MEMBER UPDATE

INTEGRA SUPER

AUGUST 2017

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FEDERAL BUDGET
How will the changes in the Federal Budget affect you?

OnePath

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For members who have a OnePath Integra Super account.

WELCOME

WELCOME TO YOUR 2017 MEMBER UPDATE

As a valued Integra Super member, I'd like to thank you for entrusting us with your super needs.

The year to 30 June 2017 has been one of substantial geopolitical and economic change. Despite these challenging times, I am pleased to advise that our investment returns have been healthy, particularly for those options weighted towards global and domestic shares. In this edition of your Member Update, our Chief Investment Office looks at the factors driving investment markets and how our investment funds are positioned.

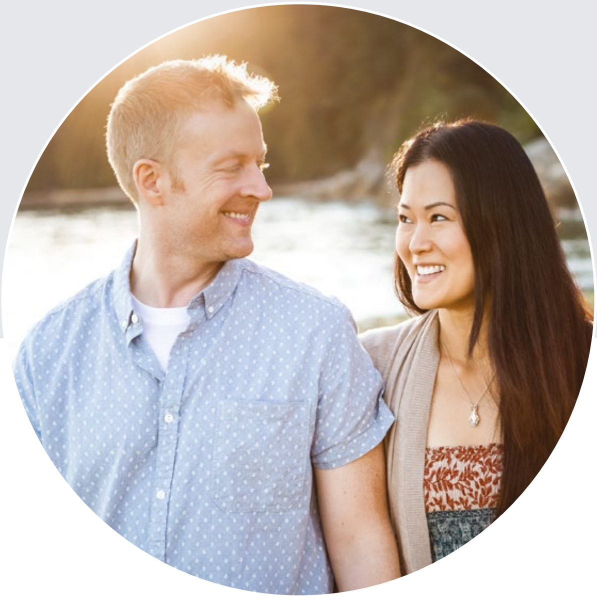
The year has also seen a substantial amount of regulatory and Budget reform. On 1 July 2017 a number of Federal Government changes to super came into effect. We identify what these changes are and provide important insights into how they could affect you. The good news for you is that we have ensured your product is ready to comply with these changes.

As always, apart from your Member Update, the other great place to get the latest up-to-date information and insights into your personal investment and insurance needs is through your licensed and accredited financial adviser. Your adviser has the skills, expertise and industry knowledge to help you navigate these ever evolving financial landscapes and can guide your path to achieve your goals.

We hope you enjoy this edition of your Member Update and look forward to helping you connect with, protect and grow your wealth, now and well into the future.

Mark Pankhurst
Head of Superannuation
ANZ Wealth

EXPLORE MORE ONLINE



GET SORTED

SUPER CAN STILL BE TAX EFFECTIVE

The rules governing superannuation have changed significantly from 1 July 2017, making it more limited as an investment vehicle, but not necessarily less tax effective.

Go online to find out more today.

onepath.com.au/memberupdate

PLANNING

MAKE SURE YOU CHOOSE WHO GETS YOUR SUPER

Considering superannuation can become the most valuable asset over your lifetime – worth five, six or seven figures, it's essential you ensure it goes to the right people.

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Optimised for your mobile and easy to read

INVESTMENT

ACTIVE VS PASSIVE INVESTING

There are key differences between 'active' and 'passive' approaches to investing. Passive investing has gained popularity in recent years. Which one is right for you?

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PLANNING

THE FIVE BIGGEST MONEY MISTAKES

The decisions you make today will impact your standard of living in the future.

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WHAT HAS SHAPED YOUR INVESTMENT PERFORMANCE?

Mark Rider, ANZ Wealth's Chief Investment Officer, looks at the factors driving investment markets so you can see what has been influencing the strong returns of our diversified funds.

With the economic growth recovery since the Global Financial Crisis (GFC) now being one of the longest on record, this year saw global shares make strong, broad-based gains. The US started to recover relatively early and the unemployment rate is now low, at 4.3%. This has led the US Federal Reserve on a more sustained pathway of lifting interest rates. Europe lagged the US but has now also entered into a stronger recovery cycle. So what might happen from here? Let's look at some of the factors likely to drive your investments for the remainder of 2017.

COMMODITY AND ENERGY PRICES LEAD RECOVERY BUT REVERT TO MORE SUSTAINABLE LEVELS

The global economic recovery that unfolded throughout 2016 was initially driven by the industrial sector, which was reflected in a surge in the commodities and energy sectors. These industries were supported by a large economic stimulus package implemented by China in 2015. However, by the early part of 2017, prices in these sectors were easing. By mid-2017, prices had fallen to more sustainable levels as Chinese policy tightened.

GROWTH IN EUROPE AND JAPAN LIFTS

After a solid lift in Chinese and US growth, momentum has now passed to Europe and Japan. While both of the latter regions have struggled since the GFC, signs are emerging that the current lift in growth may be more sustainable. Political uncertainty in Europe has also somewhat receded after the election of French President Emmanuel Macron. However, later this year the Italian election looms as another political risk.

TRUMP TRADE UNWINDS

Late in 2016, the election of US President Donald Trump added further momentum to global growth. His proposed agenda of tax cuts and increased infrastructure helped drive shares higher. Although with few policy runs on the board, markets have now largely stopped expecting policy support.

EARNINGS LIFT STRONGLY ACROSS MOST MARKETS, ALTHOUGH AUSTRALIA NOW EASING

Global shares earnings displayed a synchronised double digit lift in earnings in most markets; this was the primary driver of shares since late last year. Signs are emerging that upward momentum in the US may now be consolidating, although earnings momentum remains strong in Europe, Japan and emerging markets.

AUSTRALIA DIVERGES FROM GLOBAL RECOVERY

While Australian earnings increased alongside global earnings growth throughout 2016, by early 2017 there were signs that Australian earnings were easing and diverging from the robust global up-trend. In particular while Australian business confidence remained solid, the household sector eased sharply with income growth weak and consumption soft. Looking into 2018, we expect housing construction could temper growth further, although this could be partly offset by a recovery in non-mining investment. However, 2018 is shaping up as a challenging year for the Australian economy as housing construction slows and households remain under pressure from sluggish wages growth.

Go online to watch our investor insights video with CIO Mark Rider, at onepath.com.au/memberupdate

HOW ARE WE MANAGING YOUR INVESTMENTS?

The range of OptiMix and OnePath diversified funds are a careful mix of asset classes that provide you with a diversified exposure to global and Australian share and bond markets. The mix of growth and defensive assets differ by fund to suit your tolerance to the variability of investment returns. There are more of the 'riskier' asset classes such as shares in Growth funds versus more defensive assets, such as cash, in Conservative funds.

The year to 30 June 2017 has been a strong one in terms of financial outcomes for many of our customers. Many of the OptiMix and OnePath diversified funds, from Conservative through to High Growth, have comfortably exceeded their investment objectives over the 12-month period. Despite the historically low returns available from bonds and cash investments, the strong performance of Australian and international shares assisted the diversified funds in delivering strong positive returns, and further demonstrated the expected benefits of diversification.

Currently, we are neutrally positioned in terms of our asset allocation strategy. That is, we hold allocations of defensive and riskier assets at our long-run, benchmark levels. While share market valuations are somewhat above average levels, the local and global economies are expanding at a better pace and this is likely to have a positive impact on company profits and share prices.

However, we are concerned given the US Federal Reserve is in the process of slowly raising interest rates, which has the potential to restrict global economic growth. The higher rates are also likely to depress the expected returns from bonds so we have allocated a higher than usual amount to cash to protect investors.

As always, your financial adviser is best placed to guide you on the right mix of assets for your personal situation.

IS THE NEW AUSTRALIAN DREAM A HEALTHY SUPER FUND?

With property prices soaring in many areas of Australia and home ownership increasingly out of reach for younger generations, superannuation is set to become Australians' most valuable asset. We look at whether a strategy that focusses on super instead of home ownership could provide a better level of financial independence.

Australians tend to default to home ownership as their most significant financial objective, from which we gain a sense of security and independence. But strategies that focus on super instead of home ownership may provide a better level of independence.

At the heart of this is our changing economy. Right now the family home remains the single most important asset for the majority of Australians. But it may not be for much longer.

The 2016 'Household, Income and Labour Dynamics in Australia' survey found that superannuation is on track to overtake the family home as Australians' most important asset, and will be the cornerstone of most people's financial independence when they retire.

SUPER CONFUSION

With median house prices approaching $1 million on the east coast of Australia and home ownership rates falling among younger generations, it could be time for a reality check on which asset class is more likely to bring financial freedom.

ANZ research shows attitudes towards superannuation are often out of step with reality. In an in-depth survey of 1000 Australians in March this year, researchers found more than a quarter of participants didn't know their super balance.

There was also a large number of people who had unrealistic expectations about how much money they would need to retire. A surprising 38 per cent of respondents said they could comfortably retire on less than $300,000 – which falls well short of the $545,000 that the Association of Superannuation Funds of Australia recommends for a single person to retire on comfortably. Less than two-fifths agreed super is the main asset for future independence.

REALITY CHECK

It seems likely many of these people are underestimating the importance of superannuation. The reality at retirement will probably prove otherwise. A white paper commissioned by the Actuaries Institute and published in 2015 projects the likely asset mix of people in different wealth and age groups when they turn 65.

Titled 'For Richer, For Poorer: Retirement Incomes', the Institute estimates a couple with median wealth aged 30 would have $1.34 million in wealth at age 65, with 61 per cent of this being superannuation and only 32 per cent being home equity (the remainder being non-super savings).

Nathan Bonarius, a consultant at Rice Warner which produced the report, says a financial strategy that focusses on superannuation instead of property could make a lot of sense for some people.

"Generally, super is going to be more tax effective," Bonarius says. "People can contribute to their superannuation before they pay tax on the money," he says, "and get tax advantages on the investment income they ultimately receive – something property doesn't offer.

"An often overlooked investment risk is that while most superannuation portfolios are highly diversified, owning property leaves you exposed to a single asset class – with so many Australians negatively geared and relying purely on capital growth to make a return, the property market falling or even flatlining for a long period would cause a lot of headaches," he says.

"Not many people predicted the housing crash in America, and I suppose fewer would predict a housing crash in Australia," Bonarius says. "That doesn't mean it can't happen."

INVESTING IN SUPER AND PROPERTY

SUPERANNUATION

STRENGTHS

- Available to many
- Tax effective
- A compulsory savings system
- Potential for funds to be diversely invested
- Insurance within super available

WEAKNESSES

- Generally inaccessible until retirement
- Paying fees

PROPERTY

STRENGTHS

- Home is means test-exempt for welfare entitlements
- Tax benefits
- Easily bought and sold
- You can borrow against property
- Security of owning a home

WEAKNESSES

- Increasingly expensive, unaffordable for many
- Investing in a single asset class
- Not a liquid investment
- Hidden costs such as spending on rates, maintenance and renovations
- Significant costs such as stamp duty

PROPERTY VS SUPER

But when talking about choosing super over property, there are some major caveats. Owner-occupied property is means test-exempt for social security purposes, so those who own their own homes can often receive a full pension, no matter the worth of the property they reside in. As home ownership rates fall, this policy setting could one day come under pressure but there is little sign of that now.

Investment property also offers a range of tax benefits including a 50 per cent discount on capital gains if it is held for more than 12 months. Superannuation funds also get a discount on capital gains when they sell property, but it is only 33 per cent.

Money put into superannuation is generally locked away until retirement age, while property can be sold or rented at any time, provided there is a market. You also can't borrow against your super pre-retirement to improve your lifestyle or start a business.

"That's the price you pay for getting those additional tax concessions in superannuation," Bonarius says. He argues transfer taxes and market vagaries mean you can't easily turn a home into cash and is unlikely to create short-term wealth. "If it's a short-term savings plan then neither property nor super is the right place for you," he says.

There are also the obvious lifestyle advantages of living in a home you own. Few people would choose to be lifelong renters although there are some notable exceptions. One proud renter is Phil Ruthven, founder and director of global market research company IBISWorld. In an interview with the Australian Financial Review he said there are better ways to invest money than buying a home. He has been able to negotiate long-term leases, allowing him to do renovations and enjoy the same stability as home owners.

SAFEGUARD YOUR NEST EGG

Patrick Clarke, ANZ Head of Product Development, Superannuation, said the rising importance of superannuation as an asset should lead Australians to pay closer attention to setting it up properly in their younger years, despite how far away the payoff may seem. Compound interest may turn small savings into big gains.

"Look at all points of leakage and stop them," Clarke says. "Choose one fund that has low fees. Optimise your level of insurance and monitor it so that you're not paying for excess cover.

"And develop an investment strategy and stick to it. People who chase returns will inevitably become unstuck."

AN ALTERNATIVE PATH TO THE FUTURE

For those worried about their entry into the housing market, this is good news. There are many benefits and advantages to investing actively in superannuation. It can give security and independence in a similar way to owning your own home, especially if you take ownership of your superannuation account by consolidating your money, investing it thoughtfully and contributing what extra you can. The pay off, in the long run, can be impressive.

FEDERAL BUDGET 2017/18

The Government delivered the 2017/18 Federal Budget in May 2017, with incentives to invest in super to reduce the pressure on housing affordability.

Among the key take outs from the Federal Budget (the 'Budget') – the Government has proposed that first-home buyers will get a tax break to save in their super, most of us will be paying more for Medicare and the Budget will return to surplus in several years.

In short, the two main measures affecting superannuation account holders are that:

- first-home buyers can save toward a home loan deposit in their super
- eligible seniors may add up to $300,000 extra to their super if they sell their home.

It is important to note that at the time of writing these changes were not yet law and subject to change.

HOUSING AND SUPER

Perhaps the most critical measure is the First Home Super Savers Scheme, where savers can contribute from their before-tax income into their superannuation fund, and be taxed at the 15% superannuation tax rate instead of their marginal tax rate. When funds (including earnings) are withdrawn from a First Home Super Savers Scheme account to purchase a home they'll be taxed at the marginal rate less a 30% tax offset.

First-home savers can contribute up to $15,000 a year under this scheme to a maximum of $30,000 per person, which will be $60,000 for a couple. The Treasurer concluded that "under this plan, most first-home savers will be able to accelerate their savings by at least 30%."

The other major target is older Australians who will be encouraged to downsize to free up housing stock for young families. Those aged 65 and over can make an after-tax contribution up to $300,000 into their superannuation account out of the money from the sale of their home.

To be eligible, they must have owned the home for 10 years and it has to be their principal place of residence. Both partners in a relationship can do this, meaning combined they can contribute up to $600,000 to super.

This will be an additional super contribution, and those making such a contribution won't be subject to the usual contribution cap and voluntary contribution rules, so they won't:

- have to pass the usual work test for 65 to 74-year-olds
- be restricted from contributing if their super balance is above $1.6 million.

For more information, go to budget.gov.au or speak to your financial adviser.

The information contained within this publication is believed to be current as at the time of publication but no guarantee is provided. Changes in Government policy and legislation may dramatically alter the information provided. The information provided in this publication is of a general nature only and does not take into account your personal objectives, financial situation or needs. You should consider whether this information is appropriate for you, and speak to your financial adviser and taxation adviser prior to making any financial decisions. Examples shown in this publication are for illustrative purposes only.

FEDERAL BUDGET 2016/17: PROPOSALS NOW LAW

Since the 2016/17 Federal Budget was delivered in May 2016, the Government has made some changes to the original proposals announced for super. The 2016/17 Budget measures include a number of super and taxation reforms which are now law and are applicable since 1 July 2017 (unless stated otherwise in this update). These super rules are complex and we recommend that you seek financial and tax advice with respect to any of these changes which may impact you.

Reduced concessional contributions cap

From 1 July 2017, the annual concessional contributions cap has reduced to $25,000 regardless of your age (previously it was $35,000 if you were aged 50 or more at 30 June 2017 and $30,000 if you were aged less than 50 at 30 June 2017). The cap will be indexed and increase in increments of $2,500 in line with average weekly ordinary time earnings (AWOTE).

Reduced non-concessional contributions cap

From 1 July 2017, the annual non-concessional contributions cap has significantly reduced to $100,000 from $180,000.

If you are under age 65 at the start of a financial year, you should note that the two years bring forward amount that can be contributed over any three year period will also significantly reduce from $540,000 (2016/17) to $300,000 (2017/18). From 1 July 2017, the ability to use this bring forward rule is also impacted if your total super balance is at least $1.4 million but less than $1.6 million.

What does this mean?

If you have brought forward your non-concessional contributions within the previous two financial years, you can only contribute any residual amount without breaching your non-concessional contributions cap.

Non-concessional contributions – super balances $1.4 million or more

From 1 July 2017, if your total super balance is $1.6 million or more at 30 June of the previous financial year, then you cannot make non-concessional contributions in that financial year. The two years bring forward rule (refer to the section above) is also impacted where your total super balance is at least $1.4 but less than $1.6 million, refer to the table for details:

Total superannuation balance on 30 June 2017	Maximum non-concessional contributions cap for the first year	Bring-forward period
Less than $1.4 million	$300,000	3 years
$1.4 million to less than $1.5 million	$200,000	2 years
$1.5 million to less than $1.6 million	$100,000	No bring-forward period, the standard non-concessional contributions cap applies
$1.6 million	Nil	N/A

What does this mean?

From 1 July 2017, if you have a higher super balance you may also wish to consider accumulating wealth for your retirement in a non-super environment. To manage your total super balance and the transfer balance cap (refer to the next page for details), couples may also consider making spouse contributions (refer to the next page for tax offset details) and contribution splits on behalf of their spouse with the lower super balance.

Personal contributions claimed as a tax deduction by more than self-employed

From 1 July 2017, more individuals will be able to claim a tax deduction for their personal contributions which can be a great tax incentive if they are considering topping up their super. If you have a salary sacrifice arrangement in place you may wish to review this as it may no longer be your most effective strategy for contributing to your super.

New Low Income Super Tax Offset (LISTO) contribution

Eligible individuals with an annual adjusted taxable income of $37,000 p.a. or less will receive a boost to their super with a LISTO contribution from the Government. If you are eligible, the LISTO contribution will be equal to 15% of your total concessional contributions for an income year, capped at $500. The LISTO replaced the low income super contribution (LISC) that ceased on 30 June 2017.

Spouse contribution tax offset to become more available to couples

The low income spouse contribution tax offset will be made available to more couples making a contribution on behalf of their low income or non-working spouse (aged less than 70), including a defacto partner. A maximum tax offset of up to $540 p.a. will be available where your spouse has an income of $37,000 p.a. or less (previously this was $10,800 p.a. or less). To receive the maximum tax offset requires you to make a contribution of at least $3,000 on behalf of your spouse. The offset will gradually reduce if your spouse's income is above $37,000 p.a. and cuts out at an income of at least $40,000 p.a. (previously this cut out at an income of least $13,800 p.a.).

Reduced Division 293 tax threshold for high income earners

If your adjusted annual taxable income (including total concessional contributions less any excess concessional contributions) is greater than $250,000 p.a., then your concessional contributions above this threshold will be subject to an additional 15% tax (Division 293 tax). The threshold is reducing from $300,000 p.a. This additional tax means that you will pay a maximum of 30% tax on your concessional contributions above the threshold. This Budget measure also applies to members of defined benefit funds but different rules apply to the calculation of this tax for defined benefit members.

New $1.6 million transfer balance cap – retirement income phase

If you are retired or about to retire, from 1 July 2017, the total amount of super benefits that you will be able to transfer into the retirement phase will be capped at $1.6 million. Investment earnings are currently tax free in the retirement phase.

If you are already retired and are currently receiving a retirement income stream(s), then your existing retirement income stream(s) will be assessed against the cap based on your total balances as at 30 June 2017.

If you exceed the cap, you will be required to rectify the breach by removing the excess amount (and certain notional earnings on this amount) from your retirement income stream. You will also be liable to pay a penalty tax on your total notional earnings (based on the general interest charge) attributable to the excess amount until the breach is rectified.

Certain non-commutable lifetime pensions, lifetime annuities, term pensions and term annuities have special values counted towards the transfer balance cap. Tax implications may apply to income stream payments that exceed $100,000 for these types of income streams. Generally, non-commutable income streams do not allow lump sum withdrawals or the benefits to be rolled back to accumulation.

You should also note that transition to retirement (TTR) income streams do not count towards the transfer balance cap.

What does this mean?

To rectify the breach, the excess amount (and certain notional earnings on this amount) can be transferred back to a super accumulation account where the earnings on the excess will be taxed at 15%. Alternatively, the excess amount may be paid out to you as a lump sum. However, this rectification action will not be possible if you are receiving a non-commutable income stream (including a defined benefit pension).

If you are receiving a retirement income stream, and the excess amount is $100,000 or less, you have until 31 December 2017 to rectify this breach, otherwise a penalty tax may be applied.

Transition to retirement income streams

From 1 July 2017, earnings from assets supporting a transition to retirement (TTR) income stream will be taxed up to 15% and will no longer be tax-free. Members of TTR income streams will also not be able to treat their super income stream payments as lump sum payments for taxation purposes.

What does this mean?

You should inform your income stream provider as soon as you have satisfied a condition of release, including permanently retiring from the workforce or reaching age 60 and ceasing gainful employment. Your pension will then be in the retirement phase where the earnings on the assets supporting the income stream will be tax exempt, and the value of the pension will count towards your transfer balance cap.

You should decide whether a TTR income stream is still appropriate for you after 30 June 2017, by discussing this strategy with your financial adviser and tax adviser.

Anti-detriment payments abolished

The anti-detriment payment on death benefits from super is abolished where the death occurs from 1 July 2017. If the death occurs before 1 July 2017, the death benefit payment must be made before 1 July 2019 to receive the anti-detriment payment. The anti-detriment payment represents a refund of the tax paid on super contributions by the late member, where the death benefit is paid to their spouse, former spouse or child.

FOR MORE INFORMATION, GO TO BUDGET.GOV.AU, REFER TO THE `FEDERAL BUDGET 2016-17 PROPOSALS NOW LAW' AT ONEPATH.COM.AU.COM > PERSONAL > PERFORMANCE & UPDATES > PRODUCT UPDATES OR SPEAK TO YOUR FINANCIAL ADVISER.

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IMPORTANT CHANGES AND INFORMATION

A summary of significant product or regulatory changes that may impact your Integra Super account.

01 YOUR ANNUAL REPORT IS AVAILABLE ONLINE

In line with OnePath's ongoing commitment to reducing our impact on the environment, your Annual Report will be available online in December at onepath.com.au > Personal > Forms & brochures > Find a form or brochure.

If you would like to receive a hard copy (free of charge), please contact Customer Services.

02 CHANGES TO THE OPTIMIX GEARED AUSTRALIAN SHARES FUND

The investment strategy of the OptiMix Geared Australian Shares Fund (the 'Fund'), offered through Integra Super, changed in February.

What changes were made to the Fund?

- The Fund was previously managed via an active multi-manager investment process called OptiMix. The Fund now utilises a passive approach to investing with the assets being directed by Vanguard Investments Australia Ltd against a benchmark of the S&P/ASX 300 Accumulation Index.
- The name of the OptiMix Geared Australian Shares fund has changed to OnePath Geared Australian Shares Index.
- The ongoing fee was reduced by 0.55% p.a. (before tax for personal super members) as the costs associated with active asset management no longer apply.

New investment strategy and objective

New investment strategy
The Fund invests capital and borrowings in a diversified portfolio of Australian shares. The share portfolio comprises approximately 300 of the largest companies (shares) listed on the Australian Securities Exchange (ASX). The Fund will hold most of the securities in the S&P/ASX 300 Index (Index), allowing for individual security weightings to vary marginally from the Index from time to time. The Fund may invest in securities that have been removed from or are expected to be included in the Index.
New investment objective
The Fund aims to achieve returns (before fees, charges and taxes) that magnify the S&P/ASX 300 Accumulation Index returns.

03 INVESTMENT OBJECTIVE CHANGES FOR THE ONEPATH AND OPTIMIX DIVERSIFIED FUNDS

Following a review of the OnePath and OptiMix diversified funds, the 'Investment objectives' of these funds changed from 20 February 2017. The table below confirms the changes.

Fund	Previous Investment objective	New Investment objective
OptiMix Conservative	The fund aims to achieve returns (before fees, charges and taxes) that on average exceed inflation by at least 3.5% p.a., over periods of three years or more.	The fund aims to achieve returns (before fees, charges and taxes) that on average exceed inflation by at least 3% p.a., over periods of ten years or more.
OptiMix Moderate	The fund aims to achieve returns (before fees, charges and taxes) that on average exceed inflation by at least 4.5% p.a., over periods of three years or more.	The fund aims to achieve returns (before fees, charges and taxes) that on average exceed inflation by at least 4% p.a., over periods of ten years or more.
OnePath Balanced	The fund aims to achieve returns (before fees, charges and taxes) that on average exceed inflation by at least 4.5% p.a., over periods of three years or more.	The fund aims to achieve returns (before fees, charges and taxes) that on average exceed inflation by at least 4% p.a., over periods of ten years or more.

Furthermore, the investment horizon over which the investment return objectives are expected to be achieved will be extended to periods of 10 years or more for many of the OnePath and OptiMix diversified funds (including those listed in the table above). This change also applies to the following funds:

- OnePath Conservative
- OnePath Managed Growth
- OnePath High Growth
- OptiMix Balanced
- OptiMix Growth
- OptiMix High Growth.

What is the reason for these changes?

Lower returns are expected from cash and fixed interest assets over the next 10 years. These asset classes make up a substantial portion of the more conservative diversified funds. Therefore, the investment objectives for these funds need to be adjusted to be in line with market conditions and return expectations.

The investment horizon changed for the following reasons:

- we use 10-year capital market assumptions when we look at future expected asset class returns and when we apply our strategic asset allocation process; and
- there has been a general movement in the industry towards stating investment objectives over a 10-year period.

What is not changing?

There is no change to the way we manage the investments of the funds. For example, the investment strategy and asset allocations are unchanged. We will continue to actively manage both the underlying fund managers and the asset allocations of the funds.

What do the changes mean for investors?

The revised investment objectives are more closely aligned with our return expectations for each fund. These changes will ensure that current and future investors in the funds are better informed.

For existing investors these changes took place automatically on 20 February 2017.

04 STANDARD RISK MEASURE

We have adopted the Standard Risk Measure which is based on industry guidelines to allow investors to compare investment funds that are expected to deliver a similar number of negative annual returns over any 20-year period.

The Standard Risk Measure is not a complete assessment of all forms of investment risk, for instance it does not detail what the size of a negative return could be or the potential for a positive return to be less than an investor may require to meet their objectives.

Further, it does not take into account the impact of any ongoing fees and tax on the likelihood of a negative return.

Investors should still ensure they are comfortable with the risks and potential losses associated with their chosen investment fund(s).

How to read an investment profile

Risk Band	Risk Label	Estimated number of negative annual returns over any 20-year period
1	Very low	Less than 0.5
2	Low	0.5 to less than 1
3	Low to medium	1 to less than 2
4	Medium	2 to less than 3
5	Medium to high	3 to less than 4
6	High	4 to less than 6
7	Very high	6 or greater

For further information refer to our website at onepath.com.au > Performance & updates > Product updates

Updated Standard Risk Measures

Option Name	Risk Band	Risk Label
Arrowstreet Global Equity (Hedged)	7	Very high
BlackRock Scientific Australia Equity	7	Very high
BlackRock Scientific International Equity	7	Very high
Capital International Global Equities (Hedged)	7	Very high
Colonial First State Imputation	7	Very high
Investors Mutual Australian Shares	7	Very high
MFS Global Equity	7	Very high
MLC Platinum Global	7	Very high
OnePath Alternatives Growth	7	Very high
OnePath Australian Shares	7	Very high
OnePath Balanced	6	High
OnePath Blue Chip Imputation	7	Very high
OnePath Capital Stable	4	Medium
OnePath Diversified Fixed Interest	5	Medium to high
OnePath Geared Australian Shares Index	7	Very high
OnePath Global Shares	7	Very high
OnePath Property Securities	7	Very high
OnePath Select Leaders	7	Very high
OnePath Sustainable Investments - Australian Shares	7	Very high
OptiMix Australian Fixed Interest	5	Medium to high
OptiMix Australian Shares	7	Very high
OptiMix Conservative*	5	Medium to high
OptiMix Global Shares	7	Very high
OptiMix Global Smaller Companies Shares	7	Very high
OptiMix Moderate	6	High
Perennial Value Shares	7	Very high
Perpetual Australian Shares	7	Very high
Perpetual Conservative Growth*	5	Medium to high
Platinum International	7	Very high
Schroders Australian Equity	7	Very high
UBS Defensive Investment	5	Medium to high
UBS Diversified Fixed Income	5	Medium to high
Vanguard Australian Shares Index	7	Very high
Vanguard International Shares Index (Hedged)	7	Very high
Zurich Investments Global Thematic Shares	7	Very high

* This investment option's probability of negative annual returns exceeds 2 years in a 20 year period and is labelled a 'Conservative fund'. This breaches the ASFA/FSC guidelines on options with a 'Conservative' label. As such, we recommend that clients and their advisers take this into account when making investment decisions to ensure the investment is suitable for the investor's risk profile.

05 ANNUAL AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY (APRA) LEVY AND REGULATORY CHANGE LEVY

APRA levy

All Australian Prudential Regulation Authority (APRA) regulated superannuation funds are charged an APRA levy. The amount of the APRA Levy for the 2016/17 financial year recovered the general operational costs of APRA, as well as other specific costs incurred by certain other Commonwealth agencies and departments (ASIC, DHS, SCT and the ATO), as well as some of the costs with implementing the Government's 'SuperStream' reforms. The SuperStream reforms are designed to support the superannuation system to operate more efficiently for the benefit of members.

The APRA levy was applied as an asset-based levy of 0.01% against the investments of the OnePath MasterFund in the 2016/17 financial year.

Regulatory Change levy

This levy is to cover some of the costs incurred to comply with the Government's superannuation regulatory changes, and consistent with the approach taken by many superannuation funds across the industry. The regulatory change levy was applied as an asset-based levy of 0.02% against the investments of the OnePath MasterFund in the 2016/17 financial year.

For members invested in OnePath MasterFund products, the Trustee recovered the APRA and Regulatory Change levies in June 2017 by deducting them from the unit price of each investment option (excluding cash, term deposits and guaranteed products, which do not have a unit price).

The total impact of the APRA levy and the Regulatory Change levy on members was 0.03% of the value of their unitised investment options. For example, a member with a balance of $50,000 paid $15.00.

These levies are not shown as a transaction in your statement as they are charged as a deduction from the unit price of each of your investment option(s) and not directly from your account balance.

06 ARE YOUR CONTACT DETAILS UP TO DATE?

For superannuation accounts, if you are under age 65 and we do not have contact details for you, or you have not contacted us during the last 12 months, **we may be required to close your account** and pay it to the ATO, if your balance is under the legislated threshold. The threshold is $6,000 from 31 December 2016. Once this happens, you will lose any insurance associated with the account, and will need to contact the ATO about payment options. Although you can request the monies be re-directed to OnePath, this would generally require a new account to be set up, which is not available for all products, and would have pre-existing conditions limitations on any insurance. Because we would not have your contact details, you would not be provided with prior notification of this happening, or confirmation from us that it has happened. However, you would be able to see the amount as Unclaimed Monies by logging on to the MyGov website, my.gov.au

If you have not provided your phone number or email address, you can do so by calling us on 133 665 or emailing us on customer@onepath.com.au

07 ANNUAL STATEMENTS FOR SUPER – ADDITIONAL EXPLANATORY NOTES

The following explanatory notes are to be read together with your 2017 Annual Statement for your super account. If you have any further questions about your Annual Statement, please speak to your financial adviser or call Customer Services.

Contributions tax

Contributions tax of 15% will apply to any contributions that you claim as a personal tax deduction (subject to a valid 'Notice of intent to claim a tax deduction' form) or contributions made by your employer (including salary sacrifice contributions).

In calculating the amount of tax payable, we may make allowance for the benefit of tax deductions on transactions such as the payment of insurance premiums.

If you are claiming a tax deduction for personal contributions that you made in the Annual Statement period, the related contributions tax on these contributions will only appear in the Annual Statement if we received your 'Notice of intent to claim a tax deduction form' by the relevant date and the notice has been acknowledged by the Trustee.

Tax at a rate of 15% also applies to the untaxed element of a roll-over superannuation benefit and certain foreign super fund transfers.

The tax payable is shown on your Annual Statement.

Additional tax for high income earners (Division 293 tax)

An additional 15% tax may apply to certain concessional contributions if your adjusted taxable income exceeds $250,000 from 1 July 2017 onwards. For further information please visit ato.gov.au or speak to your adviser.

Preservation status

Unrestricted Non-Preserved Benefit is the amount of the withdrawal benefit at the close of the reporting period that you can access at any time.

Restricted Non-Preserved Benefit is the amount of the withdrawal benefit at the close of the reporting period that you can access, if you leave an employer who has contributed to this fund on your behalf, or when preserved benefits are payable.

Preserved Benefit is the amount of withdrawal benefit at the close of the reporting period required to be preserved by the Trust Deed and super legislation governing your benefits. Generally, you cannot access this amount until age 65, or once you have reached your preservation age (between age 55 and 60, depending on your date of birth) and you have retired.

The total of the preservation components is net of withdrawal fees and contributions tax payable on contributions that were made up to the end of the reporting period. Please note: where no-TFN contributions tax is payable, the total of the preservation components will differ from the withdrawal amount as any no-TFN contributions tax is deducted from the withdrawal amount and not from the preservation components.

Super Guarantee Allocation

The Super Guarantee Allocation is the amount of employee entitlement paid by the Australian Taxation Office (ATO) representing a superannuation guarantee shortfall and any interest for the shortfall. This amount includes the 9.5% (for 2017/18) obligation and any interest earned. The Super Guarantee Allocation may appear on your Annual Statement as either an addition or deduction.

An addition represents a payment from the ATO into your account and a deduction may be the correction of a payment received to your account or the recovery of an overpaid Super Guarantee Allocation by the ATO. This Super Guarantee Allocation amount is determined by the ATO, so you should speak to your financial adviser or contact the ATO in relation to the amount paid.

Government contributions

Government contributions can include the Government co-contribution and the Low Income Super Contribution (LISC). The Government co-contribution is an incentive from the Australian Government designed to assist eligible individuals to save for their retirement.

If you are working, your income is less than $51,813 for 2017/18, and you make personal contributions to super, you may be eligible for a Government co-contribution. The maximum co-contribution is $500 and reduces once your income exceeds $36,813 for 2017/18. The ATO will pay 50 cents for every dollar of personal non-concessional contributions up to your maximum entitlement. Additional criteria must be satisfied to be eligible for the Government co-contribution.

The LISC effectively returns the 15% contributions tax paid (up to $500) on concessional contributions made in a financial year for a low income earner (an individual with an adjusted taxable income of $37,000 or less in an income year).

The co-contribution may appear on your statement as either an addition or deduction. An addition represents a payment from the ATO into your account and a deduction may be the correction of a payment received to your account or the recovery of an overpaid co-contribution by the ATO. Conditions apply, so you should speak to your financial adviser or contact the ATO in relation to the amount paid.

08 EMPLOYER CONTRIBUTION OBLIGATIONS FOR SUPERSTREAM COMPLIANCE

SuperStream is a government reform aimed at improving the efficiency of the superannuation system. As part of the SuperStream reforms, employers must make super contributions on behalf of their employees by submitting data and payments electronically in a consistent and simplified manner prescribed by the ATO.

What does this mean for you?

SuperStream is a significant benefit for employers and their employees as it simplifies the employer super contribution experience by streamlining how payments can be made.

Your employer should liaise directly with the ATO in relation to the specific requirements.

What do you need to do?

The obligation for compliance is with your employer; however, payments received by employers that do not comply with SuperStream obligations may be rejected.

09 UPCOMING CHANGES TO FEES AND COSTS DISCLOSURES

The following information is relevant for individuals with a superannuation, pension or investment product.

What is changing?

The Australian Securities & Investment Commission (ASIC) has recently issued Regulatory Guide 97 which implements new rules around how Trustees and Responsible Entities disclose the fees and costs of your investment product to you. Over the coming months, this will result in changes to the way in which fees and costs are disclosed in your statements (such as your Annual Statement).

What does this mean for you?

The changes will not have any impact on the total rate (percent or dollar) of fees and costs incurred by you, nor will they have any impact on your investment returns. However, as these changes require fees and costs to be disclosed differently in the future, it may appear that some new fees are being charged, or that other fees are no longer being applied. Also, it may appear that the rate of some existing fees or costs have increased or decreased. For example, investment performance related fees were previously disclosed in superannuation product disclosure statements as part of the Investment Fee. However, moving forward, these will now be disclosed as part of the Indirect Cost Ratio.

We will provide further information on the specific changes to your statements as they occur.

What do you need to do?

You do not need to do anything, as the obligation for compliance is with us as the issuer of the superannuation, pension and investment products.

10 NOMINATING A BENEFICIARY

For your superannuation account, you should decide who should receive your money (including any Death insurance benefit, if payable) in the event of your death.

Who can be nominated as a beneficiary?

You can nominate one or more beneficiary(ies) to receive your Death Benefit in the event of your death. All beneficiaries must be either a dependant (for superannuation purposes) or your estate. We note that the Trustee cannot give effect to a nomination if it does not fall in to one of these categories. Death Benefits paid to dependants will be paid as a lump sum or as an income stream subject to eligibility to commence a death benefit pension.

Your annual statement provides details of your nominated beneficiaries.

Who can be a dependant?

A dependant as defined by superannuation law includes:

- your 'spouse' includes any person (whether of the same sex or different sex) with whom you are in a registered civil union or domestic relationship or who, whether or not legally married to you, lives with you on a genuine domestic basis in a marriage-like relationship.
- your children (including an adopted child, a step-child or an ex-nuptial child, a child of your spouse, or someone who is considered your child under family law)
- any other person who is financially dependent on you at the time of your death
- any other person with whom you have an 'interdependency' relationship (see following). Two people (whether or not related by family) have an 'interdependency' relationship if:
  - they have a close personal relationship; and
  - they live together; and
  - one or each of them provides the other with financial support; and
  - one or each of them provides the other with domestic support and personal care.

An 'interdependency relationship' can also exist where two people have a close personal relationship but do not meet the other criteria above because either or both of them suffer from a physical, intellectual or psychiatric disability or are temporarily living apart*.

* The Trustee will rely on Superannuation laws to determine the circumstances that two persons have an interdependency relationship

Defective nominations

Your nomination may become partially or fully defective if a nominated beneficiary dies or ceases to be a dependant while you are a member of the Fund. You should consider amending your nomination as and when your personal circumstances change.

No nomination, defective nomination or cancelled nomination

If you choose not to make a nomination, do not make a valid nomination, cancel your existing nomination or to the extent your nomination is defective, the Trustee will pay your Death Benefit to your Legal Personal Representative* if your estate is solvent. If there is no Legal Personal Representative, or your estate is insolvent, the Trustee will pay your Death Benefit to your spouse, if more than one spouse, in equal shares).

If you do not have a spouse, the Trustee will pay your Death Benefit to one or more of your dependants (as determined by the Trustee) and if no dependants, the Trustee will pay your Death Benefit in accordance with the relevant law.

* Legal Personal Representative means an executor of the will or administrator of the estate of a deceased person, the Trustee of a deceased person, the Trustee of the estate of a person under a legal disability or a person who holds an enduring power of attorney granted by a person however:

a. subject to paragraph (b) below, a person does not have a Legal Personal Representative unless:
   i. a grant of probate has been made;
   ii. letters of administration have been issued; or
   iii. such equivalent authority as the trustee determines for jurisdictions outside Australia has been conferred on a person; and
b. if the Trustee is reasonably satisfied that the value of your estate is less than the amount which the Trustee from time to time specifies as the 'probate limit', then the Trustee may treat a person who does not meet the criteria in (a) but who the Trustee is reasonably satisfied will, in practice, be informally performing the role of executor or administrator of your estate as if they were your Legal Personal Representative.

11 TERMINAL MEDICAL CONDITION

The following investment and regulatory information is relevant for members with a super or a pension account which has preserved or restricted non-preserved benefits.

Early access to superannuation for people with terminal medical condition

From 1 July 2015, the government amended the provision for accessing superannuation for people suffering a terminal medical condition. Previously, terminally ill members were only considered to have met a condition of release (and hence able to access their superannuation balances) in the event that their life expectancy was limited to 12 months. This amendment extends the life expectancy period from 12 months to 24 months, meaning that members can potentially access their superannuation balances sooner. However, if you hold Death Cover (which includes Terminal Illness Cover through your super account), you may still not be able to claim a Terminal Illness benefit unless your life expectancy is limited to 12 months.

Possible implications to consider

If you have insurance within your super, it is important to understand the terms and conditions as you may not be able to claim a Terminal Illness benefit until your life expectancy is limited to 12 months. If you withdraw your super balance when your life expectancy is 24 months, you may wish to consider maintaining some money in your super account to keep the account open and to ensure a sufficient balance to pay any insurance fees. Withdrawing your full balance could result in the loss of valuable insurance cover.

It is important you take time to review the changes and understand what they may mean for you. If you are considering accessing your super balance due to a terminal illness, we recommend that you seek professional financial advice.

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This publication is for members who have an Integra Super account.

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