

# Annual report to members for the year ended 30 June 2016

## Macquarie ADF Superannuation Fund



# Contents

Welcome	01
Overview of the Fund	03
How the Fund is managed	06
Important information	08
Financial statements of the Fund	15
Contacts	17

Macquarie ADF Superannuation Fund RSE R1004502 is a superannuation fund established by way of a trust deed. The trustee for the superannuation fund is Macquarie Investment Management Limited ABN 66 002 867 003 AFSL 237492 RSEL L0001281 (MIML, Macquarie, the trustee, we, us). Contributions are invested in a life insurance policy issued by Macquarie Life Limited ABN 56 003 963 773 AFSL 237497 (Macquarie Life). MIML and Macquarie Life are wholly owned subsidiaries of Macquarie Group Limited ABN 46 008 583 542. The trustee is covered by the professional indemnity insurance taken out by the Macquarie Group.

**MIML is not an authorised deposit-taking institution for the purposes of the *Banking Act (Cth) 1959*, and MIML's obligations do not represent deposits or other liabilities of Macquarie Bank Limited. Macquarie Group Limited does not guarantee or otherwise provide assurance in respect of the obligations of MIML.**

Investments in the Macquarie ADF Superannuation Fund are not deposits with or other liabilities of Macquarie Group Limited or of any Macquarie Group company, and are subject to investment risk, including possible delays in repayment and loss of income or principal invested. Neither Macquarie Group Limited, MIML, Macquarie Life, nor any other investment managers referred to in this report, nor any other member company of the Macquarie Group guarantees the performance of the Macquarie ADF Superannuation Fund or the repayment of capital from the Macquarie ADF Superannuation Fund.

The information contained in this annual report is dated 9 December 2016 and is general information only. We have not taken into account your objectives, financial situation or needs. You should consider the appropriateness of this information, taking into account your objectives, financial situation before acting on any of the information in this annual report.

# Welcome

9 December 2016

Dear Member,

## **Welcome to the ADF Superannuation Fund (the Fund) Annual report for the financial year ended 30 June 2016.**

This Annual Report provides you with general information about the management and financial position of the Fund, a legislative update and details of matters concerning the investments in the Fund. This report should be read with your Annual Statement for the year ended 30 June 2016, which gives details of your benefits in the Fund.

## **What happened this year?**

In the last 12 months, we've seen developments in global economics which suggest that the underlying challenge remains the ability to drive growth and the effectiveness of monetary policy in delivering this.

In Australia, while headline gross domestic product appeared favourable, transitioning the economy away from the growth driven by mining investment and the lack of job creation remained challenging. With minimal wage pressures as well as declining participation rates and hours worked, the Reserve Bank of Australia (RBA) was faced with weaker than expected inflation and responded with two 25 basis point rate cuts throughout the year.

Overseas in the United Kingdom (UK), we saw the Bank of England swiftly respond to the decision to leave the European Union with a cut to interest rates, pre-empting any deterioration in economic conditions. While we expect the Brexit decision will have a negative impact on economic growth in both the UK and Europe generally, it remains difficult to quantify at this point in time. The US economy however remained the global growth bright spot as the headwinds of a strong US dollar and declining energy sector subsided. Robust growth in consumer spending coupled with ongoing job gains and improving wage growth helped to support the economy.

## Overview of the Fund

We hope you find this year's Annual Report informative and we thank you for your ongoing support.

If you have any questions about this Annual Report or about the Fund in general, please contact your adviser or Macquarie on 1800 801 651.

Yours sincerely,



**Bill Marynissen**

Executive Director  
Macquarie Investment Management Limited

The Fund offers benefits that may assist you in meeting your retirement savings needs at various points throughout your lifetime. It suits people who are at crossroads in their working life – you may have changed jobs, opted for a redundancy package or taken an early retirement. Whatever the reason, the Fund allows you to 'park' your superannuation money (subject to preservation rules) in a safe place while you consider your investment strategies for the short, medium or long term.

In addition, the Fund is a secure choice for the cash portion of any diversified portfolio.

The Fund consists of three plans.

1. **Super Plan:** enables you to save for your retirement by rolling over your existing superannuation accounts and by making additional superannuation contributions. The plan closed to new investors on 1 June 2012.
2. **Allocated Pension Plan:** allows you to use your accumulated superannuation to obtain flexible and tax effective retirement income payments. The plan closed to new investors on 6 May 2004. The closure of the Allocated Pension Plan does not impact the way in which investments in the Fund are managed, nor does it impact the service that members of the Allocated Pension Plan receive in relation to their accounts.
3. **Fixed Pension Plan:** closed to new investors on 31 July 1998. For existing investors, it ceased to be treated as an asset test exempt pension for social security purposes in September 1998 as a result of legislative changes.

### Fund performance

The following investment returns were achieved for the year:

- Super Plan achieved 0.82 per cent
- Allocated Pension Plan achieved 1.09 per cent
- Fixed Pension Plan achieved 1.07 per cent.

#### Super Plan<sup>1</sup> – inception: 26 November 1984

Year to 30/6/16 %	Year to 30/6/15 %	Year to 30/6/14 %	Year to 30/6/13 %	Year to 30/6/12 %	5yrs to 30/6/16 % pa	Inception to 30/6/16 % pa
0.82	1.16	1.26	1.87	3.06	1.63	5.59

<sup>1</sup> Returns are quoted net of all fees, charges and taxes with the exception of the account keeping fee and other incidental fees which may be charged directly to your account.

Allocated Pension Plan <sup>1</sup> – inception: 5 August 1996						
Year to 30/6/16	Year to 30/6/15	Year to 30/6/14	Year to 30/6/13	Year to 30/6/12	5yrs to 30/6/16	Inception to 30/6/16
%	%	%	%	%	% pa	% pa
1.09	1.43	1.49	2.11	3.49	1.92	3.84

Fixed Pension Plan <sup>1</sup> – inception: 3 September 1997						
Year to 30/6/16	Year to 30/6/15	Year to 30/6/14	Year to 30/6/13	Year to 30/6/12	5yrs to 30/6/16	Inception to 30/6/16
%	%	%	%	%	% pa	% pa
1.07	1.43	1.49	2.11	3.49	1.91	3.69

<sup>1</sup> Returns are quoted net of all fees, charges and taxes with the exception of the account keeping fee and other incidental fees which may be charged directly to your account.

It is important to remember that:

- past performance is no indication of future performance
- your investment is not guaranteed
- the value of your investment can rise and fall.

## Economic update<sup>2</sup>

### The Australian economy

The evolution of risks to the Australian economy has been gradual, with consumers, businesses, central bankers and policymakers facing many of the same problems now as they were 12 months ago. Growth in China has slowed following the commodities boom and now appears to be stable between 6.5 and 7 per cent while the price of iron ore, which bottomed in early 2016, remains weak.

Over the 2016 financial year, Australia's real gross domestic product (GDP) grew at an average pace of 2.9 per cent. While this compares favourably with rates of our developed peers, it masks the difficulties faced by the economy in making the transition away from growth driven by mining investment; capital expenditure growth in non-mining industries recently slumped into negative territory.

<sup>2</sup> The information provided in this Investor update is based on information as at 30 June 2016 and is derived from sources that are believed to be reliable at that time.

Job creation is also a problem. On the face of it, the headline growth rate is robust – big Australian exporters are shipping ever greater quantities of resources – but this is being achieved without growing the workforce. Australia's unemployment rate of 5.6 per cent is misleading, kept artificially low by a declining labour force participation rate. The composition of Australia's GDP growth permits the unemployment rate to continue falling, while wage pressures are weak and hours worked and the participation rate are in decline.

So far, the potential impacts from a Brexit event on Australian economic activity has been minimal and this is unlikely to change dramatically however, due to the heightened level of uncertainty there remains potential for adverse effects of financial market volatility and shifts in consumer and business sentiment. While investment flows from the United Kingdom remain significant, as a trading partner it's of declining relevance as a market for Australian exports of goods and services, representing less than 3 per cent of total exports. Its share of total foreign investment is more significant, but waning, falling from 25 per cent in 2009 to 17 per cent in 2015.

The Reserve Bank of Australia (RBA) eased interest rates by 25 basis points in May and August, taking the cash rate to 1.50 per cent. Weaker than expected inflation outcomes have been a principal driver of the RBA's decision with underlying inflation now materially below the RBA's 2 to 3 per cent target band. Having downgraded its inflation expectations, the RBA does not expect underlying inflation to recover to its target band until 2018. Instrumental to the future path of monetary policy will be the degree to which the Australian dollar weakens in response to lower rates.

Commodity price indices show significant gains since hitting their lows earlier in the year. As prices have lifted, particularly those of coal, the trajectory of Australia's terms of trade have improved, along with the outlook for mining investment, with the latest capital expenditure survey indicating upgrades to mining investment expectations. Based on the improvement in commodity prices, our Australian economist estimates a new mining capital expenditure cycle could begin from financial year 2018. Interestingly, the weakest of the last few cycles saw expenditures nearly double in the five years following the cyclical low.

# How the Fund is managed

The Fund is conservatively managed, investing primarily in shorter term securities (money market) with some holdings in longer term Australian fixed interest securities.

## Investment objective

The Fund's objective is to produce consistent returns in a low risk style by investing in short term money market and fixed interest securities. It is suitable for security-conscious investors looking for either a short, medium or long term investment.

## Investment strategy

The Fund will invest a minimum of 70 per cent of the portfolio in money market and fixed interest securities of less than one year's maturity. The Fund may invest the remaining assets in longer dated investments to take advantage of higher yields or the capital gains potential of the bond market. The performance of the short term money market portfolio may be enhanced with the use of structured securities, such as asset-backed securities, listed hybrid securities and interest rate derivatives.

## Futures and options

Futures and options (derivatives) can be used in the Fund:

- as a hedge to offset the risk of price variations of securities
- as an alternative to purchasing the physical security
- to take advantage of any opportunities which may exist in the market from time to time.

Redemptions from the Fund are met from securities that can be readily sold. The Trustee is of the opinion that in the normal course of business, the redemption arrangements of the Fund are adequate.

## The Macquarie Life policy

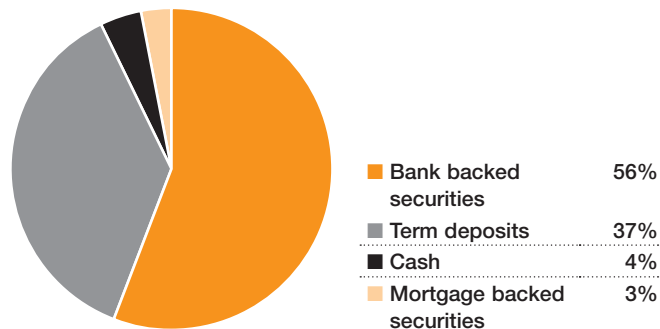
The Fund is invested in a life policy issued by Macquarie Life Limited (Macquarie Life). Through this policy, your investment has access to a wide variety of cash and fixed interest assets.

## How the Fund is managed

### Asset allocation as at 30 June 2016<sup>3</sup>

Investments held through the Macquarie Life policy represented 100 per cent of the Fund.

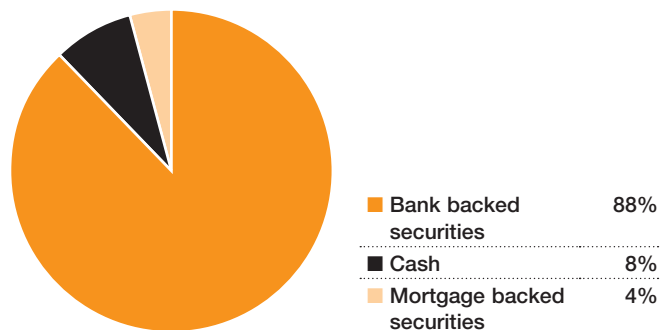
#### 30 JUNE 2016



### Asset allocation as at 30 June 2015<sup>3</sup>

Investments held through the Macquarie Life policy represented 100 per cent of the Fund.

#### 30 JUNE 2015



<sup>3</sup> The asset allocations shown in these pie charts are the composition of the Fund as at the relevant dates and will vary from day to day as securities are bought and sold.

### Ongoing electronic disclosure

On 28 July 2015, the Australian Securities and Investment Commission (ASIC) issued an updated *Regulatory Guide 221 Facilitating online financial services disclosure* (RG221). RG221 enables financial product providers (including superannuation trustees) to more easily provide ongoing disclosure to clients through electronic or digital delivery methods, including by:

- sending the information to an email address the client or their agent has provided to the financial product provider
- publishing or hosting the information on a website the financial product provider has nominated for that purpose.

As a result of these changes, we may communicate with you by using any email address nominated by you or your financial adviser or by making a communication or other information available to you on the online portal accessible from [online.macquarie.com.au](http://online.macquarie.com.au) or any other relevant website, app or online portal used for the Fund in the future.

If you would like to update your email address please speak to your adviser or contact us on 1800 801 651. Any email address provided to us for these purposes should be an email address which you access regularly and you or your adviser must notify the Trustee if you change this email address. By providing your email address and/or registering for online access, you acknowledge that it is your responsibility to regularly check your email address or online website to access ongoing disclosure in relation to your account.

### Operational Risk Financial Requirement

The Trustee has formulated a strategy for establishing, implementing, managing and maintaining an Operational Risk Financial Requirement (ORFR) in accordance with applicable superannuation laws. The ORFR is funded by the Trustee through shareholder capital and does not form part of the administration fee or any other fee described within the PDS.

### The Fund's trust deed

For a copy of the current trust deed for the Fund, please visit [macquarie.com.au/yourwrap](http://macquarie.com.au/yourwrap)

### Consolidation of multiple accounts

Each year, the Trustee is obliged to identify and review members who hold more than one superannuation account within the Fund. Where the Trustee reasonably determines that it is in the best interests of the member, the member's superannuation benefits may be consolidated into a single account. Members may be provided with the opportunity to elect not to consolidate their accounts. The next review will be conducted from January 2017.

### Financial Services Council

Macquarie Investment Management Limited complies with the Financial Services Council Standard 20: *Superannuation Governance Policy*.

### Trustee Board

The Board of the Trustee is comprised of independent directors. Information about the Trustee's directors and executive officers is available from [macquarie.com.au/yourwrap](http://macquarie.com.au/yourwrap)

### Accessing your Annual Report

You can view the latest Annual Report for the Fund online at any time by visiting [macquarie.com.au/yourwrap](http://macquarie.com.au/yourwrap)

### Further information

More information about the Fund is available from [macquarie.com.au/yourwrap](http://macquarie.com.au/yourwrap), including:

- the Trustee company's constitution and financial statement for the previous financial year
- the trust deed for the Fund
- information about the Trustee's directors and executive officers
- policies relating to conflicts management and proxy voting.

### Legislative updates

Since the beginning of the 2015–16 financial year, the following changes affecting superannuation occurred. Some of these changes are subject to passage of legislation through Parliament, as indicated below.

### SuperStream

Measures aimed at improving the administration and management of member accounts were introduced from 1 July 2013. These measures, known as SuperStream, included the introduction of a new data and payment standard for the electronic processing of rollovers and employer contributions. This standard applies to all contributions made by medium to large employers from 1 July 2014, subject to transitional arrangements. For small employers, the standard applied from 1 July 2015 with the Australian Taxation Office (ATO) extending the deadline to 28 October 2016.

### Increase to low rate cap

The low rate cap increased from \$185,000 to \$195,000 for the 2015/16 financial year as a result of indexation and remains at \$195,000 for the 2016/17 financial year. The low rate cap limits the amount of taxable component benefits an individual may withdraw from their superannuation between preservation age and age 60 where a zero rate of tax is applied. Amounts withdrawn above the limit are generally taxed at 15 per cent plus Medicare levy.

### Terminal Medical Condition

Members may be able to access their benefits if they suffer a terminal medical condition.

To withdraw benefits under this condition of release, from 1 July 2015, the member must have a life expectancy of less than 24 months, as determined by two registered medical practitioners, at least one of whom is a specialist.

The life expectancy period has been extended from 12 to 24 months.

### Lost member accounts

Legislation to increase the threshold below which superannuation funds are required to transfer small lost accounts to the ATO passed through Parliament. The threshold increased from \$2,000 to \$4,000 from 31 December 2015 and a further increase will occur to \$6,000 from 31 December 2016.

### Superannuation objective

The Government released draft legislation to enshrine an objective of the superannuation system in legislation. The primary objective is proposed to be 'to provide income in retirement to substitute or supplement the Age Pension'. Once legislated, future changes to superannuation laws would need to be compatible with this objective.

### NSW stamp duty on managed funds abolished

The New South Wales (NSW) Government abolished stamp duty on NSW registered managed funds for transfers that occur on or after 1 July 2016.

### 2016 Federal Budget superannuation changes

The Government announced a number of changes to the superannuation system in the 2016 Federal Budget. Some of the initial proposals were revised. The following changes have now been legislated and will apply from 1 July 2017:

- reducing the annual concessional contribution limit from \$30,000 (and \$35,000 for those 50 and over in the financial year) to \$25,000
- reducing the annual non-concessional limit from \$180,000 to \$100,000. Individual's with a total superannuation balance of \$1.6 million or more will not be able to make further non-concessional contributions
- introducing a cap of \$1.6 million on the amount that can be transferred into certain tax free pensions
- lowering the income threshold above which individuals will be required to pay an additional 15 per cent tax on certain concessional contributions, from \$300,000 to \$250,000
- introducing a Low Income Superannuation Tax Offset, which will provide a contribution of up to \$500 to offset the tax paid on concessional contributions for individual's with an income of up to \$37,000
- allowing all individuals who make a personal contribution into an eligible superannuation fund to be able claim a deduction
- increasing the spouse income threshold from \$13,800 to \$40,000 for eligibility to the spouse contribution tax offset

- removing the earnings tax exemption for income and capital gains on assets supporting a transition to retirement pension
- removing the 'anti-detriment' payment on lump sum death benefit payments where the member dies on or after 1 July 2017 or if the person died before 1 July 2017, the death benefit is paid on or after 1 July 2019.

In addition, those with superannuation balances of less than \$500,000 will have the ability to access their unused concessional contributions cap on a rolling five year basis from 1 July 2018.

### The APRA levy

To fund the costs associated with implementation of the Government's SuperStream reforms, a temporary SuperStream levy has and continues to be imposed on Australian Prudential Regulation Authority (APRA) regulated superannuation funds from 1 July 2012 until 30 June 2018.

As the fund is regulated by APRA, the next levy instalment is expected to be debited from members' accounts no later than February 2017.

### Use of derivatives

We may invest in derivatives to obtain or reduce market exposure. Derivatives, such as futures and options, are financial instruments whose value is derived from actual underlying assets. Futures and options can be used to offset the risk of price variations in securities or as an alternative to buying the underlying security. Futures and options can also be used to seek to take advantage of any opportunities for profit which may exist in the market from time to time. As the market value of derivatives is variable, gains and losses can be incurred and this can be magnified due to the leveraged nature of the investments.

The Fund may use derivative securities such as futures, options and swaps:

- as a hedge
- as an alternative to buying and selling the physical security, or
- to take advantage of opportunities for profit.

If we decide to use derivatives, we ensure that the Fund can always meet its commitments without having to borrow.

### Eligible Rollover Fund (ERF)

The Trustee has elected and reserves the right to pay all accounts with a balance up to \$1,200 to an ERF, which accepts small amounts. The ERF chosen is called the Super Safeguard Eligible Rollover Fund.

APRA has approved the Super Safeguard Eligible Rollover Fund to operate as an ERF. The Trustee is Diversa Trustees Superannuation Services Limited ABN 49 006 421 638 AFSL 235153 RSEL L0000635.

Should your benefit be transferred to the Super Safeguard Eligible Rollover Fund, all subsequent enquiries relating to your benefit should be directed to:

#### Super Safeguard Eligible Rollover Fund

GPO Box 3426

Melbourne

VIC 3001

Phone: 1300 135 181

Fax: 1300 135 191

Email: [enquiries@supersafeguard.com.au](mailto:enquiries@supersafeguard.com.au)

Website: [supersafeguard.com.au](http://supersafeguard.com.au)

Should your benefit be transferred to the Super Safeguard Eligible Rollover Fund:

- your interest in the Fund, including your insurance cover, will cease
- you will become a member of the Super Safeguard Eligible Rollover Fund and will be subject to its governing rules
- your account will be invested according to the investment strategy of the Super Safeguard Eligible Rollover Fund
- the Super Safeguard Eligible Rollover Fund may charge fees to your account
- you may not be offered insurance cover.

Please refer to the PDS for the Super Safeguard Eligible Rollover Fund for more information.

We reserve the right to change the chosen ERF without notice to you.



## Complaints

If you have a complaint, please contact your adviser and discuss your enquiry or complaint with them.

If you are not satisfied with the result, please contact us on 1800 801 651. Alternatively please write to us at the below address.

### Macquarie Investment Management Limited

GPO Box 4045  
Sydney NSW 2001

We will respond to your written enquiry or complaint as soon as possible and always within 45 days of receipt.

If you are not satisfied with our response after 90 days, you may wish to refer the matter to the Superannuation Complaints Tribunal, an independent body set up by the Federal Government to review trustee decisions relating to individual members. You can contact the tribunal on 1300 884 114.

## Further information

Further information is available from either:

- your adviser (if applicable)
- by contacting us on 1800 801 651.

# Financial statements of the Fund

## Income statement for year ended 30 June 2016

	2016	2015
	\$'000	\$'000
<b>Superannuation activities</b>		
<b>Investment revenue</b>		
Changes in investments measured at fair value	2,363	3,797
<b>Total investment revenue</b>	<b>2,363</b>	<b>3,797</b>
<b>Total revenue</b>	<b>2,363</b>	<b>3,797</b>
<b>Expenses</b>		
Operating expenses	31	52
<b>Total expenses</b>	<b>31</b>	<b>52</b>
Net income from superannuation activities	2,332	3,745
Profit before income tax	2,332	3,745
Income tax expense/(benefit)	–	–
<b>Profit after income tax</b>	<b>2,332</b>	<b>3,745</b>

## Statement of financial position as at 30 June 2016

	2016	2015
	\$'000	\$'000
<b>Assets</b>		
Cash and cash equivalents	–	235
Investments	268,960	303,641
<b>Total assets</b>	<b>268,960</b>	<b>303,876</b>
<b>Liabilities</b>		
Trade and other payables	613	749
<b>Total liabilities excluding member benefits</b>	<b>613</b>	<b>749</b>
Net assets available for member benefits	268,347	303,127
Member vested benefits	268,347	303,127
<b>Total net assets</b>	<b>–</b>	<b>–</b>
<b>Equity</b>		
Operational risk reserve	–	–
<b>Total equity</b>	<b>–</b>	<b>–</b>

<sup>4</sup> This annual report contains abridged financial information for the financial year ended 30 June 2016 for the Fund. The full financial information is available upon request by contacting your adviser or us on 1800 801 651.

Statement of changes in member benefits as at  
30 June 2016

	2016 \$'000	2015 \$'000
Opening balance of member benefits	303,127	363,510
<b>Contributions</b>		
Transfers in from other superannuation funds	2,915	4,082
Member	5,688	8,250
Employer	5,541	6,841
Government co-contributions	41	65
<b>Income tax on contributions</b>		
Contributions tax	(1,254)	(1,539)
Withholding tax	(60)	(43)
Contributions net of tax	12,871	17,656
Transfers out to other superannuation funds	(30,034)	(55,758)
Benefits to members	(19,949)	(26,026)
<b>Benefits allocated to members' accounts comprising</b>		
Net investment income	2,363	3,797
Operating expenses	(31)	(52)
<b>Closing balance of member benefits</b>	<b>268,347</b>	<b>303,127</b>

## Contacts

### Mailing address

**Macquarie Investment Management Limited**  
GPO Box 4045  
Sydney NSW 2001

### Office addresses

#### New South Wales

1 Shelley Street  
Sydney NSW 2000

#### Victoria

Level 24, 101 Collins Street  
Melbourne VIC 3000

#### Queensland

Level 16A, 345 Queen Street  
Brisbane QLD 4000

#### South Australia

Level 2, 151 Pirie Street  
Adelaide SA 5000

#### Western Australia

Level 2, 235 St Georges Terrace  
Perth WA 6000

For more information,  
advisers call 1800 801 651 or visit  
**[macquarie.com.au/yourwrap](https://www.macquarie.com.au/yourwrap)**

Existing members call  
1800 801 651.