



Defence Bank Super - SIGNIFICANT EVENT NOTICE

Equity Trustees Superannuation Limited, ABN 50 055 641 757 (Trustee) is the trustee of Defence Bank Super, a product issued from the CUBS Superannuation Fund (Fund), ABN 90 120 177 925.

The Trustee provides this important significant event notice (SEN) to members of Defence Bank Super.

Operational Risk Financial Reserve (ORFR)

Background

Under legislative changes effective from 1 July 2013, trustees of superannuation funds are required to have adequate financial resources to address losses arising from operational risks that may affect a fund. This may be achieved in a number of different ways including the establishment and maintenance of an Operational Risk Financial Requirement Reserve (ORFR).

Superannuation trustees that establish an ORFR are required to meet this requirement by 30 June 2016 (by building up to the amount that a trustee determines is an appropriate level of financial resources for their fund's operational risks).

In February 2014, the Trustee decided to establish an ORFR with a target of 0.30% of Fund Assets by 30 June 2016, to be built up from an ORFR fee deducted from member accounts. The ORFR fee that has been (and is currently being) charged is 0.12% per annum of your account balance. This fee has been calculated and deducted from each member account balance in the Fund, at the end of each month, since 31 March 2014. A pro-rata portion of this fee also applies on the closure of an account in the Fund during a month.

The Trustee is obliged to review the ORFR regularly to ensure the ORFR fee is appropriate to meet the funding requirements. A recent review by the Trustee has identified that the current monthly ORFR fee of 0.12% is not sufficient to meet the Fund's ORFR target by 30 June 2016 and, therefore, changes to the ORFR fee are necessary.

The Trustee has investigated a range of solutions to meet the ORFR target (of 0.30% of Fund Assets) amount by 30 June 2016 in a fair and equitable manner for all members of the Fund. After careful consideration, the Trustee has decided to change:

- the amount of the ORFR fee, with effect from 30 June 2016. The ORFR fee amount (percentage) will increase from 0.12% to 0.30% from 30 June 2016;
- how and when the ORFR fee is calculated and deducted (that is, the ORFR fee methodology), with effect from 30 June 2016. As noted above, currently the ORFR fee is an annual fee that is calculated and deducted from your account balance at the end of each month or on account closure. The ORFR fee of 0.30% applicable from 30 June 2016 will not be an annual fee. Instead, the ORFR fee will be a fee capped at 0.30% of your account balance, based on your account balance as at the end of each quarter (that is, as at 30 September, 31 December, 31 March and 30 June) after taking into account the ORFR fees that have previously been deducted from your account. A 'Tolerance Limit' will also apply, which means the ORFR fee will only be deducted on or after 30 June 2016, if the ORFR fees that have previously been deducted from your account are less than 0.27% of your account balance as at 30 June 2016 or the end of each quarter. This is explained in further detail below.

As a result of these changes, it is anticipated that the Fund's ORFR will achieve its target amount on 30 June 2016 (based on Fund assets at that date). As the level of Fund Assets will change after that date, the deduction of ORFR fees will continue to apply in accordance with the new ORFR fee methodology outlined in this notice.

What this means to you?

As an existing member of the Fund, you will have previously been charged an ORFR fee (of 0.12% per annum, deducted at the end of each month). The difference between what you have previously been charged in ORFR fees and 0.30% of your account balance as at 30 June 2016 (where the aggregate of the ORFR fees previously charged are less than 0.27% of your account balance as at that date) will be the ORFR fee deducted from your account as at 30 June 2016. The 0.27% of your account balance in the above calculation is the 'Tolerance Limit' (representing a one-tenth reduction in the maximum amount of the 0.30% ORFR fee) that has been determined by the Trustee.

The amount of ORFR fee deducted from your account as at 30 June 2016 is not yet known and will depend on the amount of the ORFR fees you have previously paid from your account and your account balance at that date. However, the amount cannot be greater than 0.30% of your account balance as at 30 June 2016.

Example A (Tolerance Limit does not apply): To illustrate this, a member with an account balance as at 30 June 2016 of \$100,000, who has paid ORFR fees of \$120 prior to that date, will be charged an ORFR fee of \$180 on 30 June 2016 (being the difference between \$120 in ORFR fees already deducted and \$300 in ORFR fees calculated as at 30 June 2016).

If you have not been a member of the Fund for very long and your account balance has been steadily increasing, it is more likely that you will be charged an ORFR fee on 30 June 2016.

Example B (Tolerance Limit applies): To illustrate this, a member with an account balance as at 30 June 2016 of \$100,000 who has paid ORFR fees of \$280 prior to this date, will not be charged an ORFR fee on 30 June 2016 because the \$280 previously charged is greater than 0.27% of their account balance as at 30 June 2016.

Where you have been a member of the Fund for a lengthier period of time and/or your account balance has not been increasing (for whatever reason), it is more likely that an ORFR fee deduction will not occur on 30 June 2016.

This ORFR funding process (referred to as the 'constant' funding method) will continue to be applied to your account balance, while you remain a member of the Fund, on a quarterly basis (based on your account balance as at the end of each quarter after 30 June 2016). ORFR fees will only be deducted from your account after 30 June 2016 if (at the end of a quarter) your account balance has increased for any reason (for example, as a result of additional contributions or rollovers to your account, or increased unit prices due to positive investment earnings).

In summary, the quarterly assessment will be applied as follows:

$0.30\% \times \text{account balance at the end of quarter (less the sum of any previous ORFR fees deducted from your account)} = \text{ORFR fee payable as at the end of the quarter UNLESS the sum of previous ORFR fees deducted from your account is equal to or more than } 0.27\% \text{ of your account balance at the end of the quarter}$

Example C: To illustrate this, the member in Example A has an account balance as at 30 September 2016 of \$150,000. Taking into account the ORFR fees of \$300 paid prior to 30 September 2016 (including the amount deducted on 30 June 2016), they will be charged an ORFR fee of \$150 on 30 September 2016 being 0.30 % of \$50,000 (the increased amount of their account balance at 30 September 2016, when compared with their account balance at 30 June 2016). The Tolerance Limit will not apply because the \$300 of previously paid ORFR fees is less than 0.27% of the member's account balance as at 30 September 2016.

If your account balance has increased as at the end of a quarter after 30 June 2016, the amount of the ORFR fee that will be deducted from your account will relate to the increased portion of your account balance since the last quarterly assessment. If there is no increase in your balance as at the end of any quarters (for example, because you are a Pension member who is drawing down their superannuation), the ORFR fee will no longer be deducted.

The Fund will maintain a record of the ORFR fees deducted from your account, for the purpose of undertaking the quarterly assessments. The amount of ORFR fees recorded as deducted from an account may be adjusted (reduced) in certain circumstances (for example, if the ORFR has been or will be used to compensate for operational losses that have or will occur). If you close your account to commence a Pension in the Fund (or vice versa), ORFR fees relating to the closed account may be taken into account when determining whether ORFR fees will be deducted from the new account.

The Fund's ORFR arrangements will continue to be reviewed regularly. For example, if the Trustee determines that the amount of the ORFR fee required to maintain the ORFR or the Fund's ORFR target is not set at an appropriate level, or if the ORFR is used to meet operational losses that result in the ORFR being significantly diminished below an allowable amount, the amount of the ORFR fee, how the ORFR fee is calculated and deducted or the period during which it will be charged may change.

Do you need more information?

Should you require any more general information please contact the Administrator on 1800 979 188

Further information about fees and costs, and the available investment options, is included in the current Product Disclosure Statement for the Defence Bank Super available from www.defencebank.com.au or by contacting the Administrator. When making any decision, you should consider the further information about fees and costs, investments and risks in the PDS (and, where applicable, associated Factsheets).

Please note that the Trustee or Administrator cannot provide you with financial advice. They can only provide you with general information including updated product disclosures. For financial advice which takes into account your personal situation, consult your financial adviser.

This notice contains general information only without taking into account your objectives, financial situations or needs. You should only obtain financial advice from an authorised or licensed financial adviser that takes into account your personal situation before you make any decision regarding your superannuation benefits or investments.

Yours sincerely



Michael Gallagher
Financial Synergy Pty. Ltd.
On behalf of the Trustee