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AUSTRALIAN AIR PILOTS
MUTUAL BENEFIT FUND
ANNUAL REPORT

A WORD FROM THE CHAIRMAN

The Annual Report of the Australian Air Pilots Mutual Benefit Fund (MBF) contains details of the Board, Investment Committee, Audit & Risk Committee, operational and financial matters. I am pleased to present the 2019 report as Chairman of your Board. Once again the voluntary time given by Directors serving the interests of members is greatly appreciated.

Cam Terry will complete his final term as a Director at the 2019 AGM. Cam will be replaced by Tim Glabatz who, together with Kym Donaldson and Simon Brownscombe (re-elected), will commence a three-year term.

Last year the Board sought a part-time replacement for the Business Manager, however, this process was discontinued in late 2018 with Chris Henderson staying on until a full-time replacement could be found. I am pleased to announce that Andrew Vogt has been employed as General Manager of MBF to fulfil the Business Manager role. Andrew has a strong background in financial services and superannuation and he will bring a new perspective to MBF.

Highlights and key achievements for 2018-19 are as follows:

- The \$5.615m surplus for 2019 was pleasing (compared to \$0.711m in 2018). The details of key financial results are contained in the Business Manager's report.
- MBF had 27 members reach the end of their aviation careers and paid out \$1.036m in ROC in 2019, compared to 19 members who received \$0.826m in 2018.
- Net membership growth fell to 4.6% in 2019, well below 2018 growth of 9%. Membership was 3,304 as at 30 April 2019, compared to 3,159 in 2018.
- \$1.430m was paid to 31 members on temporary benefits (\$1.093m to 26 members in 2018).
- 11 members unfortunately failed their Class 1 Medical Certificate permanently in 2019 and MBF provided \$6.109m in capital payments (15 members for \$6.530m in 2018 (includes death benefit payment)).

In line with past practice, Rule amendments to clarify several important definitions were approved by members before 1 May 2019. A second round of Rule amendments has since been approved effective 1 October 2019. This is as a result of anomalies on restoration of a Class 1 Medical Certificate with conditions from CASA. The review of the Rules for 2020 will continue with Chris Henderson.

In 2018 the Board engaged an external actuary to analyse the past 10 years and to forecast for at least the next five years. The first part of the review has resulted in more information being sought for formulating the Rules review project as above.

MBF is aware that with appropriate medical treatment, many pilots are able to return to work without MBF financial support. I am pleased to report that 59 pilots in the MBF regained their Class 1 Medical Certificate in 2019; 42 of those were after notifying MBF without claiming, and 17 members could return to work after receiving monthly disability benefits from MBF.

Greater clarity on MBF eligibility and claiming

The predominant method for joining MBF is online, which means applicants have little interaction with Fund staff and are left to self-report. MBF requires applicants to provide proof of key eligibility matters, such as being a member of the Australian Federation of Air Pilots (AFAP). Also, applicants must be Australian Citizens or Resident in Australia, must hold an Australian Class 1 Medical Certificate and earn their principle source of income from piloting activities.

The Board also encourages applicants to provide full disclosure of pre-existing medical conditions when joining the Fund. Even if applicants have received past treatment successfully for medical conditions they must disclose this. Fund Medical Advisers utilise a risk rating system for the Board to assess whether a disclosed medical condition will be accepted or not.

Members who fail to meet the standards of the CASA Class 1 Medical Certificate are encouraged to notify MBF as soon as possible. A notification information pack is supplied to members so that they can gather the necessary medical data as it is more difficult to collect this medical evidence after the event.

Again, I express my gratitude to all Directors and the MBF Team for their support of me and their dedicated service to all members throughout the 2018-19 year. A special vote of appreciation to Captain Cam Terry who retires as a Director after seven years of valuable service.



Captain David Harget
Chairman



THE BUSINESS MANAGER'S REPORT

It has been another financially pleasing year for MBF with a strong financial result, contrasted with modest membership growth but some successful changes to the operations. In late 2018 the Board decided that the continuation of a part-time Business Manager position should be replaced with a full-time General Manager, so I have continued in 2019 whilst recruitment and appointment was undertaken.

MBF welcomes Andrew Vogt who commenced in July 2019 for training with the MBF Team before assuming the General Manager role. Andrew is transitioning to direct responsibility for staffing and operations pending his appointment as Australian Financial Services Licence (AFSL) Responsible Manager and Company Secretary.

It is pleasing to report the results for 2019 as a reversal of 2018, with a higher surplus at \$5.615m (\$0.711m in 2018) but with lower membership growth of 4.6% to 3,304 members (9% and 3,159 members in 2018).

MBF faced some significant staffing and operational changes in the 2018-19 financial year. Pip Berquist joined the staff in November 2018 as Membership Manager to cover Rachel O'Connor who took maternity leave from December 2018. Congratulations to Rachel and Adam on the birth of their son, Dusty, in January.

Pip Berquist has successfully taken on the role and has been well supported by Jessica Brownscombe in membership administration, who also fulfils the Marketing Coordinator role. In August 2019, Karen Ellis was recruited to Membership Services as a replacement for Kalindra Heyes.

Congratulations to Michelle Vong on being appointed as Business Accountant after a transitional period to replace Cath James who resigned to move to the country in April 2019. After eight years' service, we wish Cath James well for the future and MBF is fortunate to have Michelle Vong capably carrying on accounting responsibilities.

Michelle successfully completed her CPA qualifications during 2018. In addition to the senior accounting role, she has maintained the Facilities Management senior responsibility, as well as payroll, AFSL compliance, plus meeting auditing and actuarial requirements for year-end and preparation of the statutory financial statements.

The challenging Claims role has again been very well managed by Christine Simpson who is the direct contact for members who have lost their Class 1 Medical Certificate. Christine provides exceptional support and guidance to members who have to access the MBF Claims system and manages the administration of medical data going to the Board. She also capably coordinates the member interaction with independent medical providers for review of medical conditions. Fortunately many members are able to regain their Class 1 without claiming, 59 members doing so in 2019 compared to 57 in 2018.

Continuing improvements in membership services and IT systems have been achieved in 2019. The IT Project Management group is lead by Aaron Tams, who moved to a full-time contract role with MBF in August 2018. Aaron also undertakes system administration, building security and facilities IT services for 132 Albert Road, South Melbourne.

The 2019 renewal of membership commenced

with 3,350 members being invited to renew and only 47 members failing to do so.

In the financial operations of MBF, capital values of the MBF investments in equities improved substantially in 2018-19 (as below) despite record low interest rates.

The 2018-19 financial statements include many non-cash adjustments:

- The after-tax surplus of \$5.615 in 2019 is an improvement on the surplus of \$0.711m in 2018 reflecting the following movements in the profit and loss.
- Change in Fair Value of investments in equities, managed funds, fixed interest, and other financial assets increased from \$30.5m in 2018 to \$35.8m in 2019, an improvement of \$5.3m reflecting stronger equity markets.
- The annual actuarial review of the ROC liability resulted in a \$3.3m increase in 2019 versus a \$1.6m increase in 2018.
- The Provision for Future Claims was also assessed by the Actuary with a favourable decrease of \$3.7m in 2019 compared to \$2.9m in 2018.
- The investment properties were independently valued in 2018 and in 2019 Directors confirmed continuation of the \$23.3m total (\$15.1m for South Melbourne and \$8.2m for Box Hill) as fair value.



As reported above, the contract role as Business Manager continued in 2019, so after seven years, I again express my sincere appreciation to the Board, the MBF Staff, the business stakeholders and the team at AFAP for their great support to me and their service to MBF members.

Congratulations again to the MBF Team for their capacity to meet the challenges of the MBF business and best wishes to the staff and the Directors for the future.



Chris Henderson
Business Manager

Membership				
Financial Year Ending April 30	2019	2018	2017	2016
Membership	3304	3159	2898	2842
Average Age of Members	41	41	41	41
Average Cover	\$680,058	\$672,295	\$667,783	\$690,422

Payments Made to Members	2019	2018	2017	2016
Temporary / Monthly Benefit	31 \$1,429,744	26 \$1,092,867	30 \$1,625,935	32 \$1,897,270
Permanent / Capital Benefit	11 \$6,108,825	15 \$5,336,258	8 \$2,787,080	10 \$3,852,385
Death Benefit / Capital Benefit ¹	0 0	2 \$1,194,000	1 \$640,000	1 \$336,000
Total of Benefits Paid	\$7,538,569	\$7,623,125	\$5,053,015	\$6,085,655
Refund of Contribution	27 \$1,036,245	19 \$825,831	19 \$728,159	19 \$778,935

AUDIT & RISK COMMITTEE REPORT

As Chairman of the Audit & Risk Committee, I present the Annual Report for 2019.

The A&R Committee is a vitally integral component of the overall governance and risk management framework of the MBF and exists to ensure your Fund is maintained at all times in a state that both complies with all of its legislative requirements and also remains free of adverse risk.

The Committee's performance, activities and functionality are regulated externally by legislation and internally by charters and policies. The Committee is charged with the responsibility of overseeing all of the MBF's audit processes, plus identifying and managing any area of potential risk to the MBF's operations or assets. The Committee comprises myself (Chairman), Matt Nielsen and Cam Terry.

Annually, the Committee instigates, manages and assesses the outcomes of the Statutory, AFSL and Internal Audits. These audits are externally conducted and exist to monitor the governance, compliance and risk levels of the Fund.

During 2018/19 the Committee held regular meetings to discharge its responsibilities, including:

- meeting with the Fund's various auditors;
- reviewing internal policies and procedures;
- providing Audit Committee meeting minutes and reports to the Board;

- overseeing preparation of end of year final accounts; and
- most importantly, identifying and managing areas of potential risk.

Discharging these responsibilities is challenging and a special thank you goes to our MBF's financial staff and fellow committee members for their considerable efforts over the past year.

This year sees the retirement from the Fund of fellow committee member, Cam Terry.

Thank you for your assistance Cam, and we all wish you the best in your retirement from the Fund.

This year, the Committee has had no significant issues to deal with as a result of the audit processes. The Committee has also not identified any significant areas of risk. The performance of the Audit & Risk Committee has been reviewed by the Board during the year and has been found to be meeting the expectations set out in the Audit Committee Charter.



Captain Simon Brownscombe
Chairman of Audit & Risk Committee

INVESTMENT COMMITTEE REPORT

Your Investment Committee, consisting of Captains Kym Donaldson, Matt Nielsen, David Harget and myself met regularly during the Fund Year with our external Investment Advisors, Leo Brady, Ben James and Amanda Fong from Escala Partners.

The last financial year saw an improvement in the Australian Sharemarket, partially due to the recovery of the banking sector post the Royal Commission and increases in some commodity prices. The MBF's Main Share Portfolio, invested in Top 50 'blue chip' stocks reflected this improvement and outperformed the ASX200 Index. The MBF Investment Portfolio asset base increased in value during the year with solid contributions from domestic equities and from an increased weighting in international equities.

Interest rates continued at historical lows, impacting cash and fixed interest returns. Despite this, the Investment Portfolio managed an increase in investment income for the year due to diversification to corporate bonds and hybrids within the Fixed Interest portfolio and due to the payment of special dividends by several companies anticipating a change to franking credit rules post the federal election.

MBF members are backed by the MBF Investment Portfolio asset base and your Investment Committee remains focused on increasing the asset base to ensure the income stream will contain the cost of contributions to members and meet future claims needs. Income from the MBF Investment Portfolio covers the cost of administration expenses, refunds of contributions and provisions for future claims as well as covering any shortfall between yearly contributions and claims for each year.

As for the year ahead, our Investment Advisors advise that the stabilisation of global growth will require a combination of trade resolution and a recovery in business confidence. Relatively elevated price earnings ratios compared to historical averages, offset by a high equity risk premium due to low interest rates, are resulting in challenging conditions for a long-term growth oriented investment portfolio. However, given that holding cash will cause a decline in the real value of investment funds, they recommend holding equity and fixed income assets, though the selection of individual assets should limit downside in their own right and as a blend across the whole of each respective portfolio.

I would like to thank my fellow Investment Committee Members for their support and guidance during the the year. I extend thanks to Captain Cam Terry, retiring as MBF Director this year, for his support as a former Investment Committee Member and for his service to MBF members as a Director. Thanks also to our Business Manager, Chris Henderson, who retires this year. Chris has provided valuable support to the Investment Committee over the last few years and his insight will be missed.



Captain Steven Vidler
Chairman of Investment
Committee
Director, MBF

FINANCIAL REPORT

Statement of financial performance (abbreviated) for the year ended 30 April 2019

Revenue from ordinary activities	2019	2018
Member contributions	\$8,095,353	\$7,540,857
Dividend and distribution on listed securities	\$4,063,421	\$2,905,761
Interest on bank deposits and bank bills	\$332,584	\$494,890
Rental and sundry income	\$1,181,531	\$1,104,376
Total revenue from continuing operations	\$13,672,889	\$12,045,884
Less expenses from continuing operations	2019	2018
Disability benefit – lump sums	\$6,108,825	\$6,130,258
Death benefit	\$0	\$400,000
Disability benefits – monthly	\$1,429,744	\$1,092,867
Movement in provision for claims	-\$3,703,000	\$2,590,661
Sub-total	\$3,835,569	\$10,213,786
Contribution refunds – provision movement	\$3,263,000	\$1,574,000
Contribution refunds	\$1,036,245	\$825,831
Sub-total	\$4,299,245	\$2,399,831
Administration expenses	\$2,763,400	\$2,192,256
Property expenses	\$54,508	\$78,827
Total expenses from continuing operations	\$10,952,722	\$14,884,700
Net profit/(loss) before changes in investments	\$2,720,167	(\$2,838,816)
Net fair value gain/(loss) on investment securities	\$5,380,719	(\$570,581)
Net fair value gain/(loss) on investment properties	\$0	\$5,754,410
Profit/(loss) before income tax expense	\$8,100,886	\$2,345,013
Income tax expense/(benefit)	\$2,486,163	\$1,633,764
Profit/(loss) for the period	\$5,614,723	\$711,249

Note: These abbreviated accounts reflect the audited accounts for the financial years of 2018 and 2019.

FINANCIAL POSITION

Statement of financial position (abbreviated) for the year ended 30 April 2019

Assets	2019	2018
Cash at call and receivables	\$4,442,759	\$5,843,249
Term deposits (up to 90 days)	\$1,000,000	\$7,000,000
Total current assets	\$5,442,759	\$12,843,249
Term deposits (more than 90 days)	\$7,000,000	\$4,000,000
Fixed Interest	\$4,482,138	\$0
Other financial assets at cost	\$48,167,565	\$46,525,453
Change in fair value of other financial assets	\$35,832,797	\$30,502,628
Total value of other financial assets	\$84,000,362	\$77,028,081
Total financial assets	\$95,482,500	\$81,028,081
Investment properties, plant and equipment	\$23,418,410	\$23,381,429
Other non current assets	\$260,810	\$355,541
Total assets	\$124,604,479	\$117,608,300

Liabilities	2019	2018
Payables	\$1,091,910	\$904,119
Current tax liabilities	\$353,498	\$357,555
Provisions – current and non current	\$29,648,846	\$30,479,678
Deferred tax liabilities	\$14,956,589	\$13,306,235
Total liabilities	\$46,050,843	\$45,047,587

Net assets	\$78,553,636	\$72,560,713
Total equity – retained earnings	\$78,553,636	\$72,560,713

YOUR TEAM

We know that a loss of licence can have serious consequences to your livelihood and your family's financial security. That's why the MBF was established; by pilots, for pilots, over 50 years ago. Since 1961, we have been providing peace of mind and financial support for Australia's pilots through the most difficult times of their careers.

Easy, personal, no nonsense process

No call centre queues, no claims department run-arounds, no cumbersome processes. With your MBF it's just a few simple, straightforward steps. Wherever you are, you can access the MBF.

Business hours: 9am – 5pm

Telephone: 1300 380 300

Email: membership@aapmbf.com.au

www.aapmbf.com.au

Members now have a secure log-in area accessible by member number or email and password.



Chris Henderson
Business Manager



Andrew Vogt
General Manager



Pip Berquist
Membership Manager



Christine Simpson
Claims Manager



Michelle Vong
Accountant & Facilities
Manager



Aaron Tams
IT & Security Manager



Jessica Brownscombe
Marketing Coordinator
& Membership Assistant



Karen Ellis
Membership Assistant



Michelle Carabott
Administration Assistant

THE BOARD MEMBERS THAT SERVE YOU

The MBF's Trustee Directors are fellow pilots with your interests at heart. They have a firm understanding of the life you live and the risks you take.



Capt. David Harget
Chairman



Capt. Simon Brownscombe
*Chairman of Audit & Risk
Committee*



Capt. Steven Vidler
*Chairman of Investment
Committee*



Capt. Kym Donaldson



Capt. Walter Gowans



Capt. Matthew Nielsen



Capt. Cam Terry



Capt. Gary Presneill



Capt. Mark Passfield



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MUTUAL BENEFIT FUND

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