Australian
Executor Trustees

AET small APRA fund
2017/18 Annual Trustee report

Australian Executor Trustees Limited | ABN 84 007 869 794 | AFSL 240023

Contents

This report is issued by Australian Executor Trustees Limited (AET) ABN 84 007 869 794 AFSL 240023 RSE Licence No L0002554 as Trustee of your AET small APRA fund (AET SAF).

Within the report you will find general information about your fund, including legislative changes for 2017/18 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.

The information in this report is general information only and does not take into account your financial circumstances, needs and objectives. The information is given in good faith and is believed to be accurate and reliable at the time of publication.

Message from the Trustee

I am pleased to present the Trustee's annual report to investors in the Australian Executor Trustees small APRA fund (AET SAF) for the financial year ended 30 June 2018. This report has been prepared by Australian Executor Trustees Limited (AET) as Trustee of the AET SAF.

Within the report you will find general information about the AET SAF, as well as changes to super that occurred during the financial year and those proposed for the 2018/19 financial year and beyond.

Thank you for your ongoing support.

Yours sincerely

Renato Mota
Group General Manager – Wealth Management
Australian Executor Trustees Limited
as Trustee of the AET small APRA fund

Government reforms in superannuation

Changes and developments in superannuation

1 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.

2 First Home Super Saver scheme starts

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 Voluntary contributions of up to $15,000 a year or $30,000 in total plus ATO calculated earnings can be withdrawn.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.

3 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).

4 Carry forward of unused concessional contributions cap

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

5 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 a member or their dependant; funeral expenses for a dependant; and housing expenses to avoid losing their home.

6 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.

7 Ongoing reporting of super contributions to ATO starts

Under new reporting requirements, AET 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. AET provided the ATO with the last annual Member Contribution Statement for 2017/18 in October 2018, and will start reporting new contributions from 1 July 2018.

AET 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.

8 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.

9 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. Superstream already applies to AET small APRA Funds (SAFs).

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.

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	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.

Limited recourse borrowing arrangements changes

This amends the 'total superannuation balance' rules to ensure that, in certain circumstances involving limited recourse borrowing arrangements, the total value of a superannuation fund's assets is taken into account in working out individual members' total superannuation balances. The amendments don't apply to borrowings under pre 1 July 2018 contracts or refinancing of borrowings under pre 1 July 2018 contracts.

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 super package – Budget 2018 announcements to start 1 July 2019

These changes include:

- Exit fees on super will be abolished.
- Administration and investment fees on accounts that have less than $6,000 on 30 June will be capped at 3% for that year.

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

General information

Directors of the Fund

Mr George Venardos
Chairman – Independent Non-Executive
(until 13 September 2018)

Mr Christopher Kelaher
Managing Director
(resigned 1 September 2018)

Ms Elizabeth Flynn
Independent Non-Executive Director
(reappointed 29 August 2017)

John Selak
Independent Non-Executive Director)

Ms Dawn Oldham
Independent Non-Executive Director
resigned 21 August 2018)

Mr Martin Walsh
Independent Non-Executive Director
(Acting Chairman from 13 September 2018)

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 (currently from age 55 and increasing to age 60 progressively until 1 July 2024)
- 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 2017. 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

The SMF Eligible Rollover Fund (SMF ERF or fund) has been designed as a temporary repository, to accept the benefits of members:

- with low account balances
- who are leaving or changing employment
- who have become uncontactable.

You become a member of the fund when your superannuation is transferred from another super fund (such as your previous employer's super facility). Your account balance will consist of the amount transferred to the fund, less any fees and charges which may apply, together with any investment earnings credited to your benefit.

If you are a member of the fund, you have the following options:

1. Transfer your SMF ERF account balance to another super fund
2. Claim cash if your account balance is under $200
3. Claim cash if temporary resident leaving Australia permanently.

If we transfer the benefit to the SMF ERF you will become a member of the SMF ERF. Also in this fund, you can no longer make contributions, or choose your investment strategy.

For more information about the SMF ERF, including a copy of the Product Disclosure Statement, please call SMF ERF directly on 1800 677 306, visit their website at www.smf.com.au or write to:

Fund Administrator
SMF Eligible Rollover Fund
GPO Box 264
Melbourne VIC 3001

In accordance with superannuation law, we may pass on any relevant personal information required by the SMF ERF to establish your account.

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 per cent of the value of the account is required.

Operational risk financial reserve (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 must be achieved by the end of a three year period. AET reached the target amount by transferring existing reserves held by AET to the ORFR and no levy was imposed on AET SAF members for the 2017/18 financial year. 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 such change.

Strategy 1: Conservative

- **Risk** – Low
- **Time horizon** – One year
- **Objective** – To achieve stable growth by accumulating and re-investing the interest income.
- **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.

Investment strategy	
Asset class	Allowable range (%)
Income 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	25
Property	0
Investment allocation	Maximum allocation in account (%)
Speculative investments	0
Cautious investments	10

Strategy 2: Moderately conservative

- **Risk** – Low to medium
- **Time horizon** – More than two years
- **Objective** – To achieve steady growth by accumulating and re-investing the interest income.
- **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.

Investment strategy	
Asset class	Allowable range (%)
Income 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	25
Property	0
Investment allocation	Maximum allocation in account (%)
Speculative investments	5
Cautious investments	10

Strategy 3: Balanced

- **Risk** – Medium
- **Time horizon** – More than three years
- **Objective** – To achieve a moderate level of income accumulation and medium capital growth over the longer term with moderate liquidity
- **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.

Investment strategy	
Asset class	Allowable range (%)
Income 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	25
Property	0
Investment allocation	Maximum allocation in account (%)
Speculative investments	15
Cautious investments	10

Strategy 4: Balanced to moderate growth

- **Risk** – Medium to high
- **Time horizon** – Five years
- **Objective** – To achieve stronger capital growth over the long term with provision for some liquidity and income accumulation.
- **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 (%)
Income investments	15-45
Growth investments	55-85
Investment guidelines	
Investment rating	Maximum in any one investment (%)
Highly speculative	0
Speculative	10
Cautious	10
Non-speculative	25
Property	0
Investment allocation	Maximum allocation in account (%)
Speculative investments	25
Cautious investments	10

Strategy 5: Growth

- **Risk** – High
- **Time horizon** – More than five years
- **Objective** – To achieve capital growth over the medium to long term with a limited provision for interest focussed assets.
- **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 (%)
Income investments	1-25
Growth investments	75-99
Investment guidelines	
Investment rating	Maximum in any one investment (%)
Highly speculative	0
Speculative	10
Cautious	10
Non-speculative	25
Property	70
Investment allocation	Maximum allocation in account (%)
Speculative investments	25
Cautious investments	10

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 annual net average effective earning rates 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
- 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 Australian Taxation Office if so allowed 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.

Taxation of superannuation contributions

Generally, your concessional contributions will be taxed up to 15 per cent, however, the amount of tax may be more if you receive concessional contributions to your fund in excess of the relevant concessional contribution cap, or if your annual income is $250,000 or above. Any non-concessional contributions that exceed the relevant non-concessional cap may be taxable at the highest marginal tax rate.

Taxation of superannuation benefits

Different taxation treatment applies depending on both your age and whether you take your superannuation benefits as a lump sum or pension. If you receive a pension, the pension income may itself be subject to tax if you are under age 60. If you are aged 60 or over, any lump sum or income stream from your pension will be paid to you tax-free. In both instances you will need to meet a condition of release.

Please refer to the AET SAF Product Disclosure Statement and general reference guide for further general information. For information on how the taxation of superannuation benefits affects you, please speak to your financial 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.

Enquiries and complaints

As Trustee of your fund, we are obliged to provide you with any information that you reasonably require to understand your benefit entitlement.

If you have any questions or a complaint, please:

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

  Australian Executor Trustees Limited
  Customer Care Manager
  GPO Box 546
  Adelaide SA 5001

We will acknowledge receipt of your complaint within five business days and will normally respond in more detail within 28 days. Some complaints however, can be more complex than others and may take longer to resolve. If that is the case we will keep you informed of our progress. If, however, you have complained to us and your complaint has not been resolved to your satisfaction within 90 days, you have the option of contacting the Australian Financial Complaints Authority (AFCA).

AFCA provides fair and independent financial services complaint resolution that is free to consumers (see: www.afca.org.au). You can contact the AFCA on 1800 931 678, or by 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

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