AET

AET small APRA funds
2020/21 Annual Trustee report

Part of the Insignia Financial Group

Issuer: IOOF Investment Management Limited | ABN 53 006 695 021 | AFSL No 230524, as the Trustee of the AET small APRA funds.

Contents

This report is issued by IOOF Investment Management Limited (IIML) ABN 53 006 695 021, AFSL 230524 RSE Licence No L0000406 as Trustee of the AET small APRA funds.

Within the report you will find general information about your fund, including legislative changes for 2020/21 and later years, as well as financial information about your fund. Together, the annual Trustee report and your annual member statement make up your annual fund package.

Message from the Chair

Welcome to the Trustee's Annual Report for members of the AET small APRA funds (AET SAF) for the year ended 30 June 2021.

This report has been prepared by IOOF Investment Management Limited, as Trustee of the AET SAF. It contains general information about the AET SAF, including abridged financial statements, changes to the AET SAF during the year and developments in super.

The COVID-19 pandemic has had devastating consequences globally and continues to challenge us all to find new ways of living and working. An important priority was assisting our members who were financially impacted by the COVID-19 pandemic to quickly access their super in line with the Government's economic response package.

Despite the ongoing uncertainty created by COVID-19, most global markets have recovered since the pandemic driven decline in the first half of 2020 and have gone on to deliver strong investment returns in 2021. We're pleased we've been able to help our members access investment opportunities and navigate the volatile environment.

The 2021 financial year also saw a major milestone with IOOF and MLC combining to become one of Australia's leading wealth managers, managing and administering $450 billion on behalf of more than 2.2 million Australians. This combination brings scale, diversity and growth opportunities through wide-ranging capabilities and technical expertise. Looking forward, members will benefit from a programme to deliver leading capabilities in products and services focused on better member outcomes.

Looking ahead, we believe we have a substantial opportunity to continue to make a difference to the long-term financial wellbeing of our members and on behalf of the Trustee Board and Management, would like to thank you for this privilege and your support.

Warm regards

Lindsay Smartt

Government reforms in superannuation since 1 July 2020

Financial adviser commissions ceased

As noted in the 2020 trustee report, commissions (payments from product providers to financial advisers for certain arrangements entered into before 1 July 2013) were to be terminated no later than 1 January 2021.

The trustee ceased paying commissions no later than 1 December 2020, and where possible lowered the costs of administration fees or insurance premiums.

Changes relating to contributions

Legislation has been passed to increase the age at which members can access the bring-forward non-concessional contributions cap from 64 to 66. This means anyone who is 66 years or under at the start of a financial year may make a contribution of up to $330,000 without breaching the contribution cap (subject to their total super balance at the start of the year). Although the legislation was only passed in June 2021, the change is effective from 1 July 2020 which may impact members who made large non-concessional contributions last year.

Legislation was also passed to introduce a COVID-19 recontribution option. If a member had taken advantage of the COVID-19 compassionate release, there is now an option to make a top-up contribution over the next ten years without the contribution counting towards their non-concessional contributions cap. Amounts subject to a COVID-19 recontribution cannot be claimed as a tax deduction and members taking advantage of this recontribution must provide the ATO form to the fund at or before the time they transfer money to the fund.

Further, from 1 July 2021 contribution caps have increased in line with indexation and the Superannuation Guarantee rate has increased. Refer to the section 'Superannuation thresholds for 2021/22' below for more information.

Increased consent requirements for deducting member advice fees

From 1 July 2021, any request to deduct any member advice fee will need to satisfy specific requirements as set out by ASIC. Additionally, ongoing member advice fees (i.e. fees that are payable for personal financial advice over a period exceeding 12 months) will require members to re-consent to their continuation every 12 months. These reforms are part of a broader package which may also impact how and when your financial adviser needs to disclose the fees they receive.

Members can request their advice fees to cease at any time by notifying the trustee in writing (including via email).

Your Future, Your Super reforms

As part of the 2020 Federal budget, the Government announced, and has since implemented, a series of reforms to superannuation that aim to:

- Reduce multiple accounts being established for members by requiring employers to first seek information from the ATO about a new employee's existing super funds before establishing a new account in the employer's default fund. This measure, referred to as super stapling, takes effect for someone starting work with a new employee from 1 November 2021.
- Require the ATO to develop a 'YourSuper' comparison tool which provides a high-level comparison between different superannuation options. This tool is now live on the ATO website.
- Require APRA, the prudential regulator, to carry out annual performance testing against MySuper options, as well as products controlled by the super fund or an associated entity. Funds which fail APRA's performance assessment must notify members and cannot accept new members if they fail twice. The first MySuper performance test was completed effective 1 July 2021, and trustee-directed products will be measured from 1 July 2022.

Closure of Eligible Rollover Funds and trustee ability to transfer funds to the ATO

Eligible rollover funds (ERFs) were introduced as an option for trustees to transfer member benefits when they believed the member's interests were no longer served by their fund, and were intended as a temporary repository of funds that a member would consolidate with their other super monies in short order. However in practice members were not usually aware of the ERF to which their funds had been transferred and these amounts would remain within the ERF, which does not generate much return.

Given the increase in the ATO's involvement with consolidating lost super balances, the Government have passed legislation requiring ERFs to transfer their balances to the ATO, and the ATO to consolidate amounts to member's active super accounts. All amounts within ERFs are to be transferred before 31 January 2022.

To provide trustees an alternative mechanism to deal with situations where the member's interests are no longer served by remaining within the fund, the trustee now has the option to voluntarily transfer member's funds to the ATO, who will then consolidate the transferred amount with any active fund the member has. The trustee can only transfer money to the ATO in this way if they believe it is in the member's best interest to do so.

Family Court can request superannuation information from the ATO

From 1 April 2022, parties who are separating can request the Family Court seek information about the other party's super benefits from the ATO. The ATO will then provide any information it has about superannuation interests to the Family Court. This is designed to reduce the ability for 'bad faith' settlements by one party not disclosing their super assets.

Design and distribution obligations

All financial product providers are, from 5 October 2021, subject to enhanced obligations around the design of their products, as well has how people can invest in them (i.e. how the product is distributed). As a result, certain investment options available through the platform will be restricted to members who are receiving personal advice from a financial planner. If a member has existing investments in an option that has this requirement, the existing holding can be maintained.

Portfolio holdings disclosure

Super funds will be required to publish a list of the underlying assets held within their investment options every six months based on the investments as at 31 December and 30 June each year. The first reporting date is 31 December 2021 and funds have three months from the report date to make the information available through the fund's website.

Adjustments to annual member meetings

Regulations were passed in August 2021 that prescribe specific information that must be provided by a super fund with its notice of an upcoming annual member meeting. The adjustments also allow for more flexible delivery of the notice, including by simply posting the notice on the fund's website. This will apply for annual member meetings held after 1 July 2022.

Western Australia super family law splitting delegated to Commonwealth for de-facto couples

The federal Government has passed legislation enabling de-facto couples to apply for super splitting on the breakdown of the relationship, however this has not yet taken effect as Western Australia will need to pass supporting legislation at a State level. Once this occurs, it is expected the Commonwealth legislation will be enacted.

COVID-19: Continued reduction of minimum account-based pension

As for the previous financial years, the Government further extended the halving of the minimum that must be drawn from account-based income streams to the 2021/22 financial year.

Increase in SAF members

From 1 July 2021 the maximum number of members that small funds are able to accommodate was increased from 4 to 6.

Simplification for certain pension tax calculations

When the transfer balance cap was introduced effective 1 July 2017, a consequence of these changes were that certain small funds with high-balance members were not able to use the segregated method to calculate their Exempt Current Pension Income (ECPI, i.e. the portion of the fund's investment income that was exempt from tax due to the retirement phase pensions paid from the fund). This required impacted funds to obtain an actuarial certificate for its ECPI even if the fund was fully in pension phase the entire financial year.

However, from 1 July 2021 small funds will not be required to obtain an actuarial certificate where the fund is fully in pension phase for the whole year, regardless of the size of member's total super balances.

Superannuation changes announced but not yet implemented

The Government has announced other changes which have not yet passed into law. This includes:

- The removal of age limit to enter into a bring-forward arrangement in relation to non-concessional contributions and removal of work test requirement from 1 July 2022. Combined, this would allow members to make contributions up to age 74, however non-concessional contributions will still be subject to the total super balance requirements. Note the work test is proposed to be applied for members who are over 67 and are intending to claim a deduction for their personal contributions.
- An ability to exit certain legacy income stream products such as term allocated pensions. The Government has acknowledged these products may no longer be fit for their original purpose given the amount of change to superannuation law over the past decade. The proposal is to allow a two year window from 1 July 2022 where members can choose to exit these arrangements. The specifics of how this will operate are not known at this time.
- The eligible age for making a downsizer contribution is proposed to reduce from 65 to 60 from 1 July 2022.
- From 1 July 2022 trustees of super funds (excluding SMSFs) are expected to design, implement and review a retirement income strategy as part of a new retirement income covenant. This will include consideration of what support a super fund may be able to provide a member to help them maximise their income in retirement.

Superannuation thresholds for 2021/22

Concessional contributions cap	$27,500 (previously $25,000 in 2020/21)
Non-concessional contributions cap (NCC)	$110,000 annual cap (previously $100,000 in 2020/21) if under $1.7m in super and pension on 30 June 2021 $0 if $1.7 million or more in super and pension on 30 June 2021 If individual is under age 67 on 30 June 2021, potential bring-forward: • $330,000 if under $1.48 million in super and pensions on 30 June 2021 • $220,000 if between $1.48 million and $1.59 million in super and pensions on 30 June 2021
Superannuation guarantee (SG) rate	10% (increase from 9.5% in 2020/21)
SG maximum contribution base	$58,920 ordinary time earnings per quarter or $235,680 pa (up from $57,090 per quarter 2020/21)
Preservation age • Benefits can be accessed on retirement • 0% effective tax on withdrawals under low rate threshold	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 after 1 July 1964
Low rate cap • 0% effective tax on taxable component of withdrawals	$225,000 (up from $215,000 for 2020/21)
CGT cap amount • Excluded from NCC cap	$1,615,000 (up from $1,565,000 for 2020/21)
Government co-contribution income	Full co-contribution – $41,112 pa or less (up from $39,837 for 2020/21) No co-contribution – $56,112 pa or more (up from $54,837 for 2020/21)
Spouse contribution tax offset	Maximum of $540 if annual spouse income less than $37,000. Offset ceases at $40,000.
Departing Australia Superannuation Payment tax rate	35% on taxable component (65% for working holiday makers)
Centrelink age pension age	Age 66 and six months Age pension age increases by 6 months every 18 months until it reaches age 67 by 1 July 2023.

General information

Directors of the Fund

- Mr Alan Chonowitz (appointed 31 March 2021)
- Ms Carolyn Colley (appointed 31 March 2021)
- Mr Geoffrey Walsh
- Ms Jane Harvey
- Ms Karen Gibson
- Mr Lindsay Smartt
- Mr Robert Andrew Bloore.

Trustee indemnity

As Trustee, we have taken out a policy of Trustee indemnity insurance.

Generally, as the Trustee, we are entitled to be indemnified from the assets of your fund against any personal liability for loss or damage incurred by your fund, except where we have failed to act honestly or failed to exercise the degree of care and diligence that we are required to exercise.

Trustee penalties

No penalties were imposed on us, as Trustee, during the reporting period.

Types of benefits

The types of benefits available through your fund include:

- retirement benefits at normal retirement age (age 65)
- any early retirement benefits
- any total and permanent disablement benefits
- any temporary disability benefits
- any leaving service benefits (resignation or termination of employment)
- any death benefits.

The benefits specified above will generally be the sum of your accumulation account. In the event of death or disability, an additional amount representing the proceeds of insurance (if any) may be included.

Payment of the benefits listed above depends on compliance with relevant legislation as well as the required condition of release being satisfied.

The benefit amounts in your annual member statement are shown as at 30 June 2021. The benefit amount may change. Upon request, we will give you any information you reasonably require to understand your benefit entitlements.

Death cover continuation option

Your fund allows you to enter into personal insurance policies. If you have insurance coverage within your fund, and you leave your current employment or close your fund, you may be able to continue your insurance cover under a personal policy without the need for further medical examination.

Your elected insurer may provide an option to continue cover with automatic acceptance or limited underwriting requirements. You will need to contact your insurer about any continuation option.

Eligible Rollover Fund

An Eligible Rollover Fund (ERF) is a fund designed to accept super accounts from other funds, where the Trustee of the other fund is unable to adequately provide for small account holders. ERFs are designed to offer a stable investment environment in which members with low account balances can have their funds invested with some protection from fees usually applied to actively managed accounts.

Under the Treasury Laws Amendment (Reuniting More Superannuation) Act 2020 ERF Trustees were required to not accept any new money from 1 May 2021 and to close and transfer any ERF accounts to the ATO by 31 January 2022.

Superannuation Trustees are no longer able to utilise ERFs as the regulators believe that the ATO is better placed to reunite members with their unclaimed superannuation.

Nominating beneficiaries

The beneficiary nominations you make do not expire and the Trustee will pay the benefit in accordance with your nomination, unless a nominated beneficiary is not a dependant at the time of your death. If you would like to make or amend a nomination, please complete the 'Change of nominated beneficiary form' available from our website at www.aetmyportfolio.com.au and forward it to us.

In the event of your death, where you do not have a nomination, or your nomination is ineffective for any reason, your benefits will be paid to your Legal Personal Representative.

Non-residents

Unlike self-managed superannuation funds, it may be possible to include non-Australian resident members in your fund without affecting its complying status. If you or any member of your Fund becomes a non-Australian resident, you must inform the Trustee immediately.

Minimum cash balance requirements

The minimum cash balance requirements are as follows:

- For member accounts under $1 million, a minimum cash balance of $5,000 is required.
- For member accounts over $1 million, a minimum cash balance of 0.5% of the value of the account is required.

Operational Risk Financial Requirement (ORFR)

Under legislative requirements effective from 1 July 2013, trustees are required to maintain adequate financial resources to address losses arising from operational risk. Trustees must determine the target amount to be set aside for these purposes based on guidelines provided by APRA. The target amount was required to be achieved by the end of a three year period. The Trustee reached the target amount before 30 June 2016 by transferring existing reserves held by AET (Trustee until 30 June 2019) to the ORFR and no levy was imposed on AET SAF members.

Should an operational risk event occur, deductions against each member's balance may be required to restore the ORFR back to the target amount.

Investment objectives

The investment objective for any superannuation fund is to maximise each member's benefits for retirement purposes, within acceptable parameters of risk and diversity.

Our minimum objective for every fund is to achieve an average annual growth in each member's benefits, for the life of their fund, which exceeds the increase in the consumer price index for that period.

Investment strategies

It is a legal requirement for us to formulate, and give effect to, an effective investment strategy for your fund.

To give you the flexibility to help you achieve your investment goals, we provide five model investment strategies for you to choose. When formulating these strategies, we take into account:

- the expected risk and return of each investment
- the existing assets of the fund
- diversification of investments
- liquidity and cash flow requirements
- current and future liabilities.

Benchmark asset allocation and investment guidelines apply to each investment strategy. The benchmark asset allocation and investment guidelines for each of the five model investment strategies are outlined on the following pages. If you would like a copy, please refer to the AET SAF Product Disclosure Statement and investment guide.

Once an investment strategy has been selected, we monitor your fund to ensure that it stays within your selected investment strategy. In the event your fund remains out of strategy for more than 180 days, we will select another investment strategy that is more appropriate to the assets held within your fund and notify you of the change.

Strategy 1: Conservative

- **Risk** – Medium
- **Usually held for a minimum of:** 1 – 3+ years
- **Objective** – To provide a low risk investment over the short to medium term by investing predominantly in income assets.
- **Performance benchmark** – Consumer price index +1%
- **Suitability** – This strategy is designed to suit the more conservative investor. It can be appropriate where high liquidity is required or where the fund will have a short life span. There will generally be little or no capital appreciation.

Strategy 2: Moderately conservative

- **Risk** – Medium
- **Usually held for a minimum of:** 3 – 5+ years
- **Objective** – To provide stable returns over the medium term by investing in a diversified portfolio of income assets with some growth asset exposure.
- **Performance benchmark** – Consumer price index +2%
- **Suitability** – This strategy is less conservative than the 'conservative' strategy (strategy 1) but the potential for capital appreciation is still relatively low. Any growth will come mainly from the accumulation of income.

Strategy 3: Balanced

- **Risk** – Medium to High
- **Usually held for a minimum of:** 5+ years
- **Objective** – To provide capital growth over the medium to long term by investing in a diversified portfolio of growth and income assets.
- **Performance benchmark** – Consumer price index +3%
- **Suitability** – This strategy is designed to produce a moderate level of income accumulation and medium capital growth over the longer term and should also provide moderate liquidity.

Strategy 1: Conservative

Investment strategy	
Asset class	Allowable range (%)
Defensive investments	80-100
Growth investments	0-20
Investment guidelines	
Investment rating	Maximum in any one investment (%)
Highly speculative	0
Speculative	0
Cautious	10
Non-speculative	30
Property	0
Investment allocation	Maximum allocation in account (%)
Speculative investments	0
Cautious investments	10
Cautious & Speculative investments combined*	10

Strategy 2: Moderately conservative

Investment strategy	
Asset class	Allowable range (%)
Defensive investments	55-85
Growth investments	15-45
Investment guidelines	
Investment rating	Maximum in any one investment (%)
Highly speculative	0
Speculative	5
Cautious	10
Non-speculative	30
Property	0
Investment allocation	Maximum allocation in account (%)
Speculative investments	5
Cautious investments	15
Cautious & Speculative investments combined*	15

Strategy 3: Balanced

Investment strategy	
Asset class	Allowable range (%)
Defensive investments	35-65
Growth investments	35-65
Investment guidelines	
Investment rating	Maximum in any one investment (%)
Highly speculative	0
Speculative	5
Cautious	10
Non-speculative	30
Property	50
Investment allocation	Maximum allocation in account (%)
Speculative investments	15
Cautious investments	25
Cautious & Speculative investments combined*	25

* The limits listed in the table for speculative investments still apply when applying the total combined investment allocation limit in cautious and speculative investments.

Strategy 4: Balanced to moderate growth

- **Risk** – High
- **Usually held for a minimum of:** 5 – 7+ years
- **Objective** – To provide capital growth over the medium to long term by investing in a diversified portfolio of growth assets with some income asset exposure.
- **Performance benchmark** – Consumer price index +4%
- **Suitability** – This strategy is designed to achieve stronger capital growth over the long term. There is still provision for some liquidity and an income accumulation capability to enable the account to meet its ongoing commitments.

Investment strategy	
Asset class	**Allowable range (%)**
Defensive investments	15-45
Growth investments	55-85
Investment guidelines	
Investment rating	**Maximum in any one investment (%)**
Highly speculative	0
Speculative	10
Cautious	15
Non-speculative	30
Property	60
Investment allocation	**Maximum allocation in account (%)**
Speculative investments	25
Cautious investments	35
Cautious & Speculative investments combined*	35

Strategy 5: Growth

- **Risk** – High
- **Usually held for a minimum of:** 7 – 10+ years
- **Objective** – To provide capital growth over the long term by investing in a diversified portfolio of predominantly growth assets with minimal income asset exposure.
- **Performance benchmark** – Consumer price index +5%
- **Suitability** – The strategy has a greater focus on share securities (listed and unlisted) as well as property and investors should be aware there are greater risks involved as considerable volatility may be experienced over the short term.

Investment strategy	
Asset class	**Allowable range (%)**
Defensive investments	1-25
Growth investments	75-99
Investment guidelines	
Investment rating	**Maximum in any one investment (%)**
Highly speculative	0
Speculative	15
Cautious	20
Non-speculative	30
Property	70
Investment allocation	**Maximum allocation in account (%)**
Speculative investments	25
Cautious investments	40
Cautious & Speculative investments combined*	40

* The limits listed in the table for speculative investments still apply when applying the total combined investment allocation limit in cautious and speculative investments.

Financial information about your fund

Allocation of fund earnings

Any earnings from your chosen investments are paid to your fund and reflected in your account balance. All fund assets are held in trust and separate accounts are maintained for each member. Our administration services will collect all fund income and record capital gains.

The member statement which is included in your annual fund package shows the compound average effective rate of net earnings for your account for the last five and ten years (or for the period of your membership if that is shorter).

Asset allocation

The 'Investment Holdings Comparison' report (included in your annual fund package) shows the asset allocation of your fund at the beginning of the reporting period and at the end of the reporting period.

The values shown at the beginning of the reporting period in your investment holdings report are carried forward from the previous year end audited financial statements.

Illiquid investments

Illiquid investments are investments that have low liquidity, which means they cannot be easily bought or sold or quickly converted into cash. Examples of illiquid investments may include:

- capital guaranteed funds
- certain property funds
- unlisted unit trusts
- direct property.

Generally, when we receive instructions to transfer your superannuation benefits we have 30 days to implement your request. An illiquid investment within your fund may prevent us from processing your transfer request within the 30 day timeframe due to delays in receiving the sale proceeds from these investments.

Derivative securities

A derivative is a financial contract, the value of which depends on, or is derived from, assets, liabilities or indices (the underlying assets). Derivatives include a wide assortment of instruments, such as forwards, futures, options, swaps and warrants.

Generally, we do not allow the use of derivatives in the AET SAF for strategic portfolio management. However your fund may be exposed to derivatives by investing in managed funds using derivatives for hedging or risk management purposes.

Contributions

As a consequence of your membership, contributions may be made to your fund by you, your employer, your spouse, the Government or the ATO if permitted under superannuation legislation.

Your employer may be required to make contributions to the fund, to satisfy the requirements of the Superannuation guarantee, Federal or State Awards, or employment agreements such as salary sacrifice arrangements you have made with your employer and voluntary contributions withheld from your salary or wages at your request.

There is currently no minimum limit on the amount of contributions that can be made. However, maximum limits do apply to the amount of contributions that you or your employer may claim as a tax deduction, or that will be eligible for other tax concessions.

Please refer to the AET SAF Product Disclosure Statement and general reference guide for further general information including information around how your contributions and/or superannuation benefits may be treated for tax. For information on how the taxation of superannuation benefits affects you, please speak to your financial and/or taxation adviser.

Management of earnings reserves

We do not maintain earnings reserves on behalf of your fund.

Audited financial statements

Superannuation legislation requires us to produce certain accounting statements for your fund each year and have these statements audited by a qualified auditor.

The auditor's report is now available on request and the abridged financial statements are included in your annual fund package.

Complaints

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

- call us on 1800 254 180, or
- write to us at:

  Customer Care
  Level 6, 161 Collins Street,
  Melbourne VIC 3000

We will provide you with all reasonable assistance and information you may require for the purpose of making a complaint and assist you in understanding our complaints handling procedures.

You have the option to lodge a complaint with AFCA directly rather than lodging a complaint with us. You can also lodge a complaint with AFCA if you are not satisfied with our response or if your complaint has not been resolved within the maximum timeframe prescribed by ASIC's Regulatory Guides (RG 271). AFCA provide a fair and independent financial services complaint resolution that is free to consumers. Time limits may apply to complain to AFCA. Please act promptly and consult the AFCA website to find out if or when the time limit relevant to your circumstance expires.

Website:	www.afca.org.au
Email:	info@afca.org.au
Telephone:	1800 931 678 (free call)
In writing to:	Australian Financial Complaints Authority GPO Box 3 Melbourne VIC 3001

Contact us

If you have any questions or require any further information, please contact the:

Trustee

IOOF Investment Management Limited
ABN 53 006 695 021 | AFSL 230524
RSE Licence No L0000406

Postal address

Level 6, 161 Collins Street
Melbourne VIC 3000

Registered address

44 Pirie Street
Adelaide SA 5000

Telephone

1800 254 180

Fax

1800 781 166

Email

aetclientfirst@aetlimited.com.au

Website

www.aetlimited.com.au

PLA-21344 (51998) 1121