

ZURICH MASTER SUPERANNUATION FUND

ABN 33 632 838 393

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

CONTENTS

1	Statement of Financial Position.....	1
2	Income Statement	2
3	Statement of Changes in Member Benefits.....	3-4
4	Statement of Cash Flows	5
5	Statement of Changes in Equity	6
6	Notes to the Financial Statements	7-24
7	Trustee Declaration to the Members	25
8	Independent Auditor's Report	26-27

ZURICH MASTER SUPERANNUATION FUND

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Notes	2019 \$	2018 \$
Assets			
Financial assets			
Investment in Capital Guaranteed Insurance policies	4	88,637,490	101,461,762
Investment in Investment Linked Insurance policies	4	990,212,379	1,037,626,086
Total assets		<u>1,078,849,869</u>	<u>1,139,087,848</u>
Liabilities			
Income tax payable	7	<u>12,219</u>	<u>18,616</u>
Total liabilities excluding members benefits		<u>12,219</u>	<u>18,616</u>
Net assets available for member benefits		1,078,837,650	1,139,069,232
Defined Contribution Member Liabilities		<u>1,075,407,226</u>	<u>1,136,070,997</u>
Total net assets		<u>3,430,424</u>	<u>2,998,235</u>
Equity			
Operational Risk Financial Requirement (ORFR) Reserve	5	<u>3,430,424</u>	<u>2,998,235</u>
Total equity		<u>3,430,424</u>	<u>2,998,235</u>

The above Statement of Financial Position should be read in conjunction with the accompanying notes set out from pages 7 to 24

ZURICH MASTER SUPERANNUATION FUND

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 \$	2018 \$
Superannuation Activities			
Interest on Capital Guaranteed Insurance policies		2,228,253	2,987,070
Net changes in fair value of financial instruments	6	80,392,836	102,586,801
Total superannuation activities revenue		<u>82,621,089</u>	<u>105,573,871</u>
Management fee expenses	9(e)	(16,302,929)	(18,318,248)
Total expenses		<u>(16,302,929)</u>	<u>(18,318,248)</u>
Results from superannuation activities before income tax expense		<u>66,318,160</u>	<u>87,255,623</u>
Income tax expense	7	(12,219)	(18,616)
Results from superannuation activities after income tax expense		<u>66,305,941</u>	<u>87,237,007</u>
Net benefits allocated to defined contribution members		(65,873,752)	(86,839,448)
Transfer to ORFR Reserve	5	(432,189)	(397,559)
Operating result after income tax		<u>-</u>	<u>-</u>

The above Income Statement should be read in conjunction with the accompanying notes set out from pages 7 to 24.

ZURICH MASTER SUPERANNUATION FUND

STATEMENT OF CHANGES IN MEMBER BENEFITS FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 \$
Balance at 1 July 2018		1,136,070,997
Contributions:		
Employer contributions		24,228,352
Member contributions		15,184,127
Transfers in from other superannuation funds		4,629,511
Government co-contributions		196,563
Income tax on contributions	7	<u>(3,692,776)</u>
Net after tax contributions		40,545,777
Benefits to members		(166,440,949)
Insurance premiums charged to members		(13,396,145)
Death and disability benefits paid to members		12,753,794
Benefits allocated to members' accounts, comprising:		
Net investment income attributable to members		82,176,681
Net management fee expenses	9(e)	<u>(16,302,929)</u>
Net change in member defined contributions		<u>65,873,752</u>
Closing balance at 30 June 2019		<u><u>1,075,407,226</u></u>

The above Statement of Changes in Member Benefits should be read in conjunction with the accompanying notes set out from pages 7 to 24.

ZURICH MASTER SUPERANNUATION FUND

STATEMENT OF CHANGES IN MEMBER BENEFITS FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2018 \$
Balance at 1 July 2017		1,148,805,528
Contributions:		
Employer contributions		30,541,398
Member contributions		24,497,529
Transfers in from other superannuation funds		27,918,131
Government co-contributions		236,783
Income tax on contributions	7	<u>(3,403,876)</u>
Net after tax contributions		79,789,965
Benefits to members		(158,240,709)
Insurance premiums charged to members		(46,767,602)
Death and disability benefits paid to members		25,644,367
Benefits allocated to members' accounts, comprising:		
Net investment income attributable to members		105,157,696
Net management fee expenses	9(e)	<u>(18,318,248)</u>
Net change in member defined contributions		<u>86,839,448</u>
Closing balance at 30 June 2018		<u><u>1,136,070,997</u></u>

The above Statement of Changes in Member Benefits should be read in conjunction with the accompanying notes set out from pages 7 to 24

ZURICH MASTER SUPERANNUATION FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 \$	2018 \$
Cash flows from operating activities			
Investment in life policies		(56,992,347)	(108,838,208)
Withdrawals from life policies		199,832,799	226,730,435
Management fee expenses paid		(16,302,929)	(18,318,248)
Insurance premiums charged to members		(13,396,145)	(46,767,602)
Proceeds from life risk insurance policies		<u>12,753,794</u>	<u>25,644,367</u>
Net cash inflow / (outflow) from operating activities	8	<u>125,895,172</u>	<u>78,450,744</u>
 Cash flows from financing activities			
Employer contributions received		24,228,352	30,541,398
Member contributions received		15,184,127	24,497,529
Transfers from other superannuation entities		4,629,511	27,918,131
Government Co-contributions received		196,563	236,783
Benefits paid to members or beneficiaries		(166,440,949)	(158,240,709)
Tax paid on contributions		<u>(3,692,776)</u>	<u>(3,403,876)</u>
Net cash inflows / (outflows) from financing activities		<u>(125,895,172)</u>	<u>(78,450,744)</u>
 Net increase / (decrease) in cash		-	-
Cash and cash equivalents at beginning of period		<u>-</u>	<u>-</u>
Cash and cash equivalents at end of period		<u><u>-</u></u>	<u><u>-</u></u>

The Fund does not have its own bank account. All transactions of the Fund are non-cash as all its transactions are administered through life insurance policies held with Zurich Australia limited. A Statement of Cash Flows has been presented to illustrate the cash flows of Fund transactions through the life insurance policies held with Zurich Australia Limited.

The above Statement of Cash Flows should be read in conjunction with the accompanying notes set out from pages 7 to 24.

ZURICH MASTER SUPERANNUATION FUND

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 \$	2018 \$
Opening balance	5	2,998,235	2,600,676
Net transfers to reserves	5	<u>432,189</u>	<u>397,559</u>
Closing balance	5	<u><u>3,430,424</u></u>	<u><u>2,998,235</u></u>

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes set out from pages 7 to 24.

ZURICH MASTER SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

1. General Information

Zurich Master Superannuation Fund ("the Fund") is domiciled in Australia and was established by a Trust Deed dated 2 November 1972 and is a public offer superannuation fund.

The Fund is a defined contribution fund whereby contributions of the employer and the employees are made in accordance with the terms of the Trust Deed. The members' accounts are credited or debited each year with contributions and their proportionate share of the net investment income, expenses and income tax expense of the Fund.

In accordance with amendments to the Superannuation Industry (Supervision) Act 1993 the Fund was registered with the Australian Prudential Regulation Authority on 28 June 2006 (registration number R1067651).

The address of the Fund's registered office is Level 1, 575 Bourke Street, Melbourne, VIC 3000.

The trustee of the Fund for the reporting period is Zurich Australian Superannuation Pty Limited ABN 78 000 880 553 (the "Trustee").

On 21 March 2019, the ownership of the Trustee – Zurich Australian Superannuation Pty Ltd (ZAS), a wholly owned subsidiary of Zurich Financial Services Australia Ltd was sold to EQT Holdings Limited.

Effective 1 July 2019, the Trustee of the Fund is Equity Trustees Superannuation Limited ABN 50 055 641 757, part of Equity Trustees Group.

The administrator of the Fund is Zurich Australia Limited ABN 92 000 010 195.

For the purposes of the financial statements the Fund is a for profit entity.

The financial statements of the Fund were authorised for issue by the directors of the Trustee on 24 September 2019. The directors of the Trustee have the power to amend and re-issue the financial statements.

ZURICH MASTER SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

2. Summary of Significant Accounting Policies

(a) Basis of Preparation

The financial statements of Zurich Master Superannuation Fund (the "Fund") are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, the Superannuation Industry (Supervision) Act 1993 and Regulations and the provisions of the Trust Deed dated 2 November 1972 and amendments thereto, and relevant legislative requirements.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

(b) Financial Instruments

(i) Classification

The Fund's investments are classified as at fair value through the income statement in accordance with AASB1056. These include financial assets comprising:

- a. Investment in capital guaranteed insurance policies - issued by Zurich Australia Limited (ZAL) and recorded at its capital guaranteed value, which consists of contributions, plus interest, less benefit payments, administration expenses, life premiums, surcharge (if any) and income tax. Interest for the current year has been credited at the declared base rate of 2.6% per annum (2018: 2.7%). The actual net interest credited to the policies is derived according to the base rate and the policy terms and conditions, and varies between individual plans.
- b. Investment in investment linked insurance policies - issued by ZAL and recorded at fair value, based on the unit redemption price and the number of units held at balance date.

(ii) Recognition/ Derecognition of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are recognised on the date the Fund becomes party to the contractual agreement (trade date) and changes in the fair value of the financial assets or financial liabilities are recognised from this date. Investments are derecognised when the right to receive cash flows from the investments has expired or the Fund has transferred substantially all of the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Fund measures a financial asset or liability at fair value. Transaction costs are expensed in the income statement.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through income statement are measured at fair value. Gains and losses are presented in the income statement in the period in which they arise as net changes in fair value of financial instruments

For further details on the financial instruments refer to Note 4.

ZURICH MASTER SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

2. Summary of Significant Accounting Policies (continued)

(b) Financial Instruments(continued)

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the financial position when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability at the same time.

(c) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

- **Changes in fair values**

Changes in the fair value of investments are calculated as the difference between the fair value at sale, or at balance date, and the fair value at the previous valuation point and recognised in the Income Statement.

- **Interest Revenue**

Interest revenue is recognised in profit and loss for Capital Guaranteed insurance policies that are held at fair value. The interest has been credited at the declared base rate of 2.6% per annum (2018: 2.7%). The actual net interest credited to the policies is derived according to the base rate and the policy terms and conditions, and varies between individual plans.

(d) Income tax expense

The Fund is a complying superannuation fund within the provisions of the Income Tax Assessment Act. Accordingly, the concessional tax rate of 15% has been applied on net investment earnings.

The Fund's investment in the insurance policies are managed by ZAL which is responsible for any income tax relating to it. Investment income from this investment is allocated to the Fund net of income tax and is disclosed as such in the Income Statement.

The income tax expense does not include taxes levied on assessable contributions, which are included in the Statement of Changes in Members Benefits. The liability for contributions tax, if any, is transferred to ZAL annually.

ZURICH MASTER SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

2. Summary of Significant Accounting Policies (continued)

(e) **Goods and Services Tax (GST)**

Revenues, expenses and assets, with the exception of receivables and payables, are recognised net of the amount of GST to the extent that the GST is recoverable from the taxation authority. Where GST is not recoverable, it is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are stated inclusive of GST.

The net amount of GST recoverable from the taxation authority is included as part of receivables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(f) **Functional and Presentation Currency**

Both the functional and presentation currency of the Fund is Australian dollars (\$).

(g) **Benefits Paid / Payable**

Benefits paid / payable are valued at the amounts due to members at the reporting date. Benefits payable comprise benefits of members who are due a benefit but had not been paid at balance date.

(h) **Cash and Cash Equivalents**

Cash and short-term deposits in the Statement of Financial Position usually comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

The Fund itself does not have its own bank account as all operational cash flows of the fund are administered by ZAL. Refer Note 8 for further details.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

(i) **Defined Contribution Member Liabilities**

The liability for defined contribution members is the Fund's present obligation to pay benefits accrued to members or their beneficiaries in the future as a result of the membership up to the end of the reporting period. This has been calculated as the difference between the carrying amount of the assets and the carrying amounts of the sundry liabilities and income tax liabilities as at balance date.

(j) **Contribution received and transfers from other funds**

Contributions received and transfers from other funds are recognised in the Statement of Changes in Member Benefits when the control of the contribution or transfer has transferred to the Fund. They are recognised gross of any taxes.

ZURICH MASTER SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

2. Summary of Significant Accounting Policies (continued)

(k) Use of estimates

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. All of the Fund's financial instruments are investments in insurance policies issued by Zurich Australia Limited. Refer to Note 4 for details.

(l) New and amended standards adopted by the Fund

AASB 9 *Financial Instruments* became effective for annual periods on or after 1 January 2018. It addresses the classification, measurement and derecognition of financial assets and financial liabilities and replaces the multiple classification and measurement models of AASB 139.

To the extent that AASB 9 is applicable to the Fund, it has been applied retrospectively without the use of hindsight. The adoption did not result in a change to the classification or measurement of financial instruments, including the application of the new expected credit loss impairment model, in either the current or comparative period as all financial assets and liabilities, with the exception of member liabilities and tax assets and liabilities, remain at fair value through profit or loss in accordance with AASB 1056.

There are no other standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2018 that have a material impact on the amounts recognised in the prior or current periods or that will affect future periods.

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods and have not been early adopted by the Fund. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

ZURICH MASTER SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

3. Financial Risk Management

The Fund's activities expose the Fund to a variety of financial risks: market risk (including price risk, currency risk, cash flow and interest rate risk), credit risk and liquidity risk.

(a) Market Risk

(i) Price Risk

Price risk is the risk of diminution in value of the Fund's investment portfolio arising from adverse movements in the levels and volatility of equity prices. The risk is controlled by ensuring that all activities are transacted in accordance with approved strategies and limits. Market risk analysis is conducted on a regular basis and risk management controls ensure that positions are monitored against the portfolio risk limits. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments as at 30 June 2019 and 2018.

(ii) Foreign Currency Risk

Foreign exchange risk arises as the value of monetary securities denominated in other currencies fluctuates due to changes in exchange rates. The foreign exchange risk relating to non-monetary assets and liabilities is a component of price risk.

The direct investments held by the Fund do not have any direct exposure to foreign exchange risk. This disclosure has not been made on a look through basis for investments held indirectly through underlying investments. As a result the disclosure of foreign exchange risk may not present the true foreign exchange risk profile of the Fund where the underlying investments have significant exposure to foreign exchange risk.

(iii) Cash Flows and Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Changes in interest rates can have a direct or indirect impact on the investment value and/or returns of all types of assets.

The Fund does not have any direct exposure to interest rate risk. This disclosure has not been made on a look through basis for investments held indirectly through underlying investments. As a result the disclosure of interest rate risk may not present the true interest rate risk profile of the Fund where the underlying investments have significant exposure to interest rate risk. Any interest rate risk from these investments is reported as a component of price risk for the purposes of the sensitivity analysis.

ZURICH MASTER SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

3. Financial Risk Management (continued)

(a) Market Risk (continued)

(iv) Sensitivity Analysis

The investment assets of the Fund are represented by insurance policies whilst members' benefits are set out in the Fund's Trust Deed.

The following table summarises the sensitivity of the Fund's net assets available to pay benefits to price risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of and/or correlation between the performances of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

In determining the impact of an increase/decrease in net assets available to pay benefits arising from market risk, management have considered prior period and expected future movements of the investment information in order to determine a reasonably possible shift in assumptions.

The capital guaranteed insurance policies are issued by the insurer, ZAL. Whilst the capital guaranteed insurance policies are subject to both increases and decreases in value as a result of price risk, the downside risk is limited as the invested capital is guaranteed by ZAL.

The following summarised sensitivity analysis is not intended to be an accurate indication of the sensitivity of each individual member's balances due to price risk, as the performance of each member's balance may vary significantly dependent of their elected portfolio allocations and exposures to the various underlying investment strategies.

ZURICH MASTER SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

3. Financial Risk Management (continued)

(a) Market Risk (continued)

30 June 2019	Reasonable Possible Movement (Weighted Average)	Impact on net assets available to pay benefits	
		Increase \$	Decrease \$
Insurance Policies:			
Capital guaranteed	3.8%	3,368,225	(3,368,225)
Investment linked	10.5%	103,972,300	(103,972,300)
Total		<u>107,340,525</u>	<u>(107,340,525)</u>

30 June 2018	Reasonable Possible Movement (Weighted Average)	Impact on net assets available to pay benefits	
		Increase \$	Decrease \$
Insurance Policies:			
Capital guaranteed	5.4%	5,486,295	(5,486,295)
Investment linked	12.4%	128,746,802	(128,746,802)
Total		<u>134,233,097</u>	<u>(134,233,097)</u>

(b) Fair Value of Financial Assets

The aggregate carrying values of financial assets approximate their fair values. The methods used to determine the fair value of financial assets and liabilities are included in the summary of significant accounting policies in Note 2(b).

(c) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Fund invests all member funds into insurance policies issued by ZAL. Accordingly, there is a counterparty risk as all funds are held by ZAL. However this risk is mitigated as ZAL is an APRA regulated entity which is required to maintain adequate prudential measures to safeguard policyholder funds. ZAL management monitors the capital adequacy of ZAL in accordance with its Prudential Capital Requirements.

The carrying amounts of financial assets included in the Statement of Financial Position represent the Fund's exposure to credit risk in relation to these assets.

These investments are disclosed in Note 4 and are not rated by any credit rating agency.

The Fund does not have any financial assets that are past due or impaired at year end.

ZURICH MASTER SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

3. Financial Risk Management (continued)

(d) Liquidity Risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with liabilities.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through the ability to close-out market positions.

To control liquidity risk, the Fund invests in insurance policies, which under normal conditions are readily convertible to cash.

The table shows expected future policies maturities values.

	2019	2018
	\$	\$
0-5 Years	445,433,968	390,708,022
6-10 Years	269,967,817	276,710,465
11-15 Years	178,325,828	202,548,461
16-20 Years	109,670,181	139,951,595
Over 20 Years	75,452,075	129,169,305
	<u>1,078,849,869</u>	<u>1,139,087,848</u>

(e) Fair value hierarchy

The Fund classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 fair value measurements are those instruments valued based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those investments valued based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 fair value measurements are those instruments valued based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

ZURICH MASTER SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

3. Financial Risk Management (continued)

(e) Fair value hierarchy (continued)

(e) Fair value hierarchy

The table below sets out the Fund's financial instruments fair value according to the fair value hierarchy.

30 June 2019	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial Assets				
Insurance Policies	-	1,078,849,869	-	1,078,849,869
Total	-	1,078,849,869	-	1,078,849,869
30 June 2018	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial Assets				
Insurance Policies	-	1,139,087,848	-	1,139,087,848
Total	-	1,139,087,848	-	1,139,087,848

ZURICH MASTER SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

4. Financial Assets

The underlying investments of the Fund are managed on behalf of the Trustee by selected investment managers. The insurance policies are owned directly by Zurich Australian Superannuation Pty Limited.

	2019	2018
	\$	\$
Insurance policies comprise:		
Investment linked Insurance Policies	990,212,379	1,037,626,086
Capital Guaranteed Insurance Policies	88,637,490	101,461,762
Total financial assets	1,078,849,869	1,139,087,848
Amounts expected to be realised within 12 months and after 12 months have been estimated based on past experience and current expectations.		
Expected to be realised within 12 months	-	-
Expected to be realised after 12 months	1,078,849,869	1,139,087,848
Total financial assets	1,078,849,869	1,139,087,848

ZURICH MASTER SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

5. Operational Risk Financial Requirement Reserve

	2019	2018
	\$	\$
Balance at beginning of year	2,998,235	2,600,676
Investment income during the year	62,911	57,171
Transfer to the reserve during the year	369,278	340,388
Balance at end of the year	<u>3,430,424</u>	<u>2,998,235</u>

The Fund maintains an Operational Risk Financial Requirement Reserve ("ORFR Reserve") for costs pertaining to the member component of operational risk events. The ORFR Reserve ensures that the Fund has adequate resources to address losses arising from operational risks within business operations, where such costs are not met by third parties, or are recoverable from third parties or insurance only at a later stage.

The ORFR Reserve is implemented, managed and maintained in accordance with the *Superannuation Industry (Supervision) Act 1993* and the requirements of APRA Prudential Standard SPS 114 - Operational Risk Financial Requirement.

The ORFR Strategy has set the ORFR Target Amount of 0.25% (2018: 0.20%) of Fund's Net Assets on a continuous basis. As at 30 June 2019, the ORFR Reserve has met the target.

6. Net Changes in Fair Value of Financial Assets

	2019	2018
	\$	\$
Designated at fair value through profit or loss:		
Investment Linked Insurance policies	<u>80,392,836</u>	<u>102,586,801</u>
	<u>80,392,836</u>	<u>102,586,801</u>

ZURICH MASTER SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

7. Income Tax

Income tax is assessable at 15% of employer contributions with deductions allowable for life risk premiums paid. A reconciliation of income tax expense with revenues and expenses for the year before income tax expense is set out below:

	2019	2018
	\$	\$
Operating result for the year before income tax	66,318,160	87,255,623
Prima Facie income tax at 15%	9,947,724	13,088,343
Tax Effect of permanent differences:		
Interest on capital guaranteed insurance policy	(334,238)	(448,060)
Non-taxable changes in fair value of investment	(12,058,925)	(15,388,020)
Management fees	2,445,439	2,747,737
Non-TFN contribution tax	12,219	18,616
Total adjustments for permanent differences	(9,935,505)	(13,069,727)
Income tax adjusted for permanent differences	12,219	18,616
Income tax expense	12,219	18,616

The Fund deducts from individual member accounts an amount for Contributions Tax. This charge is only made against member accounts receiving assessable contributions and is levied at 15% after allowing for any payments made on that individual account for the cost of providing death and disablement cover. No adjustment is made to individual member accounts that do not have assessable contributions. These deductions are made pursuant to the master policies between the Fund and ZAL, the financial impact of which is disclosed to Fund members in the Product Disclosure Statement and their periodic statements.

The actual tax liability of the Fund, if any, is transferred by the Trustee to ZAL under the mechanism authorized by section 295-260 of the Income Tax Assessment Act 1997. However, a difference arises between the aggregate amounts deducted from individual member accounts, and what the actual tax liability of the Fund would have been had the transfer not taken place, as more deductions are available on a pooled basis than on an individual member basis. The entitlement to any benefits arising from this arrangement is outlined in further detail at Note 9(e).

During the years 2019 and 2018, the Fund has net accumulated losses so no section 295-260 of the Income Tax Assessment Act 1997 transfer was required.

ZURICH MASTER SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

7. Income Tax (continued)

During the current year \$3,692,776 (2018: \$3,403,876) was deducted from individual member accounts on account of Contributions Tax. The amount of \$369,278 (2018: \$340,388) was applied to the Fund and transferred to the ORFR Reserve (Note 5). The tax liabilities of the Fund for 2019 were \$12,219 (2018: \$18,616) as other deductions arose from activities related to individual members who did not have contributions subject to tax. Under the agreement the current year difference of \$3,692,776 (2018: \$3,403,876) was shared between ZAL and the Fund in line with the allocation outlined in the agreement.

8. Reconciliation of profit / (loss) after income tax to net cash inflow / (outflow) from operating activities

(a) Reconciliation of profit / (loss) after income tax to net cash inflows/(outflow) from operating activities

	2019	2018
	\$	\$
Operating result after tax	-	-
<i>Adjustments for:</i>		
Investment in life policies	(56,992,347)	(108,838,208)
Withdrawals from life policies	199,832,799	226,730,435
Net investment income attributable to members	(82,176,681)	(105,157,696)
Net benefits allocated to defined contribution members	65,873,752	86,839,448
Death and disability proceeds received from insurer	12,753,794	25,644,367
Insurance premiums paid	(13,396,145)	(46,767,602)
Net cash inflows/(outflows) from operating activities	<u>125,895,172</u>	<u>78,450,744</u>

ZURICH MASTER SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

9. Related Parties (Period from 1 July 2018 to 21 March 2019)

During this period the Trustee was a subsidiary of ZFSA. On 21 March 2019, the ownership of the Trustee – Zurich Australian Superannuation Pty Ltd (ZAS), a wholly owned subsidiary of Zurich Financial Services Australia Ltd was sold to EQT Holdings Limited that is part of the Equity Trustees Group.

(a) Trustee and Key Management Personnel

The Trustee of the Fund is Zurich Australian Superannuation Pty Ltd, the specified directors of which are:

Winsome Hazel Hall (resigned 21 March 2019)
Brett Keith Bennett (resigned 21 March 2019)
Raelene Anne Seales (resigned 21 March 2019)
Susan Nicole Roberts (resigned 21 March 2019)

There are no other key management personnel other than the directors disclosed above and in note 10 and the Trustee of the Fund.

None of the above directors of the Trustee are members of the Fund.

(b) Compensation of Key Management Personnel

Key management personnel services were provided by Zurich Financial Services Australia Limited until 21 March 2019. There is no separate charge for these services. There was no compensation paid directly by the Fund to any of the key management personnel.

Loans to key management personnel.

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to key management personnel, its directors or their personally-related entities at any time during the reporting period.

(c) Related Party Transactions with Trustee

There were no transactions between the Fund and the Trustee during the year (2018: \$nil).

The Fund's assets are wholly invested in investment linked and capital guaranteed insurance policies issued by ZAL. The Trustee insures term life and disablement benefits of members of the Fund with ZAL and the relevant premiums are disclosed in the Statement of Changes in Member Benefits.

(d) Insurer (Period from 1 July 2018 to 30 June 2019)

The Fund's assets are wholly invested in investment linked and capital guaranteed insurance policies issued by ZAL. The Trustee insures term life and disablement benefits of members of the Fund with ZAL.

Life risk premiums paid to ZAL during the year amounted to \$13,396,145 (2018: \$46,767,602).

ZURICH MASTER SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

9. Related Parties (Period from 1 July 2018 to 21 March 2019) (continued)

(d) Insurer (Period from 1 July 2018 to 30 June 2019) (continued)

On 1 February 2018, the risk only members of the Fund were successor fund transferred to the AON Master Trust. The amount of risk premiums paid to ZAL during that year for such members was \$31,921,796.

Insurance proceeds of \$12,753,794 (2018: \$25,644,367) were received from life risk policies held with ZAL.

ZAL received benefits of \$3,323,498 (2018: \$3,063,488) through their administration of the Fund's tax affairs as disclosed in Note 7.

(e) Other Related Party Transactions (Period from 1 July 2018 to 30 June 2019)

During the year, ZAL charged management fee expenses under insurance policies held by the Fund. The fees totaled \$16,302,929 (2018: \$18,318,248) and are disclosed in the Income Statement. The Fund discloses management fee expenses that include expenses charged to members at members' level as well as the indirect expenses charged to members embedded in the unit price of the investments in the various asset pools of the investment linked insurance policies.

ZAL is also the Fund's administrator, providing certain services and resources under a Services Deed, which includes a formal documented taxation administration arrangement. Making arrangements for the taxation administration services referred to in Note 7 is provided for in the Fund's trust deed and the master policy on such basis as is able to be agreed upon between the Trustee and ZAL. As a result of this arrangement (recorded in the Services Deed), ZAL has refrained from increasing fees under the Fund's insurance policies, and from pursuing claims for increased fees under the Services Deed.

The Trustee documented in the master policies relevant arrangements with ZAL which set out ZAL's entitlement to any excess of the total amounts of tax deducted from member's accounts over ZAL's obligations arising under Section 295-260 of the Income Tax Assessment Act 1997. Pursuant to these policies ZAL is entitled to 90% of any excess, provided the Fund's ORFR Reserve requirements are met. The amount transferred to the ORFR Reserve for the year was \$369,278 (2018: \$340,388).

10. Related Parties (Period from 21 March to 30 June 2019)

On 21 March 2019, the ownership of the Trustee – Zurich Australian Superannuation Pty Ltd (ZAS), a wholly owned subsidiary of Zurich Financial Services Australia Ltd was sold to EQT Holdings Limited that is part of the Equity Trustees Group.

(a) Trustee and Key Management Personnel

The Trustee of the Fund is Zurich Australian Superannuation Pty Ltd, the specified directors of which are:

Michael Joseph O'Brien (Managing Director, appointed 21 March 2019)

Catherine Robson (Non-Executive Director, appointed 21 March 2019)

Anthony Jude Lally (Non-Executive Director, Chairman, appointed 21 March 2019)

Ellis Varejes (Non-Executive Director, appointed 21 March 2019)

Mark Andrew Blair (Executive Director, appointed 21 March 2019)

Susan Granville Everingham (Non-Executive Director, appointed 21 March 2019)

ZURICH MASTER SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

10. Related Parties (Period from 21 March to 30 June 2019) (continued)

(a) Trustee and Key Management Personnel (continued)

The Trustee of the Fund effective 1 July 2019 is Equity Trustees Superannuation Limited, the specified Directors are the same as above with one additional Non-Executive Director Paul Douglas Rogan (effective 27th August 2019).

There are no other key management personnel other than the directors disclosed above and in note 9 and the Trustee of the Fund.

None of the above directors of the Trustee are members of the Fund.

(b) Compensation of Key Management Personnel

Key management personnel services are provided by EQT Holdings Limited from 21 March 2019. There is no separate charge for these services. There was no compensation paid directly by the Fund to any of the key management personnel.

Loans to key management personnel.

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to key management personnel, its directors or their personally-related entities at any time during the reporting period.

(c) Related Party Transactions with Trustee

There were no transactions between Zurich Australian Superannuation Pty Limited and the Fund from 21 March 2019. The Trustee fees of \$150,485 was paid to Zurich Australian Superannuation Pty Limited for the period 21 March 2019 to 30 June 2019 by Zurich Australia Limited.

11. Insurance arrangements

The Fund provides death and disability benefits to members. These benefits are greater than the members' vested benefit. The Trustee has taken out insurance to cover the part of the benefit in excess of the vested benefit.

The Fund recognises premiums paid by members to the insurance company. Insurance claim amounts are recognised where the insurer has agreed to pay the claim. Therefore insurance premiums are not revenues or expenses of the superannuation entity and do not give rise to insurance contract liabilities or reinsurance assets. Insurance premiums charged to members accounts are recognised in the Statement of Changes in Members Benefits.

The Trustee determined that the Fund is not exposed to material insurance risk because:

- members (or their beneficiaries) will only receive insurance benefits if the external insurer pays the claim
- insurance premiums are effectively set directly by reference to premiums set by the insurer.

ZURICH MASTER SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

12. Commitments and Contingent Liabilities

There are no commitments or contingent liabilities in respect of the Fund as at 30 June 2019 (2018: \$nil).

13. Auditor's Remuneration

	2019 \$	2018 \$
Amounts received or due and receivable by PricewaterhouseCoopers for:		
Audit of the financial statements of the Fund	124,002	119,233
Other assurance services	163,968	157,663
	<u>287,970</u>	<u>276,896</u>
	2019 \$	2018 \$
Amounts received or due and receivable by Deloitte for:		
Other assurance services	7,000	-
	<u>7,000</u>	<u>-</u>

The auditor's remuneration is settled by the service company, Zurich Financial Services Australia Limited, and is not charged to the Fund.

14. Events Occurring after Balance Sheet date

On 1 July 2019, Zurich Australian Superannuation Pty Limited ceased to be the Trustee of the Fund and Equity Trustees Superannuation Limited was appointed as the Trustee of the Fund.

Other than the above, there has been no item or event of a material nature which has occurred since 30 June 2019, which though properly excluded from the financial statements, should be disclosed to members of the Fund.

ZURICH MASTER SUPERANNUATION FUND

TRUSTEE'S DECLARATION TO THE MEMBERS

In the opinion of the directors of the Trustee of Zurich Master Superannuation Fund:

- (a) the accompanying financial statements and notes set out on pages 7 to 24 are in accordance with:
 - (i) Australian Accounting Standards and other mandatory professional reporting requirements and
 - (ii) present fairly the Fund's financial position as at 30 June 2019 and of its performance for the financial year ended on that date,
- (b) the Fund has been conducted in accordance with its constituent Trust Deed dated 2 November 1972, as amended and in compliance with:
 - the requirements of the Superannuation Industry (Supervision) Act 1993 and Regulations;
 - applicable sections of the Corporations Act 2001 and Regulations;
 - the requirements under Section 13 of the Financial Sector (Collection of Data) Act 2001;during the year ended 30 June 2019, and
- (c) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors of the Trustee Company Equity Trustees Superannuation Limited ABN. 50 055 641 757.



Director

Melbourne

24 September 2019