SMF Eligible Rollover Fund

Annual report 2018

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 ended 30 June 2018. This report has been prepared by IOOF Investment Management Limited as Trustee of the Fund.

At IOOF, we have been helping Australians secure their financial independence for over 170 years and have grown to become a leading provider of quality financial advice, products and services.

Today, IOOF is one of the largest financial services group in Australia. We are an ASX top 100 company with $161.7 billion in funds under management, administration, advice and supervision, and we currently provide services to more than 500,000 customers around Australia*.

As we grow, one thing that won't change is our commitment to help 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 2017/18 financial year.

Thank you for your ongoing support.

Yours sincerely,

Renato Mota
Group General Manager – Wealth Management
IOOF Investment Management Limited
as Trustee of the SMF Eligible Rollover Fund

*As at 30 June 2018

Government reforms in superannuation

Changes and developments in superannuation

- **New independent dispute resolution scheme for super members**

  The Australian Financial Complaints Authority (AFCA) commenced on 1 November 2018. The new authority is an independent external dispute resolution scheme that replaces the Superannuation Complaints Tribunal (SCT), the Financial Ombudsman Service (FOS) and the Credit and Investments Ombudsman (CIO). The SCT will continue to deal with cases already before it, however any new disputes will be dealt with by the AFCA.

- **First Home Super Saver scheme**

  Super fund members can make a request to withdraw 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. Only 85% of voluntary concessional contributions are able to be accessed.

  Members must apply to the ATO to release an amount under this scheme. Members who intend to claim a tax deduction for personal super contributions should ensure the super fund has received a section 290-170 Tax Deduction Notice before applying to the ATO for a withdrawal under the scheme.

- **Downsizer contributions**

  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 non-concessional contributions 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. Downsizer contributions can only be made in respect of one main residence and must be accompanied by a completed Downsizer contribution into superannuation form (NAT 75073-06.2018).

- **Carry forward of unused concessional contributions cap**

  Members who do not use their full concessional contributions cap in the 2018/2019 or later tax years, can carry forward that excess and use it in a future year for up to five further tax years where their total super balance is less than $500,000. Therefore if you do not use your full $25,000 cap in 2018/19, you may be able to contribute more concessional contributions in 2019/20 (or later).

- **Transfer of compassionate ground releases to ATO**

  Responsibility for assessing whether to release benefits from a super fund under compassionate grounds has been transferred from the Department of Human Services to the ATO. Compassionate grounds include releases to pay medical; disability, palliative care expenses for you or your dependant; funeral expenses for a dependant; and housing expenses to avoid losing your home.

- **Release authorities from the ATO**

  The ATO has streamlined how it processes release authorities for excess concessional and non-concessional contributions, and Division 293 tax[1]. For all releases, the ATO will issue a determination to the member who has 60 days to respond to the ATO nominating the fund to release the amount. The ATO collects the released amount from the nominated super fund; deducts any outstanding tax and then refunds the net amount to the member.

- **Direct reporting of income streams to Centrelink**

  IOOF has commenced reporting income stream information directly to the Department of Human Services for the Centrelink income stream reviews. The first report provided annual information for account pensions (including retirement-phase pensions, transition to retirement pensions, and term allocated pensions) for the August 2018 income stream reviews. For complying lifetime or life expectancy income streams the first report is due in April 2019.

  IOOF will no longer send out paper-based Centrelink schedules to members, other than on commencement of the pension or if a change is made to your pension during the year. If you require an ad hoc schedule you can also download one from Portfolio Online or IOOF Online.

- **Ongoing reporting of super contributions to ATO starts**

  Under new reporting requirements, IOOF will report to the ATO all super contributions as they are received, rather than on an annual basis after the end of the financial year. IOOF will provide the ATO with the last annual Member Contribution Statement for 2017/2018 in October 2018, and will start reporting new contributions as they are received from 1 July 2018.

  IOOF reports the amount and type of contribution as it is received; the employer details (if the contributions were made by the employer); and details of any section 290-170 Tax Deduction Notices[2] received for personal contributions. The ATO will upload information it receives onto an individual's ATO account with myGov as soon as practicable.

1 Division 293 is an extra 15% tax on concessional contributions for those on higher incomes of $250,000 or more.

2 Also called Notice of Intent to Claim a Tax Deduction.

- **Single Touch Payroll commences**

  Starting 1 July 2018 employers of 20 or more employees are required to report payments made to employees, any PAYG withholding; and year to date superannuation liability (or the employee's ordinary time earnings) to the ATO on an ongoing basis. The Government has announced Single Touch Payroll will be extended to smaller employers from 1 July 2019 (although this has not passed into law yet).

  Information received from the employer is uploaded onto the employee's ATO account with myGov, and can be matched with contribution information received from the super fund to check if super guarantee contributions are correct.

- **Self-managed super funds rollovers**

  The superstream rules for rollovers will be extended to self-managed super funds. Although the regulations have already commenced, the start date is 30 November 2019.

Superannuation thresholds for 2018/19

Concessional contributions cap	$25,000 (no change from 2017/18)
Non-concessional contributions (NCC) cap	$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 2018; 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 2018. $0 with $1.6 million or more in super or pension on 30 June 2018.
Superannuation guarantee (SG) rate	9.5%
SG maximum contributions base	$54,030 ordinary time earnings per quarter or $216,120 pa (up from $52,760 per quarter 2017/18)
Preservation age • **Benefits can be accessed on retirement** • **0% tax on low rate threshold (below)**	Age 57 Age 58 if born from 1 July 1962 to 30 June 1963 Age 59 if born from 1 July 1963 to 30 June 1964 Age 60 if born from 1 July 1964
Low rate threshold • **0% tax under age 60 for cash lump sums**	$205,000 (up from $200,000 for 2017/18)
CGT cap amount • **excluded from NCC cap**	$1,480,000 (up from $1,455,000 for 2017/18)
Government co-contribution income	Full co-contribution – $37,697 pa or less (up from $36,813 pa 2017/18) No co-contribution – $52,697 pa or more (up from $51,813 pa 2017/18)
Spouse contributions tax offset	Maximum of $540 if annual spouse income less than $37,000. Offset ceases at $40,000.
Departing Australia Super Payment tax rate	35% on taxable component (65% for working holiday makers)
Centrelink Age Pension age	Age 65 and 6 months. Age pension age increases by 6 months every 18 months from 1 July 2017 until it reaches age 67 by 1 July 2023.

Super changes proposed by the Government

The Government has announced a number of changes that have been tabled into Parliament but have not yet passed into law.

Superannuation guarantee changes

These include:

- Excluding salary sacrifice contributions from super guarantee contributions.
- Extending choice of super fund to employees employed under enterprise agreements and workplace determinations.
- Giving the ATO greater powers to direct employers to make super guarantee contributions and undergo education courses if the employer fails to meet their obligations. ATO will also be able to inform members if their employer has not paid super guarantee contributions.
- Providing employers with a one year amnesty to catch up on outstanding super guarantee contributions and earnings without tax penalties.
- Allowing employees with multiple employers to opt out of superannuation guarantee contributions in respect of income over the SG maximum contributions base.

These changes are set out in the *Treasury Laws Amendment (2018 Superannuation Measures No 1) Bill* and *Treasury laws Amendment (Improving Accountability and Member Outcomes in Superannuation Measures No 2) 2017 Bill*.

Protecting your super package – Budget 2018 announcements to start 1 July 2019

These changes include:

- Exit fees on super will be abolished.
- Administration fees and investment fees on accounts that have less than $6,000 on 30 June will be capped at 3% for that year.
- Inactive accounts with no insurance and less than $6,000 will be paid to the ATO. The ATO will then transfer this amount to the individual's active super account. An account is inactive if it has not received a contribution or rollover within the previous 13 months. Inactive low balances will be measured on 30 June and 31 December each year, starting 30 June 2019.
- Default insurance will not be available to new super accounts from 1 July 2019 if the member is under age 25 (unless the member chooses to opt-in to the insurance).
- Default insurance cannot be provided to accounts that have an account balance of less than $6,000 from 1 April 2019 (unless the member chooses to opt-in to the insurance). Once an account reaches $6,000 default insurance will apply, and will continue even if the account drops below $6000 at a later date.
- Insurance (both default and personal insurance) ceases if an account becomes inactive (ie 13 months of inactivity), unless the member actively chooses to continue cover. The 13 month inactive period may include the period before 1 July 2019.

These changes are set out in the *Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018*.

The year at a glance

Changes to the Trust Deed

The Trust Deed for the SMF Eligible Rollover Fund was not amended during the 2017/18 financial year. A copy of the current Trust Deed is available to members on the website at www.ioof.com.au/about-us/about-ioof/trustee-disclosures/ioof, 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 2018, your account was adjusted to reflect a crediting rate of 3.30 per cent per annum.

The average fund crediting rate for the last five years was 4.32 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.

Removal of Family Law "Application for information – minimum $50"

We have removed the Family Law "Application for information – minimum $50". No fee is being charged for application for information requests on SMF Eligible Rollover Fund since May 2018.

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.

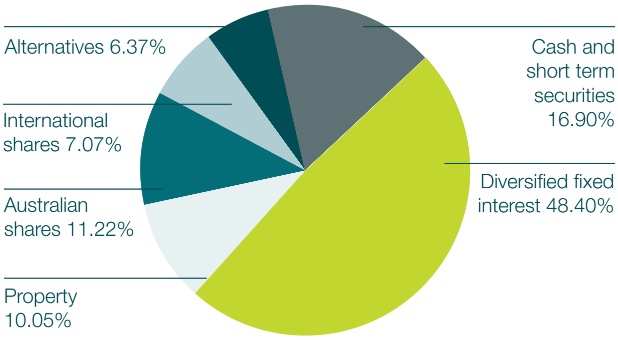
The conservative nature of the Trust means it has a greater exposure to income bearing assets such as cash, fixed interest and alternative-debt with some exposure to growth assets such as Australian and international property and shares.

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 2018:



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 2018, the underlying investment manager fee was 0.77 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 4.32 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 2017/18 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

Mr George Venardos (Chairman until 13 September 2018)

Mr Christopher Francis Kelaher (resigned 1 September 2018)

Ms Elizabeth Flynn (reappointed 29 August 2017)

Mr Martin Walsh (Acting Chairman from 13 September 2018)

Ms Dawn Oldham (resigned 21 August 2018)

John Selak

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 2018.

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	2018 ($)	2017 ($)
Revenue		
Investment income	3,931,003	4,977,133
Sundry income	8,053	9,221
Transfers from other funds	415,615	882,040
Total revenue	**4,354,671**	**5,868,394**
Expenses		
Benefits paid	11,637,801	13,355,731
Management Fees	1,321,069	1,483,821
General administration expenses	8,068	9,288
ORFR Levy	-	-
Superannuation contributions surcharge	-	-
Income tax (benefit)/expense	126,083	288,796
Total expenses	**13,093,021**	**15,137,636**
Transfers to reserves	**-**	**-**
Increase in members' funds	**(8,738,350)**	**(9,269,242)**
Balance brought forward	**80,769,374**	**90,038,616**
Net Assets available for Member Benefits	**72,031,024**	**80,769,374**
Represented by		
Assets		
Investments	67,036,267	75,375,668
Cash and cash equivalents	2,108,548	1,153,676
Sundry debtors	2,642,538	3,696,122
Current tax asset	82,504	188,401
Deferred tax assets	327,186	481,812
Total Assets	**72,197,043**	**80,895,679**
Liabilities		
Creditors and accruals	166,019	126,305
Total liabilities	**166,019**	**126,305**
Member Benefits	**71,796,940**	**80,548,241**
Net Assets	**234,084**	**221,133**

Equity		
ORFR	189,830	218,465
General Reserve	44,254	2,668
Total Equity	**234,084**	**221,133**

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	2018($)	2017($)	2016($)
Opening balance	218,465	218,148	169,179
Transfer to reserves	(28,635)	317	48,969
Closing balance	189,830	218,465	218,148

The Fund's ORFR balance exceeded the tolerance limit in January 2018. In February a transfer from the ORFR was made to align the balance with the ORFR target amount. The transfer was included in the annual crediting rate paid to members. The tolerance limit was exceeded due to the gradual decline in net assets of the Fund.

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 2018:

- 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.

Complaints

If you have a complaint about your account (or wish to obtain further information about the status of an existing complaint), please contact us on:

Free call: 1800 062 963
By writing:
Manager, Customer Care
IOOF Investment Management Limited
GPO Box 264
MELBOURNE VIC 3001

Where possible, concerns will be resolved straightaway.

If further investigation is required, our Customer Care team will acknowledge your complaint in writing and will consider and respond to your complaint as quickly as possible. We are required by law to respond to superannuation related complaints within 90 days.

If you are not satisfied with our handling of your complaint or a decision we have made in relation to your complaint, you may contact the Australian Financial Complaints Authority (AFCA), an external dispute resolution scheme, by calling 1800 931 678, emailing info@afca.org.au or writing to AFCA, GPO Box 3, Melbourne VIC 3001.

This service is available free of charge to you, but can only hear your complaint after you have first made use of our internal complaints handling arrangements (as explained above).

Contact us

Client services

Telephone: 1800 677 306
Email: email@ioof.com.au
Facsimile: (03) 6215 5933
Website: www.ioof.com.au

Postal address

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