

The University of Sydney
Professorial Superannuation System

*System Registration Number R1001433
ABN 70 093 025 653*

ANNUAL REPORT TO PENSION MEMBERS

FOR THE YEAR ENDED 31 DECEMBER 2019

Important information:

The issuer and Trustee of The University of Sydney Professorial Superannuation System (ABN 70 093 025 653, RSE Registration No. R1001433) is Diversa Trustees Limited (ABN 49 006 421 638, AFSL No 235153, RSE Licence No L0000635).

Address: GPO Box 3001, Melbourne VIC 3001. Ph: (03) 9097 2800

The Administrator of The University of Sydney Professorial Superannuation Scheme is OneVue Super Member Administration Pty Ltd (ABN 90 094 584 755, AFSL No 241366)

Address: PO Box R713 Royal Exchange NSW 1225 Ph: (02) 8099 4075

General Disclaimer

This Annual Report is issued by Diversa Trustees Limited (“the Trustee”), ABN 49 006 421 638, AFSL No. 235153, Registrable Superannuation Entity (“RSE”) Licence L0000635, as Trustee of The University of Sydney Professorial Superannuation System (“the System”), ABN 70 093 025 653, RSE Registration No. R1001433.

The Trustee, any underlying investment manager and any other service provider to the System do not guarantee the investment performance of any investment offered or the repayment of capital. Investment in the System is subject to investment risk, including loss of income and capital invested. The information provided in this report is in accordance with the requirements of the Corporations Act 2001. The report also contains information about changes to the System, as well as an update on legislative changes that may be relevant to your superannuation. The information does not and is not intended to contain any recommendations, statements of opinion or financial advice. Any information is of a general nature only and has been prepared without taking into account your investment objectives, financial situation and needs. Before making any investment decisions in relation to the System, you should consider obtaining professional financial advice from a licensed or authorised financial adviser.

Whilst all reasonable care has been taken in the preparation of this report, the Trustee reserves its right to correct any errors or omissions.

The terms of your membership in the System are set out in the System’s Trust Deed, available on the Trustee’s website (<http://diversa.com.au/trustee>). Should there be any inconsistency between this report and the System’s Trust Deed, the terms of the System’s Trust Deed will prevail.

Message from the Trustee

The Trustee presents the Annual Report for The University of Sydney Professorial Superannuation System (“the System”) for the year ended 31 December 2019.

Please take the time to read this report and if you have any queries or require further information please contact the System Administrator (details provided on page 9). A copy of this report can also be obtained on the trustee’s website at <http://diversa.com.au/trustee/Sydney>

Summary of the year

• Total contributions:	(\$'000)
- University	\$0
- Member	\$0
• Benefits paid:	3,038
• Net System assets at 31 December 2019:	32,676
• Membership at 31 December 2019:	
- Pensioners ¹	24
- Widows ²	26

¹ It is with regret that we advise the death of the following Pensioners:

- Professor Hush – 23/03/2019

² It is with regret that we advise the death of the following Spouse Pensioners:

- Mrs Cameron – 22/02/2019
- Mrs Messerle – 6/09/2019
- Mrs Castaldi – 17/12/2019

Who runs the System?

The System is set up as a trust and is governed by a legal document called the Trust Deed. The Trustee is responsible for running the System in accordance with the Trust Deed.

The Directors of the Trustee during the year ended 31 December 2019 were:

Mr Vin Plant (Chairman)
Mr Murray Jones
Ms Robyn FitzRoy
Mr Andrew Peterson (appointed June 2019)
Ms Fiona McNabb (appointed 28 June 2019)
Mr Garry Wayling (resigned 28 June 2019)

There were no penalties imposed on responsible persons under S38A of the SIS Act in the Reporting period ending 31 December 2019.

Policy Committee

A Policy Committee is a committee whose purpose is to facilitate communication between the members of the System and the Trustee. Policy Committees perform functions such as reviewing the System’s investments and member communications.

Given the size of the membership, there is no requirement for a Policy Committee to be formed and at present there is no Policy Committee in place. Members may request the formation of a Policy Committee at any time by writing to the Trustee (contact details provided on page 9).

Trustee indemnity insurance

The Trustee has taken out trustee indemnity insurance to protect the Trustee, its Directors and the System against certain liabilities, that is consistent with the size and nature of its business and industry standards. As with any insurance, the indemnity is subject to the terms and conditions of the relevant insurance policy.

Service providers

During the year to 31 December 2019, a number of appointed service providers assisted the Trustee in the management of the System, including:

Administrator and General Consultant

OneVue Super Member Administration Pty Ltd
(ABN 90 094 584 755, AFSL No. 241366)

Asset Consultant

KPMG Financial Services Consulting Pty Limited
(ACN 144 686 046)

Auditor

The Audit Office of
New South Wales
(ABN 31 171 741 262)

Actuary

Alea Actuarial
Consulting Pty Limited
(ABN 84 107 302 803,
AFSL No. 300184)

Custodian

RBC Investor Services Australia Nominees Pty
Limited (ABN 70 097 125 123)

Fund Manager

Schroder Investment Management
Australia Limited (ABN 22 000 443 274, AFSL
No. 226473)

Australia and New Zealand Banking Group
Limited (ABN 11 005 357 522, AFSL No.
234527)

Note: The underlying fund managers utilised by the Trustee for the System's investments may be changed from time to time at the discretion of the Trustee. They are shown in this report to provide historical information about the investments of the System during the year. You have no ability to choose the underlying fund managers utilised by the Trustee.

General investment market overview

Note: This market overview has been provided by the System's Asset Consultant. It provides general information only about the performance of the investment market during the year to 31 December 2019. **Past performance is not a reliable indicator of future performance.**

Although the Australian equity market return was strong for the 2019 calendar year – returning 23.4% - the majority of the return was experienced in the first six months of the year, with only 3.1% return achieved in the second half of the calendar year. The finance sector – impacted by the Royal Commission and other regulatory change – fell 4.9% over the six months to 31 December 2019.

Listed property also performed strongly – up 19.4% - in the first six months, but achieved no further gains, resulting in a 19.4% return for the full year.

International equity markets experienced volatile performance over the year reflecting periods of uncertainty – particularly in relation to US/China trade relations and Brexit. However positive sentiment saw the year finish strongly with international equities returning 27.4% over the year in local currency terms. The Australian dollar depreciated slightly over the year so that international equities, measured in Australian dollars, achieved 28.0% over the year.

Falls in cash rates globally led to strong returns in fixed interest, with Australian bonds returning 7.3% and international bonds returning 6.6% for the year.

Investments

The assets held in the System support the payment of the System's pension benefits.

There are three types of pensions offered under the System:

1 Non-Contributory Pension ("NCP")

The NCP is a pension based on a percentage of the Professorial Salary increased from time to time. It is fully funded by the University.

2 Lump Sum Annuity

The lump sum annuity represents any conversion of a member's lump sum benefit payable upon retirement, increased each year by the increase in the Consumer Price Index ("CPI"). It is partially funded by the University and partially funded by the member.

3 Voluntary Widows/Spouses' Pension ("VSP")

The VSP is funded equally by both the member and the University. For every dollar contributed by the member, the University matches the contribution towards the VSP.

You should note that your pension benefit from the System is not dependent on the System's earning rate or investment earnings. The following pages provide a description of the System's pension investments. This has been provided to you for information purposes only.

Investment objectives

The objectives of the System's pension investments are:

- To avoid negative rates of return (net of fees and tax) over rolling three-year periods. The achievement of this objective is subject to conditions prevailing in the investment markets over time. However, the objective is likely to be achievable under most normal market conditions.
- To achieve a return (net of fees and tax) that exceeds the rate of increase in Professorial Salaries over rolling five-year periods.

Investment strategy

To achieve the stated objectives, the strategy adopted by the Trustee is to invest in a non-superannuation

distributing investment trust. The trust should hold between 50% and 80% of its assets in growth assets and between 20% and 50% of its assets in defensive assets.

The Trustee further supports this strategy by investing in the Schroder Balanced Fund – Professional Class plus cash held in the System's operating account with Australia and New Zealand Banking Group Limited.

Asset Allocation

The dollar and percentage asset allocation of the System's pension investments at 31 December 2019 and 31 December 2018 were as follows:

31 December 2019

Asset Class	\$	%
Australian shares	10,086,378	31
International shares	7,808,809	24
Alternatives	3,579,037	11
Aust'n Fixed Interest	3,904,405	12
Int'l Fixed Interest	2,928,303	9
Cash	4,229,772	13
Total	32,536,704	100

31 December 2018

Asset Class	\$	%
Australian shares	9,984,244	32
International shares	6,864,167	22
Alternatives	3,120,076	10
Aust'n Fixed Interest	3,744,091	12
Int'l Fixed Interest	2,808,069	9
Cash	468,114	15
Total	31,200,761	100

Investment returns

The return (after tax and investment fees) on the pension investments for the year ended 31 December 2019 was 13.5% p.a.

Performance against objectives

The return for the three-years to 31 December 2019 was 6.4% p.a. (after tax and investment fees). Therefore, the System met its first investment objective of avoiding negative rates of return over the three-year period.

The pension investments achieved a return of 6.3% p.a. (after tax and investment fees) over the five years to 31 December 2019 and therefore outperformed the increase in Professorial Salaries (2.6% p.a.) over the same period. Therefore, the second investment objective of returns exceeding the rate of increase in Professorial Salaries, was met.

Your pension benefit from the System is not dependent on the System's earning rate or investment earnings. The pensions are increased periodically in accordance with any increase in the Professorial Salary or annual increase in CPI (as relevant).

The Trustee closely monitors the System's investments to ensure that each fund manager and their underlying investments continue to meet the System's long-term investment objectives.

Pensions are fixed with the University funding any shortfall that emerges over time. The University was not required to make funding contributions to the System during the year. This was in line with the Actuary's recommendation.

Note: Past performance is not a reliable indicator of future performance.

Contributory Spouse/Widows Pension information

If you have made contributions to fund the VSP, these contributions and applicable investment earnings are accumulated in the VSP account.

Following commencement of your pension from the System, if you predecease your spouse and you have an entitlement to the VSP, the pension payments will automatically revert to your spouse.

If your spouse predeceases you or you are divorced, the balance of your VSP account will be returned to you.

The earning rates for the years ended 31 December 2019, 2018, 2017, 2016, and 2015 is the Contributory Members' section objective return that was previously applicable (i.e. Bloomberg AusBond Composite Bond Index).

Year ending 31 December	Earning Rate after tax and fees (% pa)
2019	5.93
2018	3.62
2017	2.87
2016	2.19
2015	1.91
5-year compound average	3.29

Asset Consultant

The Trustee utilises an independent Asset Consultant to provide advice regarding the investments of the System. During the year to 31 December 2019 the investments of the System are monitored by the Asset Consultant via quarterly investment reports, which are reviewed by the Trustee and its Investment Committee.

Fund managers may be appointed and removed by the Trustee upon the recommendation of the Asset Consultant. Any decision to appoint/remove a manager is based on an assessment of the fund manager's style and performance, as well as its fit with any other managers utilised by the System.

Derivatives

The Trustee does not directly invest any of the assets of the System in derivative securities such as options, futures or swaps. The fund manager utilised by the System may utilise derivatives to manage the risk and liquidity of their portfolios. They do not invest in derivatives for speculative purposes.

Actuarial review

The Trustee of the System is required to appoint an Actuary to conduct annual actuarial valuations of the System to investigate the financial position of the System and make recommendations regarding the level of contributions to be made by the University.

The actuary has completed an actuarial valuation effective 31 December 2019. The actuary has assessed that coverage of assets over members' benefits (the System's Vested Benefits Index ("VBI") is 147%. Based on this financial position, the actuary has recommended that the University does not make contributions to the System for the period from 1 January 2020 to 31 December 2020. The next actuarial investigation will be undertaken effective 31 December 2020.

Fees and costs

As provided in the Trust Deed and rules governing the System, other than taxation, the University meets all expenses relating to the management and operation of the System. The Actuary's recommended contribution rate makes an allowance for relevant System expenses.

General Information

Taxation of your pension

Superannuation benefits paid as a pension (from a taxed source) to a person over age 60 are generally tax-free except for defined benefit pensions with an income above a defined benefit income cap (\$100,000 in the 2018/2019 income year, subject to indexation). Half of the defined benefit pension income above the defined benefit income cap will need to be included in a person's assessable income and taxed at their marginal tax rate. This applies to all pensions paid from the Scheme, including those which commenced prior to 1 July 2007.

Please note that if you are over aged 60 and receiving a Voluntary Spouse Pension, this will always be paid to you from a taxed source and is therefore tax-free.

Proof of identity

As a result of Government reforms designed to counteract money laundering and terrorism financing you may be required to provide proof of identity prior to being able to access your benefits in cash (e.g. pension payments) or purchase a superannuation pension (called "customer identification and verification" requirements).

These requirements may also be applied by the Trustee from time to time in relation to the administration of your superannuation benefits as required or considered appropriate under the Government's legislation. You will be notified of any requirements when applicable. If you do not comply with these requirements there may be consequences for you, for example, a delay in the payment of your benefits.

As a result of these reforms the Trustee is the subject of regulation by AUSTRAC which has responsibility for the government's legislation. The Trustee is required to provide yearly compliance reports to AUSTRAC and notify AUSTRAC of suspicious transactions. This may involve the provision of personal information about you to AUSTRAC.

Enquiries and complaints

The Superannuation Industry (Supervision) Act 1993 ("SIS") requires the Trustee to take all reasonable steps to ensure that there are arrangements in place under which:

- Members or their beneficiaries have the right to enquire into, or complain about, the operation or management of the System; and
- These enquiries or complaints will be properly considered and dealt with within 90 days.

It is important to distinguish between enquiries and complaints. Enquiries are requests for information about the System or your benefits. Complaints are expressions of dissatisfaction.

Enquiries


If you have an enquiry about the System, you should contact the System Administrator (details provided on page 9). Enquiries can be made by email, telephone or in writing. If you do not receive a satisfactory response within 28 days, you should immediately contact the Trustee (details provided below).

Complaints

Complaints should generally be made in writing to the Trustee, which has a dispute resolution procedure to ensure that all complaints are resolved within 90 days. The Trustee's contact details are as follows:

The Complaints Officer

Diversa Trustees Limited
GPO Box 3001
Melbourne VIC 3001

 (03) 9097 2800

Australian Financial Complaints Authority

If you are not satisfied with the Trustee's handling of your complaint or their decision, or you do not receive a reply from the Trustee within 90 days of the Trustee first receiving your complaint, you may contact the Australian Financial Complaints Authority (AFCA)

AFCA is an independent body set up by the Federal Government to assist members or beneficiaries to resolve certain types of disputes with fund trustees. They may be able to assist you to resolve your complaint but only if you are not satisfied with the response received from the Trustee's handling of your complaint.

If AFCA accepts your complaint, it may attempt to resolve the matter through conciliation, which involves assisting you and the Trustee to come to a mutual agreement. If conciliation is unsuccessful, the complaint is referred to the AFCA for a determination, which is binding.

You should be aware, however, that a party may appeal a decision of AFCA to the Federal Court. If you wish to find out whether they can handle your complaint and the type of information you would need to provide, phone the following number for the cost of a local call anywhere in Australia:

Australian Financial Complaints Authority

Website - www.afca.org.au

Email - info@afca.org.au

Postal address -

Address - GPO Box 3

Melbourne VIC 3001

☎ 1800 931 678

Legislative update

Note: This update was compiled as at March 2020 and is subject to change. For up to date information go to www.ato.gov.au or contact the System Administrator.

This section contains changes announced by the Government (but may still be yet to be law) as well as changes that have recently been implemented.

Changes to the Work Test

- From 1 July 2019 an exemption from the work test for voluntary contributions will apply for individuals aged 65 to 74 with account balances below

\$300,000. The exemption applies for an additional 12-month period from the end of the financial year in which they last met the work test. The contribution caps still apply to the contribution.

Treasury Laws Amendment (Protecting your Super Package) Act 2019 – received Royal Assent 12 March 2019 and in force from 1 July 2019

- Insurance in superannuation will only be provided on an opt-in basis for any member with an inactive account (i.e. and account with no contributions or roll-ins in 16 consecutive months). Administration and investment fees charged by super funds will be capped at 3 percent p.a. of accounts with balances below \$6,000.
- Exit fees are banned for all super accounts.
- All inactive superannuation accounts with a balances below \$6,000 will be required to be transferred to the ATO. ATO data-matching will be expanded to pro-actively reunite these with members' active accounts, where possible.

Treasury Laws Amendment (Putting Member's Interest's First) Bill 2019 – received Royal Assent 2 October 2019. The Bill states the following:

- Trustees can only provide insurance cover on an opt-in basis to members under 25 years old who begin to hold a product on or after 1 April 2020.
- Trustees can only provide insurance cover on a opt-in basis to members with account balances of less than \$6,000.

Superannuation changes announced in the 2019 Federal Budget

The following superannuation changes have been proposed but are not yet legislated:

- From 1 July 2020 individuals aged 65 to 66 will be able to make voluntary concessional and non-concessional superannuation contributions without meeting the 'work test.' Currently, contributions by those aged 65 and over are subject to a work test that requires the individual to have worked a minimum of 40 hours in a consecutive 30 day period during the financial year.
- An extension of the bring-forward arrangement which is currently applicable to individuals aged less than 65 years will now be extended to those

aged 65 and 66 from 1 July 2020. Under the new rules individuals meeting the age requirement can make three years' worth of non-concessional superannuation contributions, that is, contributing up to \$300,000 in a single year with no further non-concessional contributions for the following year.

- From 1 July 2020 the age limit for spouse contributions will increase from 69 to 74 years. Currently individuals aged 70 years and over cannot receive contributions made by another person on their behalf.

Other Information

Operational Risk Reserve

To satisfy a requirement under the Federal Government's Stronger Super reforms, the System has established (and maintains) an Operational Risk Reserve ("ORR") to cover potential losses arising from operational risks that may affect the System's business operations. An operational risk is the risk of a loss resulting from inadequate or failed internal processes, people and systems, or from external events. The ORR may be drawn upon to assist in compensating members or the System in the event of an operational risk having materialised.

The ORR is held in the System's bank account and is managed in accordance with the Trustee's ORR Policy.

The System's reserves over the past 3 years were as follows:

Year	Value
31 December 2017	\$94,632
31 December 2018	\$95,245
31 December 2019	\$96,124

Information on request

You can request additional information by contacting the System Administrator (contact details on page 9), including the following:

- The System's Trust Deed and Rules;
- The latest actuarial report;
- The latest audited accounts and reports;
- All member forms;
- Information about your benefit entitlements; and
- Any information that may help you understand particular investments of the System or the management, financial condition and performance of the System.

A copy of this Annual report can be found at <http://diversa.com.au/trustee/Sydney>.

Contact details

For further information regarding the management of The University of Sydney Professorial Superannuation System, please contact the System as follows:

System Administrator

OneVue Super Member Administration Pty Ltd

PO Box R173

Royal Exchange NSW 1225

 02 8099 4075


 AU-FMUSYDProfSuper@onevue.com.au

Trustee

Diversa Trustees Limited

GPO Box 3001

Melbourne VIC 3001

 (03) 9097 2800

Summary of financial performance

A summary of the System's audited accounts for the year ended 31 December 2019 is shown below. The full audited accounts and auditor's report are available for inspection by contacting the System Administrator (details provided on page 9).

THE UNIVERSITY OF SYDNEY PROFESSORIAL SUPERANNUATION SYSTEM
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	2019 \$'000	2018 \$'000
Assets			
Cash and cash equivalents	11	728	283
GST receivable		4	5
Income tax refund receivable		135	124
Units in wholesale trusts		31,809	30,918
Pension paid in advance		15	24
Prepayments		25	24
Deferred tax assets		46	29
Total assets		32,762	31,406
Liabilities			
Accounts payable		86	79
Total liabilities (excluding member benefits)		86	79
Net assets available for member benefits		32,676	31,327
Member benefits			
Defined benefit member liabilities	7	22,552	24,596
Total net assets		10,124	6,731
Equity			
Operational risk reserve	8	96	95
Defined benefits that are over funded	7	10,028	6,636
Total equity		10,124	6,731

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Note	2019 S'000	2018 S'000
Superannuation Activities			
Interest revenue		6	3
Trust distribution income		1,194	1,190
Net changes in fair value of financial instruments	5	<u>3,257</u>	<u>(1,748)</u>
Total net income		<u>4,457</u>	<u>(555)</u>
Investment expenses	10	(47)	(49)
General administration expenses	10	<u>(171)</u>	<u>(181)</u>
Total expenses		<u>(218)</u>	<u>(230)</u>
Result from superannuation activities before income tax		4,239	(785)
Less: Net change in defined benefit member liabilities		<u>(994)</u>	<u>(879)</u>
Operating result before income tax		3,245	(1,664)
Add: income tax expense	9)	<u>148</u>	<u>174</u>
Operating result after income tax		<u>3,393</u>	<u>(1,490)</u>

**STATEMENT OF CHANGES IN DB MEMBER BENEFITS
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Note	2019 S'000	2018 S'000
Opening balance of defined benefit member benefits 1 January		24,596	26,664
Benefit payments to members or beneficiaries		(3,038)	(2,947)
Net change in defined benefit member accrued benefits		994	879
Closing balance of defined benefit member benefits 31 December		<u>22,552</u>	<u>24,596</u>

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Note	Operational risk reserve \$'000	Unallocated surplus/(deficiency) \$'000	Total equity \$'000
Opening balance as at 1 January 2019		95	6,636	6,731
Operating result after income tax		1	3,392	3,393
Closing balance as at 31 December 2019		96	10,028	10,124
Opening balance as at 1 January 2018		95	8,126	8,221
Operating result after income tax		-	(1,490)	(1,490)
Closing balance as at 31 December 2018		95	6,636	6,731