



ACTIVE SUPER
(formerly Local Government Super)
(ABN 28 901 371 321)

Financial Statements for the Year Ended 30 June 2021

ACTIVE SUPER

Financial Statements for the year ended 30 June 2021

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ACTIVE SUPER
Statement of Financial Position
As at 30 June 2021

| | Note | 2021 \$'000 | 2020 \$'000 |
|--|------|---------------------|---------------------|
| Assets | | | |
| Cash and cash equivalents | 15 | 167,922 | 153,673 |
| Receivables and other assets | 8 | 2,236 | 945 |
| Investments | | | |
| Cash and Short Term Deposits | | 1,450,664 | 939,739 |
| Other Interest Bearing Securities | 7 | 2,778,899 | 3,409,352 |
| Australian Equities | 7 | 5,035,845 | 3,668,409 |
| International Equities | 7 | 3,004,556 | 2,082,247 |
| Australian Unit Trusts | 7 | 276,418 | 617,126 |
| International Unit Trusts | 7 | 1,329,314 | 1,080,748 |
| Derivative Assets | 7 | 34,258 | 149,911 |
| Deferred tax assets | 10 | 11,038 | 616 |
| Total assets | | 14,091,150 | 12,102,766 |
| Liabilities | | | |
| Payables | 9 | (4,327) | (3,997) |
| Derivative Liabilities | 7 | (116,422) | (46,784) |
| Income tax payable | | (187,084) | (62,550) |
| Deferred tax liabilities | 10 | (138,857) | (61,709) |
| Total liabilities excluding member benefits | | (446,690) | (175,040) |
| Net assets available for member benefits | | 13,644,460 | 11,927,726 |
| Member benefits | | | |
| Defined contribution member liabilities | 3 | (9,774,430) | (8,438,056) |
| Defined benefit member liabilities | 4 | (3,572,260) | (3,413,212) |
| Unallocated to members | 4 | (1,741) | (1,189) |
| Total member liabilities | | (13,348,431) | (11,852,457) |
| Total net assets | | 296,029 | 75,269 |
| Equity | | | |
| Other reserves | 6 | 94,255 | 80,531 |
| Operational risk reserve | 6 | 33,513 | 33,278 |
| Defined benefits that are overfunded / (underfunded) | 5 | 168,261 | (38,540) |
| Total equity | | 296,029 | 75,269 |

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

ACTIVE SUPER
Income Statement
For the year ended 30 June 2021

| | Note | 2021 \$'000 | 2020 \$'000 |
|--|------|------------------|-----------------|
| Superannuation activities | | | |
| Interest | | 64,569 | 80,139 |
| Dividend revenue | | 190,077 | 158,660 |
| Distributions from unit trusts | | 142,613 | 182,129 |
| Changes in assets measured at fair value | 11 | 1,650,437 | (438,121) |
| Other investment income | | 3,159 | 4,437 |
| Other income | | 265 | 110 |
| Total superannuation activities income | | 2,051,120 | (12,646) |
| Administration expense | | (5,811) | (5,955) |
| Investment expenses | | (32,308) | (36,006) |
| Operating expenses | 13 | (31,474) | (29,624) |
| Total expenses | | (69,593) | (71,585) |
| Net result from superannuation activities | | 1,981,527 | (84,231) |
| Profit / (loss) from operating activities | | 1,981,527 | (84,231) |
| Net change in Defined Benefit member liabilities | | (344,873) | (40,682) |
| Net benefits allocated to Defined Contribution member accounts | | (1,226,218) | 27,993 |
| Profit / (loss) before income tax | | 410,436 | (96,920) |
| Income tax (expense) / benefit | 10 | (189,676) | 27,607 |
| Profit / (loss) after income tax | | 220,760 | (69,313) |

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

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Statement of Changes in Member Benefits For the year ended 30 June 2021

| | Defined Contribution Members ("DC") \$'000 | Defined Benefit Members ("DB") \$'000 | Total \$'000 |
|---|---|--|-------------------------|
| Opening balance as at 1 July 2020 | 8,438,056 | 3,414,401 | 11,852,457 |
| Contributions: | | | |
| Employer | 371,623 | 101,263 | 472,886 |
| Member | 138,586 | 10,864 | 149,450 |
| Transfer from other superannuation plans | 244,253 | 7,560 | 251,813 |
| Government co-contributions | 369 | 22 | 391 |
| Income tax on contributions | (55,305) | (15,094) | (70,399) |
| Net after tax contributions | 699,526 | 104,615 | 804,141 |
| Benefits to members/beneficiaries | (594,800) | (282,686) | (877,486) |
| Transfer from defined benefit to defined contribution | 7,202 | (7,202) | - |
| Insurance premiums charged to members' accounts | (11,906) | - | (11,906) |
| Death and disability insurance benefits credited to members' accounts | 10,134 | - | 10,134 |
| Benefits allocated to members' accounts, comprising: | | | |
| Net investment income | 1,232,003 | 552,651 | 1,784,654 |
| Administration fees | (5,785) | (947) | (6,732) |
| Actuarial Surplus * | - | (206,831) | (206,831) |
| Closing balance as at 30 June 2021 | 9,774,430 | 3,574,001 | 13,348,431 |
| | Defined Contribution Members ("DC") \$'000 | Defined Benefit Members ("DB") \$'000 | Total \$'000 |
| Opening balance as at 1 July 2019 | 8,363,802 | 3,560,433 | 11,924,235 |
| Contributions: | | | |
| Employer | 368,972 | 109,899 | 478,871 |
| Member | 135,863 | 9,542 | 145,405 |
| Transfer from other superannuation plans | 315,097 | 8,781 | 323,878 |
| Government co-contributions | 355 | 22 | 377 |
| Income tax on contributions | (54,245) | (16,503) | (70,748) |
| Net after tax contributions | 766,042 | 111,741 | 877,783 |
| Benefits to members/beneficiaries | (672,891) | (288,757) | (961,648) |
| Transfer from defined benefit to defined contribution | 9,698 | (9,698) | - |
| Insurance premiums charged to members' accounts | (12,491) | - | (12,491) |
| Death and disability insurance benefits credited to member's accounts | 11,889 | - | 11,889 |
| Benefits allocated to members' accounts, comprising: | | | |
| Net investment (loss) | (22,158) | (15,642) | (37,800) |
| Administration fees | (5,835) | (996) | (6,831) |
| Actuarial Deficiency * | - | 57,320 | 57,320 |
| Closing balance as at 30 June 2020 | 8,438,056 | 3,414,401 | 11,852,457 |

* Actuarial Surplus / Deficiency equates to the relative change in the value of the net assets and the related defined benefit accrued liability.

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

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Statement of Changes in Reserves For the year ended 30 June 2021

| | Defined Benefits that are overfunded \$'000 | Other reserves \$'000 | ORFR \$'000 | Total equity \$'000 |
|---|--|-----------------------------|----------------|------------------------|
| Opening balance as at 1 July 2020 | (38,540) | 80,531 | 33,278 | 75,269 |
| Increase in DB member benefits | (344,873) | - | - | (344,873) |
| Operating result | 551,674 | 13,724 | 235 | 565,633 |
| Closing balance as at 30 June 2021 | 168,261 | 94,255 | 33,513 | 296,029 |

| | Defined Benefits that are (underfunded) \$'000 | Other reserves \$'000 | ORFR \$'000 | Total equity \$'000 |
|---|---|-----------------------------|----------------|------------------------|
| Opening balance as at 1 July 2019 | 17,752 | 94,570 | 32,260 | 144,582 |
| Increase in DB member benefits | (40,682) | - | - | (40,682) |
| Operating result | (15,610) | (14,039) | 1,018 | (28,631) |
| Closing balance as at 30 June 2020 | (38,540) | 80,531 | 33,278 | 75,269 |

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

ACTIVE SUPER**Statement of Cash Flows**

For the year ended 30 June 2021

| | Note | 2021 \$'000 | 2020 \$'000 |
|--|------|-----------------------|-----------------------|
| Cash flows from operating activities | | | |
| Interest from cash and cash equivalents | | 64,569 | 80,159 |
| Administration expenses | | (36,765) | (35,936) |
| Insurance Proceeds | | 10,134 | 11,889 |
| Insurance Premiums | | (11,919) | (12,452) |
| Other income (expenses) | | (1,204) | 5,244 |
| Net income tax refunded | | 1,585 | 42,550 |
| Investment expenses | | (32,308) | (36,006) |
| Net cash (outflows) / inflows from operating activities | 15 | <u>(5,908)</u> | <u>55,448</u> |
| Cash flows from investing activities | | | |
| Purchase of investments | | (3,856,415) | (4,288,384) |
| Proceeds from sale of investments | | 3,949,917 | 4,354,401 |
| Net cash inflows from investing activities | | <u>93,502</u> | <u>66,017</u> |
| Cash flows from financing activities | | | |
| Employer contributions | | 472,886 | 478,871 |
| Member contributions | | 149,450 | 145,405 |
| Transfers from other superannuation plans received | | 251,813 | 323,878 |
| Government co-contributions received | | 391 | 377 |
| Benefits paid to members | | (877,486) | (961,648) |
| Income tax paid on contributions received | | (70,399) | (70,748) |
| Net cash outflows from financing activities | | <u>(73,345)</u> | <u>(83,865)</u> |
| Net increase in cash | | 14,249 | 37,600 |
| Cash at the beginning of the financial period | | 153,673 | 116,073 |
| Cash at the end of the financial period | 15 | <u><u>167,922</u></u> | <u><u>153,673</u></u> |

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

ACTIVE SUPER

Notes to the Financial Statements For the year ended 30 June 2021

1. Operation of the Fund

From 25 May 2021, Local Government Super changed its business name to Active Super.

Active Super ("the Fund") consists primarily of members who are employed by a participating employer, as well as a public offer division which is open for anyone who is eligible to join a superannuation fund.

LGSS Pty Limited acts as Trustee and is the holder of both an RSE and an AFS licence. The Fund was established in accordance with sections 127 and 128 of the Superannuation Administration Act, 1996 ("the Act"). During the financial year, LGSS Pty Limited also provided financial planning services to the Fund.

The Fund consists of six divisions which are set out in the Trust Deed. The Accumulation Scheme is separated into two divisions, Division A and Division P. Division A is the division for the receipt of contributions from Scheduled Employers and Division P represents the Public Offer division. The Retirement Scheme is provided under Division B. The Retirement Scheme is a hybrid scheme consisting of both Accumulation and Defined Benefit components. The Defined Benefit Scheme is provided under Division D.

The majority of members of Divisions B and D hold a Division C account. Division C comprises the Basic Benefit, which is a Defined Benefit funded by employers, and an Other Contributions account which is an Accumulation style account which can accept non-defined contributions.

Divisions B, C and D are closed to new members, except for members of eligible entities who can transfer their entitlements into the Fund.

The Account-Based Pension Plan is provided under Division F. The Lifetime Guaranteed Income and Fixed Term Guaranteed Income accounts ("Guaranteed Income accounts") are also provided under Division F.

The Fund is a reporting entity for financial reporting purposes.

The Fund is domiciled in Australia and the address of the Fund's registered office is Level 12, 28 Margaret Street, Sydney, NSW 2000.

The Fund's custodial activities are provided by JP Morgan Chase Bank N.A. ("JP Morgan").

2. Summary of significant accounting policies

(a) Basis of preparation

The Financial Statements are a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board, the Superannuation Industry (Supervision) Act 1993 and regulations and the provisions of the Trust Deed.

The Financial Statements are presented in Australian Dollars and all values are rounded to the nearest \$'000 except where otherwise indicated.

COVID 19 was declared a worldwide pandemic by the World Health Organisation in March 2020. COVID 19, despite measures to slow the spread of the virus, has since had a significant impact on global economies and equity, debt and commodity markets. On 22 March 2020 the federal government announced a temporary measure due to the effects of coronavirus on the economy. This new rule allowed individuals to access up to \$10,000 of their superannuation in 2019/20 and a further \$10,000 in 2020/21. For the year ended 30 June 2021 the Fund paid out 6,162 (2020: 4,911) COVID-19 claims totalling \$52,619,691 (2020: \$42,698,716) in benefits to members seeking early access to their super.

The Fund is a not-for-profit entity for the purpose of preparing Financial Statements.

The statements were approved by the Board of Directors of the Trustee, LGSS Pty Limited, on 22 September 2021.

2. Summary of significant accounting policies (continued)

(b) New accounting standards and interpretations

For the first time the Fund applied certain standards and amendments which are effective for annual periods beginning on or after 1 July 2020. The Fund has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

This amendment had no impact on the Fund's financial statements as it did not receive COVID-19 related rent concessions during the reporting period.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

This amendment had no impact on the Fund's financial statements.

Accounting Standards and Interpretations issued but not yet effective

Certain Australian Accounting Standards and Interpretations have been issued or amended but are not yet effective and have not been adopted by the Fund for the annual reporting period ended 30 June 2021. The impact of these standards and interpretations has been assessed and to the extent applicable to the Fund are outlined in the table below.

Standards and Interpretations that are not expected to have any impact on the Fund have not been included.

| Accounting standard | Nature | Application date of standard | Application date for the Fund |
|--|---|------------------------------|-------------------------------|
| AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current | <p>This Standard amends AASB 101 to clarify the requirements for classifying liabilities as current or non-current. Specifically:</p> <ul style="list-style-type: none"> • the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists; and • management's intention or expectation does not affect classification of liabilities. <p>The impact of the adoption of AASB 2020-1 is not material to the Fund.</p> | 1 January 2023 | 1 July 2023 |

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Notes to the Financial Statements For the year ended 30 June 2021

2. Summary of significant accounting policies (continued)

(c) Consolidation

The Fund is an investment entity and, as such, does not consolidate the entities it controls. Instead the interest in its subsidiary, Local Government Property Fund, is classified as fair value through profit and loss and measured at fair value. The Fund has a controlling interest in Local Government Financial Services Pty Limited and the LG Diversified Trust.

(d) Financial assets and liabilities

(i) Classification

The Fund classifies its financial assets and financial liabilities into the categories below in accordance with AASB 9.

In applying that classification, a financial asset or financial liability is considered to be held for trading if:

- It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
- On initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Financial assets

Financial assets measured at Fair Value through Profit & Loss (FVPL).

A financial asset is measured at FVPL if:

- Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest (SPPI) on the principal amount outstanding; or
- It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell; or
- At initial recognition, It is irrevocably designated as measured at FVPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Fund includes in this category:

- Financial instruments held for trading: this includes all instruments which are acquired principally for the purpose of generating a profit from short-term fluctuations in price. This category also includes derivative contracts in an asset position.

Financial liabilities

Financial liabilities measured at FVPL.

A financial liability is measured at FVPL if it meets the definition of held for trading.

The Fund includes in this category derivative contracts in a liability position and all payables.

(ii) Recognition

The Fund recognises a financial asset or financial liability when, and only when, it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the marketplace are recognised on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

(iii) Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- a) The rights to receive cash flows from the asset have expired; or
- b) The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- c) Either (i) the Fund has transferred substantially all the risks and rewards of the asset, or (ii) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled or expires.

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Notes to the Financial Statements
For the year ended 30 June 2021

2. Summary of significant accounting policies (continued)

(d) Financial assets and liabilities (continued)

(iv) Initial measurement

Financial assets and financial liabilities at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. All transaction costs for such instruments are recognised directly in the Income Statement.

Receivables and financial liabilities (other than those classified at fair value through profit or loss) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

For financial assets and liabilities where the fair value at initial recognition does not equal the transaction price, the Fund recognises the difference in the Income Statement, unless specified otherwise.

(v) Subsequent measurement

After initial measurement, the Fund measures financial instruments at fair value through profit or loss. Subsequent changes in the fair value of those instruments are recorded as 'changes in assets measured at fair value' through the Income Statement. Interest earned is recorded in 'Interest revenue' according to the terms of the contract.

(e) Fair value measurement

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 by the Fund.

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 is 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 or disclosed in the Financial Statements are categorised within the fair value hierarchy. Refer to Note 7.

(f) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less, which are 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 short-term deposits as defined above.

(g) Receivables and payables

Receivables are carried at nominal amounts due which approximate fair value. Receivables are normally settled within 30 days.

Payables are carried at nominal amounts which approximate fair value. They represent liabilities for goods and services provided to the Fund prior to the end of the financial year that are unpaid. Payables are normally settled on 30 day terms.

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Notes to the Financial Statements For the year ended 30 June 2021

2. Summary of significant accounting policies (continued)

(h) Revenue recognition

The specific recognition criteria described below must also be met before revenue is recognised:

Changes in assets measured at fair value

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. All changes are recognised in the Income Statement.

Interest

Interest revenue on cash and other financial assets carried at fair value is recorded according to the terms of the contract and is recognised in the Income Statement.

Dividends and distributions

Dividend and distribution revenue is recognised when the Fund's right to receive payment is established. Revenue is presented gross of any non-recoverable withholding taxes, which are disclosed separately as part of Income tax expense in the Income Statement.

(i) Income tax

The Fund is a complying superannuation fund for the purposes of the provisions of the Income Tax Assessment Act 1997. Accordingly, the concessional tax rate of 15% has been applied to the Fund's taxable income.

Income tax 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 substantively enacted by the balance 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.

Deferred tax liabilities are recognised for all taxable temporary differences 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.
- 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 probable that the temporary difference will not reverse in the foreseeable future.

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

- Where the deferred 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 the transaction, affects neither the accounting profit nor the taxable profit or loss.
- 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 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.

ACTIVE SUPER

Notes to the Financial Statements For the year ended 30 June 2021

2. Summary of significant accounting policies (continued)

(i) Income tax (continued)

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

Deferred 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 tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Deferred 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.

(j) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except:

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

The net amounts of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

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 taxation authority are classified as operating cash flows.

(k) Foreign currency

The functional and presentation currency of the Fund is Australian Dollars, which is the currency of the primary economic environment in which it operates. The Fund's performance is evaluated and its liquidity 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.

Transactions in foreign currencies are initially recorded at the functional currency spot rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rates of exchange at the reporting date.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in a previous financial report, are recognised in the Income Statement in the period in which they arise.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(l) Member liabilities

Member liabilities are measured at the amount of accrued benefits.

Defined benefit member liabilities are measured as the amount of investments that would be required as at the reporting date to yield future net cash inflows that would be sufficient to meet accrued benefits as at that date, when they are expected to fall due.

Defined contribution member liabilities are measured as the amount of member account balances as at the reporting date.

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Notes to the Financial Statements
For the year ended 30 June 2021

2. Summary of significant accounting policies (continued)

(m) Reserves

The Fund maintains an Operational Risk Financial Requirement Reserve, in accordance with the requirements established by the Australian Prudential Regulatory Authority under Prudential Standard SPS 114 Operational Risk Financial Requirement, and also holds Administration, Self-Insurance, Murrumbidgee and Other reserves. More detail on reserves is provided in Note 6.

(n) Significant accounting judgements, estimates and assumptions

The Trustee has considered the impact of COVID-19 and other market volatility in preparing its financial statements. The specific areas of judgement noted below include consideration of the impact of COVID-19. Given the dynamic and evolving nature of COVID-19, changes to the estimates and outcomes that have been applied in the measurement of the Fund's assets and liabilities may rise in the future.

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 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 re-presented to be consistent with current period disclosures.

Fair Value of Investments

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 the discounted cash flow model (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.

Assessment as investment entity

Entities that meet the definition of an investment entity within AASB 10 are required to measure their subsidiaries at fair value through profit or loss rather than consolidate these subsidiaries. The criteria which define an investment entity are as follows:

- An entity that obtains funds from one or more investors for the purpose of providing those investors with investment services;
- An entity that commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- An entity that measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Fund's Product Disclosure Statement details its objective of providing services to members which includes investing in cash and short term deposits, other interest bearing securities, Australian Equities, Australian Unit Trusts and Australian Property Trusts for the purpose of returns in the form of investment income and capital appreciation.

The Fund reports to its members via an annual report, and to its management, via internal management reports, on a fair value basis. All investments are reported at fair value to the extent allowed by AASB 1056 in the Fund's annual report. The Fund has a clearly documented exit strategy for all of its investments.

The Trustee has also concluded that the Fund meets the additional characteristics of an investment entity, in that it has more than one investment; the investments are predominantly in the form of equities and similar securities; it has more than one investor and its investors are not related parties.

The Trustee has therefore concluded that the Fund meets the definition of an investment entity. These conclusions will be reassessed on an annual basis, if any of these criteria or characteristics change.

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Notes to the Financial Statements For the year ended 30 June 2021

2. Summary of significant accounting policies (continued)

(n) Significant accounting judgements and estimates and assumptions (continued)

Valuation of defined benefits 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 various assumptions about the future. Actual developments in the future may differ from these assumptions. The assumptions relate to items, such as, 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 can be highly sensitive to changes in these assumptions. Assumptions are reviewed at each reporting date.

In determining the appropriate discount rate (Investment return), the actuary considers 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 pensioner mortality assumptions are based on the experience of NSW public sector pensioners over recent years. Future salary increases are based on long-term economic forecasts consistent with the expected discount rate assumption. Past experience and the expectations for short term future salary increases (including consultation with the employer-sponsors) are taken into account in setting the assumption. The expected rate of CPI increase (for pension indexation) is based on the target range of the Reserve Bank of Australia.

3. Defined contribution member liabilities

Defined contribution member account balances are determined by unit prices that are determined based on the underlying investment movements.

Defined contribution members bear the investment risk relating to the underlying assets and unit prices used to measure the member liabilities. Unit prices are updated daily.

4. Defined benefit member liabilities

The Fund has appointed an actuary to undertake annual reviews, together with a more comprehensive triennial review, to assess the adequacy of the funding for the defined benefit schemes.

The actuarial valuation of member liabilities reflects the actuarial assessment of the benefits accrued up to the reporting date and payable to members on retirement, resignation, death and disability. The Board reviews the results of the annual assessment by the actuary, and then determines the level of funding required by Employers to ensure that the defined benefits remain fully funded.

The key assumptions used to determine the values of accrued benefits for the Fund were:

- The discount rate/future rate of investment return (net of investment taxes and fees): 5.75% (2020: 5.75%)
- The future rate of salary growth: 3.5% (2020: 3.5%)
- The CPI increase assumption: 2.5% (2020: 2.5%)

The defined benefit liabilities have increased over the current financial year primarily due to interest on the liabilities, additional benefits accruing to members and investment returns on the accumulation style benefits. These have been offset partially by the payment of benefits to members.

The Trustee has a number of strategies in place to manage the risks associated with the defined benefit plan. The Trustee has appointed external consulting actuaries to advise on the risks, including establishing suitable funding objectives. These funding objectives and the defined benefit plan's circumstances are taken into account by the actuaries when recommending the required employer contribution levels.

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Notes to the Financial Statements For the year ended 30 June 2021

4. Defined benefit member liabilities (continued)

The Trustee also uses sensitivity analysis to monitor the potential impact of changes to key variables about which assumptions need to be made. The Trustee has identified three assumptions for which changes are reasonably possible that would have a material impact on the amount of the defined benefit member liabilities as follows:

- i. Discount rate / investment return
- ii. Salary adjustment rate
- iii. CPI increase

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 for which reasonably possible changes would not be expected to have a material effect, include: mortality rates and resignations.

The following are sensitivity calculations on a univariate basis for the investment return, rate of salary adjustment and CPI increase assumptions for the defined benefit plan.

| <i>Assumption</i> | | Assumed at reporting date % | Sensitivity change % | Amount of Increase/ (Decrease) in member benefit liabilities \$'000 |
|---------------------------------|-------|-----------------------------|----------------------|---|
| Discount rate/Investment return | 2021: | 5.75% | -1.0% | 177,690 |
| | | | +1.0% | (142,367) |
| | 2020: | 5.75% | -1.0% | 157,150 |
| | | | +1.0% | (134,989) |
| Salary adjustment rate | 2021: | 3.5% | +1.0% | 83,596 |
| | | | -1.0% | (59,916) |
| | 2020: | 3.5% | +1.0% | 68,054 |
| | | | -1.0% | (63,430) |
| CPI increase | 2021: | 2.5% | +1.0% | 103,450 |
| | | | -1.0% | (68,381) |
| | 2020: | 2.5% | +1.0% | 86,425 |
| | | | -1.0% | (73,730) |

Vested benefits and accrued benefits are two different actuarial calculations so the amounts will be different. Vested benefits for an active member are the benefits to which they would be entitled if they left service now e.g. a deferred pension. Accrued benefits are their benefits based on service up to now, but they may be based either on the member's current salary or their salary projected to retirement. Essentially, therefore the difference will be in salary growth vs investment performance.

At 30 June 2021 \$1,741,000 (2020: \$1,189,000) has not been allocated to members at balance date. The amount not yet allocated to members' accounts consists of contributions received by the Fund that have not been able to be allocated to members as at balance date and insurance claims payable which have not yet been paid from members accounts.

5. Defined benefit plan that is overfunded / (underfunded)

| | 2021 \$'000 | 2020 \$'000 |
|----------------------|-------------|-------------|
| Defined benefit plan | 168,261 | (38,540) |

The employer-sponsors contributed at the rate recommended by the actuary.

The 2021 surplus (2020: deficit) is based on a comparison of the Plan Asset (Pooled Employers' Reserve) against the Defined Benefit member liabilities. The value of the liabilities is based upon an accrued benefit valuation performed by the Fund's actuary in accordance with the requirements of AASB 1056.

The total value of the Vested benefit liabilities is \$3,596,337,000 (2020: \$3,423,675,000)

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Notes to the Financial Statements For the year ended 30 June 2021

6. Reserves

| | 2021 | 2020 |
|--|----------------|----------------|
| | \$'000 | \$'000 |
| Other reserves | | |
| Administration reserve | 9,514 | 7,141 |
| Murrumbidgee reserve | 22,585 | 22,474 |
| Self-Insurance reserve | 1,320 | 1,352 |
| Other reserves | 60,836 | 49,564 |
| | <u>94,255</u> | <u>80,531</u> |
| Operational Risk Financial Requirement reserve | 33,513 | 33,278 |
| | <u>127,768</u> | <u>113,809</u> |

The purpose of the Operational Risk Financial Requirement reserve (ORFR) is to provide protection to the Fund in the event that a loss is incurred from an operational risk event occurring. The use of the ORFR reserve is governed by the requirements of SPS 114, which is applicable to all APRA-regulated funds. The current ORFR reserve represents approximately 0.25% (2020: 0.28%) of the net assets available for member benefits. The Trustee intends to maintain this reserve between 0.20% and 0.30% of net assets available for member benefits.

The purpose of the Administration Reserve is to fund the operational expenses of the Trustee and may also include retention of unearned income relating to LGSS Pty Limited.

The purpose of the Self-Insurance Reserve is to pay insurance claims which cannot be recovered from an external insurer. The Fund is classified as the insurer with respect to this reserve.

The purpose of the Murrumbidgee reserve is to recognise the liability in respect of the Murrumbidgee Irrigation pensioners. On 2 October 2018, annuity policies were purchased with Challenger Life Limited ('Challenger') in the Trustee's name in respect of the Murrumbidgee Irrigation pensioner liabilities. These funds are revalued annually by Challenger and verified by the actuary, Mercer. Any revaluation in member liabilities is also reflected in the carrying value of the investment. The movement in investments is reflected in unrealised gains/losses in the Income Statement.

The purpose of Other reserves is to isolate the investment related revenue, net of investment related taxes and expenses, which is ultimately allocated to members.

Transfers in and out of the reserves are made only at the authorisation of the Trustee and in accordance with the Fund's Reserve Policy.

7. Fair value of financial instruments

(a) Classification of financial instruments under the fair value hierarchy

AASB 13 requires the classification of financial instruments at fair value (net market value) determined by reference to the source of inputs used to derive the fair value. The fair value hierarchy has the following levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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Notes to the Financial Statements
For the year ended 30 June 2021

7. Fair value of financial instruments (continued)

(a) Classification of financial instruments under the fair value hierarchy (continued)

The level in which instruments are classified in the hierarchy is based on the lowest level input that is significant to the fair value measurement in its entirety. Assessment of the significance of an input requires judgement after considering factors specific to the instrument.

| 30 June 2021 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|--|-------------------|-------------------|-------------------|-------------------|
| Other Interest Bearing Securities | | | | |
| Corporate Bonds | 28,635 | 1,263,322 | - | 1,291,957 |
| Government Bonds | - | 874,109 | - | 874,109 |
| Asset-backed securities | - | 612,833 | - | 612,833 |
| | <u>28,635</u> | <u>2,750,264</u> | <u>-</u> | <u>2,778,899</u> |
| Australian Equities | | | | |
| Listed Equities | 2,417,036 | - | - | 2,417,036 |
| Unlisted Equities | - | 1,277,332 | 1,341,477 | 2,618,809 |
| | <u>2,417,036</u> | <u>1,277,332</u> | <u>1,341,477</u> | <u>5,035,845</u> |
| International Equities | | | | |
| Listed Equities | 2,492,880 | - | - | 2,492,880 |
| Unlisted Equities | - | 186,029 | 325,647 | 511,676 |
| | <u>2,492,880</u> | <u>186,029</u> | <u>325,647</u> | <u>3,004,556</u> |
| Australian Unit Trusts | | | | |
| Listed Trusts | 89,529 | - | - | 89,529 |
| Listed Property Trusts | 105,878 | - | - | 105,878 |
| Unlisted Property Trusts | - | - | 81,011 | 81,011 |
| | <u>195,407</u> | <u>-</u> | <u>81,011</u> | <u>276,418</u> |
| International Unit Trusts | | | | |
| Listed Property Trusts | 224,215 | - | - | 224,215 |
| Unlisted Unit Trusts | - | - | 1,105,099 | 1,105,099 |
| | <u>224,215</u> | <u>-</u> | <u>1,105,099</u> | <u>1,329,314</u> |
| Derivative Assets | | | | |
| Options | - | 667 | - | 667 |
| Futures | 2,466 | 37 | - | 2,503 |
| Swaps | - | 16,639 | - | 16,639 |
| Forward foreign exchange contracts | - | 14,449 | - | 14,449 |
| | <u>2,466</u> | <u>31,792</u> | <u>-</u> | <u>34,258</u> |
| Derivative Liabilities | | | | |
| Options | - | (955) | - | (955) |
| Futures | (1,652) | (1) | - | (1,653) |
| Swaps | - | (15,486) | - | (15,486) |
| Forward foreign exchange contracts | - | (98,328) | - | (98,328) |
| | <u>(1,652)</u> | <u>(114,770)</u> | <u>-</u> | <u>(116,422)</u> |
| Total investments | <u>5,358,987</u> | <u>4,130,647</u> | <u>2,853,234</u> | <u>12,342,868</u> |

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Notes to the Financial Statements
For the year ended 30 June 2021

7. Fair value of financial instruments (continued)

(a) Classification of financial instruments under the fair value hierarchy (continued)

| 30 June 2020 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|--|-------------------|-------------------|-------------------|-------------------|
| Other Interest Bearing Securities | | | | |
| Corporate Bonds | 60,637 | 1,367,394 | - | 1,428,031 |
| Government Bonds | - | 794,359 | - | 794,359 |
| Asset-backed securities | - | 759,008 | 427,954 | 1,186,962 |
| | <u>60,637</u> | <u>2,920,761</u> | <u>427,954</u> | <u>3,409,352</u> |
| Australian Equities | | | | |
| Listed Equities | 1,676,202 | - | - | 1,676,202 |
| Unlisted Equities | - | 1,992,207 | - | 1,992,207 |
| | <u>1,676,202</u> | <u>1,992,207</u> | <u>-</u> | <u>3,668,409</u> |
| International Equities | | | | |
| Listed Equities | 1,883,362 | - | - | 1,883,362 |
| Unlisted Equities | - | 198,885 | - | 198,885 |
| | <u>1,883,362</u> | <u>198,885</u> | <u>-</u> | <u>2,082,247</u> |
| Australian Unit Trusts | | | | |
| Listed Trusts | 90,734 | - | - | 90,734 |
| Listed Property Trusts | 69,038 | - | - | 69,038 |
| Unlisted Property Trusts | - | 890 | 361,569 | 362,459 |
| Unlisted Unit Trusts | - | - | 94,895 | 94,895 |
| | <u>159,772</u> | <u>890</u> | <u>456,464</u> | <u>617,126</u> |
| International Unit Trusts | | | | |
| Listed Property Trusts | 191,495 | - | - | 191,495 |
| Unlisted Unit Trusts | - | - | 889,253 | 889,253 |
| | <u>191,495</u> | <u>-</u> | <u>889,253</u> | <u>1,080,748</u> |
| Derivative Assets | | | | |
| Options | - | 355 | - | 355 |
| Futures | 3,721 | 187 | - | 3,908 |
| Swaps | - | 16,395 | - | 16,395 |
| Forward foreign exchange contracts | - | 129,253 | - | 129,253 |
| | <u>3,721</u> | <u>146,190</u> | <u>-</u> | <u>149,911</u> |
| Derivative Liabilities | | | | |
| Options | - | (202) | - | (202) |
| Futures | (2,417) | (615) | - | (3,032) |
| Swaps | - | (20,602) | - | (20,602) |
| Forward foreign exchange contracts | - | (22,948) | - | (22,948) |
| | <u>(2,417)</u> | <u>(44,367)</u> | <u>-</u> | <u>(46,784)</u> |
| Total investments | <u>3,972,772</u> | <u>5,214,566</u> | <u>1,773,671</u> | <u>10,961,009</u> |

(b) Transfers between hierarchy levels

There have been no significant transfers between Level 1 and Level 2 of the fair value hierarchy during the financial year. Following a reassessment of the valuation inputs, \$834,234,376 has been reclassified from Level 2 to Level 3 of the fair value hierarchy during the financial year (2020: \$143,445,489) and \$47,329,061 was reclassified from Level 3 to Level 2 (2020: \$249,808,939).

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Notes to the Financial Statements For the year ended 30 June 2021

7. Fair value of financial instruments (continued)

(c) Valuation technique

Interest bearing securities

The Fund invests in both floating rate instruments such as an "At call" bank account and fixed interest instruments such as bonds. 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 users and yield curves. Adjustments are made to the valuations when necessary to recognise differences in the instrument's terms. Investments are classified as Level 1 when prices are quoted in an active market. To the extent that the significant inputs are observable, the Fund categorises these investments into Level 2. Level 2 assets are assets that do not have regular market pricing, but whose fair value can be readily determined based on other data values.

The fair value of investments in asset-backed securities, for which there is currently no active market, is calculated using a valuation model, which is accepted in the industry. The Fund uses the discounted cash flow method which incorporates both observable and non-observable data. Observable inputs include assumptions regarding current rates of interest and real estate prices. Unobservable inputs included assumptions regarding expected future default rates and market liquidity discounts. The Fund classifies asset-backed securities as Level 2 or Level 3.

Unit trusts

The Fund invests in unlisted trusts, which are not quoted in the active market and which may be subject to restrictions on redemptions such as lock up periods, redemption dates and side pockets. The Fund's investment managers consider the valuation techniques and inputs used in valuing these funds as part of its due diligence prior to investing, to ensure they are reasonable and appropriate and therefore the Net Asset Value ("NAV") of these funds may be used as an input into measuring their fair value. In measuring the fair value, the NAV of the funds is adjusted, as necessary, to reflect restrictions on redemptions, future commitments, and other specific factors of the Fund and fund managers. In measuring fair value, consideration is also paid to any transactions in the shares of the Fund. Depending on the nature and level of adjustments needed to the NAV and the level of trading in the fund, the Fund classifies unlisted trusts and unlisted property trusts as either Level 2 or Level 3. Listed trusts and Listed property trusts are classified as Level 1.

Equities

Where fair values of publicly traded equity securities are based on quoted market prices, or binding dealer price quotations, in an active market for identical assets with 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. The Fund also invests in unlisted equity companies which are not quoted in an active market. Transactions in such investments do not occur on a regular basis. The Fund uses a market based valuation technique for these positions. The Fund's investment manager determines comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate trading multiple for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the investee company to measure the fair value. As these investments are not quoted in an active market, the Fund classifies the fair value of these investments as either Level 2 or Level 3.

Derivative assets and liabilities

The Fund uses widely recognised valuation models for determining the fair values of over-the-counter interest rate swaps, currency swaps, options and futures as well as forward exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including credit and debit valuation adjustments for counterparty and own credit risk, foreign exchange spot and forward rates and interest rate curves. For these financial instruments, significant inputs to models are market observable and are included within Level 2. Futures that are classified as Level 1 are exchange traded derivatives.

Valuation process for Level 3 valuations

For financial instruments classified in 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 produce a different net market value measurement.

As at 30 June 2021, the Fund has measured the fair value of its unlisted investments at their redemption price.

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Notes to the Financial Statements
For the year ended 30 June 2021

7. Fair value of financial instruments (continued)**(c) Valuation technique (continued)****Quantitative information of significant unobservable inputs - Level 3****2021**

| Sector | \$ | SubSector | \$ | Valuation technique | Significant unobservable inputs | Range (weighted average) |
|---------------------|------------------|-------------------------|------------------|---------------------------|---------------------------------|--------------------------|
| Private Equity | 752,072 | Unlisted Equities | 134,494 | Partner Capital Statement | Earnings Multiple | 9.2x-18.9x (WA:13.4x) |
| | | Unlisted Unit Trust | 617,578 | | | |
| Growth Alternatives | 311,896 | Unlisted Equities | 219,801 | Partner Capital Statement | Discount Rate | 16%-19% (WA:17.4%) |
| | | Unlisted Unit Trust | 92,095 | | | |
| Infrastructure | 477,643 | Unlisted Equities | 337,488 | Unit Price | Discount Rate | 7%-9% (WA:8.3%) |
| | | Unlisted Unit Trust | 140,155 | | | |
| Private Credit | 381,240 | Unlisted Equities | 86,047 | Partner Capital Statement | Discount Rate | 9%-18% (WA:10.9%) |
| | | Unlisted Property Trust | 39,922 | | | |
| | | Unlisted Unit Trust | 255,271 | | | |
| Property | 762,925 | Unlisted Equities | 721,836 | Unit Price | Discount Rate | 6%-7% (WA:6.4%) |
| | | Unlisted Property Trust | 41,089 | | | |
| Other | 167,458 | Unlisted Equities | 167,458 | Net Asset Value | Fair Value | N/A |
| Total | 2,853,234 | | 2,853,234 | | | |

2020

| Sector | \$ | SubSector | \$ | Valuation technique | Significant unobservable inputs | Range (weighted average) |
|----------------|------------------|-------------------------|------------------|---------------------------|---------------------------------|---------------------------|
| Private Equity | 688,121 | Unlisted Unit Trust | 687,911 | Partner Capital Statement | Earnings Multiple | 11.0x-16.6x (WA:13.6x) |
| | | Asset Backed Securities | 210 | | | |
| Infrastructure | 427,606 | Unlisted Property Trust | 288,043 | Unit Price | Discount Rate | 7%-9% (WA:8.6%) |
| | | Unlisted Unit Trust | 89,420 | | | |
| | | Asset Backed Securities | 50,143 | | | |
| Private Credit | 584,418 | Unlisted Unit Trust | 206,817 | Partner Capital Statement | Discount Rate | 9%-21% (WA:13.3%) |
| | | Asset Backed Securities | 377,601 | | | |
| Property | 73,526 | Unlisted Property Trust | 73,526 | Unit Price | Discount Rate | 6%-7% (WA:6.4%) |
| Total | 1,773,671 | | 1,773,671 | | | |

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Notes to the Financial Statements
For the year ended 30 June 2021

7. Fair value of financial instruments (continued)

(c) Valuation technique (continued)

Sensitivity analysis to significant changes in unobservable inputs within Level 3 hierarchy

2021

| Description | Input | Sensitivity used | Effect on fair value \$'000 |
|---------------------|-------------------|------------------|--------------------------------|
| Private Equity | Earnings Multiple | +/- 0.5x | 28,001/(28,001) |
| Growth Alternatives | Discount rate | +/- 5% | 14,852/(14,852) |
| Infrastructure | Discount rate | +/- 5% | 22,745/(22,745) |
| Private Credit | Discount rate | +/- 5% | 18,154/(18,154) |
| Property | Discount rate | +/- 5% | 36,329/(36,329) |
| Other | Fair Value | N/A | N/A |

2020

| Description | Input | Sensitivity used | Effect on fair value \$'000 |
|----------------|-------------------|------------------|--------------------------------|
| Private Equity | Earnings Multiple | +/- 0.5x | 25,372/(25,372) |
| Infrastructure | Discount rate | +/- 5% | 20,362/(20,362) |
| Private Credit | Discount rate | +/- 5% | 27,829/(27,829) |
| Property | Discount rate | +/- 5% | 3,501/(3,501) |

(d) Level 3 reconciliation

| | 2021 \$'000 | 2020 \$'000 |
|---------------------------|------------------|------------------|
| Opening balance | 1,773,671 | 1,931,202 |
| Purchases | 665,253 | 506,936 |
| Sales | (441,579) | (486,000) |
| Unrealised gains/(losses) | 68,984 | (72,103) |
| Transfer out of level 3 | (47,329) | (249,809) |
| Transfers into level 3 | 834,234 | 143,445 |
| Closing Balance | <u>2,853,234</u> | <u>1,773,671</u> |

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Notes to the Financial Statements For the year ended 30 June 2021

8. Receivables

| | 2021 | 2020 |
|---|--------------|------------|
| | \$'000 | \$'000 |
| Recoverable after 12 months | | |
| Related party receivable - LGSS Pty Limited | 2,236 | 945 |
| | <u>2,236</u> | <u>945</u> |

The above is inclusive of adjustments for Reduced Input Tax Credits "RITC", in accordance with the Tax Management Framework applicable to the Fund.

9. Payables

| | 2021 | 2020 |
|--|--------------|--------------|
| | \$'000 | \$'000 |
| Due within 12 months | | |
| Related party payable - LGSS Pty Limited | 3,391 | 2,991 |
| Other payables | 936 | 1,006 |
| | <u>4,327</u> | <u>3,997</u> |

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value. Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in Note 17.

The Related party payable - LGSS Pty Limited is inclusive of adjustments for RITC, in accordance with the Tax Management Framework applicable to the Fund.

10. Income tax

| | 2021 | 2020 |
|---|----------------|-----------------|
| | \$'000 | \$'000 |
| (a) Major components of income tax expense / (benefit) for the years ended 30 June 2021 and 2020: | | |
| <i>Current tax charge</i> | 79,049 | 653 |
| Adjustments in respect of current income tax of previous years | 43,901 | (8,211) |
| <i>Deferred tax</i> | | |
| Relating to origination and reversal of temporary differences | 66,726 | (20,049) |
| Total tax expense / (benefit) as reported in the Income Statement | <u>189,676</u> | <u>(27,607)</u> |
| (b) Reconciliation between income tax expense / (benefit) and the accounting profit / (loss) before income tax: | | |
| Profit / (Loss) before income tax | 410,436 | (96,920) |
| Income tax expense / (benefit) at 15% | 61,565 | (14,538) |
| Derecognition of temporary differences | 1,157 | 770 |
| Net benefit allocated to member accounts | 235,664 | 1,903 |
| Capital gains/(losses) not assessable/(deductible) | (69,926) | 21,922 |
| Exempt pension income | (56,194) | (2,217) |
| Net imputation and foreign tax credits | (26,464) | (27,221) |
| Insurance premiums | (27) | (15) |
| Under / (Over) provision in the previous year | 43,901 | (8,211) |
| Income tax expense / (benefit) reported in Income Statement | <u>189,676</u> | <u>(27,607)</u> |

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Notes to the Financial Statements
For the year ended 30 June 2021

11. Changes in fair value of investments

| | 2021 | 2020 |
|--|------------------|------------------|
| | \$'000 | \$'000 |
| Investments held at balance date | | |
| Other Interest Bearing Securities | (56,878) | (10,515) |
| Australian Equities | 520,903 | (148,240) |
| International Equities | 612,655 | (20,237) |
| Australian Unit Trusts | 98,531 | (51,330) |
| International Unit Trusts | 35,702 | (13,202) |
| Derivative Assets and Derivative Liabilities | (187,217) | 94,875 |
| Total unrealised gains / (losses) | 1,023,696 | (148,649) |
| Investments realised during the year | | |
| Other Interest Bearing Securities | (31,669) | 16,288 |
| Australian Equities | 139,969 | (102,110) |
| International Equities | 88,823 | 46,994 |
| Australian Unit Trusts | 2,419 | (7,970) |
| International Unit Trusts | 6,294 | (8,080) |
| Derivative Assets and Derivative Liabilities | 420,905 | (234,594) |
| Total realised gains / (losses) | 626,741 | (289,472) |
| Change in fair value of investments | 1,650,437 | (438,121) |

The amounts recorded as 'realised gains/(losses)' above is the difference between fair value at sale and the carrying amount at the beginning of the reporting period or when acquired, if acquired during the year.

12. Funding arrangements

For years ended 30 June 2021 and 30 June 2020, member and employer contributions for each of the funds are determined on the basis described below.

(a) Accumulation Scheme

Compulsory Employer Contributions

The percentage of salary or wages of employees prescribed as the rate of compulsory employer (Superannuation Guarantee) contributions between 1 July 2020 to 30 June 2021 was 9.50% (1 July 2019 to 30 June 2020: 9.50%).

Optional Employer Contributions

Employers may make additional contributions to the Fund for employees in respect of whom compulsory employer contributions are being made.

Optional Member Contributions

Employees as defined in the Act, may make voluntary contributions to the Fund in the form of periodical payments or single payments.

Transfers from Other Funds

Payments include benefits transferred or rolled over from another superannuation fund, approved deposit fund, or retirement savings account.

Optional Spouse Contributions

Employees may make voluntary contributions on behalf of their spouse, as defined in the Act, to the Fund in the form of periodical payments or single payments. Payments include benefits transferred or rolled over from another superannuation fund, approved deposit fund, or retirement savings account.

ACTIVE SUPER

Notes to the Financial Statements For the year ended 30 June 2021

12. Funding arrangements (continued)

(b) Retirement Scheme

Member Contributions

Each member elects to contribute between 1% and 9% of salary (2019/20: between 1% and 9%).

Employer Contributions

Employers contribute on a fully funded basis as determined by the Trustee based on actuarial advice. In 2020/21 employers contributed at the standard contribution rate of 1.9 times employee contributions (2019/20: 1.9 times employee contributions).

Basic Benefit

The Basic Benefit is made up of two components. Firstly, a Defined Basic Benefit which is a non-contributory fully employer funded benefit. In 2020/21 employers contributed at the standard contribution rate of 2.5% of the members' salary (2019/20: 2.5% of the members' salary). The second component is an Other Contributions account, which is the Accumulation component of a member's Basic Benefit and exists to accept member and employer contributions and transfers from other funds.

(c) Defined Benefit Scheme

Member Contributions

Each member contributes on a "rate for age" basis to individual pension units which become available with salary increases. Members may elect to abandon units where total contributions payable would exceed 6% of the individual salary (2019/20: exceed 6%).

Employer Contributions

Employers contribute on a fully funded basis as determined by the Trustee based on actuarial advice. In 2020/21 employers contributed at the "nominal" contribution rate 1.64 times employee contributions (2019/20: 1.64 times employee contributions). Employers may opt to make additional contributions which are determined on an as-needs basis or for a specific purpose.

Basic Benefit

The Basic Benefit is made up of two components. Firstly, a Defined Basic Benefit which is a non-contributory fully employer funded benefit. In 2020/21 employers contributed at the standard contribution rate of 2.5% of the member's salary (2019/20: 2.5% of the member's salary). The second component is an Other Contributions account, which is the Accumulation component of a member's Basic Benefit and exists to accept member and employer contributions and transfers from other funds.

(d) Account-Based Pension Plan

Member Contributions

An Account-Based Pension Plan is funded with a superannuation lump sum payment from either:

- Superannuation or rollover benefits from another Active Super product, or another superannuation fund, as an unrestricted non-preserved benefit,
- A superannuation lump sum if a member elects for a 'Transition To Retirement pension', or
- Any other superannuation or Retirement Savings Account source.

(e) Active Super Guaranteed Income

Active Super Guaranteed Income accounts are established using funds from unrestricted non-preserved superannuation balances held by relevant members in other Active Super accounts.

13. Operating expenses

| | 2021 | 2020 |
|--------------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Actuarial fees | 200 | 199 |
| Trustee expenses | 30,108 | 28,332 |
| Financial planning fees ¹ | 1,102 | 1,069 |
| Other expenses | 64 | 24 |
| | <u>31,474</u> | <u>29,624</u> |

1. Financial planning fees are deducted from individual member account balances where applicable.

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Notes to the Financial Statements For the year ended 30 June 2021

14. Auditors' remuneration

| | 2021 | 2020 |
|--|------------|------------|
| | \$'000 | \$'000 |
| Amounts received or due and receivable by Ernst & Young: | | |
| Audit and review of financial reports and compliance | 274 | 272 |
| Tax services | 165 | 96 |
| Other services | - | 3 |
| | <u>439</u> | <u>371</u> |

Audit fees are paid by LGSS Pty Limited on behalf of the Fund. The amounts above are GST inclusive.

Tax services fees received or due and receivable by Ernst & Young for the financial years ended 30 June 2021 and 30 June 2020 relate to the provision of advice.

Other amounts received or due and receivable by Ernst & Young for the financial year ended 30 June 2020 primarily relate to the provision of advice to the Trustee in relation to loan facility terms.

15. Cash flow statement reconciliation

Cash 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:

| | 2021 | 2020 |
|---------------------------|----------------|----------------|
| | \$'000 | \$'000 |
| Cash and cash equivalents | <u>167,922</u> | <u>153,673</u> |

Reconciliation of net cash from operating activities to profit / (loss) after income tax (expense) / benefit:

| | | |
|--|----------------|---------------|
| Profit / (loss) after income tax (expense) / benefit | 220,760 | (69,313) |
| Adjustments for: | | |
| (Increase) / decrease in assets measured in fair value | (1,650,437) | 438,121 |
| (Increase) / Decrease in receivables | (1,291) | 5,161 |
| Increase / (Decrease) in payables | 330 | (317) |
| Increase in income tax payable | 124,534 | 34,992 |
| Increase / (decrease) in net deferred tax liability | 66,726 | (20,049) |
| Net insurance inflow from members accounts | (1,772) | (610) |
| Distribution income | (142,613) | (182,129) |
| Dividend income | (190,077) | (158,660) |
| Other investment income | (3,159) | (4,437) |
| Allocation to members' accounts | 1,571,091 | 12,689 |
| Net cash (outflows) / inflows from operating activities | <u>(5,908)</u> | <u>55,448</u> |

16. Segment Information

The Fund operates solely in one reportable business segment, being the provision of superannuation benefits to members. The Fund also operates from one reportable geographic segment, being Australia, from where its activities are managed. Revenue is derived from interest, distributions, gains on the sale of investments and unrealised changes in the value of investments. While the Fund solely operates in Australia, it has investment exposures in different countries and across different industries.

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Notes to the Financial Statements
For the year ended 30 June 2021

17. Financial risk management objectives and policies

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 COVID-19 on the Fund's risk profile. Non-financial risks from global and domestic movement restrictions, and any remote working by our staff, counterparties, clients and suppliers, are being identified, assessed, managed and governed through timely application of the Trustee's risk management framework.

(a) Risk management structure

The Management policies used by the Fund to manage financial risks are discussed below.

The investments of the Fund, (other than cash held for meeting daily administrative and benefit expenses, reserves unlisted securities and LGPF), are invested on behalf of the Trustee by investment managers. All assets are directly owned by the Fund, being the beneficial owner.

The investment managers are required to invest the assets allocated for discrete management in accordance with the terms of a written investment management agreement; or through a pooled vehicle, managed on the terms disclosed within the information memorandum. The Trustee of the Fund has determined that the appointment of these managers is appropriate for the Fund and is in accordance with the Trustee's investment strategy.

JP Morgan acts as master custodian on behalf of the Trustee and as such provides services including physical custody and safekeeping of assets, settlement of trades, collection of dividends and accounting for investment transactions.

The Fund is exposed to a variety of financial risks as a result of its activities. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk, liquidity risk and cash flow risk. The Trustee's risk management and investment policies seek to minimise the potential adverse effects of these risks on the Fund's financial performance and financial position.

Active Super is committed to effectively integrating climate change risks and opportunities into its investment processes across the Fund. We actively measure and monitor investment managers' ability to integrate ESG risk throughout their investment process as we believe this delivers sustainable long term out-performance over time.

Risks from climate change transitions will have a varied impact on investments, with some assets anticipated to yield decreasing returns, while others increase. Opportunities for the Fund include influencing and encouraging responsible investment by directing investments to projects aligned to its purpose and risk appetite. To address these effects, the Trustee will look to continue considering the implications of potentially stranded assets, carbon-intensive industries and evolving opportunities in determining its investment strategy and portfolio allocations.

It is the responsibility of the Trustee to ensure that there is an effective risk management control framework in place. Consistent with regulatory requirements the Trustee has the function of overseeing the establishment and maintenance of risk-based systems and controls for the Fund.

The Trustee has developed, implemented and maintained a Risk Management Framework ("RMF"). The RMF is inclusive of the Trustee's Risk Appetite Statement, Risk Tolerance processes and the Risk Management Strategy.

The RMF details some of the Trustee's policies and procedures, processes and controls that comprise its risk management and control systems. This addresses all material risks, financial and non-financial, likely to be faced. Annually, the Trustee certifies to APRA that adequate strategies have been put in place to monitor those risks, that the Trustee has systems in place to ensure compliance with legislative and prudential requirements and that the Trustee has satisfied itself as to the compliance with the RMF.

(b) Credit risk

The Fund's exposure to credit risk and policies in managing this risk are aligned and are detailed below. Credit risk is the risk that a counterparty will fail to perform contractual obligations, either in whole or in part, under a contract resulting in financial loss to the Fund.

Concentrations of credit risk are minimised primarily by:

- ensuring counterparties, together with the respective credit limit are approved;
- ensuring that transactions are undertaken with a number of counterparties; and
- ensuring that the majority of transactions are undertaken on recognised exchanges.

ACTIVE SUPER

Notes to the Financial Statements
For the year ended 30 June 2021

17. Financial risk management objectives and policies (continued)

(b) Credit risk (continued)

The carrying amounts of financial assets within the Fund's mandated portfolios (cash, bonds, equities etc.) best represent the maximum credit risk exposure at the balance date.

The Fund is exposed to credit risk primarily through its investments. The Trustee manages exposure to any individual counterparty or industry by diversifying its investments, in line with the Investment Policy Statement. The credit risk is managed by diversifying across investment managers and also by the investment managers having diversified portfolios, thus minimising the counterparty risk.

Credit risk arising on investments is mitigated by investing primarily in rated instruments or instruments issued by rated counterparties with credit ratings of 'BBB+' or better as determined by Standard and Poor's, unless these securities form part of the profile of specifically permitted market benchmarks within mandated or pooled investments as in the case of Emerging Market Debt, High Yield Bonds or as part of the exposure to Structured Products, Private Equity or Semi Liquid Assets. There is greater risk for the less liquid assets than those rated BBB+. As such, these are managed by external professional investment managers, who accept the exposure when they determine the premium being paid is more than sufficient to cover the default risk on the debt.

The risk is further mitigated by the diversification of the exposure across a range of investment managers.

(c) Liquidity risk

The Fund's exposure to liquidity risk and policies in managing this risk are aligned and are detailed below.

The Fund's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity available to meet its expected liabilities. The Fund allows members to withdraw benefits and it is therefore exposed to the liquidity risk of meeting members' withdrawals at any time. The Fund is exposed to liquidity risk primarily through its underlying investments. The investments held by the Fund are considered to be readily realisable. The Fund's and LGPF's financial instruments include investments in unlisted investments, direct property and private equity, which are not traded in an organised market and which generally may be illiquid. As a result, there is a risk that the Fund and LGPF may not be able to liquidate all of these investments at their net market value in order to meet its liquidity requirements.

The Fund's liquidity risk is managed in accordance with the Fund's investment strategy. The Fund has a high level of inward cash flows (through new contributions) which provides capacity to manage liquidity risk. The Fund also manages liquidity risk by maintaining adequate banking facilities and through the continuous monitoring of forecast and actual cash flows. As a further risk mitigation strategy, it is the Trustee's policy that the Fund must have at least 70% exposure to liquid assets at all times. The Fund's overall strategy to liquidity risk management has not changed from the prior year.

The following tables summarise the maturity profile of the Fund's financial liabilities. The tables have been drawn up based on the discounted cash flows of financial liabilities based on the earliest date on which the Fund can be required to pay. The tables include both interest and principal cash flows. Financial liabilities of the Fund comprise insignificant trade and other payables which are typically settled within 30 days, together with the liability to pay benefits to members and rollover benefits which are payable within statutory timescales.

| | Less Than 3 months \$'000 | 3 months to 1 year \$'000 | 1-5 years \$'000 | Total \$'000 |
|------------------------|---------------------------------|---------------------------------|---------------------|-------------------|
| 30 June 2021 | | | | |
| Member liabilities | 13,348,431 | - | - | 13,348,431 |
| Payables | 4,327 | - | - | 4,327 |
| Current tax liability | - | 187,084 | - | 187,084 |
| Derivative liabilities | 100,662 | 714 | 15,046 | 116,422 |
| | <u>13,453,420</u> | <u>187,798</u> | <u>15,046</u> | <u>13,656,264</u> |
| 30 June 2020 | | | | |
| Member liabilities | 11,852,457 | - | - | 11,852,457 |
| Payables | 3,997 | - | - | 3,997 |
| Current tax liability | - | 62,550 | - | 62,550 |
| Derivative liabilities | 25,637 | 800 | 20,347 | 46,784 |
| | <u>11,882,091</u> | <u>63,350</u> | <u>20,347</u> | <u>11,965,788</u> |

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Notes to the Financial Statements For the year ended 30 June 2021

17. Financial risk management objectives and policies (continued)

(d) Market risk

The Fund's exposure to market risk and policies in managing this risk are aligned and are detailed below.

Market risk is the risk that the net market value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange (currency risk), market interest rates (interest rate risk) and market prices (price risk). The Fund's policies and procedures put in place to mitigate the Fund's exposure to market risk are detailed in the Trustee's investment policies and the RMF.

Whilst market risk is unavoidable the Fund will look to minimise the volatility and absolute return fluctuations through thoughtful and well diversified portfolio construction. The relationships that varying asset classes display during volatile market conditions are critical in this construction process.

The Fund manages this risk via outsourcing most of its investment management function; the investment managers manage the financial risks relating to the operations of the Fund in accordance with an investment mandate. The Fund ensures the financial risk management is in accordance with the Fund's Trust Deed, Product Disclosure Statement and investment policies.

The carrying amounts of financial assets best represent the maximum market risk exposure at the balance sheet date.

There has been no change to the Fund's exposure to market risks or the manner in which it manages and measures these risks.

Interest Rate Risk Management

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Fund is exposed to the interest rate markets. The Fund invests in financial assets for the primary purpose of obtaining a return on investments on behalf of its members. The Fund's investments are subject to interest rate risks and the return on the investments will fluctuate in accordance with movements in market interest rates.

These investments involve cash and cash equivalents and credit instruments.

The Trustee monitors its exposures to interest rate risk. The Fund's overall strategy to interest rate risk management has not changed from the previous year.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposures to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

A 200 basis point increase or decrease is used when reporting interest rate risk internally to the Trustee and represents the Trustee's assessment of the possible change in interest rates.

The following table illustrates the effect on net assets available for member benefits from possible changes in market risk that were reasonably possible based on the risk the Fund was exposed to at reporting date via its investments.

| | Change in Variable | Effect on Change in Net Assets Available for Member Benefits | |
|--------------------|--------------------|--|----------|
| | | 2021 | 2020 |
| | +/- | \$'000 | \$'000 |
| Interest rate risk | 2% | (65,646) | (70,361) |
| Interest rate risk | -2% | 65,646 | 70,361 |

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Notes to the Financial Statements
For the year ended 30 June 2021

17. Financial risk management objectives and policies (continued)

(d) Market risk (continued)

The Fund's activities also expose it to the financial risk of changes in interest rates. Floating rate instruments expose the Fund to cash flow risk, whereas fixed interest rate risk instruments expose the Fund to fair value risk. The Trustee monitors its exposure to interest rate risk on a regular basis.

LIF Pty Limited, as Trustee for Local Government Property Fund, has entered into an interest rate swap contract in order to mitigate the risk of fluctuating interest rates on the interest payments of the debt held. Under these contracts, the parties agree to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. The average interest rate is based on the outstanding balances at the start of the financial year. There are differing maturity dates between the loan and the related swap contracts. The investment manager will commence a review of the relevant debt facility within 6 months prior to maturity of both contracts.

The debt facility was increased by \$25m on 28 June 2021 to facilitate the purchase of 70-74 Berry St North Sydney. The additional facility was also split between a 50% fixed and 50% floating rate.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding in the Fund as at balance sheet date (both held within LGPF):

| Outstanding floating for fixed contracts | Average contracted interest rate | | Notional principal amount | | Fair value amount | |
|---|-------------------------------------|-------|------------------------------|----------------|-------------------|----------------|
| | 2021 | 2020 | 2021 \$'000 | 2020 \$'000 | 2021 \$'000 | 2020 \$'000 |
| Loan: Fixed rate | 1.40% | 2.04% | 45,000 | 32,500 | 45,000 | 32,500 |
| Loan: Floating rate | 0.91% | 0.77% | 45,000 | 32,500 | 45,000 | 32,500 |

Foreign Currency Risk Management

The Fund is exposed to foreign currency risk as a result of its investment in financial instruments denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters utilising forward exchange rate contracts. The forward exchange rate contracts are designed to hedge an agreed percentage of its exposure to foreign currency for all international equities and 100% of all other international assets. This is conducted according to the Fund's hedging policy. The agreed percentage was 40% (2020: 40%) at balance sheet date. The Trustee of the Fund uses a currency overlay Manager to manage their exposures to foreign currency risk. The Fund's overall strategy to foreign currency risk management has not changed from the previous year.

Foreign currency sensitivity

The following table details the Fund's sensitivity to a 10% increase and decrease in the Australian Dollar against the relevant foreign currencies. The sensitivity rate of 10% is the sensitivity rate used when reporting foreign currency risk internally to the Trustee and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive result indicates an increase in net assets available for member benefits and the liability for accrued benefits where the Australian Dollar weakens against the respective currency. For a strengthening of the Australian Dollar against the respective currency there would be an equal and opposite impact on the increase in net assets available for member benefits, and the balances below would be negative.

| | Change in Variable +/- | Effect on Change in Net Assets Available for Member Benefits | | | |
|------------|------------------------------|---|----------------|----------------|----------------|
| | | USD Impact | | JPY Impact | |
| | | 2021 \$'000 | 2020 \$'000 | 2021 \$'000 | 2020 \$'000 |
| Forex Risk | 10% | 66,502 | 68,648 | 3,434 | 3,036 |
| Forex Risk | -10% | (66,502) | (68,648) | (3,434) | (3,036) |

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Notes to the Financial Statements
For the year ended 30 June 2021

17. Financial risk management objectives and policies (continued)

(d) Market risk (continued)

| | Change in Variable +/- | Effect on Change in Net Assets Available for Member Benefits | | | |
|------------|---------------------------|--|----------------|----------------|----------------|
| | | EUR Impact | | GBP Impact | |
| | | 2021 \$'000 | 2020 \$'000 | 2021 \$'000 | 2020 \$'000 |
| Forex Risk | 10% | 16,060 | 11,518 | 5,182 | 4,364 |
| Forex Risk | -10% | (16,060) | (11,518) | (5,182) | (4,364) |

Other Market Risk

Market price risk is the risk that the value of the Fund's investment portfolio will fluctuate as a result of changes in market prices.

The Fund is exposed to market price risk through its investments. This risk is managed by ensuring that all activities are transacted in accordance with investment mandates, overall investment strategy and within approved limits. Market price risk analysis is conducted regularly on a total portfolio basis which includes the effect of derivatives.

The following table illustrates the effect on changes in net assets available for member benefits from possible changes in market prices that were reasonably possible based on the risk the Fund was exposed to at reporting date. For a negative movement in the variable there would be an equal and opposite impact on net assets available for member benefits, and the balances below would be negative:

| | Change in Variable +/- | Effect on Change in Net Assets Available for Member Benefits | |
|-------------------|---------------------------|--|----------------|
| | | 2021 \$'000 | 2020 \$'000 |
| | | Equity Price Risk | 10% |
| Equity Price Risk | -10% | (964,613) | (797,961) |

18. Related party disclosures

a) Identification of related parties and directors

The Trustee of the Fund is LGSS Pty Limited (ABN 68 078 003 497). The following persons held office as Directors of LGSS Pty Limited during the year or since the end of the year and up to the date of this report:

Ms C Bels
Mr G Brock
Mr D Clausen (appointed 26 March 2021)
Mr D Figliomeni
Mr K Loades (Chair)
Ms K McKeown
Mr G McLean
Mr B Miller (ceased 25 March 2021)
Ms S Orleow
Mr C Peate

The above Directors (excluding Ms C Bels, Mr K Loades and Ms S Orleow) are also Directors of Local Government Financial Services Pty Limited, which is 100% owned by Active Super.

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Notes to the Financial Statements For the year ended 30 June 2021

18. Related party disclosures (continued)

b) Other key management personnel

The following are considered to be key management personnel of LGSS Pty Limited:

| | |
|-----------------|--|
| Mr T Carmichael | Head of Human Resources (appointed 24 August 2020) |
| Ms H Dawson | Chief Experience Officer (appointed 2 November 2020) |
| Mr B Dolling | Chief Experience Officer (ceased 30 October 2020) |
| Mr P Gilmore | Chief Financial and Commercial Officer (appointed 14 September 2020) |
| Mr A Gledhill | Chief Risk Officer |
| Ms D Heffernan | Deputy Chief Executive Officer and Company Secretary |
| Ms M Hopwood | Chief Marketing Officer (ceased 3 July 2020) |
| Mr D Musson | Chief of People and Transformation Officer (ceased 3 July 2020) |
| Mr P Stockwell | Chief Executive Officer |
| Mr C Turnbull | Chief Investment Officer |
| Ms C Walker | Chief Digital and Marketing Officer (appointed 6 October 2020) |

c) Compensation of key management personnel of trustee

| | 2021 | 2020 |
|--------------------------|--------------|--------------|
| | \$'000 | \$'000 |
| Short-term benefits | 3,673 | 3,041 |
| Post-employment benefits | 281 | 253 |
| Termination Benefits | - | 249 |
| | <u>3,954</u> | <u>3,543</u> |

The total compensation due and receivable by Directors of LGSS Pty Limited and the key management personnel during the financial year is payable, directly by LGSS Pty Limited.

d) Transactions entered into during the year with directors and their related entities

Transactions with Director related entities were conducted on normal terms and conditions. Directors' fees are included in short-term employee benefits as set out in Note 18(c) and are for the reimbursement of administration costs incurred by the Directors whilst attending to Trustee business.

e) Contributions and retirement benefits of key management personnel

Certain key management personnel, including the directors of the Trustee paid member contributions into the Fund. These were in accordance with the normal terms and conditions of the Trust Deed.

Mr G McLean and Mr B Miller are the directors of the Trustee that received benefit payments from Active Super during the year in accordance with the Trust Deed.

f) Other related party transactions

During the financial year, the Fund paid \$36,120,933 (2020: \$34,484,755) to LGSS Pty Limited for management and trustee services. The Fund paid \$3,825,715 (2020: \$3,177,274) to LGSS Pty Limited for investment related administration fees. The Fund paid \$1,101,500 (2020: \$1,064,775) to LGSS Pty Limited for financial planning fees which were deducted from member account balances. The amounts paid are inclusive of adjustments for RITC, in accordance with the Tax Management Framework applicable to the Fund.

During the year, the Fund received a \$2,200,000 (2020: \$10,600,000) refund from LGSS Pty Limited and there is a receivable from the Fund of \$2,236,153 (2020: \$945,488) and a payable of \$3,391,381 (2020: \$2,990,960) outstanding as at 30 June 2021.

During the year, the Fund received \$31,934,407 from Local Government Property Fund ("LGPF") (2020: \$19,970,551). The investment value of LG Diversified Trust ("LGDT") is \$15,175,810 (2020: \$12,023,001) and LGPF is \$689,181,713 (2020: \$648,225,168). Those Trusts are 100% invested into by the Fund.

The Fund holds 100% of the share capital of Local Government Financial Services Pty Limited ("LGFS"). Included in investments is the Fund's investment in LGFS totalling \$2.

ACTIVE SUPER

Notes to the Financial Statements For the year ended 30 June 2021

19. Commitments and contingent liabilities

The Fund has \$586,482,603 (2020: \$640,813,511) of outstanding capital commitments in relation to the purchase of additional units in Australian and International Unit Trusts. The Fund has no contingent liabilities as at 30 June 2021 (2020: nil)

Contingent tax assets and liabilities

From time to time Active Super has interactions and matters under review, audit or dispute with the Australian Taxation Office in relation to the taxation treatments of various matters including reportable tax positions.

Any potential tax liability resulting from these interactions is only provided for when it is probable that an outflow will occur and a reliable estimate of the amount can be made. No specific contingent liability amounts have been disclosed in relation to these matters as it is considered that it would be prejudicial to their conduct and outcome.

20. Subsequent events

No significant events have occurred since balance date which would require disclosure in the Financial Statements of the Fund as at 30 June 2021.

21. Subsidiaries

| Name of Entity | Country Of Incorporation | 2021 | 2020 |
|---|--------------------------|----------------------|----------------------|
| | | Ownership Interest % | Ownership Interest % |
| Local Government Financial Services Pty Limited | Australia | 100% | 100% |
| LG Diversified Trust | Australia | 100% | 100% |
| Local Government Property Fund | Australia | 100% | 100% |

Although the Fund has a controlling interest in LGFS and LG Diversified Trust, consolidated accounts have not been prepared because the net asset values of these investments are not material to the Fund.

The Fund has adopted AASB 2013-5 "Amendments to Australian Accounting Standards – Investment Entities". As a result, the Fund does not consolidate its subsidiary, Local Government Property Fund; however, it is required to provide certain disclosures, as outlined above and below.

Restrictions

The Fund receives income in the form of distributions from its investment in the unconsolidated subsidiary, LGPF, and there are no significant restrictions on the transfer of funds from this entity to the Fund.

Support

The Fund did not provide other financial support to LGPF in the current year (2020: nil).

The Fund has no contractual commitment or current intentions to provide any other financial or other support to its unconsolidated subsidiary (2020: nil).

ACTIVE SUPER

Financial Statements for the year ended 30 June 2021

Trustee Statement

In the opinion of the Trustee of Active Super:

- (i) The accompanying Financial Statements are drawn up so as to present fairly the financial position of the Fund as at 30 June 2021 and the results of its operations and cash flows for the year then ended; and
- (ii) The operation of the Fund has been carried out in accordance with its Trust Deed, as amended and in compliance with the requirements of the Superannuation Industry (Supervision) Act 1993, and its accompanying Regulations during the year ended 30 June 2021; and
- (iii) The Financial Statements have been prepared in accordance with Accounting Standards, other mandatory professional reporting requirements and the provisions of the Trust Deed, as amended.

Signed in accordance with a resolution of the directors of the Trustee.

Signed in Sydney on this 22nd day of September 2021.



Director



Director

Part 1 - Independent Auditor's report on financial statements

For a Reporting Entity

Independent Auditor's report approved form for an RSE that is a reporting entity
Active Super (formerly Local Government Super)
28 901 371 321

Report by the RSE Auditor to the trustee

Opinion

I have audited the financial statements of Active Super (formerly Local Government Super) for the year ended 30 June 2021 comprising the statement of financial position, income statement, statement of changes in member benefits, statement of cash flows and statement of changes in reserves.

In my opinion, the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards the financial position of Active Super as at 30 June 2021 and the results of its operations, cash flows, changes in equity/reserves and changes in members' benefits for the year ended 30 June 2021.

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* 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 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.



Rita Da Silva
Partner



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22 September 2021