

Rhythm

AvWrap Retirement Service

Annual Report to members for the year ended
30 June 2023

Rhythm Super

IOOF Investment Management Limited

ABN 53 006 695 021 AFSL 230524 RSEL L0000406

Contents

A message from the Chair	3
Investment strategies and asset allocation	4
Asset allocation	4
Important information	5
Government reforms in superannuation since 1 July 2022	7
Abridged financial statements	9

This report is issued by IOOF Investment Management Limited (IIML) ABN 53 006 695 021, AFSL 230524. IIML is the Registrable Superannuation Entity (RSE) Licensee, RSE Licence No. L0000406 for the AvWrap Retirement Service (Fund) ABN 82 004 832 237, RSE R1069020.

Rhythm Super is part of the Fund. IIML is part of the Insignia Financial Group comprising Insignia Financial Ltd (ABN 49 100 103 722) and its related bodies corporate ('Insignia Financial Group').

The information in this report is general information only and does not take into account your financial circumstances, needs and objectives. Before making any decision based on this report, you should assess your own circumstances or seek advice from a financial adviser. You should obtain and consider a copy of the Product Disclosure Statement available from us or your financial adviser before you acquire a financial product. The information is given in good faith and is believed to be accurate and reliable at the time of publication.

IIML provides no assurance that the Fund will continue to be available in the future.

A message from the Chair

Lindsay Smartt

Welcome to the **AvWrap Retirement Service (the Fund's)** 2022-23 Annual Report.

The 2023 financial year was again marked by global and domestic economic uncertainty. Despite this, I'm pleased to say our dedicated team of experts again achieved solid investment returns for members.

I'm also proud that we delivered on our promise to simplify and improve our products, investments, customer service and technology processes. That's important to us, because we believe driving continual improvement of our products and services and providing consistent performance—in good times and bad—is key to our members' long-term financial wellbeing.

Over the year, Rhythm Super continued to offer members a contemporary platform, combining flexible technology with a great member experience. Rhythm Super offers a wide selection of investment options that can be tailored to meet individual member needs, including over 400 managed funds, a range of listed securities, separately-managed accounts, exchange-traded funds and a choice of term deposit providers.

Straddling high inflation and possible recession

As always, it's key to look at the broader economic environment to understand what's driving investment performance.

The 2023 financial year saw inflation, interest rates and the war in Ukraine maintain pressure on consumers, globally. The steep increase of interest rates by central banks showed signs of moderating inflation but also stirred concerns of overstepping the mark, potentially leading to a global recession. And indeed, some economies like Germany and New Zealand did fall into recession due to lower consumer spending resulting from increased interest rates.

Encouragingly though, lower oil prices, reduced international shipping costs and the normalisation of global supply chains, have taken some heat out of global inflation pressures.

On the domestic front though, high electricity, rent, property and food prices look set to continue, maintaining the inflation threat at home. With Australia's consumer inflation running at 6% in the year to June 2023, the Reserve Bank of Australia (RBA) maintains relatively high interest rates are still needed to reduce it to their 2% to 3% target. It remains to be seen if the RBA's interest rate increases manage to achieve that target without driving Australia's economy into recession.

Strong markets, despite global challenges

Despite economic challenges, global and US share market performance remained strong during the year. The global share market, as measured by the MSCI All Countries World index, returned 14% (in Australian dollars) for the six months to the end of June 2023, largely stemming from the strength of the US share market.

By contrast, the Chinese share market continued to struggle, with concerns over the government's handling of its economy and private sector.

Australian shares, as measured by the S&P/ASX 200, made a robust 14.8% return for the year, boosted by very strong gains in the Information Technology and Resources sectors. The Consumer Discretionary and Financial sectors also delivered strong gains, despite the challenge of higher inflation and interest rates squeezing consumers.

Given the positive and negative developments at play in the current investment environment, it's important for investors to maintain an appropriately disciplined and diversified portfolio at this challenging time.

Thank you

On behalf of the Trustee Board and Management, thank you for trusting the Fund to look after your long-term financial wellbeing.

We also look forward to inviting you to the 2023 Annual Members' Meeting. You'll receive your invitation to the meeting by this December, which will be held in February 2024. At the meeting, you'll hear about your fund's performance, get an outlook of what's to come, and have the opportunity to ask questions to the people looking after your super, including me.



Lindsay Smartt

Investment strategies and asset allocation

The Trustee formulates and gives effect to investment strategies and objectives for the Fund. These strategies and objectives take into account the whole of the circumstances of the Fund, including investment risk, diversification, liquidity and the ability of the Fund to discharge liabilities. The Trustee has placed restrictions on certain investments designed to reduce the potential for large losses by encouraging diversification, ensuring adequate liquidity and satisfying regulatory requirements. In line with our obligations, the Trustee reviews these strategies and applicable limits on an ongoing basis. Please contact your adviser for further information on these limits or refer to the relevant Product Disclosure Statement (PDS).

Rhythm Super allows you to spread your super or pension account across many investment strategies, choosing from a range of investment options and product issuers.

The combination of investments you choose will be based on your individual circumstances. Information on the individual investment options can be found in the relevant PDS. You should consider the relevant PDS before deciding to invest in, or switch between, investment options.

Asset allocation

The table below shows how the Fund is invested across different asset classes

Asset Class	30/06/2023	30/06/2022
Cash	14.61%	16.13%
Commodities	0.00%	0.00%
Australian equities	25.13%	25.11%
International equities	30.80%	29.58%
Australian fixed interest	12.39%	11.69%
International fixed interest	10.23%	10.63%
Property	5.53%	5.99%
Other	1.31%	0.87%
Total	100.00%	100.00%

Through your account in the Fund, you can invest in a number of different term deposits, managed investments and approved ASX-listed securities.

If a managed fund invests across a number of asset classes, we will treat the asset allocation based on a 'look through basis' using the managed fund's individual asset allocations.

The asset allocation for each managed fund is determined by the investment managers and provided either by the investment managers directly or from a third party¹.

Asset allocations can vary over time within ranges specified by the individual product issuers. Information on the asset allocation ranges for the individual investment options can be found in the relevant PDS.

Understanding investment performance

The investment performance of the Fund is determined by reference to the investment performance of the assets of the Fund, and different types of assets will perform differently in different market conditions. In your product, you get to choose the assets (investment options) that your super (and, accordingly, the Fund) is invested in. The investment performance of those investment options is directly allocated to you. You should refer to your annual statement for the year ended 30 June 2023 for details of the investment performance of your chosen investment options.

Alternatively, information on the performance of accessible listed securities and term deposits are available through InvestorHub. Additional information on the performance of all managed funds available through your product is available from your financial adviser.

Important information

Significant events

A summary of each significant event or material change notice made to members can be accessed at ioof.com.au/about-us/about-ioof/trustee-disclosures.

Changes to offer documents

During the financial year the PDS and documents incorporated by reference were updated and issued on 30 September 2022.

A copy of the latest offer documents for Rhythm Super can be accessed at ioof.com.au/forms.

Following the end of financial year, there were some changes to the offer documents for Rhythm Super, as follows:

- The PDS and documents incorporated by reference were updated on 20 October 2023.

Ongoing changes to investment strategies and available investment options

All available investment strategies and investment options made available by the Trustee are outlined in the Investment Booklet.

A copy of the Investment Booklet for Rhythm Super can be accessed at ioof.com.au/forms.

Consolidation of multiple accounts

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

Trustee Board

Information about the Trustee's directors and executive officers is available from ioof.com.au/about-us/about-ioof/trustee-disclosures.

Accessing your Annual Report

You can view the latest Annual Report for the Fund online at any time by visiting ioof.com.au/about-us/about-ioof/trustee-disclosures.

Further information

More information about the Fund is available from ioof.com.au/about-us/about-ioof/trustee-disclosures, including:

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

Trustee information

The Trustee of the Fund is IOOF Investment Management Limited ABN 53 006 695 021 AFSL 230524 RSEL L0000406. The Trustee has effected and maintains in force professional indemnity insurance to protect the interests of members.

Directors of the Trustee are listed below.

Mr Lindsay Raymond Smartt (Appointed 6 August 2019)

Ms Beth Veronica McConnell (Appointed 17 March 2022)

Mr Steven John Schubert (Appointed 17 March 2022)

Ms Karen Nita Gibson (Appointed 26 November 2018)

Ms Jane Margaret Harvey (Appointed 19 March 2020)

Mr Robert Andrew Bloore (Resigned 9 December 2022)

Administrator information

IIML has appointed HUB24 Custodial Services Ltd (HUB24) ABN 94 073 633 664, AFSL 239122 as the administrator of Rhythm Super and the custodian of the investments held in this product. HUB24 may sub-contract the performance of some or all of its administrative functions to other professional service providers.

Fund management information

During the 2022/23 financial year, the Fund held money with the following investment managers, directly or indirectly with a value of greater than five per cent of the Fund's total assets:

- Vanguard Investments Australia Ltd (\$51,456,643.25)
- Magellan Asset Management Limited (\$32,736,184.41)
- AllianceBernstein Investment Management Australia Limited (\$30,199,815.25)

The Trustee has formulated a strategy for establishing, implementing, managing and maintaining an Operational Risk Financial Requirement (ORFR) in accordance with the relevant superannuation prudential standard.

Resolving Complaints

We value your feedback and we're committed to resolving any concerns you may have. If you have a complaint, our service representatives can usually resolve it quickly over the phone on **1300 319 363**.

If you'd prefer to put your complaint in writing, you can email or send a letter using the contact details below.

complaints@hub24.com.au

In Writing: HUB24 Custodial Services Ltd
GPO Box 529
Sydney NSW 2001

An assigned case manager will conduct a fair review and provide you with a full response in writing.

The Australian Financial Complaints Authority (AFCA)

You may be able to lodge a complaint with AFCA directly rather than lodging a complaint with us. You may also be able to lodge a complaint with AFCA if you are not satisfied with our response or if your complaint has not been resolved within the relevant maximum timeframe. AFCA provides fair and independent financial services complaint resolution that is free to consumers.

Website: www.afca.org.au

Email: info@afca.org.au

Phone: 1800 931 678

In Writing: The Australian Financial Complaints Authority
GPO Box 3
Melbourne VIC 3001

Time limits may apply to complain to AFCA so you should act promptly or otherwise consult the AFCA website to find out if or when the time limit relevant to your circumstances expires.

Further information

The relevant PDS for the product you are invested in is available from your adviser or as follows:

Rhythm Super

Available online at ioof.com.au/forms
or by calling 1300 319 363

Government reforms in superannuation since 1 July 2022

What's changed

Minimum pension drawdown relief ends

The Government reduced the minimum pension drawdowns by 50% for the 2019/20 to 2022/23 financial years. The concession was not extended from 1 July 2023 and minimum drawdowns were returned to normal levels. The minimum drawdown thresholds for account-based pensions are now:

Age	2019/20 - 2022/23	Since 1 July 2023
Under 65	2%	4%
65 – 74	2.5%	5%
75 – 79	3%	6%
80 – 84	3.5%	7%
85 – 89	4.5%	9%
90 – 94	5.5%	11%
95 +	7%	14%

Downsizer contribution age reduced to 55

Since 1 January 2023, the age requirement to make a downsizer contribution reduced from 60 to 55. All other eligibility criteria remains unchanged.

Work test to claim personal deductible contributions

The work test is required for individuals age 67 to under 75 who make personal contributions to superannuation and claim as a tax deduction. Since 1 July 2022, the work test has been a requirement under the tax legislation. Initially when this change was made, it had an unintended consequence that certain individuals would no longer meet the work test even though their employment arrangement had not changed. One of these groups were company directors. The ATO resolved this issue by releasing a legislative instrument that extends the definition of employee which ensure impacted individuals are able to meet the work test and claim a tax deduction for personal super contributions.

Performance test for trustee directed products

On 31 August 2023, APRA released annual performance test results for superannuation products. This year the range of tested products included trustee directed products. Members in products which did not pass the test will have been contacted by their super trustee in September 2023.

First Home Super Saver

The First Home Super Saver Scheme (FHSSS) allows individuals to make voluntary contributions into super to withdraw at a later date towards the purchase of their first home. Additional amendments are proposed including:

- providing the ATO will greater discretion to amend or revoke a FHSSS application
- allowing individuals to withdraw or amend application prior to receiving an amount paid under the scheme, and
- allowing the ATO to direct funds back into superannuation if not yet released to the individual and ensuring these are amounts are not taxable in the fund or count towards the individual's contribution cap.

What's proposed but not yet effective

Proposed change to taxation of super

The Government has a proposal to change the tax concession of certain superannuation accounts if an individual has a total super balance of more than \$3 million. If the measure is legislated, it is due to commence from 1 July 2025.

Currently, tax on investment earnings within the accumulation phase of superannuation is at a maximum rate of 15%. It is proposed that where an individual's total superannuation balance exceeds \$3 million, an additional tax of 15% will apply on earnings associated with the amount exceeding \$3 million.

Payday superannuation

The Government has proposed to change the frequency that employers are required to pay superannuation. It is intended that employers will pay superannuation contributions at the same time as employees received their salary or wages. Currently, Superannuation Guarantee payments are required to be paid on a quarterly basis. If legislated, this measure is intended to commence from 1 July 2026.

Superannuation thresholds for 2023/24

Concessional contributions cap	\$27,500
Non-concessional contributions cap (NCC)	<p>\$110,000 annual cap if under \$1.9m in super and pension on 30 June 2023 \$0 if \$1.9 million or more in super and pension on 30 June 2023 If individual is under age 75 on 1 July 2023, potential bring-forward:</p> <ul style="list-style-type: none"> • \$330,000 if under \$1.68 million in super and pensions on 30 June 2023 • \$220,000 if between \$1.68 million and \$1.79 million in super and pensions on 30 June 2023
Superannuation guarantee (SG) rate	11% (increase from 10.5% in 2022/23)
SG maximum contribution base	\$62,270 ordinary time earnings per quarter or \$249,080 pa (up from \$60,220 per quarter 2022/23)
Preservation age <ul style="list-style-type: none"> • Benefits can be accessed on retirement • 0% effective tax on withdrawals under low rate threshold 	Age 58 if born from 1 July 1962 to 30 June 1963 Age 59 if born from 1 July 1963 to 30 June 1964 Age 60 if born after 1 July 1964
Low rate cap <ul style="list-style-type: none"> • 0% effective tax on taxable component of withdrawals 	\$235,000 (up from \$230,000 for 2022/23)
CGT cap amount <ul style="list-style-type: none"> • Excluded from NCC cap 	\$1,705,000 (up from \$1,650,000 for 2022/23)
Government co-contribution income	Full co-contribution - \$43,445 pa or less (up from \$42,016 for 2022/23) No co-contribution - \$58,445 pa or more (up from \$57,016 for 2022/23)
Spouse contribution tax offset	Maximum of \$540 if annual spouse income less than \$37,000. Offset ceases at \$40,000.
Departing Australia Superannuation Payment tax rate	35% on taxable component (65% for working holiday makers)
Centrelink age pension age	Age 67

Abridged financial statements

The following abridged financial information for the financial year ended 30 June 2023 is for the AvWrap Retirement Service.

As at 30 June 2023, the assets for the AvWrap Retirement Service are \$556 million.

The auditor has issued an unqualified audit opinion in respect of the financial information.

If you would like to obtain a copy of the full audited Fund financial statements and related audit opinion for the year (free of charge), please contact us at rhythm@hub24.com.au or by calling 1300 319 363.

Abridged Financial Information – Statement of Financial Position

As at 30 June 2023

	2023 \$000	2022 \$000
Assets		
Cash and cash equivalents	48,834	44,831
Receivables	10,797	12,639
Investments assets:		
Equities	39,713	31,419
Term deposits	10,780	5,620
Listed trusts	67,633	30,276
Unlisted unit trusts	377,291	299,232
Current tax assets	516	–
Deferred tax assets	–	815
Total assets	555,564	424,832
Liabilities		
Payables and accruals	502	621
Current tax liabilities	–	467
Deferred tax liabilities	187	–
Total liabilities (excluding member benefits)	689	1,088
Net assets available for member benefits	554,875	423,744
Member benefits		
Defined contribution members liabilities	553,767	422,655
Total member liabilities	553,767	422,655
Total net assets	1,108	1,089
Equity		
Operational Risk Financial Requirement reserve	1,108	1,089
Total equity	1,108	1,089

Abridged Financial Information – Income Statement

For the year ended 30 June 2023

	2023 \$000	2022 \$000
Superannuation activities		
Interest income	1,258	216
Dividend income	3,425	2,454
Distribution Income	12,778	22,137
Net change in fair value of investments	23,239	(53,873)
Other income	16	–
Total revenue / (loss)	40,716	(29,066)
Expenses		
Administration expenses	5,025	4,392
Investment management expenses	47	11
Other operating expenses	–	240
Total expenses	5,072	4,643
Profit / (loss) from operating activities	35,644	(33,709)
Add/(less): Net benefits allocated to defined contribution member accounts	(37,899)	33,335
Loss before income tax	(2,255)	(374)
Income tax benefit	2,255	374
Profit / (loss) after income tax	–	–

Abridged Financial Information – Statement of changes in member benefits

For the year ended 30 June 2023

	2023 \$000	2022 \$000
Opening balance of member benefits	422,655	362,281
Contributions:		
Employer contributions	3,498	2,445
Member contributions	48,927	33,649
Transfer from other superannuation funds	90,436	89,142
Transfer to other superannuation funds	(12,381)	(10,164)
Income tax on contributions	(902)	(496)
Net after tax contributions	129,578	114,576
Benefits to members/beneficiaries	(35,929)	(20,439)
Insurance premiums charged to members' accounts	(436)	(428)
Benefits allocated to members' accounts comprising:		
Net investment income	42,971	(28,692)
Total expenses	(5,072)	(4,643)
Net change in member benefits	131,112	60,374
Closing balance of member benefits	553,767	422,655

Abridged Financial Information – Statement of changes in reserves

For the year ended 30 June 2023

	Operational Risk Financial Requirement Reserve \$000	Total Equity \$000
Opening balance as at 1 July 2022	1,089	1,089
Profit/(Loss) after income tax	19	19
Closing balance as at 30 June 2023	1,108	1,108
Opening balance as at 1 July 2021	1,089	1,089
Profit/(Loss) after income tax	–	–
Closing balance as at 30 June 2022	1,089	1,089

Operational Risk Financial Requirement (Reserve)

The Government requires superannuation fund Trustees to hold adequate financial resources (Reserve) to cover any losses that members incur due to an operational risk event. If the Reserve falls below our targets, the Trustee will approve and implement a plan to replenish or distribute financial resources to bring the Reserve back to the Target Amount. The expected period over which the financial resources will be replenished or distributed will be dependent on the quantum of the shortfall or excess from the Target Amount as prescribed in the applicable policy. The Trustee approved in February 2023 a replenishment of \$251,000 using retained earnings from the Corporate entity.

The balance of the Reserve held at the Fund level at the end of the last 3 financial years is summarised below:

- 30 June 2023: \$1.1M
- 30 June 2022: \$1.1M
- 30 June 2021: \$1.1M

AvWrap Retirement Service

Abridged Financial Information – Statement of cash flows

For the year ended 30 June 2023

	2023 \$000	2022 \$000
Cash flows from operating activities		
Interest received	1,145	229
Dividends received	3,389	2,348
Distributions received	15,571	12,222
Insurance premiums paid	(436)	(428)
Other expenses paid	(4,987)	(4,463)
Income tax (paid)/received	2,064	17
Net cash flows from operating activities	16,746	9,925
Cash flows from investing activities		
Proceeds from sale of investments	153,484	113,207
Purchases of investments	(260,108)	(196,513)
Net cash flows from investing activities	(106,624)	(83,306)
Cash flows from financing activities		
Employers' contribution	3,526	2,416
Members' contribution	48,930	28,435
Transfer from other superannuation funds	90,645	95,027
Transfer to other superannuation funds	(12,381)	(10,165)
Income tax on contributions	(902)	(125)
Benefits to members/beneficiaries	(35,937)	(20,420)
Net cash flows from financing activities	93,881	95,168
Net increase in cash and cash equivalents	4,003	21,787
Cash and cash equivalents at the beginning of the year	44,831	23,044
Cash and cash equivalents at the end of the year	48,834	44,831

Concentration of assets of the Fund

As at 30 June 2023 no underlying investments exceeded five per cent of the total assets of the Fund.

The Trustee acknowledges that, as a result of the discretion which can be exercised by account holders, individual accounts may have a greater than five per cent exposure to a single investment.

Further, the Trustee acknowledges that when considered in aggregate (across all managed fund options in which the Trustee holds assets on behalf of members of the Fund), the Fund may be construed as having a total exposure to a single shareholding (or to a composite interest in the investment assets of a single issuer) and this exposure may exceed five per cent of the total value of Fund assets.

Allocation of earnings into members' accounts

Earnings from a particular investment of the Fund will be allocated into the members' accounts in proportion to the member's interest in the investment.

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