



# Annual Financial Report 30 June 2022

Local Authorities Superannuation Fund  
(operating as Vision Super)

ABN: 24 496 637 884  
RSE: R1000603

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## Local Authorities Superannuation Fund Statement of Financial Position as at 30 June 2022

	<i>Note</i>	2022	2021
		\$000	\$000
<b>Assets</b>			
Cash and cash equivalents		99,965	101,344
Contributions receivable	6	1,484	2,458
Other receivables and prepayments	15	650	869
Outstanding settlements receivable		103,625	114,534
Income tax receivable		11,840	-
Financial assets held at fair value through profit or loss	4	11,753,242	12,285,412
Deferred tax assets	20	40,169	7,148
<b>Total assets</b>		<b>12,010,975</b>	<b>12,511,765</b>
<b>Equity</b>			
Operational risk financial requirement reserves		29,947	20,991
Administration reserve		24,733	21,906
Insurance reserves		13,060	13,644
Other reserves		19,656	17,886
Defined benefits that are over/(under) funded	9	127,327	300,077
Unallocated surplus/(deficit)		155,949	158,714
<b>Total equity</b>		<b>370,672</b>	<b>533,218</b>
<b>Liabilities</b>			
Benefits payable		54,175	58,503
Other payables	16	16,778	13,866
Income tax payable		-	32,106
Outstanding settlements payable		85,989	78,846
Financial liabilities at fair value through profit and loss	4	71,717	54,285
Deferred tax liabilities	20	83,569	146,272
<b>Total liabilities excluding member benefits</b>		<b>312,228</b>	<b>383,878</b>
<b>Member benefit liabilities</b>			
Defined contribution member liabilities	5, 7	9,220,664	9,366,777
Amounts not yet allocated	5, 7	224	195
Defined benefit member liabilities	5, 8	2,107,187	2,227,697
<b>Total member benefit liabilities</b>		<b>11,328,075</b>	<b>11,594,669</b>
<b>Total equity and liabilities</b>		<b>12,010,975</b>	<b>12,511,765</b>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

**Local Authorities Superannuation Fund**  
**Income Statement**  
**for the year ended 30 June 2022**

	<b>Note</b>	<b>2022</b> <b>\$000</b>	2021 \$000
<b>Superannuation activities</b>			
Net changes in fair value of financial assets and liabilities held at fair value	13	<b>(922,819)</b>	1,718,051
Interest income		<b>27,788</b>	33,318
Distribution income		<b>146,168</b>	87,941
Dividend income		<b>250,182</b>	141,609
Other income		<b>3,177</b>	3,149
<b>Total net income</b>		<b>(495,504)</b>	1,984,068
<b>Expenses</b>			
General administration expenses	17	<b>(26,578)</b>	(24,372)
Investment expenses	18	<b>(38,807)</b>	(32,150)
<b>Total expenses</b>		<b>(65,385)</b>	(56,522)
<b>Result from superannuation activities before income tax expense</b>		<b>(560,889)</b>	1,927,546
Income tax (expense)/benefit	20	<b>113,758</b>	(138,305)
<b>Results from superannuation activities after income tax expense</b>		<b>(447,132)</b>	1,789,241
Net benefits allocated to defined contribution members		<b>374,341</b>	(1,342,681)
Net change in defined benefit member liabilities	14	<b>(85,990)</b>	(292,815)
<b>Operating result after income tax</b>		<b>(158,781)</b>	153,745

The above Income Statement should be read in conjunction with the accompanying notes.

## Local Authorities Superannuation Fund Statement of Changes in Member Benefits for the year ended 30 June 2022

	Note	DC Members \$000	DB Members \$000	Total \$000
<b>Opening balance as at 1 July 2020</b>		7,870,682	2,115,690	9,986,372
Contributions				
Employer		344,848	27,039	371,887
Member		129,276	2,633	131,909
Transfers from other superannuation plans		135,336		135,336
Income tax on contributions		(49,151)	(3,936)	(53,087)
<b>Net after tax contributions</b>		<b>560,309</b>	<b>25,736</b>	<b>586,045</b>
Net benefits allocated comprising:				
Net investment income		1,360,717		1,360,717
Net administration fees		(18,036)		(18,036)
		1,342,681		1,342,681
Benefits paid to members/beneficiaries		(293,779)	(113,748)	(407,527)
Transfers to other superannuation plans		(175,075)	(15,245)	(190,320)
Transfer to the ATO		(1,746)	-	(1,746)
Internal transfers from membership categories		77,117	(77,117)	-
Insurance premiums charged (including amounts transferred to the insurance reserves)		(20,899)	(151)	(21,050)
Other fees charged to members/DB sub-plans		(85)	(283)	(368)
Death and disability benefits credited to members		7,757		7,757
Transfers from reserves to members		10		10
Net change in defined benefit member liabilities	14		292,815	292,815
<b>Closing balance as at 30 June 2021</b>	7, 8	<b>9,366,972</b>	<b>2,227,697</b>	<b>11,594,669</b>
<b>Opening balance as at 1 July 2021</b>		<b>9,366,972</b>	<b>2,227,697</b>	<b>11,594,669</b>
Contributions				
Employer		372,507	24,422	396,929
Member		162,451	2,312	164,763
Transfers from other superannuation plans		158,320	179	158,499
Income tax on contributions		(54,402)	(3,552)	(57,954)
<b>Net after tax contributions</b>		<b>638,876</b>	<b>23,361</b>	<b>662,237</b>
Net benefits allocated comprising:				
Net investment income		(355,483)		(355,483)
Net administration fees		(18,858)		(18,858)
		(374,341)		(374,341)
Benefits paid to members/beneficiaries		(304,668)	(93,975)	(398,643)
Transfers to other superannuation plans		(203,089)	(23,301)	(226,390)
Transfer to the ATO		(2,009)	(1)	(2,010)
Internal transfers from membership categories		112,184	(112,184)	-
Insurance premiums charged (including amounts transferred to the insurance reserves)		(22,475)	(154)	(22,629)
Other fees charged to members/DB sub-plans		(36)	(246)	(282)
Death and disability benefits credited to members		9,434		9,434
Transfers from reserves to/(from) members		40		40
Net change in defined benefit member liabilities	14		85,990	85,990
<b>Closing balance as at 30 June 2022</b>	7, 8	<b>9,220,888</b>	<b>2,107,187</b>	<b>11,328,075</b>

The above Statement of Changes in Member Benefits should be read in conjunction with the accompanying notes.

# **Local Authorities Superannuation Fund** **Statement of Changes in Reserves/Equity** **For the year ended 30 June 2022**

	Operational risk financial requirement reserve \$000	Insurance reserves \$000	Administration fee reserve \$000	Other reserves \$000	Total reserves \$000	DB that are over/(under) funded \$000	Unallocated surplus/ (deficit) \$000	Total reserves/ equity \$000
						<i>Note 9</i>		
Opening balance as at 1 July 2020	16,991	13,360	19,237	22,919	72,507	232,388	73,389	378,284
Net transfers from/(to) DC member accounts	-	-	(10)	-	(10)	(57,224)	43,817	(13,417)
Net transfers from/(to) DB plans	-	-	-	-	-		14,606	14,606
Operating result	4,000	284	2,679	(5,033)	1,930	124,913	26,902	153,745
Closing balance as at 30 June 2021	20,991	13,644	21,906	17,886	74,427	300,077	158,714	533,218
<b>Opening balance as at 1 July 2021</b>	<b>20,991</b>	<b>13,644</b>	<b>21,906</b>	<b>17,886</b>	<b>74,427</b>	<b>300,077</b>	<b>158,714</b>	<b>533,218</b>
Net transfers from/(to) DC member accounts	-	-	(40)	-	(40)	(960)	(2,074)	(3,074)
Net transfers from/(to) DB plans	-	-	-	-	-	0	(691)	(691)
Operating result	8,956	(584)	2,867	1,770	13,009	(171,790)	-	(158,781)
<b>Closing balance as at 30 June 2022</b>	<b>29,947</b>	<b>13,060</b>	<b>24,733</b>	<b>19,656</b>	<b>87,396</b>	<b>127,327</b>	<b>155,949</b>	<b>370,672</b>

The above Statement of Changes in Reserves/Equity should be read in conjunction with the accompanying notes.

# **Local Authorities Superannuation Fund** **Statement of Cash Flows** **For the year ended 30 June 2022**

	<i><b>Note</b></i>	<b>2022</b> <b>\$000</b>	2021 \$000
<b>Cash flows from operating activities</b>			
Interest from cash deposits & cash equivalents		25	12
Interest from other interest bearing deposits		27,763	33,306
Distributions from unit trusts		146,168	87,941
Dividends		250,182	141,609
Insurance proceeds		9,045	7,703
Administration expenses		(23,375)	(24,153)
Investment expenses		(39,420)	(32,817)
Insurance premiums received from employers		101	105
Insurance premiums (out)		(22,537)	(19,897)
Income taxes paid		(65,280)	(44,117)
Other Income		3,177	3,149
<b>Net cash inflow/(outflow) from operating activities</b>	21	<b>285,849</b>	152,841
<b>Cash flows from investing activities</b>			
Sales of financial instruments		373,465	349,313
Purchases of financial instruments		(697,819)	(510,006)
<b>Net cash inflow/(outflow) from investing activities</b>		<b>(324,354)</b>	(160,693)
<b>Cash flows from financing activities</b>			
Employer contributions received		397,903	370,971
Member contributions received		164,763	131,909
Transfers from other superannuation entities		158,499	135,336
Benefit payments to members of beneficiaries		(404,981)	(390,983)
Transfers to other superannuation entities		(226,390)	(190,320)
Tax paid on contributions		(52,667)	(40,865)
<b>Net cash inflow/(outflow) from financing activities and cash equivalents</b>		<b>37,127</b>	16,048
 Net increase/(decrease) in cash and cash equivalents		 (1,378)	 8,196
Cash and cash equivalents at the beginning of the financial year		101,344	93,148
<b>Cash and cash equivalents at end of year</b>		<b>99,965</b>	101,344

The above Statement of Cash Flows is to be read in conjunction with the accompanying notes.

## Notes to the Financial Statements for the year ended 30 June 2022

### 1. General information about the Fund

#### (a) Operation of the Fund

Local Authorities Superannuation Fund (the Fund) was originally established under an Act of the Parliament of Victoria in 1947 and was established to provide superannuation benefits for members. The Fund's governing rules were transferred to the Local Authorities Superannuation Fund Trust Deed dated 26 June 1998.

The majority of the Fund's members and participating employees are from the local government, water and community services sectors. As the Fund has public offer status, the Fund accepts contributions from a range of employers and individuals.

The Fund is a hybrid fund which consists of both an account-based (defined contribution) section and a defined benefit section. The Fund also provides pensions to members within both the accumulation and defined benefit sections of the Fund. The defined benefit section of the Fund was closed to new entrants on 31 December 1993 and all new entrants join the account-based section of the Fund.

Employer and employee contributions for account-based members are received on a progressive basis. Employer contributions are normally based on a fixed percentage of employee earnings as required under the Superannuation Guarantee (SG) legislation (for the year ended 30 June 2022, this was 10.0% (2021: 9.5)).

Employer contributions for defined benefit members are made at rates appropriate to ensure that benefits are fully funded. Contribution rates necessary to meet the Fund's defined benefit obligations are determined by the Trustee based on advice from the Fund Actuary.

Benefits of members in the defined benefit section are calculated using formulas as defined in the Trust Deed. Benefits of account-based members are equal to the members' account balance which is increased or decreased each year with any relevant contributions, their proportionate share of net investment income, any relevant fees and charges and income tax expense (including contributions tax).

The Trustee of the Fund is Vision Super Pty Ltd (VSPL). VSPL is the holder of an extended public offer class Registrable Superannuation Entity Licence (licence no. L0000239). In accordance with amendments to the Superannuation Industry (Supervision) Act 1993, the Fund was registered with the Australian Prudential Regulation Authority on 12 December 2005 (registration no. R1000603).

The Fund is domiciled in Australia and the address of the Fund's registered office is Level 15, 360 Collins Street in Melbourne.

#### (b) Reporting entity

The Fund meets the definition of an investment entity in AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities* as outlined in Note 3(e) and therefore does not need to present consolidated financial statements under AASB 10 *Consolidated Financial Statements*.

The reporting entity for the current and prior period for the purposes of these financial statements is the Fund only.

The financial statements were approved by the Board of the trustee on 21 September 2022.



## Notes to the Financial Statements for the year ended 30 June 2022

### 2. Impact of Coronavirus (COVID-19) and the Russian invasion of Ukraine

On 11 March 2020, the World Health Organisation declared COVID-19 a worldwide pandemic. Since that date, the global spread of COVID 19 and its variants has continued to a significant impact on global economies and investment markets (including equity, debt and commodity markets).

In addition to the above, Russia invaded Ukraine on 24 February 2022 in a major escalation of the Russo-Ukrainian War that began in 2014.

Note 3(z) outlines the significant accounting judgements, estimates and assumptions that may affect the amounts recognised in the financial statements. The Trustee has continued to consider the impact of the above world-events and their impact on market volatility in preparing these financial statements, particularly in relation to the fair value of assets and liabilities. Changes to the estimates and outcomes that have been applied in the measurement of the Fund's assets and liabilities may arise in the future given the dynamic and evolving nature of the global spread of COVID-19 and responses to the above world-events. Other than adjusting for material events which have provided evidence of conditions that existed at the end of the reporting period, the impact of events arising after the reporting period will be accounted for in future reporting periods.

The impact of the above world-events on the macro-economic outlook, including an explanation of the matters considered in determining the Fund's assumptions for the purposes of Level 3 investments and defined benefit liabilities, has been provided in Notes 4 and 8 to the financial statements. Given the continuing range of possible scenarios and macro-economic outcomes, and the relative uncertainty of how the above world-events and their social and economic consequences will impact the future, these matters represent reasonable and supportable forward-looking views as at the reporting date.

#### (a) Year end processes applied

As a consequence of the above world-events and in preparing these financial statements, management has:

- Re-evaluated whether there were any additional areas of judgement or estimation uncertainty beyond what has been disclosed above
- Assessed the carrying values of its assets and liabilities and determined the impact thereon as a result of market inputs and variables impacted by the above world-events, and
- Considered the impact of the above world-events on the Fund's financial statement disclosures.

#### (b) Consideration of the Statement of Financial Position and further disclosures

Key items in the Statement of Financial Position and the related disclosures impacted by the above world-events were as follows:

##### (A) Investments

As at 30 June 2022, the Fund has measured the fair value of its unlisted investments at the fair value of the unlisted managed investment trusts. The trusts base their fair value on the net asset value (NAV) of their underlying investments. The Fund followed an extensive review process to ensure fair values reported by fund managers were a reasonable and appropriate reflection of the anticipated impact of the above world-events on the investees' underlying assets.

For infrastructure assets held within the Fund, valuation uncertainty clauses have been incorporated into some of the external valuation reports adopted by the fund managers for the unlisted managed investment trusts at 30 June 2022. The number of valuation uncertainty clauses for the 30 June 2022

## Notes to the Financial Statements for the year ended 30 June 2022

### 2. Impact of Coronavirus (COVID 19) and the Russian invasion of Ukraine (continued)

#### (b) Consideration of the Statement of Financial Position and further disclosures (continued)

##### (A) Investments (continued)

valuations is less than the number for the 30 June 2021 and 2020 valuations which covered both property and infrastructure assets. This is consistent with global industry practice. This uncertainty does not indicate the valuations adopted cannot be relied upon. However, the clauses indicate that there may be a higher degree of valuer judgement in determining significant valuation assumptions.

As a result, the Fund has exercised a higher degree of judgement in measuring the fair value of its unlisted investments at 30 June 2022 than required in the pre-COVID/Russian invasion of Ukraine investment environment. Refer to Note 4 for more information.

##### (B) Defined benefit liabilities

The Trustee reviewed the appropriateness of the inputs to its defined benefit liability valuation based on actuarial advice. The impact of changes in valuation inputs has also been considered in terms of the disclosures around changes in actuarial assumptions and the impact this has had on the defined benefit surpluses of the Fund. Refer to Note 8 for more information.

##### (C) Risk management

The Trustee's robust risk management framework continues to be applied across the Fund's operations and the Trustee continues to monitor the impact of the above world-events on the Fund's risk profile. Non-financial risks emerging from global movement restrictions, and remote working by the Trustee's staff, counterparties, clients and suppliers, are being identified, assessed, managed and governed through timely application of the Trustee's risk management framework.

### 3. Summary of significant accounting policies

Unless covered in other notes to the financial statements, the principal policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated below.

#### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board, the Superannuation Industry (Supervision) Act 1993 and its regulations and the provisions of the Trust Deed.

The financial statements have been presented in Australian Dollars as this is the currency of the primary economic environment in which the Fund operates. The Fund's performance is evaluated and its liquidity is managed in Australian Dollars. Therefore, the Australian Dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

All values are rounded to the nearest thousand dollars (\$000) except where otherwise stated. Due to rounding, numbers presented throughout these general purpose financial statements may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

The Fund is a not-for-profit entity for the purposes of preparing these financial statements.

## Notes to the Financial Statements for the year ended 30 June 2022

### 3. Summary of significant accounting policies (continued)

#### (b) Statement of compliance

The financial statements comply with AASB 1056 Superannuation Entities. Since AASB 1056 is the principal standard that applies to the financial statements of superannuation entities, other standards (including Australian International Financial Reporting Standards (AIFRS)) are also applied where necessary except to the extent that they differ from AASB 1056.

International Financial Reporting Standards (IFRS) form the basis of Australian Accounting Standards adopted by the AASB. Certain requirements of AASB 1056 differ from the equivalent requirements that would otherwise be applied under IFRS.

#### (c) New and amended standards adopted by the Fund

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2021 that have a material impact on the amounts recognised in the prior or current periods or that will affect future periods.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 30 June 2022. They have not been applied in preparing the financial statements. Those may be relevant to the Fund are set out below. The Fund does not plan to adopt these standards early.

Accounting standards	Nature	Application date of standard	Application date for LASF
<i>Amendments to AASB 101 (IAS 1): Classification of Liabilities as Current or Non-Current</i>	<p>In January 2020, the IASB issued amendments to paragraph 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:</p> <ul style="list-style-type: none"> <li>• What is meant by a right to defer settlement</li> <li>• That a right to defer must exist at the end of the reporting period</li> <li>• That classification is unaffected by the likelihood that an entity will exercise its deferral right</li> <li>• That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification</li> </ul>	1 January 2023	30 June 2023

#### (d) Reclassification of financial information

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

#### (e) Consolidation

The Fund is an investment entity and, as such, does not consolidate the entities it controls. Instead, interests in subsidiaries are classified as fair value through profit or loss and are measured at fair value.

## Notes to the Financial Statements for the year ended 30 June 2022

### 3. Summary of significant accounting policies (continued)

#### (e) Consolidation (continued)

An entity is defined as an investment entity in AASB 2013-5 Amendment to Accounting Standards – Investment Entities if it:

- 1) Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services
- 2) Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and
- 3) Measures and evaluates the performance of substantially all of its investments on a fair value basis.

As the definition of investment management services is very broad, the Fund satisfies this definition. The Fund invests to obtain returns from capital appreciation and investment income. Under AASB 1056, the Fund is required to use fair value to value its investments. On this basis, the Fund meets the valuation criteria of the definition of investment entity. Therefore, the Fund satisfies the definition of an investment entity under AASB 2013-5.

#### (f) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and short-term deposits with a maturity of three months or less that are readily convertible to cash and subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

#### (g) Employer-sponsor receivables

An asset related to an employer-sponsor receivable is recognised to the extent there is a difference between a defined benefit member liability and the fair value of the assets available to meet that liability and the Fund has a contractual right to funding that meets the definition and recognition criteria for an asset under AASB 1056. Refer to Note 6 for further details regarding contributions receivable.

#### (h) Receivables and payables

Receivable amounts are generally received within 30 days of being recorded as receivables. Collectability of trade receivables is reviewed regularly. Receivables are measured at fair value (inclusive of any GST).

Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at the end of the reporting period and are measured at fair value (inclusive of any GST). These amounts are unsecured and are usually paid within 30 days of recognition.

## Notes to the Financial Statements for the year ended 30 June 2022

### 3. Summary of significant accounting policies (continued)

#### (i) Financial Instruments

The following has been applied consistently during the financial year:

##### (A) Classification

The Fund's investments and derivative liabilities are classified as fair value through profit or loss in accordance with AASB 1056.

##### (B) Recognition/derecognition

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in the fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments have expired or the Fund has transferred substantially all of the risks and rewards of ownership.

##### (C) Measurement

At initial recognition, the Fund measures financial assets and financial liabilities at fair value. Transaction costs for financial assets and financial liabilities carried at fair value through profit or loss are expensed in the Income Statement.

Subsequent to initial recognition, all financial assets and financial liabilities are measured at fair value. Gains and losses are presented in the Income Statement in the period in which they arise as net changes in fair value of financial instruments.

For further details on how the fair values of financial instruments are determined refer to Note 4.

##### (D) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability at the same time.

#### (j) Fair value measurement

The Fund measures financial assets and financial liabilities at fair value through profit or loss, such as equity securities, investments in managed funds, investments in subsidiary and debt instruments at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Fund.

## Notes to the Financial Statements for the year ended 30 June 2022

### 3. Summary of significant accounting policies (continued)

#### (j) Fair value measurement (continued)

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured/disclosed in the financial statements are categorised with the fair value hierarchy, described as follows, based on the lowest level that is significant to the fair value measurement as a whole.

When the fair values of the investments recorded in the Statement of Financial Position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including discounted cash flow models (DCF model). The inputs in these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required to establish fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of these investments.

- Level 1 - Quoted (unadjusted) market price in active markets for identical assets/liabilities
- Level 2 - Valuation techniques for which the lowest input that is significant to the fair value measurement is directly/indirectly observable
- Level 3 - Valuation techniques or which the lowest level input that is significant to the fair value measurement is unobservable.

#### (k) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a current enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### (l) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Australian Dollars at the foreign currency closing exchange rate ruling at the reporting date.

Foreign currency exchange differences arising on translation and realised gains and losses on disposals or settlements of monetary assets and liabilities are recognised in the Income Statement. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Australian Dollars at the foreign currency closing exchange rates ruling at the dates that the values were determined. All foreign currency exchange differences are included in net changes in fair value of financial assets and liabilities held at fair value in the Income Statement.

#### (m) Interest income

Interest income is recognised in the Income Statement as it accrues, using the effective interest method of the instrument calculated at the acquisition or origination date. Interest income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest income on debt instruments held at fair value through profit or loss is accrued using the effective interest method and classified to the interest income line item within the Income Statement. Interest income is recognised on a gross basis, including withholding tax, if any.

## Notes to the Financial Statements for the year ended 30 June 2022

### 3. Summary of significant accounting policies (continued)

#### (n) Reserves

The Trustee maintains a number of reserves to provide the Trustee with access to funds to fund the expenses of the Fund and to protect the members' interests and mitigate the impact of an adverse event. These reserves are operated in accordance with the Fund's reserving policy and are held at the fund level.

The main reserves maintained by the Fund are:

##### (i) Operational risk financial requirement (ORFR) reserve

This reserve is maintained in accordance with the requirements of Prudential Standard SPS 114 Operational Risk Financial Requirement. This reserve is to cover costs associated with an operational risk such as risks of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This includes legal risk but excludes strategic and reputational risk. The Trustee has assessed an ORFR of 0.25% of funds under management as appropriate for the Fund.

##### (ii) Insurance reserves

These reserves are generally used to pay insurance premiums to the insurer and to fund insurance claims reduction strategies implemented by the Fund and the development and implementation of improved insurance offerings.

##### (iii) Administration fee reserve

This reserve is used to pay the administration costs of the Fund.

##### (iv) Other reserves

Other reserves include an unassignable receipts reserve and a general reserve. These reserves relate to amounts where it has been determined that it is not appropriate to allocate that amount to members due to a number of factors including equity, fairness and uncertainty. There is also a contributions tax reserve which relates to the contributions tax deducted from all taxable contributions received by the Fund and any other relevant receipts. This reserve is used to pay the contributions tax of the Fund and the tax rebates provided to members for deductible expenses and other tax concessions.

#### (o) Unallocated surplus/(deficit)

This reflects the difference between the investment valuations used for unit pricing purposes which are used to calculate the member benefit liabilities as at 30 June 2022 and the investment valuations and other factors impacting the preparation of the financial statements as at 30 June 2022. This represents a timing difference between when investment earnings/expenses are included in the unit pricing for members and when these amounts are reflected in the financial statements.

#### (p) Benefits paid/payable

Benefits paid/payable are valued at the amounts due to members at reporting date. Benefits paid/payable comprise pensions accrued at balance date and lump sum benefits of members who are due a benefit but had not been paid at balance date. Benefits rolled over within the Fund are not included as benefits payable. Benefits payable are generally settled within the legislated timeframes.

During the financial years ended 30 June 2020, the federal government announced that certain individuals adversely financially affected by COVID-19 could apply to the Australian Taxation Office (the ATO) for approval for the release of up to \$10,000 of their superannuation in 2019/20 and a further \$10,000 in 2020/21. There were no further extension of the COVID-19 early release regime.



## Notes to the Financial Statements for the year ended 30 June 2022

### 3. Summary of significant accounting policies (continued)

#### (p) Benefits paid/payable (continued)

For the year ended 30 June 2021, the Fund paid out \$38.3m COVID-19 early release benefits to members based on the applications approved by the ATO. During the 2019-20 year, the Fund paid out \$34.3m.

#### (q) Member benefit liabilities

Member benefit liabilities are measured at the amount of accrued benefits as at the reporting date.

Defined benefit member liabilities are measured as the amount of a portfolio of investments that would be needed as at the reporting date to yield future net cash inflows that would be sufficient to meet accrued benefits as at the date when they are expected to fall due. Defined contribution member benefit liabilities are measured as the amount of member account balances as at the balance date.

#### (r) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured regardless of when the payment is received. Revenue is measured at fair value of the consideration received or receivable taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognised.

##### (i) Changes in fair values

Changes in the fair value of investments and derivatives are calculated as the difference between the fair value at sale, or at balance date, and the fair value at the previous valuation point and recognised in the Statement of Financial Position. All changes are recognised in the Income Statement. This includes both realised and unrealised gains and losses.

##### (ii) Dividend income

Dividend income relating to exchange-traded equity investments is recognised in the Income Statement on the ex-dividend date. In some cases, the Fund may receive or choose to receive dividends in the form of additional shares rather than cash. In such cases, the Fund recognises the dividend income for the amount of the cash dividend alternative with the corresponding debit treated as an additional investment.

Income distributions from private equity investments and other managed investment schemes are recognised in the Income Statement as dividend income when declared.

##### (iii) Interest

Interest income on cash at bank is recognised in the Income Statement as it accrues on the amount of cash at bank.

##### (iv) Distributions

Distributions revenue is recognised when the fund's right to receive payment is established. Revenue is presented gross of any non-recoverable withholding taxes.



## Notes to the Financial Statements for the year ended 30 June 2022

### 3. Summary of significant accounting policies (continued)

#### (s) Contributions received and transfers from other funds

Contributions received and transfers from other funds are recognised in the Statement of Changes in Member Benefits when the control of the contribution or transfer has transferred to the Fund. They are recognised gross of any taxes.

#### (t) Expense recognition

Unless otherwise indicated, all expenses (including management fees and custodian fees) are recognised in the Income Statement on an accruals basis.

#### (u) Foreign exchange gains and losses

Foreign exchange gains and losses on financial instruments classified as at fair value through profit or loss are included in the Income Statement as part of the "Net changes in fair value of financial assets and liabilities held at fair value".

#### (v) Income tax

The Fund is a complying superannuation fund for the purposes of the Income Tax Assessment Act 1997. Accordingly, the concessional tax rate of 15% has been applied to the "standard component" of the Fund's taxable income. A rate of 45% is applied on any "non-arm's length component" that the Fund has. The non-arm's length component of taxable income refers to "non-arm's length income" reduced by allowable deductions. Non-arm's length income is made up of private company dividends, non-arm's length income and certain trust distributions that have not been received on an arm's length basis. For the year ended 30 June 2022, there is no non-arm's length income.

Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in members' funds in which case it is recognised in the Statement of Changes in Member Benefits.

Income tax that is recognised in the Income Statement for the year comprises current and deferred tax.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date.

Deferred tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes except:

- Where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and/or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures and the timing of the reversal of the temporary difference can be controlled and it is probably that the temporary difference will not reverse in the foreseeable future.

## Notes to the Financial Statements for the year ended 30 June 2022

### 3. Summary of significant accounting policies (continued)

#### (u) Income tax (continued)

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses. Deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences, and the carrying forward of unused tax assets and unused tax losses can be utilised, except:

- Where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor the taxable profit or loss, and/or
- In respect of deductible temporary differences associated with investments in subsidiaries, associates or interests in joint ventures in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it becomes probable that sufficient taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled based on the tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Deferred income tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

It is expected that the Fund will be treated as a complying super fund for the year ended 30 June 2022, income tax has been provided for at 15%. If the Fund is subsequently deemed to be non-complying income will be payable at a rate of 45% on the funds taxable income.

The expense (and any corresponding liability) is brought to account in the period in which the assessments are received by the Trustee and are payable by the Fund.

#### (w) Goods and services tax (GST)

Revenue, expenses (including investment expenses) and assets are recognised net of the amount of GST recoverable from the Australian Taxation Office (ATO) except:

- When the GST incurred on the sale or purchase of assets or services is not payable to or recoverable from the ATO, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense, or
- When receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing activities, which is recoverable from, or payable to the ATO are classified as operating cash flows.

# Notes to the Financial Statements for the year ended 30 June 2022

## 3. Summary of significant accounting policies (continued)

### (x) No-TFN contribution tax

Where a member does not provide their tax file number to a Fund, the Fund may be required to pay no-TFN contributions tax at a rate of 34% which is in addition to the concessional tax rate of 15% which applies to the Fund's taxable income.

The no-TFN contributions tax liability recognised by the Fund will be charged to the relevant members' accounts. Where a tax offset is obtained by the Fund in relation to members' no-TFN contributions tax, the tax offset will be included in the relevant members' accounts.

### (y) Valuation dates

The investments held have been valued at 30 June 2022 based on valuations obtained from the Custodian taking into account information received post balance date.

For accumulation members, the benefit liability value is based on the members' account values which is determined using the daily unit price applicable as at 30 June 2022 and the number of units held by the members at that date.

For defined benefits members, the benefit liability value is determined in accordance with the Trust Deed as at 30 June 2022 and takes into accounts the members' salary and years of service subject to the minimum requisite benefit threshold.

### (z) Significant accounting judgements, estimates and assumptions

The preparation of the Fund's financial statements requires management to make judgements, estimates and assumptions that affect the amounts recognised in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

The significant accounting policies have been consistently applied in the current financial year and the comparative period unless otherwise stated. Where necessary, comparative information has been represented to be consistent with current period disclosures. Significant accounting judgements, estimates and assumptions are reviewed on an ongoing basis. If there are revisions to accounting estimates, they are recognised in the period which the estimate is revised and in any future period affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies and having the most significant effect on the amounts recognised in the financial statements are listed below:

<i>Assessment as investment entity</i>	The significant accounting judgements are discussed in Note 3(e).
<i>Deferred tax asset recognition</i>	The significant accounting judgements are discussed in Note 3(u).
<i>Valuation of defined benefit member liabilities</i>	The key assumptions are discussed in Notes 3(aa) and 8.
<i>Valuation of Investments</i>	The key assumptions are set out in Notes 3(j) and 4.

## Notes to the Financial Statements for the year ended 30 June 2022

### 3. Summary of significant accounting policies (continued)

#### (aa) Valuation of defined benefit member liabilities

The amount of member liabilities in relation to defined benefits has been determined using actuarial valuation techniques and assumptions. An actuarial valuation involves making assumptions about the future. Actual developments in the future may differ from the assumptions. The assumptions include member turnover, future investment returns, pension indexation rates, mortality rates and future salary increases. Due to the complexities involved in the valuation and its long term nature, defined benefit member liabilities are highly sensitive to changes in these assumptions. The key assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, the Fund Actuary considered an investment portfolio that reflects the opportunities reasonably available to the Fund in the investment markets, and also reflects the Fund's actual investments and investment strategy in respect of define benefit liabilities.

The mortality assumption is based on publicly available mortality tables. Future salary increases are based on the Wage Price Index produced by the Australian Bureau of Statistics and in consultation with the employer-sponsors.

#### (bb) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2022 reporting period and have not been early adopted by the Fund. None of these are expected to have a material effect on the financial statements of the Fund.

## Notes to the Financial Statements for the year ended 30 June 2022

### 4. Fair value of financial instruments

The financial assets and liabilities held by the Fund at 30 June 2022 are as follows:

	2022 \$000	2021 \$000
<b>Financial assets at fair value through profit or loss</b>		
Cash and deposits	1,715,082	1,571,549
Covered bonds - Fixed	1,219	1,313
Covered bonds - FRN	-	25,101
Convertible notes	-	2,452
Discount securities	403,914	229,800
Fixed interest bonds	1,203,104	713,687
Floating rate notes	300,355	483,315
Indexed bonds	469	234,582
Zero coupon bonds	842	2,041
Listed equities	4,866,108	5,741,009
Listed property trusts	411,732	456,992
Listed unit trusts	69,208	84,762
Loans	-	489
Mortgage backed securities	3,120	4,161
Preference shares redeemable	28,184	45,098
Unlisted equities	139,310	177,505
Unlisted managed investment scheme	2,608,314	2,508,105
Unlisted partnership	2,133	1,751
Forward foreign exchange contracts	12	301
Futures	136	1,399
<i>Total financial assets held at fair value through profit or loss</i>	<b>11,753,242</b>	<b>12,285,412</b>
<b>Financial liabilities held at fair value through profit or loss</b>		
Accrued expenses	(11)	-
Cash and deposits	(917)	(280)
Forward foreign exchange contracts	(70,554)	(52,568)
Futures	(235)	(1,437)
<i>Total liabilities held at fair value through profit or loss</i>	<b>(71,717)</b>	<b>(54,285)</b>
<b>Net financial assets held at fair value through profit or loss</b>	<b>11,681,525</b>	<b>12,231,127</b>
<b>Non-financial liabilities of other amounts not allocated to unitholders</b>	<b>-</b>	<b>-</b>
	<b>11,681,525</b>	<b>12,231,127</b>

## Notes to the Financial Statements for the year ended 30 June 2022

### 4. Fair value of financial instruments (continued)

#### (a) Classification of investments at the Fund level (continued)

	Value at quoted market price (level 1) \$000	Valuation technique – market observable inputs (level 2) \$000	Valuation technique – non-market observable inputs (level 3) \$000	Total \$000
<b>Financial assets held at fair value through profit or loss</b>				
Cash and deposits	1,715,082	-	-	1,715,082
Covered bonds - Fixed	-	1,219	-	1,219
Covered bonds - FRN	-	-	-	-
Convertible notes	-	-	-	-
Discount securities	-	403,914	-	403,914
Fixed interest bonds	-	1,203,104	-	1,203,104
Floating rate notes	-	300,355	-	300,355
Indexed bonds	-	469	-	469
Zero coupon bonds	-	842	-	842
Listed equities	4,866,109	-	-	4,866,109
Listed property trusts	411,732	-	-	411,732
Listed unit trusts	69,208	-	-	69,208
Loans	-	-	-	-
Mortgage backed securities	-	3,120	-	3,120
Preference shares redeemable	11,359	-	16,825	28,184
Unlisted equities	-	-	139,309	139,309
Unlisted managed investment scheme (MIS)	-	359,725	2,248,589	2,608,314
Unlisted partnership	-	-	2,133	2,133
Forward foreign exchange contracts	-	12	-	12
Futures	136	-	-	136
	<b>7,073,626</b>	<b>2,272,760</b>	<b>2,406,856</b>	<b>11,753,242</b>

#### **Financial liabilities held at fair value through profit or loss**

Accrued expense	(11)	-	-	(11)
Cash and deposits	(917)	-	-	(917)
Forward foreign exchange contracts	-	(70,554)	-	(70,554)
Futures	(235)	-	-	(235)
	<b>(1,163)</b>	<b>(70,554)</b>	<b>-</b>	<b>(71,717)</b>
	<b>7,072,463</b>	<b>2,202,206</b>	<b>2,406,856</b>	<b>11,681,525</b>

## Notes to the Financial Statements for the year ended 30 June 2022

### 4. Fair value of financial instruments (continued)

#### (a) Classification of investments at the Fund level (continued)

	Value at quoted market price (level 1) \$000	Valuation technique – market observable inputs (level 2) \$000	Valuation technique – non-market observable inputs (level 3) \$000	Total \$000
<b>Financial assets held at fair value through profit or loss</b>				
Cash and deposits	1,571,549	-	-	1,571,549
Covered bonds - Fixed	-	1,313	-	1,313
Covered bonds - FRN	-	25,101	-	25,101
Convertible notes	-	2,452	-	2,452
Discount securities	-	229,800	-	229,800
Fixed interest bonds	-	713,687	-	713,687
Floating rate notes	-	483,315	-	483,315
Indexed Bonds	-	234,582	-	234,582
Zero coupon bonds	-	2,041	-	2,041
Listed equities	5,739,325	1,683	-	5,741,009
Listed property trusts	456,992	-	-	456,992
Listed unit trusts	84,762	-	-	84,762
Loans	-	-	489	489
Mortgage backed securities	-	4,161	-	4,161
Preference shares redeemable	9,657	-	35,442	45,098
Unlisted equities	-	-	177,505	177,505
Unlisted managed investment scheme (MIS)	-	211,070	2,297,036	2,508,105
Unlisted partnership	-	-	1,751	1,751
Forward foreign exchange contracts	-	301	-	301
Futures	1,399	-	-	1,399
	<b>7,863,683</b>	<b>1,909,506</b>	<b>2,512,223</b>	<b>12,285,412</b>

#### **Financial liabilities held at fair value through profit or loss**

Cash and deposits	(280)	-	-	(280)
Forward foreign exchange contracts	-	(52,568)	-	(52,568)
Futures	(1,437)	-	-	(1,437)
	<b>(1,716)</b>	<b>(52,568)</b>	<b>-</b>	<b>(54,285)</b>
	<b>7,861,966</b>	<b>1,856,938</b>	<b>2,512,223</b>	<b>12,231,127</b>

Disclosure of the method and assumptions applied in determining the fair value of each class of financial assets and financial liabilities are included in Note 3(j). The fair value for each class of financial assets and financial liabilities equates to net market value.

## Notes to the Financial Statements for the year ended 30 June 2022

### 4. Fair value of financial instruments (continued)

#### (b) Transfers between hierarchy levels

The Fund's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

The following table represents the transfers between levels for the year ended 30 June 2022:

At 30 June 2022:	Level 1 \$000	Level 2 \$000	Level 3 \$000
<b>Transfers between levels 1 and 3:</b>			
Listed equities	(8,108)		8,108
	<u>(8,108)</u>		<u>8,108</u>
<b>Transfers between levels 2 and 3:</b>			
Fixed interest bonds		(2,271)	2,271
		<u>(2,271)</u>	<u>2,271</u>
 At 30 June 2021:	 Level 1 \$000	 Level 2 \$000	 Level 3 \$000
<b>Transfers between levels 1 and 2:</b>			
Listed equities	(360)	360	
	<u>(360)</u>	<u>360</u>	
<b>Transfers between levels 2 and 3:</b>			
Preference shares redeemable		(22,889)	22,889
Unlisted Equities		(15,085)	15,085
Unlisted managed investment scheme		(215,934)	215,934
Loans		(489)	489
		<u>(254,397)</u>	<u>254,397</u>

At 30 June 2022, the transfer from Level 1 to Level 3 relates to a company suspended on the NASDAQ. The transfer from Level 2 to Level 3 relates to a Russian government bond that was no longer viable and was subsequently written down to \$nil.

At 30 June 2021, the transfer from Level 1 to Level 2 relates to a company delisting. The Level 2 to Level 3 relates to valuation uncertainties associated with the impacts of COVID-19 on the investments.



## Notes to the Financial Statements for the year ended 30 June 2022

### 4. Fair value of financial instruments (continued)

#### (b) Transfers between hierarchy levels (continued)

##### Valuation techniques

##### Listed equity securities, trusts and derivatives

When fair values of publicly traded equity securities, trusts and derivatives are based on quoted market prices, or binding dealer price quotations, in an active market for identical assets without any adjustments, the instruments are included within Level 1 of the hierarchy. The Fund values these investments at bid price for long positions and ask price for short positions.

##### Unlisted debt securities and treasury bills

The Trust invests in debt securities, corporate and government bonds and treasury securities. In the absence of a quoted price in an active market, they are valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuer and yield curves. The Trust's assets custodian, National Assets Services (NAS), obtains these prices from two independent pricing sources, Bloomberg and Interactive Data. To the extent that the significant inputs are observable, the Trust categorise these investments as Level 2 financial instruments.

##### Valuation techniques (continued)

##### Over-the-counter FFX contracts

FFX contracts are valued at the mid-price at 4.00pm London time published by WM Company, points out to 365 days. Alternatively, forward rates may be inferred from the WM rates in instances where, for example, there is restricted currency trading by a sovereign. These financial instruments are classified as Level 2 financial instruments.

##### Unlisted equity investments

The Trust invests in private equity companies which are not quoted in an active market. Transactions in such investments do not occur on a regular basis. The Trust values these investments by using the prices supplied by fund managers or independent valuer directly to NAS. Depending on whether the significant inputs to calculate the prices are market observable, the Trust classifies these investments as either Level 2 or Level 3 financial instruments.

##### Unlisted managed investment schemes

The Trust invests in managed investment schemes, including private equity funds and unlisted property and infrastructure trusts, which are not quoted in an active market and which may be subject to restrictions on redemptions such as lock up periods. The Trust values these investments by using the prices which are sourced from AUSMAQ or supplied by the fund manager. Depending on whether the significant inputs to calculate the prices are market observable, the Trust classifies these investments as either Level 2 or Level 3 financial instruments.

##### Listed investment companies

The Trust invests in a private equity fund which has some underlying assets that are classified as listed investment companies. The majority of the assets of the fund are not quoted in an active market. As such, the Trust values this investment using the price which is supplied by the fund manager. This investment is classified as a Level 3 financial instrument.

## Notes to the Financial Statements for the year ended 30 June 2022

### 4. Fair value of financial instruments (continued)

#### (b) Transfers between hierarchy levels (continued)

##### Valuation process for Level 3 valuations

Valuations are the responsibility of the board of directors of the Trustee.

The valuation of unlisted equities and unlisted managed investment schemes is supplied to the custodian directly by fund managers on monthly or quarterly basis. The fund managers' valuations for property and infrastructure are based on third party independent valuations of the underlining assets. Private equity valuations are calculated by the fund managers in accordance with industry standards such as Australian Private Equity and Venture Capital Association (AVCAL) and US GAAP. The investment team review the valuation policies of the fund managers on an annual basis, to ensure adherence to industry best practice. There were no other changes in valuation techniques during the year.

##### Level 3 reconciliation

The following table shows a reconciliation of the movement in the fair value of financial instruments categorised within Level 3 between the beginning and the end of the reporting period.

	2022 \$000	2021 \$000
Opening balance	2,512,223	2,262,515
Realised/unrealised gains/(losses)*	102,159	160,700
Purchases/applications (including transfers from VPST)	47,866	17,794
Sales/redemptions	(265,771)	(183,183)
Accrued interests	-	-
Adjustments	-	-
Transfers into Level 3	10,379	254,397
Transfers out of Level 3	-	-
Closing balance	2,406,856	2,512,223
* Includes unrealised gains or (losses) recognised in profit or loss attributable to balances held at the end of the reporting period	92,930	160,114

##### Valuation inputs and relationships to fair value

For financial instruments classified as Level 3 in the fair value hierarchy some of the inputs to the valuation models are unobservable and therefore subjective in nature. The use of reasonably possible alternative assumptions could possibly produce a different net market value measurement.

## Notes to the Financial Statements for the year ended 30 June 2022

### 4. Fair value of financial instruments (continued)

#### (b) Transfers between hierarchy levels (continued)

##### *Valuation inputs and relationships to fair value (continued)*

The following table summaries the quantitative information about the significant unobservable inputs used by the Trustee in Level 3 fair value measurements.

#### 2022

<i>Description</i>	<i>Fair value at 30 June \$000</i>	<i>Unobservable inputs</i>	<i>Relationship of unobservable inputs to fair value \$000</i>
Preference shares redeemable	16,825	Share price	Higher/(lower) sale price would increase/(decrease) fair value by \$1,682
Unlisted equities	139,310	Share price	Higher/(lower) sale price would increase/(decrease) fair value by \$13,931
Unlisted managed investment scheme	2,248,589	Unit price	Higher/(lower) redemption price would increase/(decrease) fair value by \$224,859
Unlisted partnership	2,133	Value of partnership interest	Higher/(lower) value of partnership interest would increase/(decrease) fair value by \$213

#### 2021

<i>Description</i>	<i>Fair value at 30 June \$000</i>	<i>Unobservable inputs</i>	<i>Relationship of unobservable inputs to fair value \$000</i>
Preference shares redeemable	35,442	Share price	Higher/(lower) sale price would increase/(decrease) fair value by \$3,554
Unlisted equities	177,505	Share price	Higher/(lower) sale price would increase/(decrease) fair value by \$17,751
Unlisted managed investment scheme	2,297,036	Unit price	Higher/(lower) redemption price would increase/(decrease) fair value by \$229,704
Unlisted partnership	1,751	Value of partnership interest	Higher/(lower) value of partnership interest would increase/(decrease) fair value by \$175
Loans	489	Recoverability	Lower recoverability of 10% would decrease fair value by \$49

If the impact of using those alternative assumptions would cause the fair value of Level 3 financial instruments to be higher or lower by 5% the net assets of the Fund and the result for the year would have been higher or lower by \$120,343 million (2021: \$125,611 million).

## Notes to the Financial Statements for the year ended 30 June 2022

### 5. Assets attributable to each section of the Fund

The assets of the Fund are primarily used to support the account-based and defined benefit member liabilities and are attributable to each section as follows:

2022	Account-based plans \$000	Defined benefit plans \$000	Total \$000
Defined contribution member liabilities	9,220,664		9,220,664
Defined benefit member liabilities		2,107,187	2,107,187
Defined benefits that are over or (under) funded		127,327	127,327
Amounts not yet allocated	224		224
<b>Assets attributable to each section</b>	<b>9,220,888</b>	<b>2,234,514</b>	<b>11,455,402</b>

2021	Account-based plans \$000	Defined benefit plans \$000	Total \$000
Defined contribution member liabilities	9,366,777		9,366,777
Defined benefit member liabilities		2,227,697	2,227,697
Defined benefits that are over or (under) funded		300,077	300,077
Amounts not yet allocated	195		195
<b>Assets attributable to each section</b>	<b>9,366,972</b>	<b>2,527,774</b>	<b>11,894,746</b>

### 6. Contributions receivable

The Fund has contractual agreements with the employer sponsors to meet any shortfall for the defined benefit member's liabilities. Contributions for defined benefits members' ongoing service are payable on the 21st day of the first month in each quarter.

Contributions for outstanding 2010 defined benefits unfunded liability accounts are payable by the year 2022.

The 2011 funding call resulted from Trustee's actuarial investigation as at 31 December 2011 were payable on 1 July 2013. Employers are offered a fifteen year payment plan at the interest rate of 7.5% per annum.

The receivables are due from unrated entities.

	2022 \$000	2021 \$000
Ongoing service	404	750
Past service - 2010	-	118
Past service - 2011	1,080	1,590
<b>Total contributions receivable</b>	<b>1,484</b>	<b>2,458</b>

All amounts are expected to be recovered from the relevant employer-sponsors with the required time periods.

# Notes to the Financial Statements for the year ended 30 June 2022

## 7. Defined contribution member liabilities

The defined contribution member account balances are measured using unit prices determined by the Trustee based on the underlying investment option values applicable for the members.

Defined contribution members bear the investment risk relating to the underlying assets and unit prices or crediting rates used to measure the member liabilities. Unit prices are updated each business day. Unit prices for each business day are based on the most recently available information for that day, including market close prices for the domestic market and all applicable international markets.

As at 30 June 2022, contribution receipts of \$224,000 (2021: \$195,000) had not been allocated to members. Defined contributions member liabilities are vested 100% in those members and are recognised as liabilities in accordance with AASB 1056.

The amount of the defined contributions member liabilities varies on a daily basis based on a number of factors including the investment markets. Refer to Note 25 for the Fund's management of investment risks.

## 8. Defined benefit member liabilities (accrued benefits)

The Fund has three (3) defined benefit sub-plans and engages a qualified actuary on a regular basis to measure the defined benefit member liabilities in each sub-plan. The Fund has no information that would lead to adjustments to the assumptions outlined below.

The actuarial valuation of member liabilities reflects the actuarial assessment of the benefits accrued up to the balance date and payable to members on retirement, resignation, death and disability (i.e. the accrued benefits).

The valuation of the accrued benefits was undertaken by the Fund Actuary as part of an actuarial valuation as at 30 June 2022. The most recent comprehensive actuarial review was conducted as at 30 June 2021 for the LASF Defined Benefit (LASF DB) sub-plan and 30 June 2020 for the City of Melbourne (CoM) and Parks Victoria sub-plans. The three defined benefit sub-plans are quarantined from the other assets of the Fund. In an event that the assets of a particular sub-plan are not adequate to provide for members' liabilities and if the employer contributions are insufficient, the defined benefit member liabilities are limited to the assets of the particular sub-plan.

Matthew Burgess of Willis Towers Watson has been engaged as the Fund Actuary to conduct the annual actuarial review as at 30 June 2022 for LASF DB. This review has been completed and is available on the Fund's website. Copies of the triennial Actuarial Reports as at 30 June 2020 for each sub-plan are also available on the Fund's website.

The following is a breakdown of the accrued defined benefits of the Fund:

	As at 30 June 2022 (final) \$m	As at 30 June 2021 (final) \$m
Accrued Benefits for		
LASF DB	2,042,888	2,151,830
CoM	42,137	49,221
Parks Victoria	22,162	26,646
	<b>2,107,187</b>	<b>2,227,697</b>

## Notes to the Financial Statements for the year ended 30 June 2022

### 8. Defined benefit member liabilities (accrued benefits) (continued)

#### (a) Significant estimates

The Fund has identified three assumptions that may reasonably change and therefore would have a material impact on the amount of the liabilities if they were to change.

The key financial assumptions used to determine the value of accrued benefits for each of the sub-plans that may reasonably change are as follows:

	<b>LASF DB</b>	<b>2022 CoM</b>	<b>Parks Victoria</b>
Net investment return	<b>5.5%</b>	<b>1.8%</b>	<b>3.8%</b>
Salary inflation	<b>2.5%pa to 30 June 2023 and 3.5%pa thereafter</b>	<b>1.5%pa to 30 June 2023, 2.0% for the 2 years to 30 June 2025 and 3.5%pa thereafter</b>	<b>2.0%pa to 30 June 2025 and 3.5%pa thereafter</b>
Price inflation	<b>3.0%</b>	<b>3.0%</b>	<b>3.0%</b>
	<b>LASF</b>	<b>2021 CoM</b>	<b>Parks Victoria</b>
Net investment return	4.75%	0.40%	2.75%
Salary inflation	2.75%	2.75%	2.75%
Price inflation	2.25%	2.25%	2.25%

The defined benefit member liabilities have changed in the current financial year primarily as a result of the payment of benefits to members on exit from the sub-plans offset by increases to continuing member liabilities as a result of salary increases, additional service accruals and increased entitlements as a result of reaching the Fund's retirement age.

The Trustee manages the risks associated with the defined benefit sub-plans in a number of ways.

The Fund Actuary advises on these risks, including establishing suitable funding objectives. The Fund Actuary conducts regular actuarial investigations (at least every three years, or more frequently as required) of the defined benefit sub-plans at the Trustee's request. Taking into account the Trustee's funding objectives and the Fund's circumstances, the Fund Actuary recommends the required employer contribution levels.

In addition, management monitors the vested benefit positions of each defined benefit sub-plan regularly and reports quarterly to the Board on the vested benefit index (VBI) status of each sub-plan. If the VBI for a sub-plan is below the relevant VBI shortfall limit, management will then engage the Fund Actuary to conduct a review to assist in developing a restoration plan to restore the relevant sub-plan to a VBI position above 100%.

The Trustee also uses sensitivity analysis to monitor the potential impact of changes to key variables about which assumptions need to be made. The Fund has identified three key assumptions (being the net investment return rate, the salary inflation rate and the price inflation rate) for which changes are reasonably possible that would have a material impact in the amount of the defined benefit member liabilities.

The assumed net investment return rate has been determined based on the investment returns expected on an investment portfolio that reflects the opportunities reasonably available to the Fund in the investment markets and also reflects the Fund's actual investments and investment strategy in respect of defined benefit member liabilities. The assumed net investment rate is different for each defined benefit sub-plan.

The assumed price inflation has been determined based on long-term estimates of the consumer price index (CPI).

## Notes to the Financial Statements for the year ended 30 June 2022

### 8. Defined benefit member liabilities (accrued benefits) (continued)

#### (a) Significant estimates (continued)

The other variables about which assumptions have been made in measuring defined benefit member liabilities and for which changes are not considered reasonably possible, or which reasonably possible changes would not be expected to have a material effect include pension indexation rates, mortality rates and resignations.

The following are sensitivity calculations on a univariate basis for the net investment return and rate of salary inflation assumptions for each defined benefit plan:

Assumptions	Assumed at 30 June 2022	Reasonable possible changes	Amount of increase/(decrease) in defined benefit member liabilities \$000
<b>LASF DB</b>			
Investment return	<b>5.5%</b> (2021: 4.75%)	<b>1% / -1%</b> (2021: +1% / -1%)	<b>(130,097) / 151,995</b> (2021: (136,885) / 160,302)
Salary adjustment rate	<b>2.5%pa to 30 June 2023 and 3.5%pa thereafter</b> (2021: 2.75%)	<b>1% / -1%</b> (2021: +1% / -1%)	<b>34,402 / (32,389)</b> (2021: 41,321 / (38,770))
Price inflation	<b>3.0%</b> (2021: 2.25%)	<b>1% / -1%</b> (2021: +1% / -1%)	<b>118,825 / (101,848)</b> (2021: 120,113 / (102,609))
<b>CoM</b>			
Investment return	<b>1.8%</b> (2021: 0.40%)	<b>1% / -1%</b> (2021: +1% / -1%)	<b>(1,342) / 1,458</b> (2021: (1,696) / ,854)
Salary adjustment rate	<b>1.5%pa to 30 June 2023, 2.0% for the 2 years to 30 June 2025 and 3.5%pa thereafter</b> (2021: 2.75%)	<b>1% / -1%</b> (2021: +1% / -1%)	<b>1,428 / (1,342)</b> (2021: 1,789 / (1,672))
Price inflation	<b>3.0%</b> (2021: 2.25%)	<b>1% / -1%</b> (2021: +1% / -1%)	<b>3 / (2)</b> (2021: 3 / (3))
<b>Parks Victoria</b>			
Investment return	<b>3.8%</b> (2021: 2.75%)	<b>1% / -1%</b> (2021: +1% / -1%)	<b>(919) / 1,021</b> (2021: (1,126) / 1,255)
Salary adjustment rate	<b>2.0%pa to 30 June 2025 and 3.5%pa thereafter</b> (2021: 2.75%)	<b>1% / -1%</b> (2021: +1% / -1%)	<b>803/ (761)</b> (2021: 1,005 / (950))
Price inflation	<b>3.0%</b> (2021: 2.25%)	<b>1% / -1%</b> (2021: +1% / -1%)	<b>217 / (175)</b> (2021: 234 / (189))

At balance date, 100% of the defined benefit member liabilities have vested (2021: 100%).

## Notes to the Financial Statements for the year ended 30 June 2022

### 9. Defined benefit plans that are over or (under) funded

For the three defined benefit sub-plans, there were no unexpected events that changed the defined benefit member liabilities materially. The Trustee has no information that would lead it to adjust the assumptions around pension index rates and resignation. For LASF DB, the Fund Actuary has reviewed the demographic experience of the sub-plan including pensioner mortality and deferred beneficiary election rates as part of the actuarial review as at 30 June 2020.

Based on the requirements of AASB 1056, the three defined benefit sub-plans are over/(under) funded as follows:

	<i>Ref</i>	<b>2022 \$000</b>	2021 \$000
LASF DB	<b>A</b>	<b>111,883</b>	284,567
CoM	<b>B</b>	<b>11,860</b>	11,017
Parks Victoria	<b>C</b>	<b>3,584</b>	4,493
		<b>127,327</b>	<b>300,077</b>

#### **Ref A**

LASF DB continues to remain in surplus. It is intended that the employer-sponsors will continue to make contributions based on the current funding arrangements which is consistent with the rates recommended by the Fund Actuary.

#### **Ref B**

CoM continues to remain in surplus. It is intended that the employer-sponsors will continue to make contributions based on the current funding arrangements which is consistent with the rates recommended by the Fund Actuary.

#### **Ref C**

Parks Victoria continues to remain in surplus. It is intended that the employer-sponsor will continue to make contributions based on the current funding arrangements which is consistent with the rates recommended by the Fund Actuary.

### 10. Funding arrangements

The employers have contributed to the Fund during the financial year at a rate of at least 10% (2021: 9.5%) of the gross salaries of those employees who were defined contribution members of the Fund.

The employers for the defined benefit members have contributed to the fund during the financial year based on the rate determined by the Trustee based on Fund Actuary advice.

As outlined above, the defined benefit funding requirements for the Fund are impacted by various financial and demographic factors including investment earnings, salary inflation, benefit claims experience and pensioner mortality rates. The funding arrangements are primarily dependent upon investment performance relative to salary growth and pension growth. The Fund has a current Funding and Solvency Certificate. The last actuarial investigation for LASF DB was conducted as at 30 June 2022 which was completed on 23 August 2022. The last actuarial investigation for COM and Parks Victoria were conducted as at 30 June 2020 and completed on 18 December 2020 and 19 October 2020 respectively. The next full triennial actuarial review for each sub-plan is as at 30 June 2023. An annual review is conducted for COM and Parks Victoria for each intervening year to satisfy the AASB 1056 reporting requirements.

Following the completion of the triennial 30 June 2021 actuarial review of COM and Parks Victoria, the Fund Actuary has not recommended any additional contributions be made by the participating employers as no funding deficiency has been identified.



## Notes to the Financial Statements for the year ended 30 June 2022

### 10. Funding arrangements (continued)

Following the completion of the 30 June 2022 actuarial review for LASF DB, the Fund Actuary did not recommend any additional contributions be made by the participating employers as there was no funding deficiency identified.

On completion of the 31 December 2011 actuarial review of the Fund, the Fund's Actuary recommended that participating employers pay an additional contribution due to the funding deficiency identified as at 31 December 2011. The Trustee accepted the actuarial recommendations and informed the employers of the Defined Benefit plans of their share of the unfunded liability as at 31 December 2011.

For the LASF Defined Benefit Plan, the invoices issued were due and payable on 1 July 2013 with an option of a fifteen-year payment plan. The total invoiced amount was \$539 million, which comprised the unfunded accrued liability as at 31 December 2011 of \$406 million, estimated fund earnings accrued to 1 July 2013 on that unfunded accrued liability of \$53 million and contributions tax of \$80 million.

Of this amount, an amount of \$1.1 million remains as contributions receivable as at 30 June 2022 (2021: \$1.6 million). During the 2022 year, the employers of the Defined Benefit plan have paid \$589,059 (2021: \$47,159) of the total amount invoiced. The total payments received to 30 June 2022 represent 99.8% (2021: 99.7%) of total unfunded liability invoiced amount. Where an employer paid some/all of their invoiced amount prior to the due date of 1 July 2013, the amount of the invoice was discounted at the rate of 7.5% per annum (calculated daily) based on the expected long-term investment return on the assets of the LASF Defined Benefits Plan. The contributions receivable of \$1.1 million at 30 June 2022 (2021: \$1.6 million) represents the outstanding unfunded liability and annual interest charges which have been invoiced but not yet paid. These employers have entered into payment plans to pay these outstanding amounts.

Further details regarding the funding arrangements of the defined benefit plans are in Note 12.

Employees are also able to make voluntary contributions.

### 11. Guaranteed benefits

No guarantees have been made in respect of any part of the liabilities for accrued benefits.

### 12. Vested benefits

Vested benefits are benefits which are not conditional upon continued membership of the Fund (or any factor other than resignation from the Fund) and include benefits which members are entitled to receive had they terminated their Fund membership as at the balance date.

	<b>2022</b> <b>\$000</b>	2021 \$000
Defined benefit plans	<b>2,144,620</b>	2,260,192
Accumulation plans (excluding amounts not yet allocated)	<b>9,220,664</b>	9,366,777
Total vested benefits	<b>11,365,284</b>	11,626,969
As compared to net assets available to pay benefits	<b>11,455,178</b>	11,894,746

## Notes to the Financial Statements for the year ended 30 June 2022

### 12. Vested benefits (continued)

Key results as at 30 June 2022, as estimated by the actuary, on the defined benefit sub-plans are as follows. The Discounted Accrued Benefits Index (DABI) and Minimum Requisites Benefits Index (MRBI) (Solvency basis) are calculated as part of each actuarial review.

Sub-plan <sup>^</sup>	Results	30 June 2022	30 June 2021
LASF DB	VBI	102.2%	109.8%
	DABI	105.6%	113.4%
	MRBI	140.8%	151.2%
CoM	VBI	143.7%	144.7%
	DABI	n/a <sup>^</sup>	n/a <sup>^</sup>
	MRBI	n/a <sup>^</sup>	n/a <sup>^</sup>
Parks Victoria	VBI	110.9%	116.2%
	DABI	n/a <sup>^</sup>	n/a <sup>^</sup>
	MRBI	n/a <sup>^</sup>	n/a <sup>^</sup>

<sup>^</sup> The next triennial actuarial review for these plans is scheduled to be at 30 June 2023.

The main financial assumptions used to calculate the VBI for the defined benefit categories of the Fund are as follows:

	LASF DB		CoM		Parks Victoria	
	30 June 2022	30 June 2021	30 June 2022	30 June 2021	30 June 2022	30 June 2021
Net investment return	5.5%	4.75%	1.8%	0.40%	3.8%	2.75%
Salary inflation	2.5%pa to 30 June 2023 and 3.5%pa thereafter	2.75%	1.5%pa to 30 June 2023, 2.0% for the 2 years to 30 June 2025 and 3.5%pa thereafter	2.75%	2.0%pa to 30 June 2025 and 3.5%pa thereafter	2.75%
Price inflation	3.0%	2.25%	3.0%	2.25%	3.0%	2.25%

#### (a) LASF DB

An actuarial investigation of LASF DB has been carried out as at 30 June 2022 and was completed on 23 August 2022. This investigation concluded that LASF DB was in a satisfactory financial position as at 30 June 2022 as defined in Superannuation Prudential Standard 160 (SPS160). The last annual actuarial review of LASF DB was carried out as at 30 June 2021 and was completed in September 2021 and the last full investigation was carried out as at 30 June 2020. A total service liability actuarial surplus of \$105.8 million was calculated in the 2022 investigation (2021: \$270.3 million).

The 30 June 2021 investigation concluded that it is still appropriate for the sub-plan to self-insure its death and disability benefits. The defined-benefit self-insurance reserve is \$5 million (2021: \$5 million) which included in the Insurance Reserves (refer to Note 24).

The Trustee agreed the following funding plan that was recommended by the Fund's Actuary as part of the 30 June 2022 investigation. Under the plan, the Employers pay:

- Contributions equal to 10.5% of members' salaries, increasing with increases in the Superannuation Guarantee

## Notes to the Financial Statements for the year ended 30 June 2022

### 12. Vested benefits (continued)

#### (a) LASF DB (continued)

- Additional contributions to cover the excess of the benefits paid as a consequence of retrenchment above the funded resignation or retirement benefit (the funded resignation or retirement benefit is calculated as the Vested Benefits Index multiplied by the benefit), plus contributions tax
- Outstanding contributions in respect of calls made at the previous actuarial investigations, and
- Additional top up contributions that may be recommended in the future, if the defined benefit plan becomes in an unsatisfactory financial position.

The next full triennial actuarial investigation of the LASF DB's accrued benefits liability will be at 30 June 2023.

The funding plan as described above is most likely to remain in place for the LASF DB until the next full actuarial investigation is completed. An annual review of the accrued benefits will occur for AASB 1056 purposes.

#### (b) CoM

An actuarial review of CoM was carried out as at 30 June 2022 for AASB 1056 purposes. The last full actuarial investigation was as at 30 June 2020. This 2020 investigation concluded that CoM was in a satisfactory financial position as at 30 June 2020 as defined in SPS160. A total service liability actuarial surplus of \$9.2 million was identified by the 2020 investigation (2017 investigation: \$12.2 million).

The Trustee agreed the following funding plan that was recommended by the Fund's Actuary as part of the 30 June 2020 investigation. Under the plan, City of Melbourne pays:

- From 1 July 2020, a contribution rate of 13% (inclusive of 1% of salary continuance cover) of salaries for Division D members
- From 1 July 2021, a contribution rate of 0% for Division D members
- Top-up amounts for existing members equal to the amount increased for contribution tax: Benefits Payment less (Vested Benefit x VBI). Top up payments are to be calculated and invoiced quarterly in arrears. Top-up payments are required from all retrenchments (VBI capped at 100%), but for other exits only when the VBI is below 100%. Benefits payments exclude the amount of any insurance proceeds, and
- Any additional contributions that may be required in future under SPS 160.

Members contribute at rates between 0% and 9% of salaries.

The next full triennial actuarial investigation of CoM's accrued benefits liability will be at 30 June 2023.

The funding plan as described above is most likely to remain in place for CoM until the next full actuarial investigation is completed. However, if the VBI of CoM falls to 125%, further actuarial advice will be obtained to determine whether the contribution rate should be increased above 0%.

#### (c) Parks Victoria

An actuarial review of Parks Victoria sub-plan is being carried out as at 30 June 2022 for AASB 1056 purposes. The last full actuarial investigation was as at 30 June 2020. The 2020 investigation concluded that the Parks Victoria sub-plan was in a satisfactory financial position as at 30 June 2020 as defined in SPS160. A total service liability actuarial surplus of \$1.7 million was identified by the 2020 investigation (2017 investigation: \$4.6 million).

## Notes to the Financial Statements for the year ended 30 June 2022

### 12. Vested benefits (continued)

#### (c) Parks Victoria (continued)

The Trustee agreed the following funding plan that was recommended by the Fund's Actuary as part of the 30 June 2020 investigation. Under the plan, Parks Victoria pays:

- A contribution rate of 12% of salaries of salaries for Division E members and the current accruing cost contribution rates for Division F members
- Top-up amounts for existing members equal to the amount increased for contribution tax: Benefits Payment less (Vested Benefit x VBI). Top up payments are to be calculated and invoiced quarterly in arrears. Top-up payments are required from all retrenchments (VBI capped at 100%), but for other exits only when the VBI is below 100%. Benefits payments exclude the amount of any insurance proceeds, and
- Any additional contributions that may be required in future under SPS 160.

Members contribute at rates between 0% and 7.5% of salaries.

The next full triennial actuarial investigation of the Parks Victoria sub-plan's accrued benefits liability will be at 30 June 2023.

The funding plan as described above is most likely to remain in place for the Parks Victoria sub-plan until the next full actuarial investigation is completed.

#### (d) Vision MySuper

The Fund's MySuper category receives both employer and employee contributions on a progressive basis. Employer contributions are normally based on a fixed percentage of employee earnings in accordance with the Superannuation Guarantee legislation for each year (for the year ended 30 June 2022 – 10% (2021: 9.5%). This rate increases to 10.5% for the 2022/23 year and will progressively increase to 12% by 1 July 2025 subject to legislative changes. No further liability accrues to the employer as the superannuation benefits accruing to employees are represented by their share of the net assets of the Fund.

#### (e) Superannuation Prudential Standard SPS 160 – Defined benefit matters

Superannuation Prudential Standard 160 – Defined Benefit Matters (SPS 160) applies to the Fund with effect from 1 July 2013. The Trustee has adopted SPS 160 and will put in place a restoration plan to restore the VBI to 100% if:

- The VBI falls below the relevant shortfall limit at any time when an actuarial investigation is not completed and there is not a valuation date within 6 months, or
- The VBI falls below 100% at the date an actuarial investigation is completed.

From 21 September 2018, the shortfall limits for LASF DB and Parks Victoria are 97%, and 98% respectively. The shortfall limit for CoM is 99% from 19 February 2021.

### 13. Net changes in value of assets measured at fair value

	2022 \$000	2021 \$000
<b>Investments held at balance date</b>		
Realised gains/(losses)	(103,175)	396,394
Unrealised gains/(losses)	(819,644)	1,321,657
<b>Total net changes in value of assets measured at fair value</b>	<b>(922,819)</b>	<b>1,718,051</b>

## Notes to the Financial Statements for the year ended 30 June 2022

### 14. Net change in defined benefit member liabilities

AASB 1056 defines the net change in defined benefit member liabilities for a period as being the difference between the opening and closing balances of the defined benefit member liabilities for the period, after adjusting for inwards and outwards movements, including:

- (a) Contributions
- (b) Tax on contributions
- (c) Benefits to members, and
- (d) Transfers between reserves and accrued benefits.

As a result, the net change in defined benefit member liabilities of \$85,990,000 (2021: \$292,815,000) included in the Income Statement and the Statement of Changes in Member Benefits is a mixture of items that relate to the change in the surplus/deficit of the defined benefit section (eg. contributions) and other factors including actuarial assumptions that relate to the calculation of the actual defined benefit member liabilities (ie. the accrued benefits).

For the year ended 30 June 2022, there was an overall decrease in the defined benefit member liabilities of \$120.51m (2021: \$112.01m increase). The decrease occurred as a result of the actual benefits paid during the year exceeding the growth in the accrued benefit liabilities for the remaining members.

Changes in financial assumption (refer to Note 8) have also decreased the defined benefit member liabilities.

### 15. Other receivables and prepayments

	<b>2022</b> <b>\$000</b>	2021 \$000
GST receivable	385	575
Prepayments	255	284
Other	10	10
	<hr/> <b>650</b>	<hr/> 869

### 16. Other payables

	<b>2022</b> <b>\$000</b>	2021 \$000
Accrued expenses	16,374	13,462
Accrued expenses transferred from VPST	404	404
	<hr/> <b>16,778</b>	<hr/> 13,866

## Notes to the Financial Statements for the year ended 30 June 2022

<b>17. General administration expenses</b>	<b>2022</b>	<b>2021</b>
	<b>\$000</b>	<b>\$000</b>
Annual lodgement fee – APRA	831	638
Banking Charges	45	43
External audit fees	116	105
Trustee services fees	25,028	23,127
Other administration fees	558	460
	<b>26,578</b>	<b>24,372</b>

The Fund did not directly pay any commissions or sponsorship/advertising.

<b>18. Investment related expenses</b>	<b>2022</b>	<b>2021</b>
	<b>\$000</b>	<b>\$000</b>
Investment manager fees	15,948	15,066
Custodian fees	1,720	1,644
Other investment fees and costs	16,176	10,406
Trustee services fees	3,460	3,313
Other investment operating expenses	1,503	1,720
	<b>38,807</b>	<b>32,150</b>

<b>19. Auditor's remuneration</b>	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Amounts received or due and receivable by BDO Australia for:		
Audit of the financial statements and compliance of the entity	115,825	-
Total services provided by BDO Australia	<b>115,825</b>	<b>-</b>

Amounts received or due and receivable by  
Ernst & Young for:

Audit of the financial statements and compliance of the entity	-	122,700
Total services provided by Ernst & Young	<b>-</b>	<b>122,700</b>

<b>20. Income tax</b>	<b>2022</b>	<b>2021</b>
	<b>\$000</b>	<b>\$000</b>
<b>Tax expense comprises:</b>		
Current tax expense	(18,712)	37,050
Adjustment relating to prior years	678	38
	<b>(18,034)</b>	<b>37,088</b>
<b>Deferred tax expense</b>		
Deferred tax expense relating to the origination and reversal of temporary differences	(95,724)	101,217
	<b>(95,724)</b>	<b>101,217</b>
Total tax expense	<b>(113,758)</b>	<b>138,305</b>

## Notes to the Financial Statements for the year ended 30 June 2022

### 20. Income tax (continued)

	2022 \$000	2021 \$000
<b>Reconciliation</b>		
The prima facie income tax expense on profit from operating activities before current tax expense reconciles to the income tax expense in the Statement of Comprehensive Income as follows:		
Profit from operating activities before current tax expense	(560,889)	1,927,546
Current tax expense calculated at 15%	(84,133)	289,131
Add(less) permanent differences – items not assessable or deductible		
Non-deductible expenses	-	-
Other non-assessable income	61,060	(79,859)
Franking credits received/receivable	10,733	4,094
Foreign tax credits	1,994	1,184
Pension exemption	(31,386)	(52,244)
Other	(1,153)	6,994
Imputation and foreign tax credits offset	(71,551)	(31,032)
Adjustments for current tax of prior periods	678	38
	<b>(113,758)</b>	<b>138,305</b>

### Deferred tax assets and liabilities

#### Deferred tax assets

Deferred tax assets comprise of:

Unrealised taxable capital losses	19,722	-
Unrealised fixed interest losses	11,139	-
Unrealised FX forward contract losses	7,980	7,078
Accrued expenses	697	-
Other	631	70
	<b>40,169</b>	<b>7,148</b>

#### Deferred tax liabilities

Deferred tax liabilities comprise of:

Unrealised taxable capital gains	(83,569)	(143,832)
Unrealised fixed interest gains	-	(1,478)
Unrealised FX forward contract gains	-	(1,621)
Contributions receivable	(170)	(285)
Other	170	944
	<b>(83,569)</b>	<b>(146,272)</b>

## Notes to the Financial Statements for the year ended 30 June 2022

### 20. Income tax (continued)

#### Deferred tax assets and liabilities (continued)

Taxable and deductible temporary differences arise from the following:	2022			
	Opening balance \$000	Charged to income \$000	Acquisition/ (disposal) \$000	Closing balance \$000
<b>Deferred tax assets:</b>				
Unrealised taxable capital gains	-	19,722	-	19,722
Fixed interest securities	-	11,139	-	11,139
Forward foreign exchange contracts	7,078	902	-	7,980
Accrued expenses	-	697	-	697
Other	70	561	-	631
	<b>7,148</b>	<b>33,021</b>	<b>-</b>	<b>40,169</b>
<b>Deferred tax liabilities:</b>				
Unrealised taxable capital losses	(143,832)	60,263	-	(83,569)
Fixed interest securities	(1,478)	1,478	-	-
Forward foreign exchange contracts	(1,621)	1,621	-	-
Contributions receivable	(285)	-	115	(170)
Other	944	(774)	-	170
	<b>(146,272)</b>	<b>62,588</b>	<b>115</b>	<b>(83,569)</b>
Taxable and deductible temporary differences arise from the following:	2021			
	Opening balance \$000	Charged to income \$000	Acquisition/ (disposal) \$000	Closing balance \$000
<b>Deferred tax assets:</b>				
Unrealised taxable capital gains	-	-	-	-
Fixed interest securities	-	-	-	-
Forward foreign exchange contracts	-	7,078	-	7,078
Accrued expenses	-	-	-	-
Other	792	(722)	-	70
	<b>792</b>	<b>6,356</b>	<b>-</b>	<b>7,148</b>
<b>Deferred tax liabilities:</b>				
Unrealised taxable capital losses	(22,170)	(121,662)	-	(143,832)
Fixed interest securities	(6,196)	4,718	-	(1,478)
Forward foreign exchange contracts	(9,590)	7,969	-	(1,621)
Contributions receivable	(179)	-	(106)	(285)
Other	(564)	1,508	-	944
	<b>(38,699)</b>	<b>(107,467)</b>	<b>(106)</b>	<b>(146,272)</b>



## Notes to the Financial Statements for the year ended 30 June 2022

### 21. Cash flow statement reconciliation

For the purposes of the Statement of Cash Flows, cash includes cash at bank, net of outstanding bank overdrafts.

Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2022	2021
	\$000	\$000
Cash and cash equivalents	99,965	101,344
<hr/>		
<b>(a) Reconciliation of profit/(loss) after income tax to net cash inflow/(outflow) from operating activities</b>		
Operating result after tax	(471,337)	301,940
Adjustments for:		
Net changes of fair value of financial instruments	922,819	(1,718,051)
Net benefits allocated to defined contribution members	(374,341)	1,342,681
Net change in defined benefit member benefits	292,815	292,815
Change in operating assets and liabilities		
(Increase)/decrease in receivables	219	252
Increase/(decrease) in payables	2,913	(2,021)
Increase/(decrease) in tax temporary differences included in the income statements	(8,365)	(8,365)
Death and disability proceeds received from insurer and allocated to members	9,045	7,703
Insurance premiums paid	(22,537)	(19,897)
Income tax (paid)/refund	(65,280)	(44,117)
Other amounts	(102)	(99)
Net cash inflow/(outflow) from operating activities	285,848	152,841

### **(b) Non-cash financing and investing activities**

There were no non-cash financing activities during the year.

## Notes to the Financial Statements for the year ended 30 June 2022

### 22. Segment information

The Fund operates in one reportable business segment – being the provision of benefits to members.

The Fund also operates from one reportable geographic segment, being Australia, from where its activities are managed.

Whilst the Fund operates from Australia only, the Fund has investment exposures in different countries and across different industries via its investments.

Revenue is derived from gains on redemption of investments and unrealised changes in values of investments.

### 23. Related parties

#### (a) Trustee and key management personnel

The Trustee of the Fund is Vision Super Pty Ltd. The Trustee company had nine Directors as at 30 June 2022. The persons who were Directors of the trustee during the year and up to the date of signing this report are:

#### Member Directors:

Lisa Darmanin (Chair)  
Casey Nunn  
Peter Gebert  
Diane Smith

#### Employer Directors:

Graham Sherry (Deputy Chair)  
Peter Wilson  
Kerry Thompson  
Vijaya (VJ) Vaidyanath (appointed 1 January 2022)  
Geoff Lake (end of term 31 December 2021)

#### Independent Director:

Joanne Dawson

Each Director attended Board meetings and Board Committees during the year as a member of the Board or relevant Committee. Twelve board meeting were held during the year and the attendance was as follows:

Name	Board Meetings	
	Attended	Eligible to attend
Lisa Darmanin	12	12
Graham Sherry	10	12
Peter Wilson	10	12
Joanne Dawson	11	12
Casey Nunn	10	10
Peter Gebert	12	12
Diane Smith	12	12
Kerry Thompson	11	12
Vijaya (VJ) Vaidyanath	6	6
Geoff Lake	5	6

Board Committees are open to all Directors and were attended by a quorum of Directors on all occasions.

In addition to the Company's Directors, the Chief Executive Officer, Chief Financial Officer, Chief Investment Officer, Chief Risk Officer, General Manager Operations and Transitions, General Manager Strategy and Growth and Head of Human Resources are considered to be Key Management Personnel (KMP) for the purpose of these financial statements.

## Notes to the Financial Statements for the year ended 30 June 2022

### 23. Related parties (continued)

#### (b) Key management personnel and executives' compensation

The KMPs' compensation is presented in the table below for year 2022. This compensation was paid by the Trustee. Total compensation received, or due and receivable, by key management personnel amounted to \$3,500,599 (2021: \$3,332,312). The detail is as follows:

	2022	2021
	\$	\$
Short-term employee benefits	3,230,398	3,070,585
Other long-term benefits	-	-
Post-employment benefits	270,201	261,727
	<b>3,500,599</b>	<b>3,332,312</b>

The table below lists the number of Key Management Personnel and executive positions named above whose income falls within the following bands for the financial year ending 30 June:

	2022	2021
Up to \$39,999	1	1
\$40,000 - \$49,999	1	-
\$50,000 - \$99,999	6	7
\$100,000 - \$149,999	1	1
\$150,000 - \$199,999	-	1
\$200,000 - \$249,999	1	-
\$250,000 - \$299,999	-	1
\$300,000 - \$349,999	2	2
\$350,000 - \$399,999	1	1
\$400,000 - \$449,999	1	1
\$450,000 - \$499,999	1	-
\$500,000 - \$549,999	-	-
\$550,000 - \$599,999	-	-
\$600,000 - \$649,999	-	-
\$650,000 - \$699,999	-	1
\$700,000 - \$749,999	1	-

No director fees were paid to the Chair during the year (or to the Deputy Chair during the 2021 year). Service fees were paid directly to the director's nominating body (the Australia Services Union Victorian and Tasmanian Authorities and Services Branch) (the ASU) in accordance with the Company's service agreement with the ASU.

Any Director of the Trustee or other key management personnel who is a member of the Fund contributes to the Fund on the same terms and conditions as other members. No retirement benefits were paid to Directors or key management personnel during the year.

The Trustee has not made, guaranteed or secured any loan to any Director or member of staff or to any other related party.

	2022	2021
	\$	\$
Roll ins from KMP to LASF	-	-
Benefits paid to KMP by LASF	-	50,000
Vested benefits of KMP as members of LASF	<b>6,993,830</b>	<b>7,298,222</b>

## Notes to the Financial Statements for the year ended 30 June 2022

### 23. Related parties (continued)

#### (c) Related party transactions

##### (i) Vision Super Pty Ltd (VSPL)

As described in Note 1, VSPL is the trustee of the Fund.

	<b>2022</b> <b>\$000</b>	2021 \$000
Trustee services fees paid/payable for the year	<b>28,488</b>	26,441
Trustee services fees payable at the end of the year	<b>6,042</b>	2,551

VSPL paid a dividend of LASF of \$nil (2021: \$nil) during the year.

##### (ii) Pooled Super Pty Ltd (PSPL)

PSPL was the trustee of VPST which the Fund was a significant unit holder. The Directors of the Fund's trustee, VSPL, are paid separately for their directorship in PSPL by VSPL.

### 24. Insurance

The Fund provides death and disability benefits that are significantly higher than the resignation/retirement benefits.

The Fund had a group policy in place with CommInsure until 31 December 2017 to provide both Death & Disability and Income Protection insurance cover for Vision MySuper/Super Saver and Personal plan members. The Fund self-insures Death & Disability insurance cover for Defined Benefits plan members and had a policy in place with CommInsure for Death & Disability insurance cover for the City of Melbourne and Parks Victoria sub-plans until 31 December 2017. Since 31 December 2017, the Fund has transferred all its insurance policies to MLC Life Insurance. The Trustee believes this is appropriate in light of the Fund's size, experience, present membership and benefit levels.

Insurance premiums paid/payable by the Fund during the year were \$22.6m (2021: \$20.5m).

The self-insurance reserve was reviewed as part of the 30 June 2022 investigation and the Fund Actuary recommended that this reserve be maintained at \$5m. The Fund Actuary reviews this self-insurance reserve each year and confirms the balance in his annual report to the Fund.

## Notes to the Financial Statements for the year ended 30 June 2022

### 25. Risk management

The Fund's principal financial instruments, other than derivatives, comprise units in pooled superannuation trusts, unlisted investments, equity securities, fixed interest securities, cash and short-term deposits. The main purpose of these financial instruments is to generate a return on investment.

The Fund also has various other financial instruments such as sundry receivables and payables, which arise directly from its operations. These are mainly current in nature.

Risks arising from holding financial instruments are inherent in the Fund's activities, and are managed through a process of ongoing identification, measurement and compliance monitoring. The Fund is exposed to credit risk, liquidity risk and market risk, including interest rate risk, equity price risk and foreign currency risk.

The Board of Directors (the Board) of VSPL is responsible for identifying and controlling the risks that arise from these financial instruments. The Board reviews and agrees policies for managing each of these risks as summarised below. The Fund also monitors the market price risk arising from all financial instruments.

Information about the total fair value of financial instruments exposed to risk, as well as compliance with established investment mandate limits, is monitored by the Trustee. These mandate limits reflect the investment strategy and market environment of the Fund, as well as the level of risk that the Trust is willing to accept.

In order to avoid excessive concentrations of risk, the Fund monitors its exposure to ensure concentration of risk remain within acceptable levels in accordance with the Fund mandate and either reduces exposure or uses derivative instruments to manage the excessive risk concentrations when they arise.

The Fund's accounting policies in relation to derivatives are set out in Note 3(i)(A).

#### (a) Risk management structure

The Trustee is responsible for identifying and controlling the risks that arise from its financial instruments. The Trustee reviews and agrees policies for managing each of these risks as summarised below. The Trustee also monitors the market price risk arising from all financial instruments. The risk framework is documented in the Fund's Risk Management Plan and Strategy, together with its Investment Governance Framework (IGF). The IGF sets out the Trustee's investment beliefs and the policies, procedures, standards, resources and governance measures relevant to the management of the Fund's investments. These documents are reviewed regularly by management and the Trustee.

Information about the total fair value of financial instruments exposed to risk, as well as compliance with established investment mandate limits, is monitored by the Trustee. These mandate limits reflect the investment strategy and market environment of the Fund, as well as the level of risk that the Fund is willing to accept.

This information is prepared and reported to the Trustee on a regular basis.

Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or when a number of counterparties are engaged in similar business activities, have activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

## Notes to the Financial Statements for the year ended 30 June 2022

### 25. Risk management (continued)

#### (a) Risk management structure (continued)

In order to avoid excessive concentrations of risk, the Trustee monitors its exposure to ensure concentration of risk remain within acceptable levels in accordance with its mandate and either reduces exposure or uses derivative instruments to manage the excessive risk concentrations when they arise.

#### (b) Credit risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss.

With respect to credit risk arising from the financial assets of the Trust, other than derivatives, the Trust's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the Statement of Financial Position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values. The risk associated with these contracts is minimised by undertaking transactions with high quality counterparties on recognised exchanges, and ensuring that transactions are undertaken with a number of counterparties.

Credit risk arising from investments is mitigated by extensive tax and legal due diligence undertaken by the Trust prior to the appointment of fund managers to ensure fund managers have appropriate skills and expertise to manage the Trust's allocated investments. In addition, the Trust conducts annual review of derivative risk statements and internal controls and processes for all appointed fund managers to ensure fund managers maintain those skills and expertise.

The Fund holds no collateral as security or any other credit enhancements. There are no significant financial assets that are past due or impaired. Credit risk is not considered to be significant to the Fund except in relation to investments in debt securities.

#### ***Credit quality per class of debt instruments***

The credit quality of financial assets is managed by the Fund using Standard & Poor's rating categories, in accordance with the investment strategy of the Trustee. The Fund's exposure in each grade is monitored on a regular basis. This review process allows the Trustee to assess the potential loss as a result of risks and take corrective action. The table below shows the credit quality by class of asset for debt instruments.

## Notes to the Financial Statements for the year ended 30 June 2022

### 25. Risk management (continued)

#### (b) Credit risk (continued)

2022

	AAA+ to AA- \$000	A+ to A- \$000	BBB+ to BB- \$000	B+ to B- \$000	Short term A-1+ to A-2- \$000	Not rated or available \$000	Total \$000
Cash and deposits	-	-	-	-	-	1,715,082	1,715,082
Covered bonds - fixed	207	-	-	-	-	1,012	1,219
Covered bonds - FRN	-	-	-	-	-	-	-
Discount securities	-	-	-	-	403,914	-	403,914
Fixed interest bonds	517,735	12,335	61,255	-	-	611,778	1,203,103
Floating rate notes	56,798	55,591	4,847	-	-	183,120	300,356
Indexed bonds	469	-	-	-	-	-	469
Mortgage backed securities	923	-	-	227	-	1,970	3,120
Zero coupon bonds	-	-	-	-	-	842	842
<b>Total</b>	<b>576,132</b>	<b>67,926</b>	<b>66,102</b>	<b>227</b>	<b>403,914</b>	<b>2,513,804</b>	<b>3,628,104</b>

2021

	AAA+ to AA- \$000	A+ to A- \$000	BBB+ to BB- \$000	B+ to B- \$000	Short term A-1+ to A-2- \$000	Not rated or available \$000	Total \$000
Cash and deposits	-	-	-	-	-	1,554,697	1,554,697
Covered bonds - Fixed	-	-	-	-	-	-	-
Covered bonds - FRN	223	-	-	-	-	3,542	3,765
Discount securities	-	-	-	-	229,800	-	229,800
Fixed interest bonds	288,226	10,795	118,212	-	-	296,453	713,687
Floating rate notes	128,924	29,303	15,519	-	-	309,570	483,315
Indexed bonds	139,726	-	-	-	-	94,856	234,582
Mortgage backed securities	925	-	-	310	-	2,926	4,161
Zero coupon bonds	281	-	-	-	-	1,760	2,041
<b>Total</b>	<b>583,406</b>	<b>40,098</b>	<b>133,731</b>	<b>310</b>	<b>229,800</b>	<b>2,263,804</b>	<b>3,251,149</b>

\* Instruments are either not rated or ratings are not available at NAS.

#### Risk concentration of credit risk exposure

Concentration of credit risk is managed by counterparty, by geographical region and by industry sector.

## Notes to the Financial Statements for the year ended 30 June 2022

### 25. Risk management (continued)

#### (b) Credit risk (continued)

The Fund's underlying financial assets can be analysed by the following geographic regions:

	2022 \$000	2021 \$000
Australia	9,595,483	9,861,487
North America	1,213,284	1,395,900
Europe	437,272	475,416
Asia	206,400	155,368
Others	246,720	378,643
Total	11,699,159	12,266,815

Significant economic sector exposure exists for the underlying assets as follows:

	2022 \$000	2021 \$000
Financials	1,038,133	1,305,788
Materials	598,393	662,691
Industrials	371,052	453,825
Energy	173,926	120,022
Consumer discretionary	644,287	913,094
Consumer staples	319,684	336,253
Information technology	620,361	679,880
Health care	645,534	732,080
Telecommunication	375,283	500,376
Utilities	99,971	70,184
Real estate	513,198	544,908
Total	5,399,822	6,319,099

The above table does not include investments in unlisted trusts or pooled funds. The total investment in unlisted trusts or pooled funds is \$2.738b (2021: \$2.687b).

#### *Scrip lending*

The Fund has entered into scrip lending arrangements under which legal title to certain assets of the Fund have been transferred to another entity (National Australia Bank), notwithstanding the fact that the risks and benefits of ownership of the assets remain with the Fund.

The assets transferred to the other entity under scrip lending arrangements include Australian and international equities and bonds that are held discretely by the Fund's Custodian. The risks and rewards of ownership to which VPST remains exposed are currency risk, interest rate risk, credit risk and price risk.

The carrying amount of Fund's assets subject to scrip lending at balance date amounted to \$5,363.7 million (2021: \$6,377.4 million). The carrying amount of assets on loan at balance date was \$491.1 million (2021: \$519.3 million).



## Notes to the Financial Statements for the year ended 30 June 2022

### 25. Risk management (continued)

#### (b) Credit risk (continued)

The other party is required to collect collateral in respect of borrowed securities which are lent to third party borrowers. The terms and conditions associated with the use of collateral held as security in relation to the assets lent are governed by a Securities Lending Agreement that requires the other party to hold the collateral in a segregated account as bare trustee for the Fund.

The collateral held at balance date as security by National Asset Servicing (NAS) in a segregated account – National Nominees Ltd for the benefit of the Fund. It consisted of both cash and non-cash collateral with a fair value of \$507 million (2021: \$542 million) at the balance date. No collateral has been sold or re-pledged during the year.

#### (c) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. This risk is controlled through the Fund's investment in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Fund maintains sufficient cash and cash equivalents to meet normal operating requirements.

The Fund undertakes cashflow projection analysis daily to ensure minimal exposure to liquidity risk.

The Fund's significant financial liabilities are benefits payable to members.

In relation to vested superannuation benefits, these would be considered on demand, which payments comprise the entire defined contribution component and the vested portion of the defined benefit component.

The Fund manages its obligation to pay the defined contribution component on an expected maturity basis based on management's estimates and actuarial assumptions of when such funds will be drawn down by members. The Fund considers it is highly unlikely that all defined contribution members will request to roll over their superannuation fund account at the same time. Furthermore, in relation to the vested defined benefit component, the Fund has adequate resources readily convertible to cash to satisfactorily meet these obligations when called upon.

Other financial liabilities of the Fund comprise trade and other payables which are contractually due within 30 days and derivative liabilities comprising futures payable within 12 months.

## Notes to the Financial Statements for the year ended 30 June 2022

### 25. Risk management (continued)

#### (c) Liquidity risk (continued)

As at 30 June 2022	Less than 1 month (\$000)	1 to 3 months (\$000)	3 to 12 months (\$000)	1 to 5 years (\$000)	Over 5 years (\$000)	No stated maturity (\$000)	Total (\$000)
<b>Financial liabilities</b>							
Benefits payable	54,175						54,175
Other payables	16,778						16,778
Outstanding settlements payable	85,989						85,989
Deferred tax liabilities	83,569						83,569
Vested benefits	2,144,620						2,144,620
<b>Total undiscounted financial liabilities</b>	<b>2,385,131</b>	-	-	-	-	-	<b>2,385,131</b>
<b>Gross settled derivatives</b>							
<b>Options</b>							
Gross cash inflow							-
Gross cash outflow							-
<b>Futures</b>							
Gross cash inflow		136					136
Gross cash outflow		(235)					(235)
<b>Forward foreign currency contracts</b>							
Gross cash inflow	1,778,765	2,045,312	436,132				4,260,209
Gross cash outflow	(1,800,594)	(2,085,917)	(444,239)				(4,330,749)
<b>Total undiscounted gross settled derivatives inflow / (outflow)</b>	<b>(21,829)</b>	<b>(40,704)</b>	<b>(8,107)</b>	-	-	-	<b>(70,640)</b>

## Notes to the Financial Statements for the year ended 30 June 2022

### 25. Risk management (continued)

#### (c) Liquidity risk (continued)

As at 30 June 2021	Less than 1 month (\$000)	1 to 3 months (\$000)	3 to 12 months (\$000)	1 to 5 years (\$000)	Over 5 years (\$000)	No stated maturity (\$000)	Total (\$000)
<b>Financial liabilities</b>							
Benefits payable	58,503						58,503
Other payables	13,866						13,866
Outstanding settlements payable	78,846						78,846
Deferred tax liabilities	146,272						146,272
Vested benefits	2,260,192						2,260,192
<b>Total undiscounted financial liabilities</b>	2,557,679	-	-	-	-	-	2,557,679
<b>Gross settled derivatives</b>							
<b>Options</b>							
Gross cash inflow		1,399	-			-	1,399
Gross cash outflow		(1,430)	(7)			-	(1,437)
<b>Futures</b>							
Gross cash inflow	-			-	-	-	-
Gross cash outflow	-			-	-	-	-
<b>Forward foreign currency contracts</b>							
Gross cash inflow	550,359	1,929,537	312,041				2,791,937
Gross cash outflow	(562,437)	(1,964,433)	(317,334)				(2,844,204)
<b>Total undiscounted gross settled derivatives inflow / (outflow)</b>	(12,078)	(34,927)	(5,300)	-	-	-	(52,305)

The Fund undertakes cashflow projection analysis daily to ensure minimal exposure to liquidity risk. For unlisted investments, the Fund also undertakes commitment cashflow projections as a part of monthly rebalancing review and understanding of liquid and illiquid components.

## Notes to the Financial Statements for the year ended 30 June 2022

### 25. Risk management (continued)

#### (d) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. Market risk is diversified through ensuring that all investment activities are undertaken in accordance with established investment policies of the Fund.

The Trustee employs diversification investment strategy to mitigate the market risk in each market segment. Further, the Fund also enters into forward foreign exchange contracts to hedge against adverse foreign exchange movements.

#### (i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

In determining the reasonably possible change for interest rate risk, the sensitivity of the “official cash rate” as set by the Reserve Bank of Australia (RBA) from time to time is used for cash at bank and discount securities and market rates are used for other interest bearing assets and derivatives. A 100 basis points movement in interest rates is considered reasonably possible for cash at bank and discount securities for the 2022 reporting period. A 100 basis point movement is considered reasonably possible for all other interest bearing assets and derivatives. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

An increase/decrease in interest rates at the balance date would have increased/(decreased) the changes in net assets available to pay benefits by the amounts shown below:

#### 2022

Asset class sector	Change in basis points	Sensitivity of interest income and changes in net assets
	Increase/decrease	Increase/decrease \$'000
Cash bank account – heritage LASF	+/-100	(-)/-
Cash bank account – heritage VPST	+/-100	(-)/-
Discount securities	+/-100	(614)/614
Fixed interest securities	+/-100	(88,428)/88,554
Floating rate notes	+/-100	(302)/303
Covered bonds - Fixed	+/-100	(15)/15
Covered bond - FRN	+/-100	(-)/-
Convertible notes	+/-100	(-)/-
Mortgage backed securities	+/-100	(-)/-
Futures	+/-100	(-)/-
Zero coupon bonds	+/-100	(30)/30

## Notes to the Financial Statements for the year ended 30 June 2022

### 25. Risk management (continued)

#### (d) Market risk (continued)

#### (i) Interest rate risk (continued)

2021

Asset class sector	Change in basis points	Sensitivity of interest income and changes in net assets
	Increase/decrease	Increase/decrease \$000
Cash bank account – heritage LASF	+/-25	(-) / -
Cash bank account – heritage VPST	+/-25	(-) / -
Discount securities	+/-25	(175) / 175
Fixed interest securities	+/-75	(58,387) / 58,387
Floating rate notes	+/-75	(311) / 312
Covered bonds - Fixed	+/-75	(21) / 21
Covered bonds - FRN	+/-75	(25) / 25
Convertible notes	+/-75	(18) / 18
Mortgage backed securities	+/-75	(-) / 1
Futures	+/-75	(2,102) / 2,102
Zero coupon bonds	+/-75	(40) / 40

#### (ii) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Trustee manages its exposure to foreign currency risk and mitigates effects of its foreign currency translation exposure placing limits on the portion of the assets which can be invested in different currencies and by appointing specialist currency managers to implement a passive hedge over foreign currency exposure. This foreign exchange policy is monitored against actual results on an ongoing basis throughout the year.

The movement of the main currency exchange rates below is considered reasonably possible for the 2022 reporting period.

USD	+/-10%
British Pounds	+/-10%
Euro	+/-10%
Japanese Yen	+/-10%

The percentage strengthening/weakening of the AUD against the following basket of foreign currencies as at 30 June 2022 would have increase/(decreased) the changes of the year in net assets available to

## Notes to the Financial Statements for the year ended 30 June 2022

### 25. Risk management (continued)

#### (d) Market risk (continued)

#### (iii) Currency risk (continued)

pay benefits by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

Currency	2022		2021	
	Change in Currency rate %	Effect on changes in net assets \$000	Change in currency rate%	Effect on changes in net assets \$000
USD	+/-10	(107,588) / 131,497	+/-5	(65,175) / 72,036
Euro	+/-10	(20,830) / 25,459	+/-5	(9,564) / 10,570
Japanese Yen	+/-10	(8,160) / 9,973	+/-5	1,623 / (1,794)
British pounds	+/-10	(4,972) / 6,077	+/-5	(4,047) / 4,473

#### (iii) Equity price risk

Equity price risk is the risk that the fair value of investments in equities decreases or increases as a result of changes in market prices, whether those changes are caused by factors specific to the individual share price or factors affecting all equity instruments in the market. Equity price risk exposure arises from the Fund's investment portfolio. To limit equity price risk the Trustee diversifies its investment portfolio in line with its investment strategy. The majority of equity investments are of a high quality and are publicly traded on recognised, reputable exchanges. The Trustee monitors the Fund's exposure to various asset classes on an ongoing basis throughout the year ensuring its investment strategy is adhered to.

A 20% movement in equity price is considered reasonably possible for the 2022 reporting period (2021: 5%). This analysis assumes that all other variables, in particular, interest rates and foreign exchange rates, remain constant. The analysis is performed on the same basis for 2021. The 20% increase/(decrease) in the equity price against the investments of the Fund at 30 June would have increased/(decreased) the changes for the year in net assets available to pay benefits by the amounts shown below:

Asset class sector	2022		2021	
	Change in equity price %	Effect on changes in net assets \$000	Change in equity price %	Effect on changes in net assets \$000
Listed equities	+/-20	973,222 / (973,222)	+/-5	287,050 / (287,050)
Listed property trusts	+/-20	82,346 / (82,346)	+/-5	22,850 / (22,850)
Listed units trust	+/-20	13,842 / (13,842)	+/-5	4,238 / (4,238)
Preference shares	+/-20	5,637 / (5,637)	+/-5	2,255 / (2,255)
Unlisted equities	+/-20	27,862 / (27,862)	+/-5	8,875 / (8,875)
Unlisted MIS	+/-20	519,372 / (519,372)	+/-5	125,403 / (125,403)
Others	+/-20	6,739 / (6,739)	+/-5	3,767 / (3,767)

## Notes to the Financial Statements for the year ended 30 June 2022

### 25. Risk management (continued)

#### (d) Market risk (continued)

##### (iv) Climate-related and other emerging risks

The Trustee considers that environmental, social and governance (ESG) issues and sustainability considerations are important within the context of optimising net risk-adjusted returns. To manage ESG risks, the Trustee has an ESG policy which takes into consideration labour standards, environmental, social and ethical considerations when selecting, retaining or realising investments of the Fund. Our underlying investment managers have been instructed to incorporate ESG considerations into their investment decision-making processes.

##### (A) Climate change risk

Climate change impacts can be measured as an economic cost. However, it is difficult to estimate the impacts due to:

- Knowledge gaps and the uncertainty in the various climate models
- The vulnerability of various markets to the impacts of climate change
- The ability of the human and the natural worlds to adapt to climate change, and
- The ability to predict the likely socioeconomic trends which could be either negative or positive.

From a financial perspective, the Trustee has considered the two types of climate-related risks being:

- Transition risks – those related to the transition to a lower-carbon economy which could entail policy, legal, technology and market changes, and
- Physical risks – those related to the physical impacts of climate change, such as extreme weather events, chronic heat waves, sea-level rise, erosion, and biodiversity loss.

The effects of climate change may impact different regions of the world in different ways. Regional effects of climate change may vary in nature. Some may result from a generalised global change, such as rising temperature, resulting in local effects, such as melting ice. Others may result from more specific changes to ocean currents and/or weather systems in which case the regional impact may not follow global trends.

##### ***Regional risks***

It is expected that climate change will result in sea-level rise, coastal erosion, saltwater intrusion, and flooding. At the same time, it is also expected that climate change will result in extreme weather events including more frequent and intense drought, storms and heat waves.

## Notes to the Financial Statements for the year ended 30 June 2022

### 25. Risk management (continued)

#### (d) Market risk (continued)

##### (iv) Climate-related and other emerging risks (continued)

The Fund has underlying investments in the following countries which are most likely to be affected by climate change:

	2022 \$000	2021 \$000
Japan	89,758	34,102
The Philippines	3,603	3,230
Germany	182,576	242,084
India	73,115	74,774
Canada	40,268	62,252

##### *Economic sector risks*

It is expected that a number of sectors will be affected by climate change with significant impacts on agriculture, energy and insurance. The Fund's underlying investments in these economic sectors are:

	2022 \$000	2021 \$000
Agriculture	11,642	11,568
Energy	173,926	120,022
Insurance	171,459	187,675

#### The International Sustainability Standards Board (ISSB)

During the year, the International Financial Reporting Standards (IFRS) Foundation Trustees announced the creation of a new standard-setting board - the ISSB. The purpose of the ISSB is to develop and approve a comprehensive global baseline of sustainability disclosures for the capital markets. The ISSB has released two draft standards covering general sustainability disclosure requirements as well as climate-related disclosures. Management is monitoring the development of these draft reporting requirements for future reporting periods.

### 26. Investment commitments

The Fund has a private market commitment of \$939 million (2021: \$1,283 million) as at the reporting date consists of the drawn commitment of \$682 million (2021: \$1,113 million) and undrawn commitment of \$263 million (2021: \$174 million). The undrawn commitment is also inclusive of any recallable portions relating to distributions which represent the investment managers' interest portion of fees and expenses.



## Notes to the Financial Statements for the year ended 30 June 2022

### 27. Investment in subsidiaries

	2022 \$000	2021 \$000
Private Equity Trust	9,780	15,144
<b>Investment in subsidiaries at fair value</b>	<b>9,780</b>	<b>15,144</b>

In accordance to AASB 2013-5 Amendments to Australian Accounting Standards – Investment Entities the Trust is required to provide certain disclosures, as outlined below:

Name of unconsolidated subsidiary	Principal place of business	2022 Ownership interest (%)	2021 Ownership interest (%)
Private Equity Trust	Australia	100%	100%

### 28. Memorandum of Understanding (MOU) signed with Active Super

On 8 June 2022, the Trustee of the Fund signed a Memorandum of Understanding (MoU) with LGSS Pty Ltd as trustee of Local Government Super (known as Active Super) and announced that Vision Super was exploring a potential merger with Active Super via a successor fund transfer (an SFT). The Trustee is continuing to explore this potential merger. A merger will only occur if the Directors are satisfied that it is in the best interests of members and the relevant regulatory tests are met.

### 29. Contingent liabilities/assets

The Fund has no contingent liabilities/assets as at 30 June 2022 and 30 June 2021.

### 30. Significant event after balance date

Between 30 June 2022 and the date of approval of this financial report, no matters or circumstances have arisen that have not otherwise been dealt with in the financial period that have significantly affected or may significantly affect the Fund.

## Local Authorities Superannuation Fund

### Trustee Declaration

In the opinion of the directors of the Trustee of Local Authorities Superannuation Fund (the Fund):

- (i) The accompanying financial statements and notes set out on pages 2 to 56 are drawn up in accordance with:
- The Australian Accounting Standards and other mandatory professional reporting requirements, and
  - Present fairly the Fund's financial position as at 30 June 2022 and its performance for the year ended on that date in accordance with those requirements
- (ii) During the year ended 30 June 2022, the Fund's operations have been carried out in accordance with its Trust Deed and:
- The requirements of the Superannuation Industry (Supervision) Act 1993 and its accompanying Regulations
  - The relevant requirements of the Corporations Act 2001 and its Regulations, and
  - The requirements under Section 13 of the Financial Sector (Collection of Data) Act 2001
- and
- (iii) There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors of the Trustee:



Lisa Darmanin



Casey Nunn

Date: 21 September 2022  
Melbourne

## INDEPENDENT AUDITOR'S REPORT

Local Authorities Superannuation Fund (ABN 24 496 637 884)

### Report by the Registrable Superannuation Entity's Auditor to the trustee and members

#### Opinion

I have audited the financial statements of Local Authorities Superannuation Fund (the RSE) comprising the statement of financial position as at 30 June 2022, the income statement, the statement of changes in member benefits, the statement of changes in reserves/equity and the statement of cash flows for the year then ended and the trustees' declaration.

In my opinion, the financial statements present fairly, in all material aspects, in accordance with Australian Accounting Standards the financial position of Local Authorities Superannuation Fund as at 30 June 2022 and the results of its operations, cash flows, changes in reserves/equity and changes in member benefits for the year ended 30 June 2022.

#### Basis for opinion

I conducted the audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my report. I am independent of the entity in accordance with the auditor independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to my audit of the financial statements in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Responsibilities of the trustee for the financial statements

The RSE's trustee is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee is also responsible for such internal control as the trustee determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustee is responsible for assessing the ability of the RSE to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustee either intends to liquidate the RSE or to cease operations, or has no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material

misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Australian Auditing Standards, I exercised professional judgment and maintained professional scepticism throughout the audit. I also:

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the RSE's internal control
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustee
- Concluded on the appropriateness of the trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the RSE's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my auditor opinion. My auditor conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the RSE to cease to continue as a going concern
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Communicated with the trustee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identified during my audit.

**BDO Audit Pty Ltd**

BDO  


**James Dixon**  
**Director**

Melbourne, 21 September 2022

Local Authorities  
Superannuation Fund

**Report on the Actuarial  
Investigation as at  
30 June 2022**

**The Defined Benefit Plan**

23 August 2022







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# Section 1: Executive Summary

- 1.1 We are pleased to present our report on the annual actuarial investigation of the Defined Benefit plan of the Local Authorities Superannuation Fund (the Fund). This report has been prepared for Vision Super Pty Ltd, the Trustee of the Fund.

## Results of previous actuarial investigation

- 1.2 The previous actuarial investigation was conducted by Matthew Burgess, FIAA, on behalf of Willis Towers Watson as at 30 June 2021. The results of that valuation were published in a report dated 7 September 2021.
- 1.3 In that review, the recommended funding arrangements comprised of the following:
- a Contributions equal to 10.0% of salary for employee members, increasing with increases in the Superannuation Guarantee rate;
  - b An additional contribution to cover the excess of the benefits paid as a consequence of retrenchment above the funded resignation or retirement benefit (the funded resignation or retirement benefit is calculated as the minimum of (100% and the VBI) multiplied by the vested benefit), plus contribution tax;
  - c Outstanding contributions in respect of calls made at the previous actuarial investigations; and
  - d Additional top up contributions that may be recommended in the future, if the Defined Benefit plan becomes in an unsatisfactory financial position.

Authorities also need to contribute the amount of members' salary sacrifice contributions.

- 1.4 Various recommendations including in respect of the ongoing review of the investment strategy, including liquidity, were also made.
- 1.5 We have been advised that all of the above recommendations were implemented.

## Assumptions for this actuarial investigation

- 1.6 The investment strategy of the Defined Benefit Plan has decreased its exposure to growth assets since 2021. The financial assumptions used in this actuarial investigation are summarised below and reflect the current investment strategy. The estimated future investment returns and long-term price inflation have increased reflecting the capital market assumptions from Vision Super's investment consultant.

	30 June 2022	30 June 2021
Net Investment Return	5.50% p.a. (gross: 6.25%p.a.)	4.75% p.a. (gross: 5.50%p.a.)
Salary Inflation	2.5% p.a. to 30 June 2023 and 3.50% p.a. thereafter	2.75% p.a.
Price Inflation	3.00% p.a.	2.25% p.a.

- 1.7 We have retained the demographic and expense assumptions used in the 30 June 2021 actuarial investigation.

## Results of this actuarial investigation

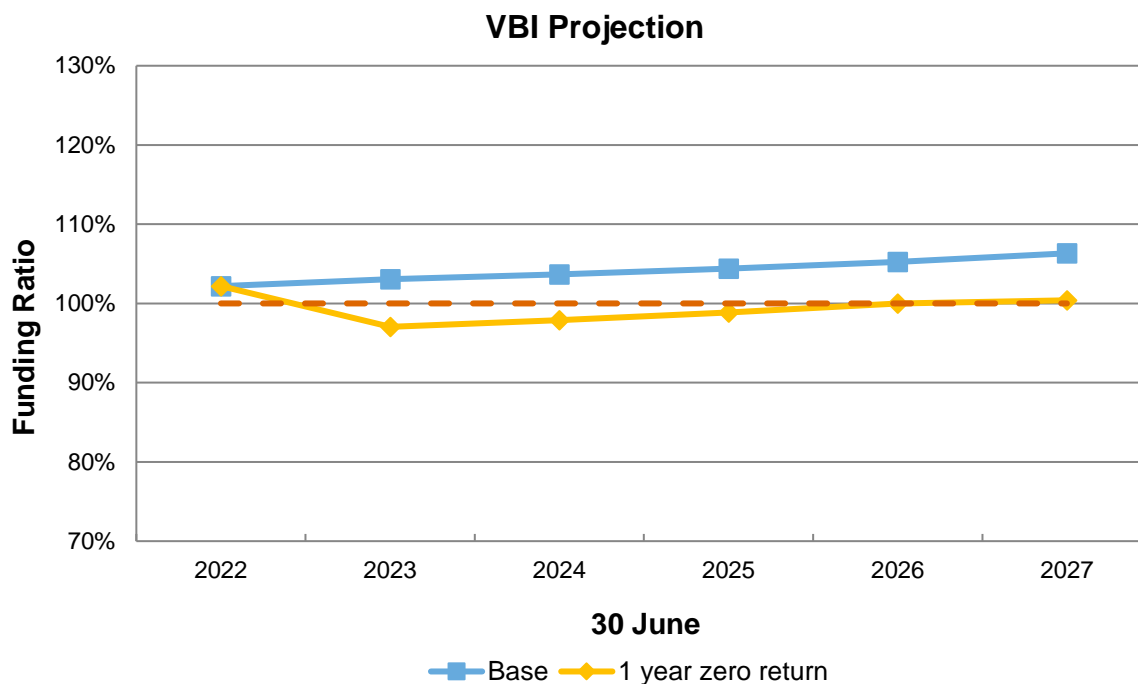
### Funding Status Measure

- 1.8 This actuarial investigation has shown that the Defined Benefit plan's financial position has deteriorated since the last review as at 30 June 2021, but still remains satisfactory.

	30 June 2022 Funding Indices	30 June 2021 Funding Indices
	%	%
Vested Benefit Index <sup>1</sup>	102.2	109.8
Discounted Accrued Benefit Index <sup>2</sup>	105.6	113.4
Minimum Requisite Benefit Index <sup>3</sup>	140.8	151.2

1. Vested Benefits are the benefits payable if all members resign/retirement immediately.
2. Discounted Accrued Benefits discount the future benefits expected to be paid in respect of completed membership to a present value.
3. Minimum Requisite Benefits are the minimum Superannuation Guarantee benefits.

- 1.9 The deterioration in asset coverage of the present value of past benefits is primarily due to financial experience (excess of investment return above salary increase and price inflation) being significantly worse than assumed.
- 1.10 The Defined Benefit plan's assets cover vested benefits at the review date and therefore the Defined Benefit plan was in a satisfactory financial position at that date as defined in SPS 160.
- 1.11 We understand the Authorities increased the Division C contribution rate from 10.0% of Salary to 10.5% of Salary from 1 July 2022. Our projection below shows that, on this basis and the assumptions made in this actuarial investigation and assuming that the Authorities makes contributions in line with the recommendations set out below, the Defined Benefit plan is expected to remain in a satisfactory financial position.
- 1.12 If experience is as expected the Authorities are not expected to be required to make any further contributions because of the actuarial surplus that exists. However, we have also been advised that the Trustee's preference is to use surplus to reduce investment risk over time to manage the potential for additional lump sum contributions to be required from Authorities if experience is worse than expected. Hence, we have recommended that the current contribution rates be retained and that the Trustee continues to consider when de-risking of the investment strategy is appropriate.
- 1.13 The future funding position, and the potential for additional contributions to be required from Authorities, is dependent upon future experience and particularly future investment returns. The following chart compares the expected Vested Benefit Index (VBI) in the best estimate "base case" and if there is a nil return in the year to 30 June 2023 (and expected returns thereafter). It should be noted that a nil return is not the worst outcome that could occur.



- 1.14 In the zero-return scenario, the VBI is expected to fall below 100% (i.e. unsatisfactory financial position) over the year ending 30 June 2023 and a funding call of approximately \$45m spread over three years would be expected to be required to improve the VBI to a satisfactory financial position. The above chart assumes such a call. This indicates that in the case of a large negative return for the year to 30 June 2023, the VBI may drop even more below 100%, meaning that top-up contributions may be required so that the VBI would be expected to return to 100% within the legislated three years.

## Recommendations

- 1.15 We recommend that the Authorities continue to adopt the following funding plan:
- a Contributions equal to 10.5% of salary for employee members, increasing with increases in the Superannuation Guarantee rate;
  - b An additional contribution to cover the excess of the benefits paid as a consequence of retrenchment above the funded resignation or retirement benefit (the funded resignation or retirement benefit is calculated as the minimum of (100% and the VBI) multiplied by the vested benefit), plus contribution tax;
  - c Outstanding contributions in respect of calls made at the previous actuarial investigations; and
  - d Additional top up contributions that may be recommended in the future, if the Defined Benefit plan becomes in an unsatisfactory financial position.

Authorities also need to contribute the amount of members' salary sacrifice contributions.

- 1.16 The ratio of the market value of the Defined Benefit plan's net assets to vested benefits should continue to be measured quarterly, and the Trustee's funding approach be reassessed accordingly.
- 1.17 In regards to the Defined Benefit plan's investment policy, we recommend that:
- The funding position and liquidity requirements of the Defined Benefit plan continue to be considered in setting investment policy. The current allocation to illiquid assets is material, and the Defined Benefit plan is closed to new members and has segregated assets. The adequacy of current and projected liquidity should continue to be reviewed, and stress tested, at least annually.
  - The Board continue to consider de-risking assets as a means of reducing the risk of subsequent higher contributions due to future poor investment experience. These considerations must be made concurrent with funding implications as they are directly linked.
- 1.18 As required under SPS 160, the Trustee has set the Shortfall Limit for the Defined Benefit plan at 97%. Given the current growth asset allocation, we consider this Shortfall Limit is appropriate for the Defined Benefit plan.
- 1.19 We confirm that in our opinion the Defined Benefit plan's self-insurance arrangements remain appropriate. Furthermore, based on our analysis we recommend that the self-insurance reserve be retained at \$5 million.
- 1.20 The next actuarial review should be carried out as at a date no later than 30 June 2023.



Matthew Burgess  
Fellow of the Institute of Actuaries of Australia

Towers Watson Australia Pty Ltd  
Level 4, 555 Bourke Street  
Melbourne VIC 3000

23 August 2022

DO: CVR/TH | TR: SF | CR: SF | ER: SF | SPR: MB



Surath Fernando  
Fellow of the Institute of Actuaries of Australia

## Section 2: Introduction

- 2.1 This report was commissioned by Vision Super Pty Ltd, the Trustee of the Local Authorities Superannuation Fund (the Fund).
- 2.2 The Local Authorities Superannuation Act (1988) (the Act) was proclaimed on 25 May 1988. The Act has been replaced and since 1 July 1998, the Fund has been governed by a Trust Deed.
- 2.3 The Fund is a “regulated fund” under the provisions of the Superannuation Industry (Supervision) Act 1993 (“SIS”). We understand that the Fund is treated as a complying superannuation fund for taxation purposes and is a taxed superannuation fund.
- 2.4 In accordance with Superannuation Prudential Standard 160 (SPS 160), “triennial” actuarial investigations are required at intervals of not more than three years. Annual actuarial investigations are also required because the Defined Benefit plan provides life-time pensions.
- 2.5 In accordance with Clause A.20.1, the Trust Deed requires each Authority to contribute to the Fund in respect of a particular employee the amount or rate of contributions determined by the Trustee after obtaining the advice of the actuary, including any unfunded liability amount. The Trustee also has some flexibility in adjusting benefits in accordance with Clause A.21 in the event that an Authority terminates contributions to the Fund.
- 2.6 A triennial actuarial investigation was completed for the Defined Benefit plan as at 30 June 2020 and our report was dated 8 September 2020. An annual actuarial investigation was completed as at 30 June 2021 and the report was dated 7 September 2021. Both reports were signed by Matthew Burgess and Surath Fernando.
- 2.7 This actuarial investigation report is not as comprehensive as a triennial actuarial investigation. For example, we have not re-examined the demographic experience to review the assumptions or included analysis on the sensitivity of our results to the assumptions.
- 2.8 This actuarial investigation report covers the Defined Benefit plan within the Fund, which is a sub-fund as defined in SPS 160. The City of Melbourne plan, the Parks Victoria plan and the divisions of the Fund that pay only accumulation benefits are not considered in this report.
- 2.9 The purpose of this report is to:
- examine the sufficiency of the assets in relation to members’ accrued benefit entitlements;
  - determine the contribution rate required so that the Defined Benefit plan is expected to maintain a satisfactory financial position;
  - examine the suitability of the Defined Benefit plan self-insurance and investment arrangements;
  - provide actuarial certification in respect of the funding of pension entitlements;
  - satisfy requirements of the Trust Deed; and
  - meet legislative requirements.

This actuarial review has been conducted in order to meet the Trustee’s obligations in accordance with SPS160 issued under section 34C of the Superannuation Industry (Supervision) Act (SIS Act) which came into effect from 1 July 2013.

2.10 This report satisfies the requirements of the following Professional Standards and Guidance of the Institute of Actuaries of Australia:

- Practice Guideline 1
- Professional Standard 400
- Professional Standard 402
- Professional Standard 404
- Professional Standard 410.

### Actuarial Investigation as at 30 June 2021

2.11 The report on the actuarial investigation as at 30 June 2021 concluded that the experience of the Defined Benefit plan over the year to 30 June 2021 had resulted in an improvement in asset coverage of vested benefits. Subsequently, the Defined Benefit plan remained in a satisfactory financial position and the current employer contributions were expected to be more than sufficient. We understood that the preference of the Trustee was to retain the existing contributions and seek to reduce investment risk over time.

2.12 We recommended that the following funding plan be adopted:

- a Contributions equal to 10% of salary for employee members, increasing with increases in the Superannuation Guarantee rate;
- b An additional contribution to cover any excess of the benefits paid as a consequence of retrenchment above the funded resignation or retirement benefit (whereby the funded resignation or retirement benefit is calculated as the minimum of (100% and the VBI) multiplied by the benefit), plus contribution tax; plus
- c Outstanding contributions in respect of calls made at the previous actuarial investigations; and
- d Additional top up contributions that may be required in the future if the plan becomes in an unsatisfactory financial position.

Authorities also needed to contribute the amount of members' salary sacrifice contributions.

2.13 The Trustee has implemented these recommendations in full. No additional contributions are currently required under recommendation 2.12(d) because the Defined Benefit plan is not in an unsatisfactory financial position.

2.14 The other recommendations in the report were that:

- a The self-insurance reserve be retained at \$5 million;
- b The funding position of the Defined Benefit plan and future liquidity requirements continue to be considered in setting investment policy; and
- c The Board continue to consider de-risking assets as a means of reducing the risk of subsequent higher contributions due to future poor investment experience, whilst considering any subsequent funding implications.

2.15 The Trustee has adopted these recommendations.

## Events since the 30 June 2021 Actuarial Investigation

- 2.16 There have been no amendments to the Defined Benefit plan benefits.
- 2.17 The Superannuation Guarantee (SG) Contribution rate increased to 10.5% from 1 July 2022. We understand the Authorities increased the Division C contribution rate to reflect this change. There has been a legislative change to extend the SG to employees earning less than \$450 per month from 1 July 2022. The most recent Benefit Certificate is being updated to reflect this change. There has been no other legislative changes or changes to benefits that have materially impacted on the funding of the Defined Benefit plan.
- 2.18 Vision Super advised that the Defined Benefit plan investment return for the year to 30 June 2022 was -3.79% p.a., which was lower than the return of 4.75% p.a. assumed in the 30 June 2021 actuarial investigation.

## Reliance Statement and Data

- 2.19 This report is provided subject to our agreed Terms and Conditions of Engagement. This report is provided solely for the Trustee's use and for the specific purposes indicated above. It may not be suitable for use in any other context or for any other purpose.
- 2.20 Except where we expressly agree in writing, this report should not be relied on by any third party. In the absence of such consent and an express assumption of responsibility, no responsibility whatsoever is accepted by us for any consequences arising from any third party relying on this report or any advice relating to its contents.
- 2.21 The Trustee may make a copy of this report available to its auditors, Authorities and to any person to whom the Trustee may be required to provide a copy under relevant legislation, but we make no representation as to the suitability of this report for any purpose other than that for which it was originally provided and accept no responsibility or liability to the Trustee's auditors, Authorities or any third party in this regard. The Trustee should draw the provisions of this paragraph to the attention of its third parties when passing this report to them.
- 2.22 In conducting this review, we have relied upon information and data provided to us orally and in writing by the Trustee and other persons or organisations designated by the Trustee. We have relied on all the data and information provided, including plan provisions, membership data and asset information, as being complete and accurate. We have not independently verified the accuracy or completeness of the data or information provided, but we have performed limited checks for consistency.
- 2.23 The results presented in this report are directly dependent upon the accuracy and completeness of the underlying data and information. Any material inaccuracy in the data, assets, plan provisions or other information provided to us may have produced results that are

not suitable for the purposes of this letter and such inaccuracies may produce materially different results that could require that a revised letter be issued.

## Content of this Report

2.24 The remainder of this report is structured in the following manner:

- Sections 3 to 5 consider the data, assets, assumptions and methodology.
- Section 6 considers the financial position of the Defined Benefit plan at 30 June 2022.
- Section 7 considers the adequacy of funding of the Defined Benefit plan.
- Section 8 considers self-insurance.
- Section 9 considers material risks.
- Appendices A to E include supporting details of benefits, membership, actuarial assumptions, assets and actuarial surplus.
- Appendix F contains the statements required under SPS 160.



## Section 3: Data and Experience

- 3.1 This section deals with the data used in the investigation and comments on the more significant factors bearing upon the experience of the Defined Benefit plan.

### Membership

- 3.2 For the purposes of this investigation, we were supplied with information on active members of the Defined Benefit plan, deferred beneficiaries and pensioners as at 30 June 2022. While we have relied upon the data provided, from our checking processes we believe that the data is sufficiently accurate for the purposes of this investigation.
- 3.3 In summary, the active membership of the Defined Benefit plan has decreased by 256 (or 15.1%) from 1,700 at 30 June 2021 to 1,444 at 30 June 2022. The number of lifetime pensioners has decreased by 53 (or 1.3%) from 4,124 to 4,071 over the same period.

Summary of Defined Benefit Plan Membership Data		
Active Members	30 June 2022	30 June 2021
Number	1,444	1,700
Average Age	58.0 years	57.7 years
Average Past Membership	33.8 years	33.0 years
Average Salary	\$96,481	\$95,036
Lifetime Pensioners		
Number	4,071	4,124
Average Age	77.5 years	77.4 years
Average Annual Pension	\$16,076	\$14,878
Fixed Term Pensioners		
Number	3	4
Deferred Beneficiaries		
Number	1,143	1,227
Average Age	57.6 years	57.0 years
Average Account Balance	\$257,950	\$271,064

A detailed summary of the movement in active and pensioner membership is set out in Appendix B.

## Salaries

- 3.4 We have examined the salary experience of Defined Benefit plan members over the year ending 30 June 2022. The data showed that the full time equivalent salary of Defined Benefit plan members who remained members as at 30 June 2022 grew by 2.2% p.a. over the period. This compares to growth of 2.0% p.a. over the year to 30 June 2021 for these members.
- 3.5 The actual increase over the year to 30 June 2022 was lower than the assumed rate of 2.75% p.a. in the 30 June 2021 actuarial investigation.

## Pension Indexation

- 3.6 The pensions are indexed semi-annually based on the change in the Consumer Price Index (CPI). Over the year ending 30 June 2022, the pension increase was 3.5% p.a.. This was higher than the rate of 2.25% p.a. assumed in the 30 June 2021 actuarial investigation.

## Investment Returns

- 3.7 Vision Super has advised that the rate of return (net of tax and investment expenses) earned by the Defined Benefit plan for the year ending 30 June 2022 was -3.79% p.a..
- 3.8 Comparison of the -3.79% p.a. return with the salary increase rate (from paragraph 3.4) of 2.2% p.a. shows a real return of approximately -6.0% p.a. which is lower than the 2.0% p.a. real return assumed in the 30 June 2021 actuarial investigation.
- 3.9 In respect of pension liabilities, pension increases averaged 3.5% p.a., providing a net of tax real return of -7.3% p.a. The gross of tax real return would be more negative and materially lower than the 3.25% p.a. assumed in the 30 June 2021 actuarial investigation.
- 3.10 The negative real returns over the valuation period have had a negative effect on the Defined Benefit plan's financial position.

## Section 4: Assets and Investments

### Assets

- 4.1 Copies of the Fund's unaudited financial statements as at 30 June 2022 were supplied by Vision Super for the investigation together with details of the investment strategy at 30 June 2022. We were also provided a breakdown of the unaudited market value of assets by sub-plan. We have been advised by Vision Super that the unaudited financial statements have been prepared consistently with AASB1056.
- 4.2 The fair value of the Defined Benefit plan assets (including pensioners and deferred beneficiaries) as at 30 June 2022 used in the valuation was \$2,136.3 million. No amounts are included in respect of accumulation accounts of members, except certain defined benefit offset accounts and deferred beneficiaries. It also includes fixed term pensioners.
- 4.3 The asset value includes the remaining contributions receivable in respect of past calls for additional contributions by Vision Super. We have been advised that the vast majority of the additional contributions have been paid by the Authorities.
- 4.4 The above fair value of assets excludes \$5.0 million in respect of the Death and Disability reserve from the assets because we have not included an amount for incurred but not reported claims in the calculation of the funding position. In Section 8 we have commented on the amount of this reserve. Vision Super has excluded the Operational Risk Financial Requirement from the Defined Benefit plan assets in the financial statements.
- 4.5 We believe that the most suitable approach for this investigation is to adopt the fair value of assets for all purposes. The funding position of the Defined Benefit plan may be variable because of high volatility in asset valuations.

### Asset Allocation

- 4.6 The Defined Benefit plan invests in a wide range of asset classes such as equity, property and fixed interest investments. Appendix D shows the Strategic Asset Allocation and the Actual Asset Allocation as at 30 June 2022. This asset allocation does not apply for deferred beneficiaries where members have investment choice nor the assets for small number of fixed term pensioners that are invested in defensive assets.
- 4.7 The strategic allocation to Growth Assets as at 30 June 2022 was 71.3%. The actual growth allocation as at 30 June 2022 was 66.9%.
- 4.8 In our opinion the allocation to growth assets is among a range of allocations that could reasonably be used by the Defined Benefit plan.

- 4.9 Setting the Strategic Asset Allocation is a balance between:
- a A high allocation to growth assets, which is expected to produce relatively high but more variable investment returns and therefore lower but more variable Authority contributions; and
  - b A low allocation to growth assets, which is expected to produce relatively low but less variable investment returns and therefore higher but less variable Authority contributions.
- 4.10 The Defined Benefit plan has been closed to new members since 31 December 1993. Therefore, its liabilities will reduce significantly over the next ten years in real terms. If future investment returns are higher or lower than expected it is possible that a significant “actuarial surplus” or “actuarial shortfall” will again result. Therefore, it is recommended that the funding position of the Defined Benefit plan continues to be considered when setting investment policy.

## Liquidity

- 4.11 As at 30 June 2022, 27.4% of the investments are in illiquid asset classes which include Infrastructure, Private Equity, Direct Property and some Alternative Debt. This is an increase from the 23.4% actual allocation to illiquid asset classes as at 30 June 2021.
- 4.12 This is above the Strategic Target allocation for illiquid assets of 25.8%, which is the same as the Strategic Target allocation for illiquid assets at 30 June 2021. We note that while some of the illiquid assets are in fixed ended funds which will become liquid over time, others such as the Direct Property and Infrastructure investments will need to be sold or transferred from the defined benefit assets in the future.
- 4.13 In the long term, the defined benefit plans will require full liquidity. Therefore, we believe that Vision Super should continue to consider the time frame over which they will reduce the exposure to illiquid assets in the defined benefit plans to zero. As we are aware is currently the case, we suggest that the liability run off under various scenarios should continue to form part of this consideration.
- 4.14 Therefore, we recommend that Vision Super should continue to consider the time frame over which they will reduce the exposure to illiquid assets in the defined benefit plans to zero. We suggest that consideration of the liability run off under various adverse scenarios should continue to form part of this consideration.

## Unit Pricing

- 4.15 Within the Fund there are defined contribution members as well as defined benefit members. The assets and liabilities of the defined contribution members are equal, subject to timing differences, with daily unit pricing being used. There is no investment reserving. We have been advised that the assets of the defined contribution members are segregated from the defined benefit assets and Vision Super has in place processes to limit cross subsidies between defined contribution and defined benefit members.
- 4.16 The Fund's Investment Governance Framework states that “Defined Benefit Investment options are considered separately from the Accumulation Investment options for rebalancing purposes.” This means that the Defined Benefit plan's asset allocation should not be materially impacted by the experience of the defined contribution plans.

## Shortfall Limit

- 4.17 The Trustee has set a Shortfall Limit in accordance with SPS 160 of 97% for the Defined Benefit plan. This means that between actuarial investigations, a restoration plan to restore the VBI to 100% is required when the Defined Benefit plan's VBI reduces to below 97%.
- 4.18 A Shortfall Limit is defined in paragraph 10 of SPS 160 as:
- “the extent to which an RSE licensee considers that a fund can be in an unsatisfactory financial position with the RSE licensee still being able to reasonably expect that, because of corrections in the temporary negative market fluctuations in the value of fund assets, the fund can be restored to a satisfactory financial position within one year.”
- 4.19 We believe that the current Shortfall Limit remains appropriate. We have considered that:
- a The actual asset allocation retains an allocation to growth assets in the order of 66.9%, with 71.3% strategic asset allocation;
  - b Vested benefits are higher than Minimum Requisite Benefits; and
  - c The Authorities have a contractual obligation to pay contributions determined by the Trustee.

## Section 5: Valuation Assumptions and Funding Method

- 5.1 An appropriate set of both financial and demographic assumptions must be determined before values can be placed on the Defined Benefit plan's liabilities and assets. The assumptions relating to benefit liabilities and assets are discussed under separate headings below.
- 5.2 In setting both the financial and demographic assumptions, the current COVID-19 pandemic has been considered and reflects known information.

### Valuation of Benefit Liabilities

- 5.3 The assumptions for this actuarial investigation have been determined on a "best estimate" basis.
- 5.4 "Best estimate" describes assumptions which reflect "mean" estimates for the various factors, rather than choosing assumptions with explicit margins to cope with uncertainty about future experience. These "best estimate" assumptions might be described as being realistic. They are equally likely to prove to be conservative or to be optimistic and are less likely to be able to absorb fluctuations in future experience.
- 5.5 As the Defined Benefit plan is closed to new members and as a result has declining membership, "best estimate" assumptions continue to be relevant because using conservative assumptions would be expected to eventually result in excess assets. Best estimate assumptions are also required by the Actuaries Institute's Professional Standards.
- 5.6 Appendix C contains a summary of the assumptions used.

### Key Financial Assumptions

- 5.7 Financial assumptions for investment earnings, salary inflation and pension increases are required to value the liabilities.
- 5.8 The factor of major significance in the investigation of the Defined Benefit plan's active member benefit liabilities is the differential between the assumed future rate of investment earnings and the assumed rate of salary growth due to inflation. (These factors are almost exactly compensating in their effect upon the present value of the employed members' Defined Benefit plan's future benefit liabilities - hence, the difference between the rates is important, rather than their absolute values.)
- 5.9 For valuing the current pensioner liabilities, the differential between investment earnings and the rate of price inflation is relevant because pensions are indexed semi-annually to the change in the Consumer Price Index (CPI). The historical long-term differential between the changes in CPI and AWE (salary inflation) has generally ranged between 0% and 2% p.a.
- 5.10 The "best estimate" financial assumptions adopted at the 30 June 2021 actuarial investigation were:
  - 2.0% p.a. real investment return over salary inflation. This comprised a 4.75% p.a. net of tax investment return assumption and a 2.75% p.a. salary inflation assumption.
  - 3.25% p.a. real investment return over price inflation. This comprised a 5.5% p.a. gross of tax investment return and a 2.25% p.a. CPI assumption.

- 5.11 The “best estimate” financial assumptions adopted for the 30 June 2022 investigation have been updated to reflect the most recent capital market assumptions and current asset allocation from the Fund’s asset consultant, Frontier. The “best estimate” financial assumptions adopted in this valuation are:
- 2.0% p.a. real investment return over the long-term salary inflation. This comprised a 5.5% p.a. net of tax investment return assumption and a 3.5% p.a. long-term salary inflation assumption.
  - 3.25% p.a. real investment return over price inflation. This comprised a 6.25% p.a. gross of tax investment return and a 3.0% p.a. CPI assumption.
- 5.12 The investments for the small group of fixed term pensions are matched to the liabilities by investing in fixed interest securities including CPI linked bonds. Based on current CPI indexed bond interest rates a real discount rate (i.e. discount rate above CPI) of 1.0% has been assumed. This discount rate includes a reduction of 0.75% to allow for investment management fees and administration costs.
- 5.13 These assumptions have been set after consideration of the return expectations of Vision Super’s investment consultants.

## Taxation

- 5.14 The assumed investment earning rate in respect of pension liabilities is gross of tax on investment income because no investment tax is paid on assets used to provide pensions. The assumed investment earning rate for active members and deferred beneficiaries is net of tax on investment income. A difference of 0.75% p.a. is assumed between the gross of tax and net of tax investment earning rate. This difference reflects that the tax on investment income for active members and deferred beneficiaries is generally less than 15% due to imputation and franking credits, capitals gains discounts and other investment tax offsets.

## Expenses

- 5.15 An analysis of expense data was undertaken in the previous triennial actuarial investigation at 30 June 2020. The expense assumptions adopted for this review are consistent with those adopted for the 30 June 2020 triennial actuarial investigation.

## Demographic Assumptions

- 5.16 An analysis of the Defined Benefit plan’s demographic experience was undertaken at the previous triennial actuarial investigation at 30 June 2020. This analysis was undertaken within the previous three years and it is not expected that there has been any significant change to the demographic experience since then. Therefore, for the purpose of this actuarial investigation, we have retained the demographic assumptions from the previous actuarial investigation. Appendix C summarises the demographic assumptions adopted for this investigation.

## Benefits

- 5.17 The benefits which have been valued are summarised in Appendix A. Members of the Defined Benefit plan on 25 May 1988 have certain guarantees or options in relation to benefits provided under the 1958 Act. As per the 30 June 2020 triennial actuarial investigation, we have assumed that 60% of eligible retirees, who joined the Defined Benefit plan prior to 25 May 1988, elect to take the pension option and 45% of eligible deferred beneficiaries elect to take the pension option. It has also been assumed that 80% of those who resign will take the deferred benefit option. We have made no allowance for any other guarantees and

options these members may be entitled to, as we continue to believe they are not likely to have a material impact on the results of this investigation.

## Actuarial Funding Method

- 5.18 In recommending a funding plan which aims to be sufficient to fund the members' benefits in the long-term, it is necessary to project the operation of the Defined Benefit plan into the future, using the actuarial assumptions set out above.
- 5.19 Briefly the projection operates in the following manner:
- a project total benefits and expenses expected to emerge in all future years in respect of current members, deferred beneficiaries and pensioners. The projection is based on the long-term actuarial assumptions including allowance for the contingencies under which benefits can be paid (retirement, death, disablement and resignation), salary and pension increases;
  - b discount these projected benefits to a present value at the assumed long-term investment return;
  - c in a similar manner to (a) and (b), project the ongoing employer contribution and member contributions over all future years for current members, and discount them to present values; and
  - d determine the additional funding required by the Authorities by comparing (b) with (c) plus the appropriate value of the assets at the investigation date.
- 5.20 This projection is known as the aggregate funding method, which is considered to be appropriate for a closed fund. The purpose of the calculation is to assess if the existing contribution rates and assets are sufficient to provide all future benefits on current assumptions.
- 5.21 Under SPS 160, APRA requires superannuation funds to put in place a plan that is expected to fully fund their vested benefits within three years if the fund's assets are less than the vested benefits at an actuarial investigation, also known as being in an "Unsatisfactory Financial Position". A funding plan is also required when the VBI reduces to below the shortfall limit, currently 97%, between actuarial investigations.
- 5.22 The shortfall or surplus relative to vested benefits is likely to vary from the actuarial shortfall or surplus calculated using the method set out in 5.19. It is possible that the recommended funding amount under this funding method may not be sufficient to be expected to maintain the Defined Benefit plan's Vested Benefits Index (VBI) to 100% within the timeframe required by APRA if it is below 100%. In this situation additional contributions would be recommended as required by APRA.
- 5.23 Additional contributions can be made to target a VBI of 100% but where these contributions are higher than any actuarial shortfall calculated using the aggregate funding method described above a surplus would be expected to result in the long term if experience is as expected. Vision Super may also be able to manage any such shortfalls or surpluses through a combination of changes to funding and investment strategy.
- 5.24 In the next section we review the financial position as at 30 June 2022 and in Section 7 we discuss the adequacy of the long term funding arrangements.



## Section 6: Financial Position of Defined Benefit Plan

- 6.1 The financial position of the Defined Benefit plan at the investigation date provides some insight into the progress towards fully funding members' benefits in the long-term.
- 6.2 A convenient means of assessing the financial position of the Defined Benefit plan involves the calculation of various indices of benefits compared to assets.

### Vested Benefits Index

- 6.3 The first of the indices is the "Vested Benefits Index" (VBI). Vested Benefits are defined as the benefits that would be due and payable if all the members voluntarily terminated their service with their employers at the investigation date.
- For active members, the Vested Benefits are the resignation benefit or the early retirement benefit (if aged 55 or more). Upon resignation from LASF, a member has the choice of an immediate lump sum or a more valuable deferred benefit. Also, upon retirement certain members have the option of taking a pension. In calculating the vested benefits, we have allowed for the best estimate assumption regarding the take up of deferred benefits and pensions.
  - For deferred beneficiaries, the vested benefit will be the present value of the liabilities, allowing for the pension take up rate.
  - For pensioners, the vested benefit is the present value of expected future pension payments.
- 6.4 The Vested Benefits Index is calculated as follows:

$$\text{VBI} = \frac{\text{fair value of assets}}{\text{total of vested benefits}}$$

- 6.5 The Vested Benefit Index as at 30 June 2022 is:

VBI as at 30 June 2022	
Defined Benefit plan assets (\$m)	\$2,136.3
Vested Benefits (\$m)	
Active Members	\$888.2
Life-time Pensioners	\$894.0
Fixed term Pensioners	\$0.8
Deferred beneficiaries	\$307.6
Total Vested Benefits	\$2,090.6
Vested Benefit Index	102.2%

- 6.6 The calculated VBI for the Defined Benefit plan at 30 June 2022 is 102.2%. This compares with a VBI of 109.8% at the 30 June 2021 investigation. The Defined Benefit plan was not in an unsatisfactory financial position as at 30 June 2022.

- 6.7 The VBI for the Defined Benefit plan has reduced since 30 June 2021 mainly due to the financial experience (excess of investment return above salary increase and pension increases) being significantly worse than assumed.

### Discounted Accrued Benefits Index

- 6.8 Discounted Accrued Benefits means the present value of the benefit payable in the future (based on the assumptions) accrued in respect of service to the investigation date. The method of apportioning active members' benefits to past service for the main Defined Benefit plan is as follows, effectively recognising the portion of future benefits arising due to service to date:
- a Retirement, disablement and deferred resignation – the past service benefit (based on accrued lump sum multiples and accrued pensions where relevant) at the calculation date, with allowance for future salary growth to the assumed exit date.
  - b Death benefits – the total projected death benefit at the assumed exit date multiplied by the ratio of service to the calculation date divided by service to the retirement date.
  - c Immediate Resignation Benefit – the past service benefit at the calculation date (based on the multiples at the calculation date) with allowance for future salary growth up to the assumed resignation date.
- 6.9 The Discounted Accrued Benefits are not subject to a minimum of the Vested Benefits.
- 6.10 The index is more a measure of the Defined Benefit plan's on-going capacity to meet Accrued Benefits in the long run.
- 6.11 The "Discounted Accrued Benefits Index" (DABI) is calculated as follows:

$$\text{DABI} = \frac{\text{fair value of assets}}{\text{total of discounted accrued benefits}}$$

- 6.12 The Discounted Accrued Benefit Index as at 30 June 2022 is:

DABI as at 30 June 2022	
Defined Benefit plan assets (\$m)	\$2,136.3
Discounted Accrued Benefits (\$m)	
Active Members	\$821.0
Life-time Pensioners	\$894.0
Fixed term Pensioners	\$0.8
Deferred beneficiaries	\$307.6
Total Discounted Accrued Benefits	2,023.4
Discounted Accrued Benefit Index	105.6%

- 6.13 The calculated DABI for the Defined Benefit plan at 30 June 2022, based on the “best estimate” assumptions, used in this investigation, is 105.6%. The DABI was estimated to be 113.4% at the 30 June 2021 investigation. The decrease in DABI was mainly due to the worse than expected investment return during the year.
- 6.14 Because the DABI is more than 100%, it means current assets are expected to be sufficient to provide the benefits of members’ accrued benefits based on service to 30 June 2022.

### Minimum Requisite Benefits Index

- 6.15 We have also considered the asset coverage of members’ Minimum Requisite Benefits.
- 6.16 The Minimum Requisite Benefits (MRBs) are the minimum amount of benefit that must be provided to enable Authorities to satisfy their Superannuation Guarantee obligations. The method to calculate the amount of MRBs for the active members is specified in my current Benefit Certificate.
- 6.17 The MRBs for Defined Benefit active members have been configured on the administration system. We have therefore used the MRB data provided by the administrator for the purposes of this valuation.
- 6.18 In relation to the determination of the MRBs for deferred beneficiaries and pensioners, DLA Piper has advised that the MRB should be crystallised when members cease to be an employee and there was no basis to adopt a higher benefit beyond their MRB entitlements.
- 6.19 In accordance with this legal advice, we have estimated the MRBs for these members on the following basis:
- a For deferred beneficiaries, their MRBs has been calculated as the following amounts (plus interest):
    - i. For members who resigned prior to 1 July 2013, the immediate cash resignation benefit, as the MRB was defined as equal to this amount in the Benefit Certificate applicable at that time;
    - ii. For members who resigned from and after 1 July 2013, the MRB is expected to be different to the immediate cash resignation benefit. We understand that the resignation benefits provided by Vision Super have already been subject to a minimum of the MRB, if this minimum applies. Hence we have assumed that the MRB is equal to the resignation benefit provided, which will overstate the estimated MRB where the actual MRB is less than the immediate resignation benefit. We do not think this will materially overstate the amount of the MRB.
  - b For the current pensioners who retired after 1992 (since the introduction of the Superannuation Guarantee legislation), their MRBs are expected to be less than their retirement benefits; whereas for those current pensioners who retired prior to 1992, their MRBs are assumed to be their retirement benefit. On retirement, all Defined Benefit plan members are required to take at least half of their benefit as a lump sum, which means that the portion of the pension that is funded by the MRB will often be low.

Vision Super has completed analysis to determine the MRB percentage for a large proportion of pensioners. However, the administration system is unable to provide complete information regarding all current pensioner members’ MRB at the time of retirement. For the last actuarial investigation, we estimated that the proportion of MRB benefits relative to the retirement pensions was in the order of 70% for all current pensioners. We have retained this assumption for this actuarial investigation. We note the

average proportion of MRB Benefits relative to retirement pensions as determined by the Vision Super administration system is in the order of 50%, meaning that our assumption of 70% is a conservative estimate of the MRB entitlement for pensioners.

6.20 The Minimum Requisite Benefit Index is calculated as follows:

$$\text{MRBI} = \frac{\text{fair value of assets}}{\text{total of Minimum Requisite Benefits}}$$

6.21 The Minimum Requisite Benefit Index as at 30 June 2022 is:

MRBI as at 30 June 2022	
Defined Benefit plan assets (\$m)	\$2,136.3
Minimum Requisite Benefits (\$m)	
Active Members	\$594.7
Lifetime Pensioners	\$625.8
Fixed term Pensioners	\$0.8
Deferred beneficiaries	\$295.9
Total Minimum Requisite Benefits	1,517.1
Minimum Requisite Benefit Index	140.8%

6.22 As at 30 June 2022 we estimate that the ratio of the market value of assets to the amount of Minimum Requisite Benefits was approximately 140.8%. This compares with a MRBI of 151.2% at the 30 June 2021 investigation. The decrease in MRBI was mainly due to the worse than expected investment return during the year.

6.23 In accordance with the legal advice from DLA Piper, this ratio has been calculated including the pension MRBs and the deferred MRBs in the total of MRBs (rather than a deduction from the fair value of assets).

6.24 If this ratio for the entire Fund falls to below 100%, it becomes Technically Insolvent as defined in the SIS Regulations. If this occurs the Trustee must take certain steps to restore solvency. The Trustee needs to continue to monitor the "Notifiable Events" defined in the Funding and Solvency Certificate to identify if the Fund is at risk of becoming, or becomes, Technically Insolvent so appropriate action can be taken.

## Other Measures of Financial Position

6.25 In accordance with Clause A.21.1(a) of the Trust Deed, an Authority requires the approval of the Board to terminate its contributions to the Defined Benefit plan. We assume this approval would not be provided unless any future funding risk is adequately managed. Also, in accordance with Clause A.21.1(b), such an Authority remains responsible for its share of any actuarial shortfall.

6.26 However, if an Authority does terminate its contributions, Clause A.21 of the Trust Deed states that:

*"the Trustee, after obtaining the advice of the Actuary and subject to A.21.5, may adjust any benefit which is or may become payable to or in respect of any person whom the Trustee may consider is affected by that termination to the extent and in the manner the Trustee considers appropriate and equitable"*

6.27 Further it states in Clause A.21.5 that:

*“...Unless otherwise agreed between the Trustee and the Employer, an adjustment made ...must not increase the amount of any benefit which, in the opinion of the Trustee after obtaining the advice of the Actuary, has accrued in respect of a person immediately prior to the effective date of that adjustment in respect of the period up to that date or improve the basis upon which benefits accrue during or in respect of any period after that date.”*

6.28 Therefore, in the case of the termination of contributions by one or more Authorities the Trustee has some flexibility in respect of the benefits provided, subject to superannuation law, and there is no alternative measure of financial position that needs to be calculated in respect of this situation.

6.29 On retrenchment, members' are entitled to an accrued retirement benefit. For members over age 55 this is equal to their vested benefit (i.e. retirement benefit) but for members under age 55 it will be higher than their vested benefit. For active members, retrenchment benefits as at 30 June 2022 were \$897.9 million. As at 30 June 2022, the ratio of the market value of assets to the amount of retrenchment benefits was 101.7%. This ratio includes the value of pensioner and deferred beneficiaries' benefits. The corresponding index as at 30 June 2021 investigation was 109.2%. This decrease in the index was mainly due to lower investment returns than expected.

6.30 An additional contribution may be required from the relevant Authority in respect of each retrenchment under the current funding plan so that there is no additional financial strain on the Defined Benefit plan.

6.31 The liabilities of pensioners used to determine all of the funding measures have been calculated using the funding assumptions and assuming the liabilities will be met by continuing to make pension payments until all pensioners have died. It should be noted that if the current pension liabilities were to be transferred to a life insurance office, the assets required to be transferred could be significantly higher than the amount of the vested benefits calculated in this investigation because the assumptions used for this purpose would need to be calculated consistently with the capital adequacy requirements of life insurance offices. The 30 June 2020 triennial actuarial valuation estimated that such a transfer would reduce the VBI by approximately 19%.

6.32 In Appendix D the Defined Benefit plan's asset allocation is shown and there is currently a 27.4% allocation to illiquid assets. The funding indices have been calculated based on the valuation of these assets at fair market value from the 30 June 2022 unaudited financial statements (excluding disposal costs). In the unlikely event that these assets had to be quickly liquidated it is possible that this could occur at discounted values resulting in lower funding ratios. For example, a 20% discount on forced sale of illiquid assets would reduce the funding indices by approximately 6%.

6.33 The Authorities have ten years to make each of the three lump sum contributions requested by Vision Super as at 30 June 1997, 30 June 2002 and 30 June 2012 and fifteen years to make the contributions requested as at 30 June 2013. Outstanding amounts are included in the fair value of assets as contributions receivable. If these amounts are not paid the funding position would be worse than set out in this report. We have been advised by Vision Super that the vast majority of the outstanding amounts have been received by 30 June 2022.

- 6.34 The VBI and DABI would increase (or decrease) if a lower (or higher) proportion of employee members were assumed to defer upon resignation or take a pension upon retirement. In the 2020 triennial actuarial investigation, we reported that if it was assumed that 100% of eligible members elected the pension option and 100% of resigning members elected the deferred option, the impact on the VBI and the DABI would be a reduction of 3% and 2% respectively. We do not expect these sensitivities to have changed materially since 2020.
- 6.35 There was no material deferred tax asset in the Fund as at 30 June 2022. Therefore, the funding is not significantly dependent upon being able to utilize such an amount.

### Probability of making Pension Payments

- 6.36 In order to satisfy the requirements of SPS 160 to provide an opinion of whether at 30 June 2022 “there is a high degree of probability that the fund will be able to pay the pensions as required under the fund’s governing rules”, without any clear priorities for benefits being specified in the Fund Trust Deed, we looked to the following points in relation to contributions:
- a As envisaged by Circular 12/97 (issued by the Board under the 1988 Act), any future funding shortfall arising from pension liabilities can be funded under the Unfunded Liability Amount provisions in the Trust Deed.
  - b Under Part A.21 of the Fund’s Trust Deed, participating employers are generally able to terminate their contributions to the Fund at any time. However:
    - i. Under clause A.21.1(b), a participating employer in Division C (the Defined Benefit plan) with an “Unfunded Liability Amount” is not able to terminate contributions. The “Unfunded Liability Amount” is the amount identified in respect of each participating employer using the methodology set out in Circular 12/97.
    - ii. A participating employer without an “Unfunded Liability Amount” is able to terminate contributions to the Fund under clause A.21.1(a) after giving 60 days’ notice and obtaining the Trustee’s approval. Presumably, the Trustee would not give approval to terminate if there is an unfunded liability or material future funding risk.
  - c The Participating Employer Agreement signed by each defined benefit employer imposes a contractual obligation on that employer, in addition to the contribution requirements in the Trust Deed. The Agreement also provides that employers with Unfunded Liability Amounts cannot terminate contributions and that those who do not have an Unfunded Liability Amount must follow clause A.21.1(a) of the Trust Deed.
  - d The combination of the Trust Deed provisions and the Participating Employer Agreements essentially mean that an employer cannot unilaterally cease contributions to the Fund unless it ceases to exist:
    - i. Under the terms of the Participating Employer Agreement, if such an employer does cease to exist, the terms of the Agreement are binding on that employer’s successor at law and that employer’s “Unfunded Liability Amount” obligation (if any) must be assumed by any successor body.
    - ii. If there was no direct successor, the Trustee could initiate action to identify a relevant successor (possibly the State Government as most, if not all, of these employers would be engaged in the provision of essential public services which the state is constitutionally bound to provide). Such a situation is expected to be very rare.

- 6.37 Legal advice has been obtained by the Fund from DLA Piper that confirms the Employers cannot avoid their contribution responsibilities. We have relied upon the legal advice.
- 6.38 When forming a statement of opinion in accordance with Professional Standard 410, the assets and future contributions from which future pension payments are assumed to be met need to be identified. Under normal circumstances, it is considered inappropriate to take future employer contributions into account when determining the assets available to cover pension payments. However, paragraph 9.2(a) of Professional Standard 410 provides allowance for future contributions to be taken into account in limited circumstances, in order to form a positive opinion.
- 6.39 We believe that the historical circumstances of Vision Super's funding arrangements fall within the scope of the 'limited circumstances' referred to in paragraph 6.2 of PS 410.
- 6.40 For much of its history, Vision Super was a public sector fund and was operated on a pay-as-you-go basis rather than on a fully funded basis. It has only been a Regulated fund under SIS since 1 July 1998 and employers remain public sector employers.
- 6.41 Changes to the Fund benefit design and funding policy in 1988 included a process to eventually achieve full funding of the accrued benefit liabilities, including the pension liabilities.
- 6.42 To achieve this full funding target over time, the contractual contribution arrangements outlined above were instigated.
- 6.43 In conclusion, this analysis allows us to confirm that in our opinion there is a high degree of probability that the Defined Benefit plan will be able to pay the pensions required under the Trust Deed.

# Section 7: Assessing the adequacy of the Funding Arrangements

## The Present Funding Arrangements

7.1 The Authority funding arrangements for the Defined Benefit plan recommended in the previous triennial actuarial investigation comprise the following components:

- a contributions in respect of each Authority's share of any funding short fall that arises. This has included:
  - \$321 million unfunded liability at 30 June 1997, plus contribution tax; and
  - \$127 million unfunded liability as at 31 December 2002, plus contribution tax;
  - \$71 million unfunded liability as at 31 December 2008, plus contribution tax (this amount plus interest was invoiced at 30 June 2012);
  - \$406 million unfunded liability as at 31 December 2011, plus contribution tax and interest from 31 December 2011. This was \$453 million (plus contribution tax) as at 30 June 2013.
- b An additional contribution to cover the excess of the benefits paid as a consequence of retrenchment above the funded resignation or retirement benefit (the funded resignation or retirement benefit is calculated as the VBI, capped at 100%, multiplied by the benefit), plus contribution tax; plus
- c An ongoing Authority contribution rate based on current members' salaries, needed to fund the balance of benefits for current members and pensioners at 9.5% of salaries from 1 July 2014 and increases with legislated increases in the Superannuation Guarantee Charge; plus
- d Additional top up contributions that may be required in the future so that Defined Benefit plan is no longer in an unsatisfactory financial position.

Authorities also need to contribute the amount of members' salary sacrifice contributions.

7.2 The final component of this funding plan is consistent with the funding requirements of SPS 160 because it refers to additional top-up contributions to restore the VBI to 100%. SPS 160 requires restoration plans to be developed to restore the VBI to 100% within three years, when prescribed circumstances apply. The prescribed circumstances are a VBI below the Trustee adopted shortfall limit (i.e. currently 97%) at any time or below 100% at the date of an actuarial investigation or while an actuarial investigation is being undertaken.

7.3 Our calculations at 30 June 2022 using the "best estimate" funding assumptions show that the present funding arrangements are expected to be adequate to meet the expected Defined Benefit plan liabilities.

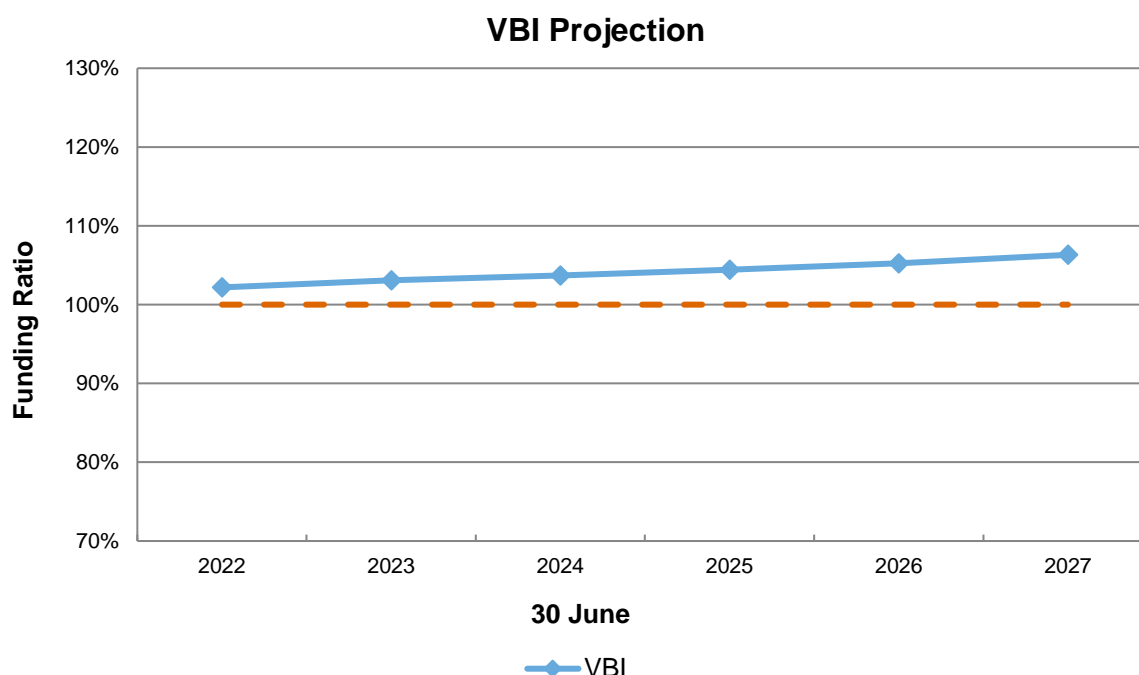


## Total Service Liability Surplus/ Deficit as at 30 June 2022

- 7.4 As at 30 June 2022 there was a total service liability surplus of \$105.8 million. This means that the current value of assets plus expected future contributions is more than the value of expected future benefits and expenses by \$105.8 million, assuming that the Authorities contribute at a rate in line with the currently legislated Superannuation Guarantee Charge as a percentage of salaries (i.e. currently 10.5% of salaries but increasing in the future). Full details of these calculations are set out in Appendix E.
- 7.5 The total service liability surplus as at 30 June 2021 was \$270.3 million. The actuarial surplus has decreased over the year mainly due to financial experience (excess of investment return above salary increase and price inflation) being significantly lower than assumed.
- 7.6 The existing funding arrangements are expected to be adequate if the current assumptions are borne out in practice. In fact, the total service liability surplus of \$105.8 million is higher than the expected value of all future Authority contributions (less tax) of \$59.9 million (refer to Appendix E). This means that if experience is as expected from 30 June 2022, Authorities would not need to make any further contributions to the Defined Benefit plan. The long term Authority contribution rate implied by the aggregate funding method would be zero.
- 7.7 Nevertheless, it needs to be recognised that the ultimate cost of benefits for members of the Defined Benefit plan will depend on the actual future experience of all the relevant factors (investment earnings, salary growth, pensioner mortality, turnover rates, etc.). Therefore, the contribution arrangements will need to be varied as the actual experience unfolds.

## Projection of Funding Levels

- 7.8 This section considers the adequacy of the funding by projecting the Defined Benefit plan's future funding level. This projection is based on the "best estimate" funding assumptions set out in Appendix C.
- 7.9 The graph below shows the projected Vested Benefits (VBI) of the Defined Benefit plan for the next five years.



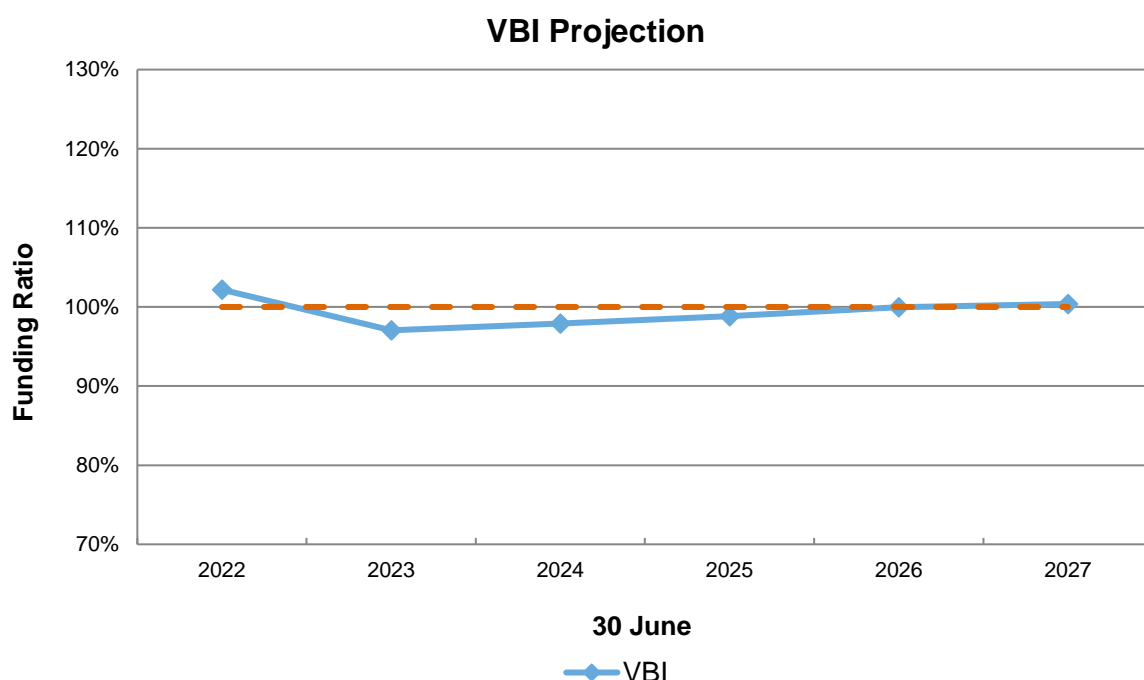
7.10 The chart shows the VBI is expected to stay above 100% over the next five years and hence no additional contribution is expected to be required from the Authorities to meet the funding requirement under SPS 160. However, in practice actual experience will be different to what is expected and the VBI may decrease or increase more quickly than expected.

7.11 The above chart shows that the VBI is expected to slowly increase over time. This is consistent with the total service liability surplus of \$105.8 million at 30 June 2022.

### Other Funding Issues

7.12 The Defined Benefit plan is mature and its funding is very sensitive to future experience. A lower than expected investment return would significantly reduce the “actuarial surplus”.

7.13 The chart below shows the impact on the VBI in an adverse scenario where the return is 0% for the year to 30 June 2023 and all other experience is as expected. A best estimate return of 5.50% p.a. (net of tax) is assumed from 1 July 2023.



7.14 If the return is 0% in 2022/23, the VBI is expected to fall below 100% (i.e. an unsatisfactory financial position) and a funding call of approximately \$45m spread over three years is required to restore the VBI above 100% (i.e. a satisfactory financial position). The above chart assumes such a call is made. In the event of large negative return, however, the VBI would likely fall to even further below 100% (i.e. an unsatisfactory financial position). If this occurred, even higher additional employer contributions may be required to restore the Defined Benefit plan's VBI to 100% within the legislated three years.

7.15 On the other hand, if experience is favourable, an “actuarial surplus” could result. The Board would need to consider how to treat such an “actuarial surplus”. We understand that if this occurs any residual assets would eventually be distributed to relevant Authorities in accordance with Clause A.15 of the Trust Deed. The Board may also wish to consider adopting a more defensive investment strategy in order to reduce the investment risk.

## Events since 30 June 2022

- 7.16 Vision Super has advised that the investment returns for the month of July 2022 for the Defined Benefit plan was 3.32% (equivalent to 48.0% p.a.). This is higher than the expected return of 5.50% p.a. and therefore will have had a positive impact on the financial position. We expect the VBI of the Defined Benefit plan will continue to remain above 100%. This does not impact our recommendations.
- 7.17 The Superannuation Guarantee (SG) Contribution rate increased to 10.5% from 1 July 2022. We understand the Authorities increased the Division C contribution rate to reflect this change.
- 7.18 We are not aware of any other events subsequent to 30 June 2022 that would materially impact upon the results of the actuarial investigation of the Defined Benefit plan.

## Recommendation

- 7.19 Section A.20.1 of the Trust Deed states:

*“each Employer must contribute to the Fund in respect of a particular Employee at any particular time the amount or rate of contributions determined by the Trustee after obtaining the advice of the Actuary, including the Unfunded Liability Amount....”*

- 7.20 The VBI was 102.2% as at 30 June 2022 (refer Section 6.5). Given the current investment strategy and the VBI of 102.2%, the VBI could fall below 100% if experience is worse than expected. We therefore have recommended that the current contributions remain unchanged. In making this recommendation, we have also considered what we understand to be the preferences of the Trustee.
- 7.21 In summary, we recommend that the current funding plan continue, whereby the Authorities will pay:
- a Contributions equal to 10.5% of salary for employee members, increasing with changes in the Superannuation Guarantee Charge;
  - b An additional contribution to cover the excess of the benefits paid as a consequence of retrenchment above the funded resignation or retirement benefit (the funded resignation or retirement benefit is calculated as the minimum of (100% and VBI) multiplied by the vested benefit), plus contribution tax;
  - c Outstanding contributions in respect of calls made at the previous actuarial investigations; and
  - d Additional top up contributions that may be required in the future if the plan is in an unsatisfactory financial position.

Authorities also need to contribute the amount of members' salary sacrifice contributions.

- 7.22 However, given the \$105.8 million total liability surplus, these contributions are expected to be sufficient if future experience is as expected. In fact, if experience is as expected Authorities would not need to make further contributions. Hence, Vision Super could consider whether it is appropriate to further reduce investment risk which could be considered together with alternative funding plans.
- 7.23 It is very important to understand that each of the components of the funding arrangements is very dependent on the actual future experience of the Defined Benefit plan. Consequently all contribution components are subject to regular review by the Trustee using actuarial advice and could vary from the current recommendations at any time in the future.

## Section 8: Insurance

### Self Insurance Arrangements

- 8.1 The Defined Benefit plan provides death and disablement benefits that are significantly higher than the resignation/retirement benefits. The Fund self-insures this risk. This approach continues to be reasonable in light of the Defined Benefit plan's size, experience, present membership and benefit levels. The arrangements are reviewed annually as part of the actuarial investigations which is reasonable.
- 8.2 The death and disablement benefits are funded by the Authorities' contributions to the Defined Benefit plan. The total liability surplus calculated in Section 7 includes the expected death and disablement benefits. It is ultimately the Authorities that bear the financial risk if the amount of death and disablement benefits paid is significantly higher than expected.
- 8.3 The following table summarises the Defined Benefit plan's exposure to future service death and disablement risk as at 30 June 2022.

Self-Insurance exposure as at 30 June 2022	
Net Assets Available <sup>1</sup> (Defined Benefits plan assets available to meet benefits)	\$933.9m
Expected Annual Future Service death and disablement benefits to be paid for 2022/23 <sup>2</sup>	\$0.8m
Total Future Service death benefits <sup>3</sup>	\$142.3m

1. Active Defined Benefit plan assets excluding assets in respect of pensioners and deferred beneficiaries.

2. Based on assumptions adopted in this investigation.

3. The total amount of future service death benefits shown is the sum of individual death benefit in excess of the lesser of the value of the vested benefit and accrued retirement benefit for all active members. Future service disablement benefits are similar.

- 8.4 Because of the large number of members, it is unlikely that the actual future service death and disablement benefits (even if double or triple the level expected) would place a significant additional financial strain on its funding.
- 8.5 The Defined Benefit plan also includes a temporary disability benefit. The funding of this benefit is allowed for approximately by a margin in disablement funding. If a disablement benefit is subsequently paid to the member, the amount of the disablement benefit is reduced by the amount of any temporary disability benefit payments.
- 8.6 The Defined Benefit plan's membership is spread throughout Victoria, reflecting the distribution of Authorities. There is a relatively low concentration of risk.
- 8.7 There is a very remote possibility of a catastrophe occurring. In the last triennial actuarial investigation as at 30 June 2020, we determined that in the event of a catastrophe that resulted in 100 additional death or disablement benefits being paid that the total claims would be around 1% of assets, which would be manageable given the current funding position.
- 8.8 While a larger catastrophe is possible the risk is extremely low. If the Trustee is concerned about the risk it could consider catastrophe insurance.
- 8.9 In the 30 June 2020 triennial actuarial investigation, we recommended an insurance reserve of \$5.0 million be held by the Fund to cover the pending claims and incurred but not reported death and disablement claims.

- 8.10 We believe that this is still an appropriate allowance for use in this report as the self-insured portion of the death and disablement claims is expected to reduce over time as the employed members reduce in number and increase in average age. The total future service death benefits have reduced from \$171.8 million as at 30 June 2021 to \$142.3 million as at 30 June 2022. Unless we advise otherwise or a catastrophe event occurs, in our opinion, it will be sufficient to review the amount of the reserve in detail at the next triennial actuarial investigation in 2023.
- 8.11 In accordance with our recommendations in the prior actuarial investigation, we understand that Vision Super maintains an insurance reserve of \$5.0 million for the Defined Benefit plan as at 30 June 2022. We recommend that this reserve be retained at this level.

## Section 9: Material Risks

- 9.1 The funding of the Defined Benefit plan is dependent upon future experience. We have briefly considered below the material risks in respect of funding. If experience is materially adverse the Authorities will be required to make additional contributions.

### Investment Risk

- 9.2 The most significant risk facing the Defined Benefit plans is that investment returns will not be as high as expected. There is also a risk a surplus could arise that could be difficult to utilize if not managed carefully. These risks occur because the income generated from the existing assets are not matched to the expected future benefit payments.
- 9.3 A change to the assumed investment return could also have a material impact on Authority contribution requirements in the short term, but would not be expected to impact the ultimate cost of funding benefits unless the change in assumption was because of change in investment strategy. This also applies for other assumptions.
- 9.4 As per current practice, the Trustee should continue to consider the liabilities and the funding position when determining the Defined Benefit plans' investment strategy.

### Salary and Price Inflation Risk

- 9.5 Salary increases or price inflation exceeding expectations will have a negative impact on funding.
- 9.6 It is the excess of the investment return above the rates of salary and price inflation increases that is most important because the assets increase with the investment return and the liabilities with salary or price inflation.

### Catastrophe Risk

- 9.7 The Defined Benefit plan self insures the death and disability benefits and is therefore subject to the risk of higher than expected claims. The self-insurance risk is considered in Section 8.
- 9.8 While the catastrophe risk is very low, particularly given the geographic spread of members, a high number of death or disability (or terminal medical condition) benefits caused by a single event or events is likely to put significant strain on the funding.

### Pensioner Longevity Risk

- 9.9 At 30 June 2022 there were 4,071 life time pensioners in the Defined Benefit plan. There is a risk that pensioners may live longer than expected and this would have a negative impact on the funding position.
- 9.10 As at 30 June 2022 the assets held in respect of the 3 fixed term pensioners were broadly comparable to the liability associated with these pensioners. In our funding considerations, the fixed term pensioners are included as part of the Defined Benefit plan and Vision Super has confirmed that, if needed, the Defined Benefit plan's assets will be available to meet these liabilities.

## Liquidity Risk

- 9.11 In Section 4 liquidity risk is discussed. Also, Section 6 considered the potential impact on funding of having to liquidate investments at a discount.
- 9.12 We understand that Vision Super considers the long term liquidity requirements in setting its strategic asset allocation and plans to reduce exposure to illiquid assets in the Defined Benefit plan to zero in the long term given the maturity of the plan. This remains appropriate.

## Legislation Risk

- 9.13 There is a risk that legislation changes could impact on funding. For example:
- a Changes to legislation may impact investment returns or other aspects of experience; and
  - b Changes to tax may impact funding.

## Other

- 9.14 Operational risks (e.g. unit pricing and administration) are not considered in this report.
- 9.15 A higher proportion of members could elect to defer their resignation benefit or take a life-time pension than expected which would be expected to increase the cost of funding benefits.
- 9.16 There are many other risks in respect of the funding of the Defined Benefit plans but we have not included those that we do not consider to be currently material.



# Appendix A: Summary of Benefits and Conditions

The benefits are set out in the Fund's Trust Deed. The Fund has been governed by the Trust Deed originally dated 26 June 1998 on and from 1 July 1998. The Trust Deed has subsequently been amended numerous times. This report is based on a copy of the Trust Deed including amendments up to 30 March 2016.

## Membership

The Defined Benefit plan was closed to new members on 31 December 1993. From that date, new employees have joined Vision Super Saver, which provides accumulation style benefits.

The benefits and conditions described below relate to Defined Benefit plan members only.

## Contributions

Members contribute at a rate of 6% of salary. Their contributions cease after 40 years of service. Authorities pay the balance required to provide the benefits.

## Retirement Benefit

A lump sum benefit calculated as a percentage of final salary for each year (part years counting pro rata) of membership to retirement. The percentage is 21% for membership completed prior to 1 July 1993 and 18.5% for membership completed after 30 June 1993. A maximum of 40 years of membership counts towards the retirement benefit. Members may retire from age 55 and benefits cease to accrue at age 65.

## Death Benefit

For members under 60 years of age, a lump sum of 21% of final salary for each year of actual and prospective membership to age 60. For members aged 60 or over, a lump sum of 21% of final salary for each year of actual membership. A maximum of 40 years of membership counts toward the death benefit.

Members with a medical classification of Grade B, C or D are entitled to a lower death benefit.

## Total and Permanent Disablement Benefit

For members under 60 years of age, a lump sum equal to a percentage of final salary for each year of actual and prospective membership to age 60. The percentage is 21% for actual membership completed prior to 1 July 1993, 18.5% for actual membership completed after 30 June 1993, and 21% for prospective membership between the date of disablement and age 60. For members aged 60 or more, the benefit is a lump sum equal to the retirement benefit. A maximum of 40 years of membership counts towards the total and permanent disablement benefit.

“Disablement” generally means a continuous or recurring impairment of health of a member which renders him or her unable to perform his or her duties, or any other duties for which he or she is suited by education, training or experience, or would be suited as a result of retraining.

Members with a medical classification of Grade B, C or D are entitled to a lower disability benefit.

### III-Health and Retrenchment Benefits

The accrued retirement benefit (i.e. counting membership to date of ill health or retrenchment).

There is also a Temporary Disability benefit.

### Resignation Benefit

A lump sum of either:

- a an immediate benefit equal to the sum of:
  - 15% of final salary for each year (if any) of membership prior to 1 July 1993, excluding any portion of the last five years relating to pre 1 July 1993 membership;
  - 13.5% of final salary for each year (if any) of membership after 30 June 1993, excluding the last five years;
  - 9% of final salary for the last five years of membership; or
- b a deferred benefit payable from age 55 equal to the accrued retirement benefit at the date of leaving, increased with the relevant investment return to payment after age 55.

Part of the immediate resignation benefit may be subject to preservation regulations.

### “Old Benefit” Entitlements

Members who joined prior to 25 May 1988 have the option of taking up to 50% of their lump sum retirement benefits as a pension, based on prescribed conversion factors. The conversion factors reduce from 13.6 at age 55 to 12.6 at age 60 and 12.0 at age 65. This option also applies to members who joined prior to 25 May 1988 and elect to defer their benefit upon resignation until after age 55.

Certain other minimum benefits apply in respect of previous entitlements for certain groups of members.

### Minimum Requisite Benefit

All benefits are subject to a minimum of the Minimum Requisite Benefit specified in the Benefit Certificate.

# Appendix B: Membership Movements

## Defined Benefit Plan

<b>Membership as at 1 July 2021</b>	<b>1,700</b>
Transfers/Rejoiners	-
<b>Exits</b>	
Retirement, Resignations and retrenchments	250
Death	4
Total and Permanent Disablement	2
<b>Total exits</b>	<b>(256)</b>
<b>Membership as at 30 June 2022</b>	<b>1,444</b>

## Pensioners

<b>Pensioners as at 1 July 2021</b>	<b>4,124</b>
New pensioners	140
Pensions ceasing	(193)
<b>Pensioners as at 30 June 2022</b>	<b>4,071</b>

# Appendix C: Summary of Valuation Assumptions

## Financial Assumptions

The most significant financial assumptions are:

- Active members:
  - investment returns (net of tax and expenses) 5.50% p.a.
  - salary inflation growth 2.50% p.a. to 30 June 2023 and 3.50% p.a. thereafter
- Pensioners:
  - investment returns (gross of tax; net of expenses) 6.25% p.a.
  - CPI increases 3.00% p.a.
- administration expenses: 2.75% of salaries and 2.00% of pension

For Fixed term pensions a real investment return of 1.0% p.a. has been assumed.

## Demographic Assumptions

### Active Members

The table below illustrates the decrement rates assumed for active members. The decrement rates represent the percentage of members leaving the plan each year by each cause.

Year of Age	Deaths %	Disabilities %	Resignations %	Retirements %
20	0.03	-	13.42	-
30	0.02	0.01	6.48	-
40	0.05	0.05	3.77	-
50	0.14	0.27	2.44	-
60	0.43	0.82	-	15.0
64	0.66	0.00	-	15.0

### ***Pensioners – Defined Benefit plan***

The table below illustrates the rates of mortality assumed for pensioners. The figures represent the percentages dying in the years of age shown.

Year of Age	Retirement /Spouse Male %	Disability Male %	Retirement /Spouse Female %	Disability Female %
60	0.49	1.26	0.30	0.58
65	0.73	1.95	0.45	0.99
70	1.16	3.00	0.76	1.68
75	2.11	4.56	1.40	2.84
80	3.99	6.84	2.77	4.74
85	7.81	10.06	5.73	7.73
90	14.43	14.39	11.60	12.18

Mortality improvement based on the 125-year experience from the Australian life tables 2015-2017.

### ***Deferred Benefit Option on Resignation – Defined Benefit plan***

It has been assumed that 80% of those who resign will take the deferred benefit option. Deferred benefits are assumed to be accessed at age 60.

### ***Pension Option – Defined Benefit plan***

It has been assumed that 60% of active members and 45% of deferred beneficiaries who joined the Defined Benefit plan prior to 25 May 1988 will elect to take the pension option upon retirement. Members who take this option are assumed to take 50% of their benefit as a pension.

### ***Other Pension Assumptions***

Males (pensioners or reversionary spouses) are assumed to be 3 years older than their female spouses. For current active members and deferred beneficiaries, the age based proportion married assumptions are applied at the date of commencement of a pension; for current pension members, the age based proportion married assumptions are applied at the date of the valuation.

## Appendix D: Asset Allocation

Asset Class	Actual Asset Allocation 30 June 2022 (%)	Strategic Asset Allocation (%)
Australian Equity	21.5	22.5
International Equity	25.9	31.0
Private Equity	1.5	0
Property*	5.4	6.75
Infrastructure	8.8	8.0
Opportunistic Investments <sup>#</sup>	1.2	0
Alternative Debt	17.0	17.5
Fixed Interest	5.9	7.0
Cash	12.8	7.25
<b>Total</b>	<b>100.0</b>	<b>100.0</b>
Allocation to Illiquid Assets	27.4	25.8
Allocation to Growth Assets	66.9	71.3

\* 2.5% of actual property is listed and liquid.

<sup>#</sup> Includes Currency and Innovation and Disruption Asset Class.

## Appendix E: Total Service Liability Surplus/(Deficit)

		(\$million)
Present Value of Active Member Liabilities		908.3
Retirement	856.6	
Death	19.5	
Disablement	20.1	
Resignation	12.1	
<i>plus</i> Deferred Beneficiary Liability		307.6
<i>plus</i> Present Value of Life Time Pensions		876.5*
<i>plus</i> Present Value of fixed Term Pensions		0.8
<i>less</i> Family Offset and Surcharge Account balances		(6.3)
<i>plus</i> Present Value of Future Expenses		36.7
<i>plus</i> Allowance for tax on Contributions		3.5
<b>Total Benefit Liability</b>		<b>2,127.1</b>
Compared to:		
Assets		2,136.3
<i>plus</i> Value of ongoing member contributions (6%)		33.2
<i>plus</i> Value of ongoing Authority contributions (SG)		63.4
<b>Total Assets</b>		<b>2,232.9</b>
Surplus of Total Assets over Total Benefit Liability		105.8

\* Prior to administration fees.

## Appendix F: Actuarial Statements required under SPS 160 Paragraph 23(a) – (h)

### *Defined Benefit Plan – Division C (LASF)*

The following statements are prepared for the purposes of actuarial statements and Paragraphs 23(a) to (h) of SPS160. It relates to the Defined Benefit sub-plan with benefits specified in Division C of the Vision Super Trust Deed.

### *Background*

The effective date of the most recent actuarial review of the Defined Benefit plan is 30 June 2022. The actuarial investigation was undertaken by Matthew Burgess, Fellow of The Institute of Actuaries of Australia, on behalf of Towers Watson Australia Pty Ltd (AFSL 229921).

This statement has been prepared for the Trustee of Vision Super as part of the actuarial investigation in accordance with the Professional Standards issued by The Institute of Actuaries of Australia.

### *Assets (SPS160 23(a))*

The fair value of the Defined Benefit plan assets at 30 June 2022 was \$2,136.324 million.

This value of assets at 30 June 2022 excludes amounts held to meet the Operational Risk Financial Requirement (ORFR) and was used to determine the required contributions.

### *Financial Condition SPS160 23(b)*

The projected likely future financial position of the LASF Defined Benefit plan during the three years following the valuation date and based on my best estimate assumptions is as follows.

Date	Vested Benefits Index (%)
30 June 2022	102.2%
30 June 2023	103%
30 June 2024	104%
30 June 2025	104%

The projected financial position is shown only for the defined benefit members.



### **Accrued Benefits (SPS160 23(c))**

Accrued Benefits have been determined as the present value of expected future payments arising from membership completed as at the review date plus any additional accumulation benefits at face value. Accrued Benefits have not been subjected to a minimum of vested benefits.

In determining Accrued Benefits, the major assumptions adopted were:

- 2.0% p.a. real investment return over salary inflation. This comprised a 5.50% p.a. net of tax investment return assumption and a 3.50% p.a. long-term salary inflation assumption.
- 3.25% p.a. real investment return over price inflation. This comprised a 6.25% p.a. gross of tax investment return and a 3.0% p.a. CPI assumption.
- The investments for fixed term pensions are matched to the liabilities by investing in fixed interest securities including CPI linked bonds. Based on current CPI indexed bond interest rates a real discount rate (i.e. discount rate above CPI) of 1.0% has been assumed.

The future rate of investment return used to determine the accrued benefits is the anticipated rate of return on the Defined Benefit plan assets.

Assumptions were also made about rates members would withdraw from service because of death, total and permanent disablement and resignation. Under these assumptions, the average expected future membership period of the members is around 8 years.

The past membership component of all benefits payable in future from the Defined Benefit plan in respect of the current membership are projected forward allowing for future salary increases and then discounted back to the valuation date at the assumed rate of investment return.

Using the above method, the total value of accrued benefits and the fair value of the Defined Benefit plan assets at 30 June 2022 were:

Value of accrued benefits: \$2,023.4 million

Fair Value of Assets: \$2,136.3 million. The ratio of the actuarial value of the assets to the value of the total accrued benefits was 105.6% which indicates an adequate coverage of the value of the accrued benefits as at the date of the actuarial investigation.

In our opinion, the value of the assets of the Defined Benefit plan at 30 June 2022 was adequate to meet the liabilities of the Defined Benefit plan in respect of accrued benefits in the Defined Benefit plan. The assets are considered adequate in the longer term based on the contributions recommended below, and assumptions as to the future experience which we regard as appropriate.

### ***Vested Benefits (SPS160 23(d))***

Vested benefits are the benefits to which members would be entitled if they voluntarily left service.

At the date of the actuarial investigation, the total vested benefits and fair value of the Defined Benefit plan total assets were:

Total Vested Benefits:	\$2,090.6 million
------------------------	-------------------

Fair Value of Assets:	\$2,136.3 million
-----------------------	-------------------

The ratio of the net market value of the Defined Benefit plan assets to total vested benefits was 102.2%, which indicates a satisfactory coverage of Vested Benefits as at the date of the actuarial investigation.

In our opinion, the Fund's financial position is satisfactory.

The Trustee has determined the short fall limit to be 97%. In my opinion this does not need to be reviewed.

### ***Minimum Benefits and Funding and Solvency Certificates (SPS160 23(e) and (f))***

Funding and Solvency Certificates (FSC) for the Fund covering the period from 1 July 2021 to 30 June 2022 as required by the Superannuation Industry (Supervision) Act have been provided.

In our opinion, the solvency of the Fund will be able to be certified in any Funding and Solvency Certificate required under the Superannuation Industry (Supervision) Regulations during the three year period to 30 June 2025 if experience is as assumed.

We note that for the purpose of issuing an FSC, the appropriate funding measure is in respect of coverage of minimum benefits (MRBs), which in this fund are considerably less than vested benefits, and are covered sufficiently by Defined Benefit plan assets. At 30 June 2022, the ratio of assets to MRBs is 140.8%. The total Minimum Requisite Benefits as at 30 June 2022 was \$1,517.1 million.

### ***Recommended Contributions (SPS160 23(g))***

We recommend that the Authorities contribute the following amounts from 1 July 2022:

- a Any outstanding unfunded liability from the 30 June 1997, 31 December 2002, 31 December 2008 and 31 December 2011 actuarial investigations; plus
- b An additional contribution to cover the excess of the benefits paid as a consequence of retrenchment above the funded resignation or retirement benefit (the funded resignation or retirement benefit is calculated as the minimum of (100% and VBI) multiplied by the vested benefit), plus contribution tax; plus

- c 10.5% of members' salaries, increasing with increases in the Superannuation Guarantee Charge; plus
- d Additional top up contributions that may be recommended in the future, if the Defined Benefit plan becomes in an unsatisfactory financial position.

Authorities also need to contribute the amount of members' salary sacrifice contributions.

The amounts of required contributions will be reviewed in the next triennial actuarial review of the Defined Benefit plan to be conducted with an effective date no later than 30 June 2023. An earlier actuarial review should be undertaken if there are any significant changes in the Defined Benefit plan.

### ***Pensions (SPS160 23(h))***

In our opinion, there is a high degree of probability that the Defined Benefit plan will be able to pay the pensions as required under the Defined Benefit plan's Trust Deed. We expect that this position will continue to be able to be certified during the three year period to 30 June 2025.

These statements can only be expressed as an expectation and not as a certainty because the future financial position of the Defined Benefit plan depends on unknown factors such as future investment returns, future Plan membership changes, etc.



Matthew Burgess  
Fellow of the Institute of Actuaries of Australia



Surath Fernando  
Fellow of the Institute of Actuaries of Australia

23 August 2022