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AUSTRALIAN AIR PILOTS
MUTUAL BENEFIT FUND
ANNUAL REPORT

A WORD FROM THE CHAIRMAN

I present this Annual Report of Australian Air Pilots Mutual Benefit Fund (MBF) at a time when the aviation industry is facing challenges no one could have imagined just a short time ago. The difficulties and disruption caused by the coronavirus pandemic (Covid-19) have been escalating since the start of the year and will continue through 2020 and well beyond.

This annual report is like no other in terms of the responses by the Board, the Investment Committee, the Audit & Risk Committee, plus the operational and financial effects of the Covid-19 pandemic.

MBF is acutely aware of the catastrophic effects that the international and domestic travel restrictions have had on airlines and the industry. Massive numbers of employees have been stood down without pay or have lost their jobs.

The pilots amongst these employees are the lifeblood of the MBF, and Board Members feel great empathy as they are personally impacted by the industry shutdown. MBF has worked closely with the Australian Federation of Air Pilots (AFAP) to manage appropriate representations to employers and safeguarding loss of licence allowances for our Members.

The far-reaching decisions by governments on the pandemic unfolded during March 2020, affecting the whole community, commerce, health systems and employment. Aviation was so hard hit the MBF Board and Staff went into emergency planning mode, with a number of additional Board meetings to approve MBF's responses including:

- The 2020-21 financial year budget was completely revised, and financial staff undertook extensive scenario testing and financial modelling to ensure the Fund could withstand extreme financial shocks.
- Rule amendments scheduled for 1 May 2020 were revised to include Covid-19 Circumstances Rules. These Rules were approved effective 15 May 2020 granting the Board special powers to respond to the Covid-19 effects on Members' circumstances.
- The uncertainty on employers, with many invoking stand down conditions and Virgin Australia (VA) being placed in administration, created a bleak outlook in employment for pilots. With the assistance of AFAP, MBF engaged with employers and the Administrators to preserve the maximum loss of licence allowance.
- Members were assured that their cover would remain in place from 1 May 2020, despite uncertainty of employment, with many pilots on leave without pay or terminated. While MBF managed the disruptions to the normal renewal period during the month of May a package of assistance was approved by the Board.
- Renewal of membership was extended to 30 June 2020.
- Two months free membership was introduced for Members who had lost their jobs.
- The two months free membership will also be available to any Member who loses their job in the current Fund year to 30 April 2021.
- Additionally, Members have been offered monthly payment facilities in place of the usual annual payment of

contributions, to assist with their finances.

- Members have also been offered a special opportunity to reduce cover and contributions until 30 April 2021 and then resume their higher cover without age penalty for contributions.

In addition to the severe effects on the Membership and the responses by the Board via the Covid-19 Circumstances Rules, the global pandemic has caused dire global economic circumstances. MBF has suffered write-downs in shares, financial assets, properties and reduced income due to adverse effects on the economy.

The Investment Committee held a number of additional meetings with the Fund Investment Advisors to assess the effects of asset write-downs and the liquidity requirements due to delayed and reduced income from investments and contributions.

The dire economic circumstances have resulted in severe financial impacts on the MBF at the 2020 balance date. This is in stark contrast to the positive results in 2019, as shown below:

- The loss of \$16.04m in 2020 is a massive turnaround from \$5.993m surplus for 2019 due to key financial adjustments contained in the General Manager's report.
- MBF had 32 members reach the end of their aviation careers and paid out \$1.596m in Refund of Contributions (ROC) in 2020, compared to 27 members who received \$1.036m in 2019.
- Net membership grew to 3,454 in 2020 with a growth percentage of 4.5% compared to a growth of 4.6% and membership of 3,304 in 2019.

- \$1.696m was paid to 39 members on temporary benefits (\$1.430m to 31 in 2019).

- 14 members unfortunately failed their Class 1 permanently in 2020 and MBF provided \$8.144m in capital payments (11 members for \$6.109m in 2019).

- Sadly, of the 14 members who failed their Class 1 permanently, two of these payments included death benefits paid in 2020, compared to zero death benefits in 2019.

MBF is aware that the effects of the Covid-19 pandemic will be felt for many years to come. The Board will continue to monitor the effects on the aviation industry, its pilots and their employment. Claims conditions for Members will be closely monitored as CASA has allowed an extension of all Class 1 renewals for 6 months. The lack of flying for many pilots and the long periods being stood down from employment will place more pressure on the ability of pilots to maintain training and their Class 1. This will be another challenge for Members, the MBF staff and the Board to balance the needs of Members overall.

In July 2019 the Board appointed Andrew Vogt as General Manager (GM) but he resigned in November. My thanks to Chris Henderson for stepping back into the role allowing the GM search to take place whilst business continued as normal.

I am pleased to advise that Troy Browning has been employed as General Manager of MBF and Chris Henderson formally handed over the role on 31 May 2020. Troy trained and practiced as a medical practitioner, however he transitioned into the medical

indemnity insurance field spending over 20 years in this area rising to CEO and Managing Director.

My sincere appreciation is expressed to all Directors and the MBF Team for their additional efforts at a time when the MBF coverage is very important to Members and the challenges to steer the Fund through the difficult times have never been more demanding.



Captain David Harget
Chairman



THE GENERAL MANAGER'S REPORT

The headlines for 2020 have been stark and challenging and the coronavirus pandemic (Covid-19) hit with extreme consequences. As reported by the Chairman, the MBF responses have been substantial, as the Fund deals with the need to maintain financial and operational stability for ongoing provision of quality Loss of Licence cover.

Demands have never been greater on the MBF staff and sincere appreciation is expressed to each team member for positively dealing with so many extraordinary situations. MBF staff initiated a substantial work from home program which has since progressed to the mandated lockdown in Melbourne, under Victoria's harsh pandemic conditions.

The MBF Team were well advanced with 2020-21 plans, however with the arrival of COVID-19 changes were rapidly implemented. The transition for the General Manager to take over from the MBF's long term Business Manager, Chris Henderson, began on 18 March and continued until 31 May when full control of operations, Australian Financial Services Licence (AFSL) Responsible Manager, Key Person and Company Secretary roles were transferred.

The MBF Accountant, Michelle Vong put in enormous efforts to completely rework the financial projections to model the anticipated COVID-19 impact. The annual budget and the AFSL cash flow forecast were tested against many scenarios as the effects on business, the economy and aviation were modelled to prepare MBF for worst case scenarios.

- The Investment Committee used these scenarios of reduced income and lower cash projections to instruct the Fund Investment Advisors on the effects on the Fund and to manage the likely cash flow needs throughout the year.
- As reported by the Chairman the standard set of Rule amendments scheduled for 1 May 2020 were reworked and with the approval of the Board and the Audit & Risk Committee, and a response was implemented for the Covid-19 effects on Members.
- Membership Manager Pip Berquist and her team worked beyond reasonable expectations to deal with extraordinary demands. Pip was assisted by Karen Ellis and Kalindra Heyes to help Members through the effects of uncertainty, stand downs, un-employment and distressed employers.
- Claims demands for 2019-20 were significantly higher than anticipated.
- Members concerns grew during stand down, unemployment and coronavirus, adding to the workload of Christine Simpson, Claims Manager.
- Longstanding plans for IT membership system enhancements from 1 May 2020 had to be fully reworked to deal with Members needs as a result of application of the Covid-19 Circumstances Rule. Aaron Tams and Pip Berquist delivered new system requirements for development and delivery to meet the evolving challenges.
- The 2020 Membership renewal process was a much

more complicated and time consuming process to deal with a wide variety of options made available to Members. Two months free cover for unemployed, monthly payment options and the delayed renewal period to 30 June 2020 all added to the complications.

- Regular Member communications became a focus during this period to ensure Members had confidence that they remained covered at a time when employers were stressed and allowance payments not certain.
- The MBF sought clarity from Virgin Australia Administrators, plus other employers in respect of members' loss of licence allowances under employment agreements.
- The MBF also provided proportionate rental relief to tenants in the South Melbourne property.

The results for 2020 are a reversal of 2019 with a significant loss arising from write-downs of assets, increase in Refund of Contributions (ROC) provisioning and significantly higher claims than anticipated. The consolidated loss was \$16.038m (2019 \$5.993m surplus) with membership of 3,454 members a slight increase on 3,304 Members in 2019.

The 2020 renewal of membership commenced with 3,454 members being invited to renew and approximately 160 members failing to do so, which is remarkable considering the devastating effects on the aviation industry from Covid-19.

The 2019-20 financial statements include many non-cash adjustments as well as a major change to the treatment of the ROC liability. Previously the

actuarial calculation for ROC provisioning has been shown as a single amount. The new Australian Accounting Standard AASB 15 introduced the concept of variable consideration. Any changes in ROC is now reflected in Revenue but there is no impact on the bottom-line result of the organisation from that which would have been reported but for the adoption of the new accounting standard.

Application of AASB 15 for the 30 April accounts has led to a negative revenue item due to an increase of \$6.37m in actuarially calculated provision for ROC. This accounts for a lower net member contribution amount and lower ROC provision amount than would have been recorded under the previous standard.

- To allow a meaningful comparison last year's figures have been presented as if AASB 15 had applied. Other significant matters included the impairment assessments for the MBF property investments resulted in write-downs of \$2.4m at South Melbourne and \$0.5m for the Box Hill property.
- Change in Fair Value of investments in equities, managed funds, fixed interest, and other financial assets reduced from \$35.8m in 2019 to \$27.5m in 2020, a decrease of \$8.3m reflecting the downturn in equity markets globally.
- In addition to the above AASB 15 changes for ROC, the annual actuarial review of the ROC liability resulted in a \$4.8m increase in 2020 versus a \$3.3m increase in 2019.
- The Provision for Future Claims was also assessed by the Actuary with an increase of \$4.5m in 2020

compared to \$3.7m decrease in 2019.

Chris Henderson – MBF's consultant Business Manager has collaborated with this annual report as he was involved until September 2019, when Andrew Vogt took over. Chris stepped back into the role in November when Andrew Vogt resigned.

Sincere thanks to Chris Henderson for his invaluable assistance during transfer of GM responsibilities and my gratitude to the MBF Team for their extraordinary efforts and support throughout this challenging time.

The Covid-19 pandemic holds many unknowns for the Members, the aviation industry and MBF, so we continue to monitor and manage the business with care.

Best wishes are extended to all for a strong recovery as early as possible.



Troy Browning
General Manager



Membership				
Financial Year Ending April 30	2020	2019	2018	2017
Membership	3454	3304	3159	2898
Average Age of Members	41	41	41	41
Average Cover	\$683,021	\$680,058	\$672,295	\$667,783
Payments Made to Members	2020	2019	2018	2017
Temporary / Monthly Benefit	39 \$1,695,797	31 \$1,429,744	26 \$1,092,867	30 \$1,625,935
Permanent / Capital Benefit	12 \$6,751,085	11 \$6,108,825	15 \$5,336,258	8 \$2,787,080
Death Benefit / Capital Benefit ¹	2 \$1,392,640	0 0	2 \$1,194,000	1 \$640,000
Total of Benefits Paid	\$9,839,522	\$7,538,569	\$7,623,125	\$5,053,015
Refund of Contribution	32 \$1,596,461	27 \$1,036,245	19 \$825,831	19 \$728,159

1: \$800,000 maximum loss of licence cover plus \$200,000 maximum death benefit after 10 years of membership

AUDIT & RISK COMMITTEE REPORT

As Chairman of the Audit and Risk Committee, I present the Annual Report for 2020.

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 Neilson and Tim Glabbatz.

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 2019/20 the Committee held regular meetings to discharge its responsibilities, including;

- Meeting with the Fund's various Auditor's
- 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 MBFs Financial staff and fellow Committee Members for their considerable efforts over the past year.

This year due to the stresses on our industry imposed by the Covid-19 pandemic, the Committee has instigated significant financial modelling, and risk assessment. The committee has made recommendation to the Board, and the Board (and the members) have embraced a number of strategies to ensure your fund remains healthy, both financially and in membership in years to come.

The Audit & Risk Committee will continue to monitor this ongoing situation.

The performance of the Audit and Risk Committee is reviewed by the Board throughout 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, Mark Passfield, David Harget and myself met regularly, in person or via teleconference, during the Fund Year with our external Investment Advisors, Leo Brady, Ben James, Amanda Fong and Dylan Verney from Escala Partners. Presentations were often provided by Tracey McNaughton, Escala's recently appointed Chief Investment Officer.

The last MBF Financial Year was, initially, marked by a steady rise in the ASX index and international equity markets. MBF's Main share portfolio and managed investments saw good growth during this period. However, markets here and overseas were severely impacted in February and March due to effects of Covid-19 on worldwide economies.

In addition, the revaluation of the Fund's direct property portfolio was affected by falling commercial rents due to the impact of lockdowns and working from home. Consequently, at the close of the MBF year, despite a solid first half, the Fund recorded a substantial loss on net fair value of investments. This follows a substantial increase in fair value in the previous years accounts.

Interest rates reached historical lows during the year impacting cash and fixed interest returns. Dividend income was down slightly as companies took a cautious approach in the wake of Covid-19 and reduced or cut dividend payouts. 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.

At the time of writing, investment markets had recovered to various degrees. The US market had reached historical highs and the ASX200 had risen around 30% from its post Covid low. Similarly, the MBF Investment Portfolio has recovered and the Investment Committee has been working with our Investment Advisors to ensure the Fund is positioned to maximise returns as economies recover from the Covid induced downturn. For the year ahead, our Investment Advisors expect inflation and interest rates to remain low and companies to remain conservative with dividend payouts. As such, Tracey McNaughton and the Escala Investment team continue to seek growth opportunities.

Finally, I would like to thank my fellow Investment Committee Members for their support and guidance during a particularly challenging year for investment markets and for our industry.



Captain Steven Vidler
Chairman of Investment
Committee
Director, MBF



FINANCIAL REPORT

Statement of financial performance (abbreviated) for the year ended 30 April 2020		
Revenue from ordinary activities	2020	2019
Member contributions	\$8,745,053	\$8,095,353
(Increase)/Decrease in Movement of Provision for Contribution Refunds	(\$4,777,000)	(\$3,263,000)
Contribution refunds	(\$1,596,461)	(\$1,036,245)
Sub-total	\$2,371,592	\$3,796,108
Dividend and distribution on listed securities	\$3,733,261	\$4,063,421
Interest on bank deposits and bank bills	\$226,186	\$332,584
Rental and sundry income	\$1,217,755	\$1,181,531
Total revenue from continuing operations	\$7,548,794	\$9,373,644
Less expenses from continuing operations	2020	2019
Disability benefits – lump sums	\$6,879,325	\$5,730,625
Death benefits	\$260,000	\$0
Disability benefits – monthly	\$1,695,797	\$1,429,744
Increase/(Decrease) in Movement of Provision for Claims	\$5,544,400	(\$3,703,000)
Sub-total	\$14,379,522	\$3,457,369
Administration expenses	\$2,773,962	\$2,763,400
Property expenses	\$74,316	\$54,508
Total expenses from continuing operations	\$17,227,800	\$6,275,277
Net profit/(loss) before changes in investments	(\$9,679,006)	\$3,098,367
Net fair value gain/(loss) on investment securities	(\$5,681,904)	\$5,380,719
Net fair value gain/(loss) on investment properties	(\$2,880,000)	\$0
Profit/(loss) before income tax expense	(\$18,240,910)	\$8,479,086
Income tax expense/(benefit)	(\$2,202,933)	\$2,486,163
Profit/(loss) for the period	(\$16,037,977)	\$5,992,923

Note: These abbreviated accounts reflect the audited accounts for the financial years of 2019 and 2020.

FINANCIAL POSITION

Statement of financial position (abbreviated) for the year ended 30 April 2020		
Assets	2020	2019
Cash at call and receivables	\$6,729,960	\$4,442,759
Term deposits (up to 90 days)	\$1,000,000	\$1,000,000
Total current assets	\$7,729,960	\$5,442,759
Term deposits (more than 90 days)	\$7,000,000	\$7,000,000
Fixed Interest	\$3,346,111	\$4,482,138
Other financial assets at cost	\$49,379,057	\$48,167,565
Change in fair value of other financial assets	\$27,474,944	\$35,832,797
Total financial assets	\$87,200,112	\$95,482,500
Investment properties, plant and equipment	\$20,632,987	\$23,418,410
Other non current assets	\$191,687	\$260,810
Total assets	\$115,754,746	\$124,604,479
Liabilities	2020	2019
Payables	\$1,702,739	\$1,091,910
Current tax liabilities	\$899,428	\$353,498
Provisions – current and non current	\$38,994,288	\$29,648,846
Deferred tax liabilities	\$11,642,632	\$14,956,589
Total liabilities	\$53,239,087	\$46,050,843
Net assets	\$62,515,659	\$78,553,636
Total equity – retained earnings	\$62,515,659	\$78,553,636

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 (MyPage) accessible by member number or email and password.



Troy Browning
General Manager



Pip Berquist
Membership Manager



Christine Simpson
Claims Manager



Michelle Vong
Accountant & Facilities
Manager



Aaron Tams
IT & Security Manager



Karen Ellis
Membership Assistant



Kalindra Heyes
Membership Assistant



Felecia Fernandes
Bookkeeper

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. Tim Glabatz



Capt. Gary Presneill



Capt. Mark Passfield

BE SAFE AND HERE'S TO A
MORE STABLE FUTURE





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MUTUAL BENEFIT FUND**

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