



SMF Eligible Rollover Fund

Annual report 2020

Issued by IOOF Investment Management Limited (IIML) ABN 53 006 695 021, AFSL 230524. IIML is the Registrable Superannuation Entity (RSE) Licensee, RSE Licence No. L0000406 for the SMF Eligible Rollover Fund (Fund), ABN 82 810 851 250, Registration No. R1005004. 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.

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Message from the Chair

I am pleased to present the trustee's annual report to members in the SMF Eligible Rollover Fund (Fund) for the year ended 30 June 2020. This report has been prepared by IOOF Investment Management Limited, as trustee of the Fund. Within the report you will find general information about the Fund including abridged financial statements, changes to the Fund and developments in super.

Undoubtedly, the 2020 financial year has been one of the most challenging and volatile in recent history. In the first half of the financial year, Australia experienced serious and prolonged drought conditions with bush fires causing devastation along the eastern seaboard. Then, from February 2020, the global COVID-19 pandemic has caused unprecedented disruption and significant distress to many Australians.

These events have affected the Australian and global economy and all of us personally. Regardless of these circumstances we continue working towards looking after you and what matters to you. In all our efforts this year the independent Office of the Superannuation Trustee (OST) which was established in 2019 and has worked with us to meet all the licence conditions required by APRA. Our investment in governance remains the cornerstone to best serve the interests of our members and ensure members' best interests are at the heart of everything we do.

On behalf of the Board and management, we thank you for your ongoing support.



Martin Walsh

Chairman of IOOF Investment Management Limited

Government reforms in superannuation

Changes and developments in superannuation

Financial adviser commissions to end from 2021

From 1 January 2021, financial advisers will no longer receive product commissions from super funds. Only commissions from retail life insurance policies arranged individually with the insurer can be paid from this date. This change is in response to the recommendations of the Hayne Royal Commission into Misconduct in Financial Services.

The SMF ERF does not pay product commissions to financial advisers.

Changes to age limits for contributions

From 1 July 2020 members under age 67 can make voluntary contributions without the need to meet a work test or use the work test exemption. The Government has raised this age limit from 65 to 67 in line with changes to the Age pension age. The spouse contributions age limit has also increased from age 70 to 74, to make it consistent with rules for other voluntary contributions. Note the receiving spouse is still required to meet the work test or work test exemption for contributions made after their 67th birthday.

Under the work test a person must be in paid work for at least 40 hours over 30 days period during the financial year. APRA have advised that an employee being paid through the JobKeeper wage subsidy is considered to have met the work test, even though they may have been stood down. The work test does not apply to compulsory super guarantee contributions or downsizer contributions.

Although the age for making contributions without a work test has been raised, legislation which would permit larger contributions up to age 67 by bringing forward future years of the non-concessional contributions cap has not yet passed through parliament.

No new contributions can be made to your SMF ERF account, however you can transfer your benefits to another superannuation account and make contributions to that account.

COVID-19: Early Release of Super

In response to the impact of the COVID-19 economic downturn, eligible persons could apply to the ATO for a withdrawal of their super up to \$10,000 by 30 June 2020 and a separate withdrawal of up to \$10,000 between 1 July 2020 and 31 December 2020. Temporary residents meeting the eligibility criteria could apply for a release before 30 June 2020, however the 2020/21 withdrawal is limited to eligible Australian or New Zealand citizens or permanent residents. As at 4 October 2020, the trustee has received 220 applications from the ATO for COVID-19 early release payments and paid out 97.7% of these within 5 business days.

Superannuation Guarantee and choice of super fund developments

- Salary sacrifice contributions cannot be used by an employer to meet their super guarantee contribution obligations. This commenced 1 January 2020.
- Employers were provided with a one-off amnesty by the ATO to voluntarily come forward to disclose and pay past unpaid super guarantee contributions for employees. Shortfalls paid under the amnesty would be tax deductible and without additional penalties. The amnesty applied from May 2018 (when it was originally announced) to 7 September 2020.
- Employees with multiple employers can apply to the ATO for an employer shortfall exemption certificate which would exempt that employer from having to make super guarantee contributions. The ATO will issue the exemption where the total super guarantee contributions across all employers would exceed the concessional contributions cap.
- Under the COVID-19 legislation, super guarantee contributions are only calculated on work actually performed, and not on amounts paid to employees through the JobKeeper wage subsidy.
- All new industrial agreements from 1 January 2021 are required to provide employees with the option to choose their own super fund for super guarantee contributions. Although currently most enterprise-based agreements provide full choice of fund to employees, some agreements have restricted employee choice. These restrictions will cease when the agreement is next renewed.

Insurance changes to automatic (default) insurance cover from 1 April 2020

- New members under age 25 will not receive automatic insurance cover unless they actively opt-into the cover. When the member turns age 25 and has an account balance of at least \$6,000 automatic insurance cover will commence unless the member opts out of the cover.
- Members will not receive insurance cover until their super balance reaches \$6,000, unless the member opts into the cover. Once the account reaches \$6,000 insurance can apply even if later the account drops below \$6,000.

These changes are in addition to other reforms where insurance cover ceases on inactive accounts unless the member opts-into the cover. Insurance is not provided through the SMF ERF.

SMSF rollovers through SuperStream

The start date for including self-managed superannuation funds (SMSFs) rollovers into SuperStream remains 31 March 2021, however in response to COVID-19 the ATO has provided a transition period to 30 September 2021 before SMSF use of SuperStream will be mandatory.

Superannuation thresholds for 2020/21

Concessional contributions cap	\$25,000 (no change from 2019/20)
Non-concessional contributions (NCC) cap	<p>\$100,000 annual cap (no change from 2019/20) if under \$1.6m in super and pension on 30 June 2020</p> <p>\$0 if \$1.6 million or more in super and pension on 30 June 2020</p> <p>If individual is under age 65*, potential bring-forward:</p> <ul style="list-style-type: none"> \$300,000 if under \$1.4 million in super and pensions on 30 June 2020 \$200,000 if between \$1.4 million and \$1.5 million in super and pensions on 30 June 2020 <p>*proposed to change to age 67</p>
Superannuation guarantee (SG) rate	9.5%
SG maximum contributions base	\$57,090 ordinary time earnings per quarter or \$228,360 pa (up from \$55,270 per quarter 2019/20)
Preservation age	Age 55 if born before 1 July 1960
<ul style="list-style-type: none"> Benefits can be accessed on retirement 0% effective tax on withdrawals under low rate threshold 	<p>Age 56 if born from 1 July 1960 to 30 June 1961</p> <p>Age 57 if born from 1 July 1961 to 30 June 1962</p> <p>Age 58 if born from 1 July 1962 to 30 June 1963</p> <p>Age 59 if born from 1 July 1963 to 30 June 1964</p> <p>Age 60 if born after 1 July 1964</p>
Low rate threshold	\$215,000 (up from \$210,000 for 2019/20)
<ul style="list-style-type: none"> 0% effective tax on taxable component of withdrawals 	
CGT cap amount	\$1,565,000 (up from \$1,515,000 for 2019/20)
<ul style="list-style-type: none"> Excluded from NCC cap 	
Government co-contribution income	<p>Full co-contribution – \$39,837 pa or less (up from \$38,564 for 2019/20)</p> <p>No co-contribution – \$54,837 pa or more (up from \$53,564 for 2019/20)</p>
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	<p>Age 66</p> <p>Age pension age increases by 6 months every 18 months until it reaches age 67 by 1 July 2023.</p>

Super changes proposed by the Government

The Government has announced other changes that have not yet passed into law. These are:

- **Winding up of Eligible Rollover Funds (ERFs)**

Over 2019 and 2020, APRA and the Government have announced a process to wind up ERFs, now that the ATO has power to proactively unite a person's lost and unclaimed super with an active super account. Legislation has been tabled in Parliament but has not yet passed into law.

Under the proposed legislation, super funds will not be able to rollover member benefits to an ERF, and instead can transfer amounts to the ATO if it would be in the member's best interests. For existing accounts in ERFs, those under \$6,000 will transfer to the ATO before 1 July 2021 and the remainder before 31 January 2022, following the legislation passing through parliament. Members of the SMF ERF will be given prior notice of any transfer to the ATO.

You can voluntarily roll your benefits in the SMF ERF to another super fund at any time by contacting IOOF Client Services or via your ATO account on MyGov.

- **Larger non-concessional contributions up to age 67**

Members under age 67 can now make non-concessional contributions without meeting the work test. However, legislation which would permit larger contributions up to age 67 by bringing forward future years of the non-concessional contributions cap has not yet passed through parliament. If passed it is likely to apply to the 2020/21 tax year and beyond.

- **Western Australia family law referral**

Super splitting rules on relationship breakdown is to be extended to de-facto couples in Western Australia (WA). Currently super splitting for de-facto relationships in WA is not covered by the commonwealth Family Law Act. WA has now referred this responsibility to the Commonwealth, and legislation implementing it is before parliament.

The year at a glance

Changes to the Trust Deed

The Trust Deed for the SMF Eligible Rollover Fund was not amended during the 2019/20 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 on 1800 677 306, or may be inspected by arrangement during business hours at any office of the Trustee.

Investment return

For the year to 30 June 2020, your account was adjusted to reflect a crediting rate of 0.19% per annum.

The average fund crediting rate for the last five years was 2.88% per annum.

Operational Risk Financial Requirement (ORFR)

Prudential Standard SPS 114 (SPS1 14) – Operational Risk Financial Requirement requires that the ORFR provides 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;
- Term deposits;
- Unlisted units in cash trusts; and
- Liquid unlisted unit trusts.

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. The Trustee has effected and maintains in force professional indemnity insurance to protect the interests of members.

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 maintains a small portion in cash to facilitate cashflow but is otherwise wholly invested in a single conservative investment strategy which is the IOOF MultiMix Conservative Trust (Trust). The Trust has the following investment objectives and strategy.

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 – defensive with some exposure to growth assets such as Australian and international property and shares and alternative – growth.

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.

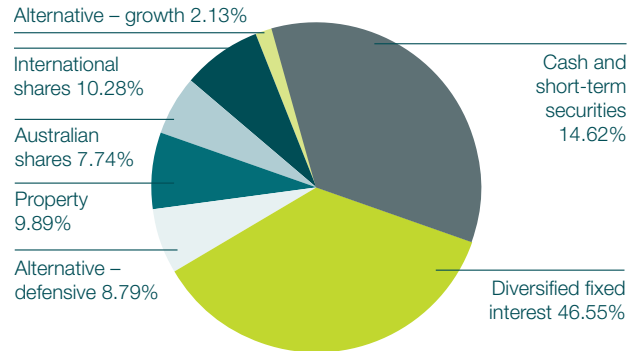
The underlying investment managers may utilise strategies for the management of currency exposure. The level of currency hedging used for the Trust will vary from time to time. The Trust has the capacity to apply a currency overlay to manage the Trust's currency risk.

Investment manager

The responsible entity of the Trust is IOOF Investment Services Ltd (IISL) ABN 80 007 350 405, AFSL 230703, a related party of IIML. IISL's 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.

Asset allocation

Asset allocation of IOOF MultiMix Conservative Trust as at 30 June 2020:



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

Asset Class	Range %	Strategic Benchmark %
Cash and short-term securities	10–35	22
Diversified fixed interest	30–55	42
Alternative – defensive	0–20	6
Property	0–20	8
Australian shares	0–20	9
International shares	0–25	11
Alternative – growth	0–15	2

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 2020, the underlying investment manager fee was 0.77% 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 2.88% 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.

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 2019/20 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 non-compliance from APRA.

Directors of the Trustee

- Mr Geoffrey Martin Walsh
- Ms Elizabeth Flynn (resigned 19 March 2020)
- Ms Karen Gibson
- Mr John Selak (resigned 29 August 2019)
- Mr Robert Andrew Bloore
- Mr Lindsay Smartt (appointed 6 August 2019)
- Ms Jane Harvey (appointed 19 March 2020)

Access to information

You may view copies of the following information at any office of the Trustee during business hours or by visiting the website (www.ioof.com.au):

- 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 2020.

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	2020 (\$)	2019 (\$)
Revenue		
Investment income	1,251,711	3,672,626
Sundry income	–	218
Transfers from other funds	183,827	351,879
Total Revenue	1,435,538	4,024,723
Expenses		
Benefits paid	26,437,526	11,368,099
Management Fees	790,580	1,156,501
General administration expenses	7,257	7,817
Income tax (benefit)/expense	129,747	71,128
Total Expenses	27,365,110	12,603,545
Transfers to reserves	–	–
Decrease/Increase in members' funds	(25,929,572)	(8,578,822)
Balance brought forward	63,452,203	72,031,025
Net Assets available for Member Benefits	37,552,631	63,452,203
<i>Represented by</i>		
Assets		
Investments	32,571,542	60,272,745
Cash and cash equivalents	3,559,552	867,565
Sundry debtors	1,329,156	2,183,354
Current tax asset	–	8,602
Deferred tax assets	149,166	249,610
Total Assets	37,609,416	63,581,876
Liabilities		
Current Tax Liabilities	29,302	–
Creditors and accruals	57,483	129,675
Total Liabilities	86,785	129,675
Member Benefits	37,418,088	63,254,224
Net Assets	104,543	197,977
Equity		
ORFR Reserve	106,636	165,729
General Reserve	(2,093)	32,248
Total Equity	104,543	197,977

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	2020(\$)	2019(\$)	2018(\$)
Opening balance	165,729	189,830	218,465
Transfer to reserves	(59,093)	(25,101)	(28,635)
Closing balance	106,636	165,729	189,830

The Fund's ORFR balance exceeded a trigger level in October 2019. 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 trigger has been exceeded due to the gradual decline in net assets of the Fund associated with the ATO unclaimed super transfer.

There have been no payments made from the ORFR to fund operational risk events.

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

Concentration of assets of the Fund

The Trustee advises that at 30 June 2020:

- the IOOF MultiMix Conservative Trust is an underlying investment of the Fund which has a value of more than 5% of the total assets of the Fund
- no direct shareholding of the Fund constituted an investment whose value was more than 5% of the value of the Fund.

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.

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. The Fund had no derivative financial instruments as at 30 June 2020.

If an issue has not been resolved to your satisfaction, or if we have not responded within the above timeframes, you can lodge a complaint with the Australian Financial Complaints Authority, or AFCA. AFCA provides fair and independent complaint resolution service that is free to consumers.

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

There are some time limits for lodging certain complaints. This includes complaints about the payment of a death benefit, which you must lodge with AFCA within 28 days of being given our written decision.

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

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