PRODUCT NEWS AND IMPORTANT INFORMATION

July 2017

(Proposed Legislative Changes & Legislated Changes updated January 2018)

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INVESTMENT UPDATE

2016/2017 Financial Year in Review

Despite the geo-political uncertainty leading into the 2016/17 financial year, with the UK in June 2016 voting to leave the European Union (EU) and pending US and European elections, global investment markets over the 2016/17 financial year were reasonably strong.

Returns on global shares were positive and above long-term averages, while global corporate bonds outperformed global government bonds which experienced small negative returns over the period. The strong returns for shares and corporate bonds were driven by a variety of factors including the election results in the US and Europe and low global interest rates.

Turning to Australia, the economy grew by around 1.75-2.00 per cent, with the rate of growth slower compared to the previous 2015/2016 financial year. The growth in the economy was impacted by low interest rates, with the cash rate standing at a record low of 1.50 per cent at the end of the financial year, down from 1.75 per cent a year earlier.

Australian shares performed strongly over the period although underperformed global shares. An increase in bond yields in Australia resulted in government bonds generating small negative returns and their lowest performance in 23 years.

The 2016/2017 financial year was characterised by lower than average market volatility both domestically and globally. The Australian Dollar was up slightly over the period, trading in a US6.25 cent range, the lowest in 27 years. The volatility of the Australian share market was the lowest in 16 years.

Going forward, returns are likely to be lower than long-run averages due to the low interest rate and inflation environment. Also volatility is likely to increase to levels more in line with long-term averages.

What is the effect of market volatility on super and investment funds?

In times of market volatility investment balances may decline, but it is important to remember that markets move in cycles. Volatility is a natural part of the economic cycle and markets are influenced by a range of factors and are inherently unpredictable. History demonstrates that over the long-term, the general trend of share markets has been upward, although investments can go up and down and past performance is not an indication of future performance.

Diversification

With share market volatility diversification continues to be an effective means of managing risk and smoothing returns over the longer term. Diversification helps to soften the effects of share market fluctuations as some asset classes tend to do well whilst others are struggling. Also, spreading assets means you are less reliant on any one asset class at any particular time.

PROPOSED LEGISLATIVE CHANGES (Updated as at January 2018)

The federal government (Government) announced a number of changes in the May 2017 Federal Budget.

Improving external dispute resolution

The Government proposes to improve consumer outcomes for dispute resolution with the establishment of the Australian Financial Complaints Authority (AFCA) from 1 July 2018. The AFCA will replace the Financial Ombudsman Service, the Credit and Investments Ombudsman and the Superannuation Complaints Tribunal.

LEGISLATED CHANGES (Updated as at January 2018)

These changes have been legislated and depending on your individual circumstances, may have an impact on you.

Contributions

Non-concessional (post-tax) contributions cap

- Reduced from $180,000 to $100,000 per year for eligible members, from 1 July 2017.

Concessional (pre-tax) contributions cap

- From 1 July 2017, the Government lowered the annual concessional contributions cap to $25,000 for all individuals.

Carry-forward concessional contributions of unused caps over five years

- From 1 July 2018, individuals can 'carry forward' unused concessional super contributions if they have a total superannuation balance of less than $500,000.

Personal superannuation contributions deduction

- From 1 July 2017, anyone who is eligible to make voluntary superannuation contributions is eligible to make personal concessional (tax deductible) contributions.

Spouse tax offset

- From 1 July 2017, an individual can claim a tax offset up to a maximum of $540 for contributions made to their spouse's eligible super fund if the total of the spouse's income does not exceed $37,000.

Division 293 threshold

- From 1 July 2017, the Government lowered the Division 293 income threshold to $250,000.

First Home Super Saver (FHSS) scheme

- From 1 July 2017, first home buyers can make voluntary concessional (before-tax) and non concessional (after-tax) contributions (up to a maximum of eligible $15,000 per financial year and $30,000 in total). into their fund to save for their first home
- From 1 July 2018, they can then apply to release these contributions, along with associated earnings to help purchase their first home.

Contributing the proceeds of downsizing to superannuation

- From 1 July 2018, members who are 65 or over can make a contribution of up to $300,000 into their superannuation after selling their principal residence and which was owned by the member or their spouse for at least 10 years. The contract for sale must be entered into on or after 1 July 2018. A member's spouse may also be eligible to make a contribution.
- This contribution does not count towards a member's contribution caps, and their ability to make a contribution is unaffected by their total super balance.
- This contribution is treated the same as other super benefits or balances for the purposes of determining eligibility for the age pension.

Income stream changes

$1.6 million transfer balance cap for retirement phase accounts

- The $1.6 million transfer balance cap applies from 1 July 2017.

Improving the integrity of retirement income streams

- From 1 July 2017, the tax-exempt status of earnings from assets that support a transition to retirement income stream no longer applies.

Pension asset test threshold changes

- From 1 January 2017, the pension asset test thresholds were changed to increase the minimum thresholds and to reduce the maximum thresholds.

Other

Low income superannuation tax offset (LISTO)

- The Low Income Superannuation Tax Offset (LISTO) replaced the Low Income Superannuation Contribution (LISC) from 1 July 2017.

Removal of anti-detriment payment

- Under new rules, superannuation funds are no longer able to pay anti-detriment payments where the deceased dies on or after 1 July 2017.

Innovation in retirement income stream products

- From 1 July 2017, the Government removed restrictions by extending the tax exemption on earnings in the retirement phase to certain products.

More information on super changes?

Further information is available at **commbank.com.au/2016superbudget** and **ato.gov.au/Individuals/Super/Super-changes**

PRODUCT NEWS

Investment update

Changes to the Colonial Mutual Life Assurance Society Limited (CMLA) managed investment options and asset allocations

The Colonial Mutual Life Assurance Society Limited (CMLA) has an ongoing process in place to review the investment strategies for investment options. For some of the investment options, the investment strategies are designed and managed by CMLA, even though the day-to-day investment management activities are completed by another specialist investment manager.

Following a review, the following key changes were made to some of the investment options designed and managed by CMLA:

- increasing the allocation to growth assets for most of the multi-sector options, mainly through an increased allocation to alternatives
- some of the strategic asset allocation ranges have been adjusted to accommodate the revised strategic asset allocation targets
- changing the currency hedging for global shares from 50 per cent to 0 per cent.

The objective of the changes is to improve the return and risk outcomes. A full summary of these changes and the products impacted can be found at **commbank.com.au/superreports**

Other changes to investment options

Colonial Select Personal Super and Colonial Select Allocated Pension investment option changes

On 1 February 2017, Cash options of the Colonial Select Personal Superannuation and Allocated Pension products were switched from the Colonial First State Wholesale Premium Cash Fund to the Colonial First State Wholesale Institutional Cash Fund.

This change was required following a change to the investment strategy of the Colonial First State Wholesale Premium Cash Fund. Cash options previously invested in the Colonial First State Wholesale Premium Cash Fund are now invested in Colonial First State Wholesale Institutional Cash Fund, which replicates the investment strategy of the Colonial First State Wholesale Premium Cash Fund prior to the revised investment strategy.

Effective 1 April 2017 the name of the CFS Wholesale Worldwide Leaders Fund was changed to Stewart Investors Worldwide Leaders Fund. This is a name change only and does not impact the underlying investment strategy of this investment option.

Corrections to the Annual Performance Report 2016

Due to an administration error, the 2016 Annual Performance Report disclosed incorrect investment management fees for a number of investment options. Please refer to the table on the next page for the correct investment management fees. Note this was an error with the report only and the correct investment management fees were charged to your account. Please call us if you have any questions.

Product	Investment Option	Incorrect Investment Management Fee	Correct Investment Management Fee
CPSL MasterFund Superannuation	BT Active Balanced Option	1.03% per annum	0.88% per annum
CPSL MasterFund Superannuation	BT Core Australian Share Option	1.00% per annum	0.85% per annum
CPSL MasterFund Superannuation	BT Property Investment Option	0.80% per annum	0.68% per annum
CPSL MasterFund Superannuation	Colonial First State Wholesale Australian Share	0.95% per annum	0.81% per annum
CPSL MasterFund Superannuation	Schroder Asia Pacific option	0.80% per annum	0.83% per annum

Insurance Update

Easysaver policy changes

Changes to medical definitions in your policy

For policy holders with insurance, we have updated some of the medical definitions in your policy. The definition changes that apply to your policy will depend on the nature of insurance cover that you hold.

These changes were automatically applied to your policy from 5 May 2017 and apply to all claimable events from that date. For details of specific changes to medical definitions, please refer to the relevant sections throughout the reference guide **commbank.com.au/refguidesi**

To give you comfort, we will assess any claim you may make in the future against both the new definition and your original definition and apply the most favourable definition. The updated definitions only apply where the condition is already covered on your policy.

The following insurance options within the Easysaver product are impacted by these changes:

- Trauma under VitalCare Alternative,
- VitalCare Extra, and
- VitalCare Alternative Plus.

Colonial Select Personal Super changes

Improved Total and Permanent Disablement (TPD) benefit

Currently, to satisfy the employment based TPD definition, you must, amongst other things, have been absent from employment for six consecutive months due to sickness or injury. This period has now been reduced to three consecutive months. Depending on your circumstances, this change may allow you to receive a TPD benefit earlier.

Currently, to satisfy the home duties TPD definition, you must, amongst other things, have been unable to perform domestic duties or child rearing for six consecutive months due to sickness or injury. This period has now been reduced to three consecutive months. Depending on your circumstances, this change may allow you to receive a TPD benefit earlier.

Updated Terminal Illness (TI) survival period

The TI benefit will be payable if, amongst other things, two doctors, including one doctor who specialises in the illness or injury suffered, certify that despite reasonable medical treatment, the member is likely to die within 24 months. The certification must occur while the member is covered under this policy. This is effective from 1 July 2017. Prior to 1 July 2017 the requirement was that the member was likely to die within 12 months. Depending on your circumstances, this change may allow you to receive a terminal illness benefit earlier.

Other Product Information

Changes to customer communications – ASIC's Regulatory Guide 97 requirements

Over the coming year we are updating our disclosure of fees and costs in customer communications to provide you with greater detail on costs that are already charged in your product.

This enhanced information will be updated when communications are required under legislation so you may see some changes in how we show our fees and costs over the next 12 months. The changes will be explained fully in these communications. If you have any questions regarding the fees and costs of your product, then please contact us.

Commonwealth Rollover Fund (CRF) policyholders – update to the default maturity option

From 1 July 2017 the default maturity option changed as notified to you with your 2017 Annual Statement. Where you do not provide us with a maturity instruction, you will remain in the investment phase and remain invested in the investment option(s) held at the maturity date.

The range of options available to you at maturity has not changed. This is just a change to which option is the default option where we do not receive maturity instructions.

Prior to 1 July 2017 the default maturity option for all CRF policyholders was to automatically purchase an annuity.

Colonial Mutual Superannuation Pty Ltd ABN 56 006 831 983 AFSL 235025 (the Trustee, we) and The Colonial Mutual Life Assurance Society Limited ABN 12 004 021 809 AFSL 235035 (CMLA) are both wholly owned non-guaranteed subsidiaries of Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945. This update relates to:

– superannuation products issued by the Trustee that form part of Colonial Super Retirement Fund ABN 40 328 908 469 (CSRF, the Fund);

– other superannuation products; and

– ordinary life products issued by CMLA.