from $10,800 to $37,000 pa. Spouse contributions will continue to be accepted up to age 70.
- The annual non-concessional contributions cap will reduce to $100,000 pa. with the ability to contribute $300,000 over 3 years. Also when super savings reach $1.6 million no further non-concessional contributions can be made. Originally the Government had intended to introduce a life time non-concessional cap of $500,000, however this was rejected in favour of a simple reduction to the non-concessional cap.
- The amount of super that can transfer to pension (tax exempt) phase will be restricted to $1.6 million. Current pensioners will have until 1 July 2017 to bring pension accounts under this threshold, and any excess will be held in accumulation super where investment earnings are taxed at 15%.
- Investment earnings on transition to retirement (TTR) income streams will be no longer be tax-exempt and instead taxed at 15%. However payments will continue to be taxed as ordinary pension payments.
- The Low Income Super Contribution (now called the Low Income Super Offset) will continue to be paid. This is a refund of tax up to $500 on contributions for those on low incomes up to $37,000 pa. This refund was originally scheduled to cease on 1 July 2017.
- The income threshold for additional tax on concessional contributions for high income earners (Division 293 tax) will reduce from $300,000 pa to $250,000 pa. These high income earners pay tax at 30% on concessional contributions, rather than the standard 15% tax.
- Anti-detriment payments will be abolished. These are increased amounts payable of death of a member as compensation for 15% fund tax previously paid.
- New types of income streams will be encouraged. These include guaranteed income streams with deferred start dates to provide income after age 75.

The new changes to contributions caps can be compared with the current caps set out in the superannuation thresholds table for 2016/17 on page 2.

### Superannuation thresholds for 2016/17

| | |
|---|---|
| Concessional contributions cap | $30,000 or<br>$35,000 if aged 49 or more on 30/6/2016 |
| Non-concessional contributions (NCC) cap | $180,000 or<br>$540,000 over 3 years if under age 65 |
| Superannuation guarantee (SG) rate | 9.5% |
| SG maximum contributions base | $51,620 salary per quarter or $206,480 pa<br>(up from $50,810 per quarter 2015/16) |
| Preservation age<br>• Benefits can be accessed on retirement<br>• 0% tax on low rate threshold (below) | Age 56 for those who turn age 56 in 2016/17<br>Age 57 for those who turn age 55 in 2016/17 |
| Low rate threshold<br>• 0% tax under age 60 | $195,000 (no change from 2015/16) |
| CGT cap amount<br>• excluded from NCC cap | $1,415,000 (up from $1,395,000 2015/16) |
| Government co-contribution income | Full co-contribution – $36,021 pa or less<br>(up from $35,454 2015/16)<br>No co-contribution – $51,021 pa or more<br>(up from $50,454 2015/16) |
| Threshold for unclaimed monies to be paid to the ATO. Applies to:<br>• accounts inactive for 5 years<br>• lost or uncontactable member accounts | $6,000 from 31 December 2016<br>(up from $4,000 from 31 December 2015) |

### ATO developments: Start date for SuperStream for small employers delayed

Under the SuperStream rules, employers are required to make super contributions and provide data on a uniform electronic basis. Employers with 20 or more employees are already meeting these standards. However the ATO has extended the start date for smaller employers to comply with SuperStream to 28 October 2016. This extension recognises that super guarantee contributions for the first quarter of the 2016/17 financial year were due on 28 October 2016. After that date the ATO now expects all employers to make contributions in a SuperStream compliant manner.

### Single Touch Payroll

Legislation introducing "Single Touch Payroll" (STP) has now been passed by Parliament. Single Touch Payroll provides for standardised reporting to the ATO of PAYG withholding tax and super contributions at the time the payments or contributions are made. The legislation also includes streamlining the provision of TFN declarations and choice of super fund forms for new employees. New employees will be able to provide electronic TFN Declarations using the employer's payroll software or through their personal myGov account. Employees will also be able to submit choice of super fund forms via myGov.

Compliance with STP reporting will be on a voluntary basis with from 1 July 2017 and on a compulsory basis for large employers from 1 July 2018. The streamlined process for providing TFN declarations and Choice of fund forms via the ATO is optional and will be available from 1 January 2017.

### Changes to the Centrelink assets test from 1 January 2017

From 1 January 2017 the Centrelink assets test will change affecting some members who also receiving the part Age Pension. Full age pensioners are largely be unaffected, as the assets test free threshold will increase to $250,000 for homeowners ($375,000 for a couple) and $450,000 for non-homeowners ($575,000 for a couple). Part pensioners, however, may have their pensions reduced or extinguished, as the rate of reduction of the full Age Pension for assets over the free threshold will double (to $1.50 per $1,000 of assets over the threshold). Members who lose the Age Pension from 1 January 2017 will automatically be issued with a Commonwealth Seniors Health Card.

Account balances in both super and allocated (account based) pensions are counted under the assets test for the Age Pension.

### More Government reviews into superannuation

In May 2016 the Government released a report into Retirement Income Streams. The report recommended that:

- the current account based pension draw down rates should continue; and
- superannuation funds should be able to offer deferred income streams aimed at meeting income needs in later retirement.

These recommendations will be implemented as part of the 2016 Budget super reforms.

The Government is also undergoing a review of the objectives of superannuation with the intention of introducing a clear purpose for superannuation into legislation. The Productivity Commission is also undergoing a review of the efficiency and competitiveness of the super system, including the process of selecting default super funds. The Productivity Commission released a draft report in August 2016 and the final report (with recommendations) is due mid-2017.

# The year at a glance

### Changes to the Trust Deed

The Trust Deed for the SMF Eligible Rollover Fund was not amended during the 2015/16 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 2016, your account was adjusted to reflect a crediting rate of 3.05 per cent pa.

The average fund crediting rate for the last five years was 4.53 per cent pa.

### 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

Eligible rollover funds are designed to accept the benefits of members leaving or changing employment or who have become 'lost'. The Fund operates on an accumulation style basis; benefits are based on the balance of your account at the time you leave the Fund. Your benefit includes investment earnings which may be positive or negative (after fees, taxes and other expenses are deducted).

The Fund 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.

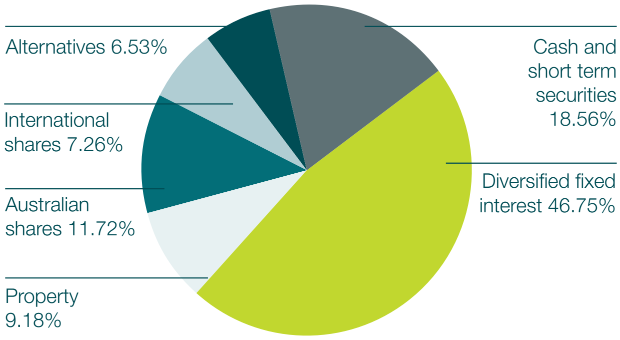
The conservative nature of the Trust means it has a greater exposure to income bearing assets such as cash, fixed interest and alternative-debt with some exposure to growth assets such as Australian and international property and shares.

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 2016:




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 2016, the underlying investment manager fee was 0.70 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 4.53 per cent pa.

## 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 and allocated to member's accounts, 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. The Trustee maintains an expense account to meet the costs associated with operating the Fund.

# 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 2015/16 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)[1]
Ms Jane Margaret Harvey
Mr Ian Gregory Griffiths (resigned 2 October 2015)
Mr George Venardos[2]
Mr Christopher Francis Kelaher
Mr Allan Raymond Griffiths
Mrs Elizabeth Flynn (appointed 15 September 2015)

## 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.

1 Retired from the Company's Board at the Company's Annual General Meeting on 24 November 2016
2 Became Chairman at the conclusion of the Company's Annual General Meeting on 24 November 2016

# Abridged financial statements

Set out below are the abridged financial statements detailing the Fund's financial transactions for the year ended 30 June 2016.

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 | 2016 ($) | 2015 ($) |
|---|---|---|
| **Revenue** | | |
| Investment income | 3,737,882 | 6,430,027 |
| Sundry income | 171 | 11,478 |
| Member contributions | – | – |
| Transfers from other funds | 615,669 | 495,362 |
| Total revenue | **4,353,722** | **6,936,867** |
| **Expenses** | | |
| Benefits paid | 14,245,989 | 8,517,733 |
| Management Fees | 1,555,440 | 1,683,735 |
| General administration expenses | – | 35,993 |
| ORFR Levy | 49,242 | 83,573 |
| APRA fees | 11,941 | 15,758 |
| Superannuation contributions surcharge | 944 | 213 |
| Income tax (benefit)/expense | (244,496) | 683,879 |
| Total expenses | **15,619,060** | **11,020,884** |
| Transfers to reserves | **(48,969)** | **(83,573)** |
| Increase in members' funds | **(11,216,369)** | **(4,000,444)** |
| Balance brought forward | **101,254,985** | **105,255,429** |
| Members' funds | **90,038,616** | **101,254,985** |
| *Represented by* | | |
| **Assets** | | |
| Investments | 80,416,953 | 92,962,025 |
| Cash and cash equivalents | 3,995,653 | 871,496 |
| Sundry debtors | 4,498,719 | 6,242,883 |
| Current tax asset | 297,994 | 116,113 |
| Deferred tax assets | 959,009 | 1,208,135 |
| Total Assets | **90,168,328** | **101,400,652** |
| **Liabilities** | | |
| Creditors and accruals | 129,712 | 145,667 |
| Income tax payable | | |
| Total liabilities | **129,712** | **145,667** |
| Net assets | **90,038,616** | **101,254,985** |
| Members' funds | **90,038,616** | **101,254,985** |

## 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 | 2016 ($) | 2015 ($) | 2014 ($) |
|---|---|---|---|
| Opening balance | 169,179 | 85,606 | – |
| Transfer to reserves | 48,969 | 83,573 | 85,606 |
| Closing balance | 218,148 | 169,179 | 85,606 |

## Concentration of assets of the Fund

The Trustee advises that at 30 June 2016:

- 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
Facsimile: (03) 6215 5933
Website: www.ioof.com.au

## Postal address

SMF Eligible Rollover Fund
GPO Box 529
Hobart TAS 7001

PLA-9821
1216