

Aon Hewitt

Aon Master Trust

Papua New Guinea
Annual Report 2016



AON

About the Aon Master Trust (PNG)

The Aon Master Trust PNG ('the Trust') is the only superannuation Fund in Papua New Guinea which offers members an investment choice through currency selection.

There are two sub-funds in which members may choose to place their superannuation contributions:

- Papua New Guinea – the Kina Sub-Fund
- Australia – the AUD Sub-Fund

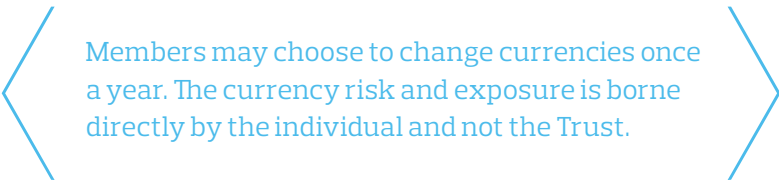
Membership may be in either or both:

1. Employer superannuation

For employees of companies who are mandated or volunteer to make contributions.

2. Voluntary superannuation

For self-employed and other individuals who elect to make voluntary contributions; and/or employees of companies that do not contribute to the Trust.



Members may choose to change currencies once a year. The currency risk and exposure is borne directly by the individual and not the Trust.

A note from the Chairman

Notwithstanding subdued revenues from the mineral and petroleum sectors and an overall weakening of fiscal balances for Papua New Guinea, I am pleased to present to members and employer contributors the 2016 Aon Master Trust Annual Report which clearly demonstrates positive results for both the AUD and Kina Sub-Funds primarily due to strict adherence to the Fund's investment objectives and strategies..

AUD Sub-Fund

The Aon Master Trust AUD Sub-Fund is a “defensive” fund and only invests in Australian Cash and Fixed Interest assets. Its investment objective is to deliver a positive annual return over and above average 30 day deposit rates for the three main commercial banks in PNG. The AUD Sub-Fund delivered a total of 2.20% return credited to the members.

Kina Sub-Fund

The Aon Master Trust Kina Sub-Fund has a “moderate” investment strategy which invests mainly in PNG cash, fixed interest, and equities listed on the Port Moresby Stock Exchange (POMSoX). It's objective is to deliver a positive return of at least 1% p.a. above the Kina Facility Rate over rolling 3 years periods. Investments held in PNG Government issued bonds have outperformed it's benchmark/investment objective. This has been achieved by investing in longer dated bonds at higher yields. The Kina Sub-Fund portfolio delivered a total of 5.50% return credited to the members.

Throughout 2016, the equities portfolio recovered, bouncing back from a negative performance the previous year.

Domestic Economy

The Papua New Guinea (PNG) economy recorded a turnaround in its external balance in 2016. This followed the resumption of operations at Ok Tedi and Porgera mines and recovery in production by the agriculture sector after the end of the El Nino drought, and an increase in the prices of a few export commodities. With most of the export commodities' prices still relatively low and tax concessions given to project developers, Government revenue was significantly lower than in the Supplementary Budget introduced in August 2016. Notwithstanding these developments, the economy recorded its fifteenth successive year of growth in 2016.

A further improvement in the external sector is expected in 2017. Expected increases in production and export from the agriculture and mining sectors, in response to higher prices for some of the commodity exports, will translate to a slightly higher growth in 2017 compared to 2016, supported by full year production at Ok Tedi mine. However, the recover in commodity prices is not expected to be strong enough and therefore Government revenue will still be lower than forecasted in the Budget, The Government plans to rise external financing to partly fund the budget deficit.



The economic commentary has been provided by the Aon Master Trust (PNG) Investment Manager BSP Capital Limited.

The Aon Master Trust (PNG)

Established in 1992, the Aon Master Trust PNG ('the Trust') is licensed by the Bank of Papua New Guinea as an Authorised Superannuation Fund ('ASF') under the Superannuation (General Provisions) Act 2000 ('the Act'). The Trustee of the Aon Master Trust is Aon Superannuation (PNG) Limited.

Aon Hewitt (PNG) Limited has been appointed as the Licensed Fund Administrator, responsible for the back office functions of the Trust, managing the day-to-day receipting of contributions, withdrawals and allocation of members' funds.

BSP Capital Limited, a wholly owned subsidiary of Bank South Pacific, is appointed by the Trustee as the Licensed Investment Manager. The Trustee and BSP Capital are responsible for the management of assets for the Trust.



Administrator's report

Legislative Changes

In February 2016, the Bank of Papua New Guinea introduced one new Act and modified four existing Acts in relation to Money Laundering and Terrorist Financing within the specified Acts.

What this means for our employers/members and the Fund's due diligence process:

Reliable and independent source documentation must be provided to verify and identify persons, body corporates, unincorporated entities or the sender of an Electronic Fund Transfer and checks on Third Party Institutions.

Employer and Member

Employers are requested to diligently provide documentation of each remittance; this will enable the team to allocate your contributions in a timely manner.

Member's must ensure to contact the fund when their circumstances change whereby:

- 1. The member is now with a new employer**
- 2. Change of beneficiaries**
- 3. Contact/Address details**

Members' leaving the Fund should notify the Fund Administrator on their forwarding addresses or contact details.

- **Membership Discount Program**

Our membership Discount program will soon be released to provide benefits for our members.

- **Ebenefits registration**

Our Ebenefits tool is a great way to check your balances throughout the year and to advise the Fund if we have missed a contributions, we encourage our members to contact the Fund to join up.

- **Toll Free Number**

Our membership can call on the Toll Free Number 70096667 to enquire on their superannuation accounts.

- **Mobile Registration**

We send sms alerts to members who have registered their mobile numbers with the Fund. It is also a mode of communication to disseminate information on the status of their application forms or any important information we want to share with the membership.

On that note, the Administration team looks forward to any queries or questions that you may have about your Super.

On behalf of the management

Anne Wilson

Administration Superannuation Manager

The highlights for 2016

Membership		
	Kina	AUD
End of Dec 2016	24,831	1,154
End of Dec 2015	23,980	1,199

Asset growth		
	Kina	AUD
End of Dec 2016	165.0 million	124.9 million
End of Dec 2015	147.8 million	119.2 million

Investment objectives

The objectives of the Trustee relating to investment for 2016:

“ To provide members with Sub-Funds appropriate for their situation ”

“ To achieve investment returns commensurate with the investment objectives of each investment option ”

The investment objective for the Kina Sub-Fund is:

“ To provide a return at least 1% p.a. above the Kina Facility Rate over rolling three-year period ”

The investment objective for the AUD Sub-Fund is:

“ To provide a positive annual return over and above the average 30 day deposit rates of the three major commercial banks in PNG ”

Investment strategy

Kina Sub-Fund

In 2016, the Kina Sub-Fund continued to implement a 'Moderate' investment strategy. This involved predominately investing in cash and fixed interest with some exposure to listed equity for capital growth and dividend yield.

The equity portfolio consists of shares trading on the Port Moresby Stock Exchange or the 'POMSoX'. Equity investments are chosen based on research that includes consideration of fundamental value and the sustainability of dividends. To the degree practicable, the equity portfolio is diversified across different companies and industries.

Due to the small number of stocks listed on the POMSoX, the Trustee has limited the percentages of assets that can be held in these investments to a maximum of 30%.

Diversification in the cash and fixed interest classes is achieved through holding securities from different issuers and with a spread of different maturity dates to mitigate reinvestment risk.

Investment risks:

The Kina Sub-Fund members accept long-term investment risks. The returns credited to accumulation accounts reflect the movements in the investment markets. Accordingly, fluctuations in investment returns will directly affect benefits accruing to members.

The Kina Sub-Fund – Moderate Investment Profile:

Strategic Asset Allocation

Sector	Target (%)	Ranges (%)
Listed (POMSOX) Shares	5	0-30
Int'l Shares	0	0-30
Property	0	0-15
Alternative - Growth	0	0-15
Total Growth	5	0-30
Alternative - Defensive	0	0-20
Diversified Fixed Interest	90	30-95
Int'l Fixed Interest	0	0-30
Cash and Term Deposits	5	0-100
Total Defensive	95	70-100

Where are the Funds Invested?

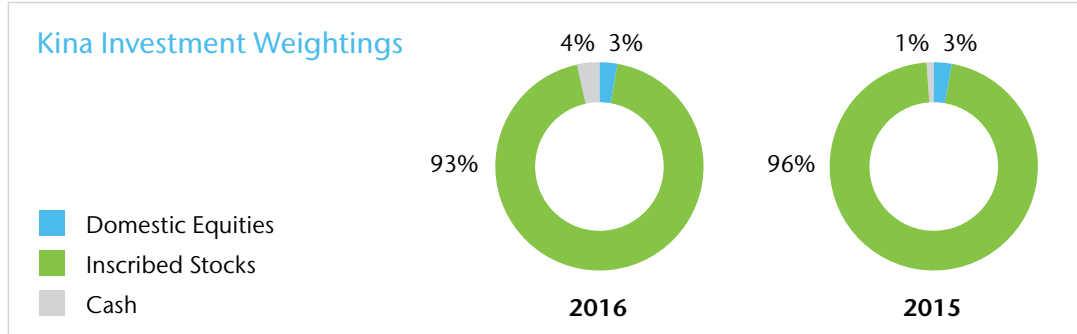
Members' funds are carefully invested in line with a strategy which meets the investment strategy of the relevant sub-fund and in accordance with the legislative requirements of the Act.

The Trust restricts its fixed interest investments to those that have a grade equal to or greater than the sovereign rating of PNG. At present, PNG is rated by Standard & Poor's at B+/Positive/B for both local currency and foreign currency.

The Kina Sub-Fund Asset Allocation as at 31 December 2016:

The Kina Sub-Fund invests mainly in fixed interest and listed equity. Fixed interest assets are comprised of PNG government inscribed stock and cash, and listed equity is comprised of stocks listed on the POMSoX.

Details of the asset allocations at 31 December in the last two years are shown below.



AUD Sub-Fund

The AUD Sub-Fund maintained its 'Defensive' investment strategy in 2016. It invested only in cash and fixed interest securities. Diversification is achieved through investing across different issuers and maturity dates.

A defensive investment strategy looks to provide a modest return on investments in money market securities, term deposits, and fixed income securities with a very low risk of capital loss.

The AUD Sub-Fund's strategy is to invest in money market and fixed interest securities, with short-term and medium-term maturities, to achieve a very stable return and to ensure liquidity.

The broad allocation of assets is weighted with 40% in debt maturing in one year and term deposits and 60% in diversified fixed interest which can include debt maturing later than one year and off-shore investments.

Investment risks:

The AUD Sub-Fund members accept short-term investment risk. The returns credited to accounts reflect the movements in investment markets. Accordingly, fluctuations in investment returns directly affect benefits accruing to members.

The AUD Sub-Fund – Moderate Investment Profile:

Strategic Asset Allocation

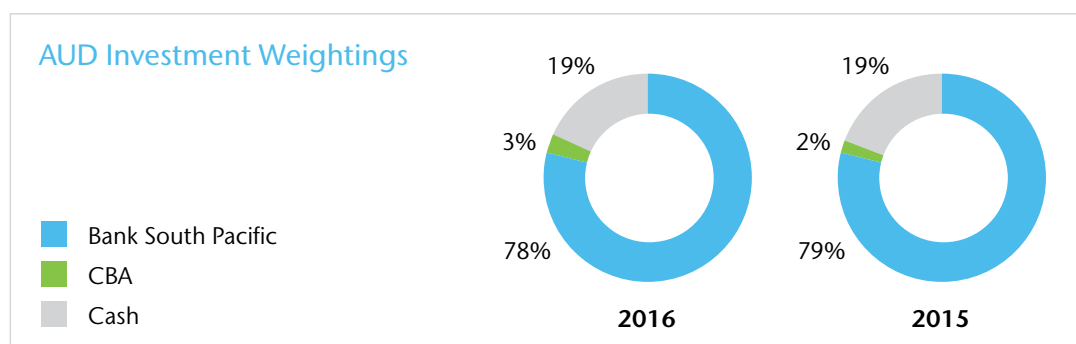
Sector	Target (%)	Ranges (%)
Aust.Shares	0	0-20
Int'l Shares	0	0-20
Property	0	0-20
Alternative - Growth	0	0-20
Total Growth	0	0-20
Alternative - Defensive	0	0-20
Diversified Fixed Interest	60	0-70
Int'l Fixed Interest	0	0-20
Cash	40	30-100
Total Defensive	100	80-100

Where are the funds invested?

The AUD Sub-Fund Asset Allocation as at 31 December 2016:

The AUD Sub-Fund invests in fixed interest and cash, including deposits only with commercial banking entities.

Details of the asset allocations at 31 December in the last two years are shown below.



Reserves

The Trust does not maintain a reserve account for the purposes of smoothing investment fluctuations.

Investment performance summary

Each year, the Trustee declares a Net Earning Rate ('NER') for each Sub-Fund. This is a crediting rate based on the actual investment performance of the Sub-Fund less expenses and tax. Expenses include the production of the year-end accounts, audit fees, trustee fees, investment management fees and member records administration. A different NER applies to each Sub-Fund.

The Trustee also declares a Management Expense Ratio ('MER') for each Sub-Fund. This is a ratio expressing the management, trustee and certain other expenses of the Sub-Fund as a proportion of the net asset value of each Sub-Fund

We are pleased to declare the following Fund NER and MER rates for 2016:

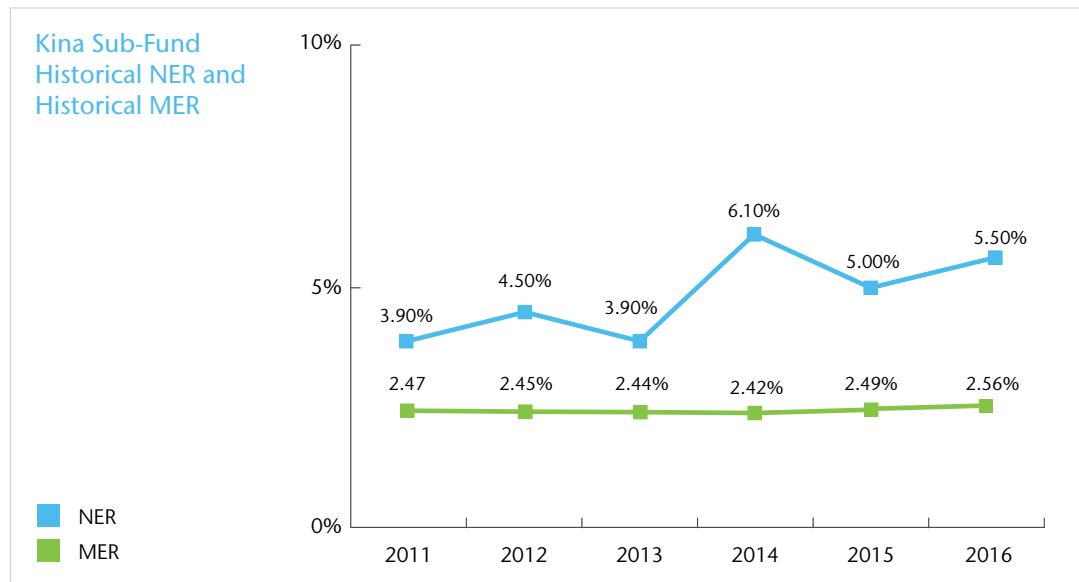
Kina NER of 5.50 %
Kina 3 Year average NER of 5.53%
Kina MER of 2.56%
AUD NER of 2.20%
AUD 3 Year average of 2.27%
AUD MER of 1.39%

Kina performance and AUD performance

The following graphs show the recent history of the NER and MER of the Kina and AUD Sub-Funds:

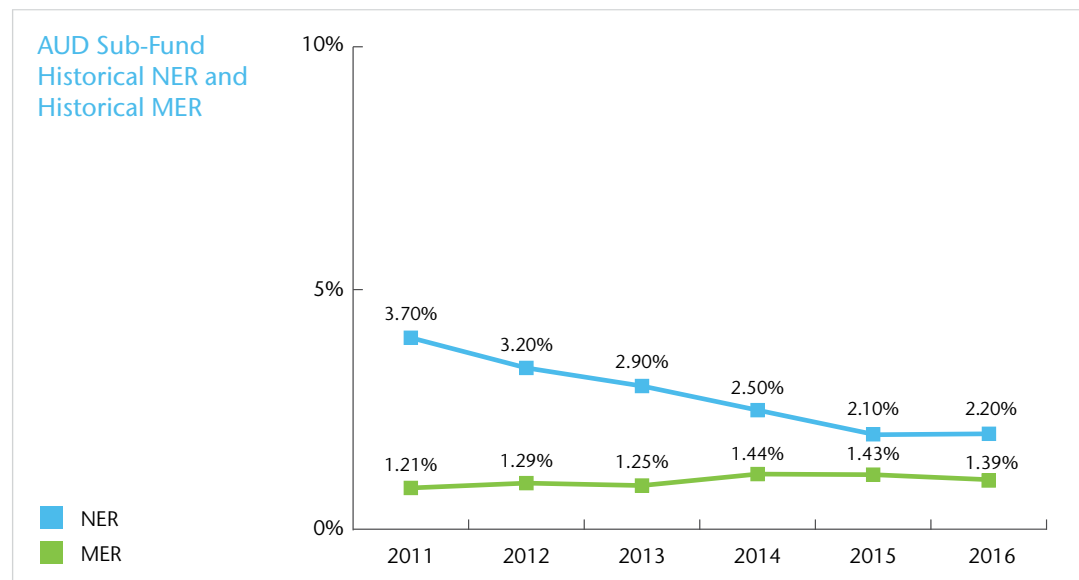
The investment objective for the Kina Sub-Fund is:

“To provide a return at least 1% p.a. above the Kina Facility Rate over rolling three-year period.”



The investment objective for the AUD Sub-Fund is:

“To provide a positive annual return over and above the average 30 day deposit rates of the three major commercial banks in PNG.”



Kina Sub-Fund financial summary

This is a summary of the Trust's audited accounts for the Kina Sub-Fund for the year ended 31 December 2016. The net assets shown are the assets available to pay members' benefits as at 31 December 2016.

The Kina Sub-Fund's Financial Movement for 2016 year		
	2016 (K)	2015 (K)
Opening balance at 1 January 2016	147,811,330	138,009,164
	<i>plus</i>	<i>plus</i>
Money received		
Investment income	15,093,480	12,655,235
Contributions	39,276,361	36,961,141
Total Income	54,369,841	49,616,376
	<i>less</i>	<i>less</i>
Money paid out		
Benefits paid	30,144,062	33,638,904
Audit fees	62,790	50,887
Investment Management fees	399,656	325,642
Asset Fees	3,107,024	2,731,095
Other	391,860	382,840
Income tax expense	3,032,225	2,684,842
Total expenses	37,137,617	39,814,210
	<i>equals</i>	<i>equals</i>
Closing balance at 31 December 2016	165,043,554	147,811,330

The Kina Sub-Fund's Net Assets at 31 December 2016		
	2016 (K)	2015 (K)
Assets		
Investments	156,877,057	144,062,364
Cash at bank	5,635,213	243,808
Receivables and others	3,752,639	4,671,385
Total assets	166,264,909	148,977,557
	<i>less</i>	<i>less</i>
Payments due (liabilities)		
Other creditors and accruals	545,888	544,196
Deferred tax liability	675,467	622,031
Total payments due (liabilities)	1,221,355	1,166,227
	<i>equals</i>	<i>equals</i>
Net assets at 31 December 2016	165,043,554	147,811,330

AUD Sub-Fund financial summary

This is a summary of the Trust's audited accounts for the AUD Sub-Fund year ended 31 December 2016. The net assets shown are the assets available to pay members' benefits as at 31 December 2016.

The AUD Sub-Fund's Financial Movement for 2016 year		
	2016 (\$)	2015 (\$)
Opening balance at 1 January 2015	119,142,423	107,229,465
	<i>plus</i>	<i>plus</i>
Money received		
Investment income	4,300,554	4,139,019
Contributions	20,112,248	18,355,914
Total Income	24,412,802	22,494,933
	<i>less</i>	<i>less</i>
Money paid out		
Benefits paid	16,882,858	9,033,375
Administration fees	55,856	58,725
Assets Fees	1,193,060	1,124,036
Audit fees	25,502	27,295
Investment Management fees	285,285	245,429
Other	99,890	157,586
Income tax expense	103,644	-64,471
Total expenses	18,646,095	10,581,975
	<i>equals</i>	<i>equals</i>
Closing balance at 31 December 2016	124,909,130	119,142,423
The AUD Sub-Fund's Net Assets at 31 December 2016		
	2016 (\$)	2015 (\$)
Assets		
Investments	118,427,769	112,750,533
Cash at bank	3,565,154	2,168,596
Receivables and others	3,056,197	4,778,834
Total assets	125,049,120	119,697,963
	<i>less</i>	<i>less</i>
Payments due (liabilities)		
Other creditors and accruals	103,000	476,389
Income Tax payable	-	-
Deferred Tax Liability	36,990	79,151
Total payments due (liabilities)	139,990	555,540
	<i>equals</i>	<i>equals</i>
Net assets at 31 December 2016	124,909,130	119,142,423

Withdrawals from the Aon Master Trust (PNG)

Withdrawing your benefits

Members may be able to withdraw some or all of their superannuation benefits depending on the applicable preservation status.

Under current legislation a member may also transfer their benefits to another superannuation fund in Papua New Guinea at any time.

Payments

Unless a member meets one of the specified conditions of release, they cannot withdraw any other part of their benefit from the superannuation system until cessation of employment.

Specified conditions of release

Resignation or termination

A lump sum benefit is payable if a member resigns from employment. This amount will be equal to the sum of both the member and employer contribution account balances. Interest is calculated to the date of payment, less tax and administration fees.

A lump sum is payable where the following circumstances arise:

- **Retirement:** a member retires on or after the age of 55 years
- **Disability:** a member retires due to permanent and or total incapacity
- **Emigration:** a member emigrates from Papua New Guinea
- **Transfer:** a member opts to transfer to another ASF subject to legislation

Specific rules govern the payment of contributions to members upon emigration. The Act deals with two situations:

Permanent emigration from PNG

Where a member permanently emigrates from PNG, his/her contributions will not be paid until one (1) year has elapsed since leaving his/her employer or the member reaches the age of 55, whichever occurs first.

Non-Citizen permanently leaving PNG

Where a non-citizen member permanently leaves PNG, his/her contributions will be paid in the following way:

- For contributions made prior to 31 December 2002: the Trust will pay out the member; and
- For contributions made from 1 January 2003: the Trust will pay out the member after one (1) year has lapsed since leaving his/her employer.

Death

When a member dies, the Trust will pay out the balance of the member's and employer's contribution accounts including the accrued interest to date less tax and administration fees.

Benefits payable upon the death of a member will be paid to beneficiaries nominated by the member or as determined by the Trustee following receipt of satisfactory identification.

- Members should ensure their beneficiary details which appear on their annual statements are up to date.

A partial withdrawal may occur for certain specified conditions of release:

Housing scheme

The Housing Scheme is a benefit offered to members who have contributed for a minimum of five (5) years and thus qualify to withdraw part of their contributions to assist with the purchase, construction or renovation of their homes.

Unemployment

If a member is terminated from employment, the member will become entitled to withdraw their contributions if he or she has remained unemployed for a continuous period of 12 months or more pursuant to s90(1)(g) of the Act.

Access to benefits

When a member leaves the service of the employer, he or she should inform the Trustee how and where to pay their benefit. A member may do this by completing a Superannuation Benefit Transfer or Payment Request form. The administrator will send this form to the last known address along with an estimate of the benefit. A member should return the completed form to the administrator in order for payment to be arranged.

When the benefit payment instructions are received, the administrator will calculate and pay the benefit. The benefit will be calculated depending on the member's contribution, the employer's contribution, investment income (or losses), taxes, fees and charges.

Additional superannuation information

Salary Packaging and Tax

As a general rule, remuneration planning aims to increase the employee's after-tax remuneration without increasing the after tax cost to the employer. This can be achieved by the employer providing a remuneration package which includes a mix of salary, allowances and the provision of benefits. Salary packaging is a matter between the employer and the employee. The role of the Trustee is to manage the contributions, not decide what they will be.

Superannuation contributions made in respect of an employee will not be taxable to the employee at the time the contribution is made to an authorised super fund. However, distributions of an amount from a superannuation fund not exceeding a 'prescribed sum' to the employee will be taxable to the employee at a rate of 2% in the following circumstances:

- contributions have been made for the employee for at least 15 years;
- contributions have been made in respect of the employee for at least seven years and the employee is not less than fifty years of age;
- contributions have been made in respect of the employee for at least seven years and the employee is subject to enforced early retirement;
- death or total and permanent disablement; and
- to the extent of the amount of the prescribed sum accrued before 1 January 1993.

Where the distribution does not qualify for the 2% tax rate it is taxed at the employee's marginal income tax rate. If an employee has contributed for more than 5 years but less than 9 years, the tax rate is 15% and if the employee has contributed for more than 9 years but less than 15 years, the tax rate is 8%.

Contributions to a superannuation fund will generally be deductible to an employer so long as:

- the year's contribution in respect of a particular employee does not exceed 15% of the employee's fully taxed salary or wages for the year;
- the superannuation fund is a resident of PNG; and
- the superannuation fund is an Authorised Superannuation Fund ('ASF').

Important! Updating dependants

It is important for members to update their dependants should their personal circumstances change due to events like marriage, divorce or childbirth. A member's dependants are their spouse, children and can also include anyone financially dependent on the member.

Where there are no identifiable legal dependants, the benefit will usually be paid to the member's estate. The payment of the death benefit is at the Trustee's discretion, although the Trustee will take the deceased member's preferences into account when deciding who will receive the benefit. For this reason it is important to keep an up to date Will.

Please contact Aon Hewitt to obtain the necessary forms to update your details.

Updates to member address

Members are required to notify the Trust whenever you change employment to ensure member statements are forwarded to the correct address.

Please contact the Aon Master Trust Administration Team to update your address.

Contributions

Members can make a contribution as a cheque payment or a direct deposit into the Trust account (see the fund administrator for account details). Remittances must always be sent to inform the Trust of the payments made, to ensure payments are processed in a timely manner. Contributions made during January to June in any year will be included in a half-yearly statement. All contributions received in a calendar year will be included in an annual statement.

Access to other services for an Aon Master Trust member:

- Financial Planning (members should speak to the fund administrator for more information); and
- Insurance products are available for Aon Master Trust members through the Aon Risk Services office.

Enquiries & complaints

The Trust has a procedure for dealing with enquiries and complaints in accordance with section 49B of the Superannuation (General Provisions) Act 2000.

If you are a member of the Trust or a beneficiary of a member or an employer that contributes to the Trust we will try to respond to your enquiry or complaint as soon as possible.

Most enquiries or complaints: If you have an enquiry or complaint, please contact our administrator (see page 23 for contact details).

Normally the administrator will be able to answer quickly. If it cannot respond quickly, it will:

- ask you to make your complaint in writing;
- acknowledge in writing to you that it has received your complaint within 7 days of receipt; and
- refer it to the Trust's internal complaints resolution committee.

Our internal complaints resolution committee: this committee includes all trustee directors. If it reviews your complaint it will try to resolve it as soon as possible. It will advise you in writing of its decision within 7 days of making a decision. If it cannot make a decision to resolve the matter it will advise you within 90 days of receiving your complaint.

External complaints resolution: Under Section 49B of the Superannuation (General Provisions) Act 2000, the Trust must subscribe to an industry funded complaints resolution process satisfactory to the Central Bank. This is the Complaints Committee of the Association of Superannuation Funds of Papua New Guinea (ASFPNG).

If you complain to the Complaints Committee, it will normally refer you to the internal complaints resolution committee if you have not already done so. If you have already complained to the internal complaints resolution committee and are not satisfied with its decision, the Complaints Committee will act.

Actions of ASFPNG Complaints Committee: the process that the Complaints Committee will take is set out at www.asfpng.org. You can contact the Complaints Committee or ask for a copy of their guidelines by writing to ASFPNG, PO Box 1205, Boroko, PNG or you can telephone: 325 8148.

Compliance

The Trustee has managed the Trust in accordance with the Trust Deed and relevant law. No penalties have been imposed on the Trust and/or the Trustee for non-compliance during 2015.

Trust deed changes and significant events

During 2016, there were no amendments to the Trust Deed governing the operation of the Trust.

Legislative changes

In 2016, The Bank of Papua New Guinea introduced one new Act and modified Four Acts:

The AML/CTF Act 2015 new Act

The Proceeds of Crime Act – modified

Criminal Code Act – changes to the creation of new offences related to money laundering and terrorism financing.

The United Nations Financial Sanctions Act relates to designated persons.

The Mutual Assistance in Criminal Matters Act

Access to information

Members may contact the Administrator to access further information (including a copy of the Financial Statements of the Trust). The relevant contact details are on the back page of this report.

Trustee Board

The Trustee of the Aon Master Trust PNG is Aon Superannuation (PNG) Limited.

The Trustee directors in the year 2016 were:

- John Beattie, Independent Director and Chairman
- Mike Murphy, Independent Director
- Janice Sengupta, Director
- Robert Ludlow, Director
- Chris Hagan, Director

Aon Superannuation (PNG) Limited

Level 1, Aon Haus Macgregor St

PO Box 479

Port Moresby

Papua New Guinea

t (675) 322 4544

aon.com

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