



2018/19 ANNUAL REPORT

PART 2: CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2019



LGIAsuper – a complying fund LGIAsuper was a complying super fund at all times during the 2017/18 financial year. As a complying fund, LGIAsuper members receive concessional tax treatment.

Front cover image: LGIAsuper has 2.6 % ownership in Quay Quarter, Sydney

This Financial Statement has been produced by LGIAsuper Trustee ABN 94 085 088 484 AFS Licence No. 230511 as trustee for LGIAsuper ABN 23 053 121 564 and provides general information for LGIAsuper members. Current information about investment performance and other issues will be published on our website and in our newsletters. We will send you a free printed copy at your request. Where there is an inconsistency between this document and the Fund's rules as per the LGIAsuper Trust Deed and Government regulations, the rules in the Trust Deed and Government regulations shall prevail.

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Consolidated statement of financial position as at 30 June 2019

| | Notes | 2019 \$'000 | 2018 \$'000 |
|--|-------|-------------------|-------------------|
| Assets | | | |
| Cash at bank | 19 | 5,464 | 6,209 |
| Cash and cash equivalents | 8 | 761,388 | 579,278 |
| Contributions receivable | | 6,657 | 13,149 |
| Receivables/unsettled trades | 9 | 78,065 | 55,098 |
| Fixed interest securities | 8 | 1,482,547 | 1,603,393 |
| Listed equity investments and trusts | 8 | 6,245,234 | 6,016,900 |
| Unlisted equity investments and trusts | 8 | 4,302,015 | 3,736,477 |
| Derivative assets | 8 | 38,906 | 42,750 |
| Prepaid expenses | | 1,786 | 1,318 |
| Property, plant & equipment | 10 | 1,330 | 3,972 |
| Intangible assets | 11 | 2,092 | 10,708 |
| Current tax receivable | | 11,063 | - |
| Capitalised establishment expenses | | 46 | 62 |
| Total assets | | 12,936,593 | 12,069,314 |
| Liabilities | | | |
| Benefits payable | 12 | 25 | 755 |
| Derivative liabilities | 8 | 3,644 | 57,500 |
| Payables/unsettled trades | 13 | 58,434 | 58,745 |
| Accrued employee entitlements | | 2,156 | 2,578 |
| Provision for restructuring expenses | 14 | 7,982 | - |
| Income tax payable | | - | 2,319 |
| Deferred tax liability (net) | 18 | 222,760 | 217,463 |
| Total liabilities excluding member benefits | | 295,001 | 339,360 |
| Net assets available for member benefits | | 12,641,592 | 11,729,954 |
| Defined contribution (DC) member liabilities | | 11,490,653 | 10,529,171 |
| Defined benefit (DB) member liabilities | | 860,508 | 933,179 |
| Total member liabilities | | 12,351,161 | 11,462,350 |
| Total net assets | | 290,431 | 267,604 |
| Reserves | | | |
| Operational Risk and General reserves | | 67,698 | 66,318 |
| Defined benefits that are over/(under) funded | 15(d) | 222,733 | 201,286 |
| Unallocated surplus/(deficit) | | - | - |
| Total reserves | | 290,431 | 267,604 |

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated income statement for the year ended 30 June 2019

| | Notes | 2019 \$'000 | 2018 \$'000 |
|---|-------|----------------|------------------|
| Superannuation activities | | | |
| Interest revenue | | 50,848 | 55,952 |
| Dividends & trust distributions | | 427,152 | 471,534 |
| Net change in fair value of financial instruments | 4 | 504,847 | 650,546 |
| Other investment revenue | 5 | 2,834 | 3,001 |
| Sundry revenue | | 1,735 | 1,648 |
| Total net income | | 987,416 | 1,182,681 |
| Investment expenses | 6 | 47,788 | 38,081 |
| Administration expenses | 7 | 40,579 | 44,098 |
| Depreciation and gain/loss on disposal of fixed assets | | 1,872 | 1,435 |
| Impairment loss | | 10,691 | - |
| Amortisation of intangible assets | | 1,108 | 357 |
| Amortisation of capitalised establishment costs | | 16 | 18 |
| Total expenses | | 102,054 | 83,989 |
| Results from superannuation activities before income tax expense | | 885,362 | 1,098,692 |
| Income tax expense | 18 | (20,610) | (95,755) |
| Results from superannuation activities after income tax expense | | 864,752 | 1,002,937 |
| Net benefits allocated to defined contribution members | | (823,284) | (932,070) |
| Net change in defined benefit member benefits | | (42,896) | (72,601) |
| Operating result after income tax | | (1,428) | (1,734) |

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated statement of changes in member benefits for the year ended 30 June 2019

| | DC member benefits \$'000 | City DB & DC member benefits \$'000 | Regional DB member benefits \$'000 | Total DB member benefits \$'000 | Total \$'000 |
|--|---------------------------------|--|---|--|-------------------|
| Balance at 1 July 2017 | 9,427,543 | 70,221 | 868,626 | 938,847 | 10,366,390 |
| Employer contributions | 475,365 | 1,974 | 24,199 | 26,173 | 501,538 |
| Member contributions | 146,738 | 382 | 4,111 | 4,493 | 151,231 |
| Transfers from other funds | 204,141 | - | - | - | 204,141 |
| Income tax on contributions | (65,013) | (296) | (3,630) | (3,926) | (68,939) |
| Net after tax contributions | 761,231 | 2,060 | 24,680 | 26,740 | 787,971 |
| Benefits paid | (275,123) | (5,541) | (98,450) | (103,991) | (379,114) |
| Transfers to other funds | (296,521) | (88) | - | (88) | (296,609) |
| Insurance premiums charged to members | (47,047) | (239) | (1,134) | (1,373) | (48,420) |
| Death and disability insurance entitlements received | 27,329 | 230 | 484 | 714 | 28,043 |
| Other fees | (427) | - | - | - | (427) |
| General reserves transferred to/(from) members: | 116 | (271) | - | (271) | (155) |
| Net benefits allocated to members, comprising: | | | | | |
| Investment income | 951,240 | - | - | - | 951,240 |
| Administration fees | (19,170) | - | - | - | (19,170) |
| Net change in defined benefit member benefits | - | 5,393 | 67,208 | 72,601 | 72,601 |
| Balance at 30 June 2018 | 10,529,171 | 71,765 | 861,414 | 933,179 | 11,462,350 |
| Balance at 1 July 2018 | 10,529,171 | 71,765 | 861,414 | 933,179 | 11,462,350 |
| Employer contributions | 488,501 | 1,952 | 21,894 | 23,846 | 512,347 |
| Member contributions | 155,733 | 608 | 3,309 | 3,917 | 159,650 |
| Transfers from other funds | 241,929 | 66 | - | 66 | 241,995 |
| Income tax on contributions | (73,622) | (293) | (3,284) | (3,577) | (77,199) |
| Net after tax contributions | 812,541 | 2,333 | 21,919 | 24,252 | 836,793 |
| Benefits paid | (303,656) | (6,934) | (131,996) | (138,930) | (442,586) |
| Transfers to other funds | (342,044) | (230) | - | (230) | (342,274) |
| Insurance premiums charged to members | (39,593) | (208) | (803) | (1,011) | (40,604) |
| Death and disability insurance entitlements received | 29,568 | 78 | 278 | 356 | 29,924 |
| Other fees | (391) | (5) | - | (5) | (396) |
| General reserves transferred from/(to) members: | (18,233) | - | - | - | (18,233) |
| Operational reserves transferred from/(to) members: | 6 | 1 | - | 1 | 7 |
| Net benefits allocated to members, comprising: | | | | | |
| Investment income | 848,417 | - | - | - | 848,417 |
| Administration fees | (25,133) | - | - | - | (25,133) |
| Net change in defined benefit member benefits | - | 1,865 | 41,031 | 42,896 | 42,896 |
| Balance at 30 June 2019 | 11,490,653 | 68,665 | 791,843 | 860,508 | 12,351,161 |

The above consolidated statement of changes in member benefits should be read in conjunction with the accompanying notes.



Consolidated statement of changes in reserves for the year ended 30 June 2019

| | DC Operational Risk reserve | DC General reserve | DB Operational risk reserve | DB over/ (under) funded | Unallocated surplus/ (deficit) | Total Reserves |
|-------------------------------------|--------------------------------------|-----------------------|-----------------------------------|-------------------------------|--------------------------------------|-------------------|
| 2018 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Opening balance | 27,514 | 52,891 | 4,022 | 184,756 | - | 269,183 |
| Net transfer to/ (from) reserves | (116) | (25,757) | - | - | 26,028 | 155 |
| Operating result | 2,582 | 4,848 | 334 | 16,530 | (26,028) | (1,734) |
| Closing balance | 29,980 | 31,982 | 4,356 | 201,286 | - | 267,604 |

| | DC Operational Risk reserve | DC General reserve | DB Operational risk reserve | DB over/ (under) funded | Unallocated surplus/ (deficit) | Total Reserves |
|---|--------------------------------------|-----------------------|-----------------------------------|----------------------------------|--------------------------------------|-------------------|
| 2019 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Opening balance | 29,980 | 31,982 | 4,356 | 201,286 | - | 267,604 |
| Opening balance adjustment | - | - | - | 165 | (165) | - |
| Member net transfer to/(from) reserves | (6) | 18,233 | (1) | - | - | 18,226 |
| Other net transfer to/(from) reserves | - | (21,774) | - | - | 27,803 | 6,029 |
| Operating result | 2,126 | 2,502 | 300 | 21,282 | (27,638) | (1,428) |
| Closing balance | 32,100 | 30,943 | 4,655 | 222,733 | - | 290,431 |

The above consolidated statement of changes in reserves should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows for the year ended 30 June 2019

| | Notes | 2019 \$'000 | 2018 \$'000 |
|---|-------|-----------------|------------------|
| Cash flows from operating activities | | | |
| Purchase of financial instruments | | (5,259,136) | (4,126,780) |
| Sale of financial instruments | | 4,852,058 | 3,643,672 |
| Purchase of other assets | | (2,413) | (2,335) |
| Interest received | | 50,648 | 57,185 |
| Other income | | 4,290 | 4,764 |
| Dividends and trust distributions received | | 423,046 | 467,782 |
| Other general administrative expenses | | (84,839) | (80,667) |
| Income tax paid on investment earnings | | (30,073) | (75,665) |
| Insurance premiums paid | | (44,130) | (44,726) |
| Insurance proceeds received | | 30,229 | 28,819 |
| Net cash from operating activities | 19 | (60,320) | (127,951) |
| Cash flows from financing activities | | | |
| Employer contributions | | 514,876 | 514,617 |
| Member contributions | | 158,348 | 146,057 |
| Transfers from other superannuation funds | | 241,664 | 204,472 |
| Transfers to other super funds | | (342,274) | (296,609) |
| Benefits paid | | (443,797) | (393,392) |
| Income tax paid on contributions | | (69,242) | (47,650) |
| Net cash flows from financing activities | | 59,575 | 127,495 |
| Net decrease in cash held | | (745) | (456) |
| Cash at the beginning of the financial year | | 6,209 | 6,665 |
| Cash at the end of the financial year | 19 | 5,464 | 6,209 |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 1 General information

LGIAsuper (the 'Fund') is a superannuation fund domiciled in Australia. The Fund is constituted by a Trust Deed dated 5 April 1995, as amended, which established the Fund with effect from 1 July 1995 and provides retirement benefits to its members. The Fund comprises a defined contribution fund, two defined benefit funds and a pension division.

The Trustee of the Fund is LGIAsuper Trustee (the 'Trustee') and the registered office is Level 20, 333 Ann Street, Brisbane, Queensland.

The financial statements were approved by the Board of Directors of the Trustee on 30 September 2019. The directors of the Trustee have the power to amend and re-issue these financial statements.

The Fund accepts contributions from employers. In relation to defined benefit members, the contribution rate is the rate agreed by the actuary and the employer. Member contributions are compulsory for permanent employee members in most instances and members may also make voluntary pre-tax and post-tax contributions.

The Fund also receives transfers in from other super funds. The Fund obtained from the Australian Prudential Regulation Authority (APRA) its RSE licence on 5 September 2005 (registration number R1000160) and its MySuper licence on 24 May 2013 (registration number 23053121564638).

Effective from 30 June 2017, the status of the Fund has changed to a public offer fund and the Fund's name changed to LGIAsuper. The name of the trustee has also changed to LGIAsuper Trustee effective 30 June 2017.

Note 2 Statement of significant accounting policies

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board, the *Superannuation Industry (Supervision) Act 1993* and *Regulations ('SIS')* and the provisions of the Trust Deed of the Fund. The financial statements are presented in Australian currency.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current. All balances are expected to be recovered or settled within twelve months, except for financial investments, derivative liabilities and net assets available for member benefits.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

This financial report is prepared based on applicable Australian Accounting Standards. Since AASB 1056 is the principal standard that applies to the financial statements, other standards are also applied where necessary except to the extent that they differ from AASB 1056.

(b) Principles of consolidation

Subsidiaries are entities over which the Fund has control. The Fund controls an entity when the Fund is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Fund companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

(c) Rounding of amounts

Amounts in the financial statements have been rounded to the nearest thousand dollars, unless otherwise indicated.

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 2 Statement of significant accounting policies (continued)

(d) New and amended accounting standards and interpretations

AASB 9 *Financial Instruments* became effective for annual periods beginning on or after 1 January 2018. It addresses the classification, measurement and derecognition of financial assets and liabilities and replaces the multiple classification and measurement models in AASB139.

To the extent that AASB 9 is applicable to the Fund, it has been applied retrospectively without the use of hindsight. The adoption did not result in a change to the classification or measurement of financial instruments, including from the application of the new expected credit loss impairment model, in either the current or comparative period as all financial assets and liabilities, with the exception of member liabilities and tax assets and liabilities, remain at fair value through profit or loss in accordance with AASB 1056.

AASB 15 *Revenue from Contracts with Customers* became effective for annual periods beginning on or after 1 January 2018. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The Fund's main source of income are interest, dividends and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As a consequence, the adoption of this new revenue recognition standard has not had a material impact on the Fund's accounting policies or the amounts recognised in the financial statements.

There are no other standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2018 that have a material impact on the amounts recognised in the prior or current periods or that will affect future periods.

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods and have not been early adopted by the Fund. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

The standards and interpretations which were in issue but not yet effective, and are relevant to the Fund, are listed below.

| Standard/Interpretation | Key Requirements | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|-------------------------|---|--|---|
| AASB 16 'Leases' | AASB 16 <i>Leases</i> became effective for annual periods beginning on or after 1 January 2019. This standard has resulted in all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The standard will affect the accounting for the Fund's operating leases. The Fund will recognise a right to use asset of \$10.6m and a lease liability of \$16.4m. As at the reporting date, the group has non-cancellable operating lease commitments of \$20m, see note 24. | 1 January 2019 | 30 June 2020 |

(e) Revenue Recognition

Interest revenue is recognised in profit or loss for all financial instruments that are held at fair value through profit or loss using the effective interest method. Income from cash and cash equivalents is presented as interest income. Interest income on assets held at fair value through profit or loss is included in the net changes in fair value of financial instruments. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 8 to the financial statements.

Dividend and trust distribution income is recognised gross of withholding tax in the period in which the Fund's right to receive payment is established.

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 2 Statement of significant accounting policies (continued)

(f) Contributions received and transfers from other funds

Contributions received and transfers from other funds are recognised in the statement of changes in member benefits when the control of the contribution or transfer has transferred to the Fund. They are recognised gross of any taxes.

(g) Use of estimates

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the majority of the Fund's financial instruments, quoted market prices are readily available. However, certain financial instruments, for example over-the-counter derivatives or unquoted securities, are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel. Refer to note 8 for details.

The Fund also makes estimates and assumptions in relation to the valuation of defined benefit member liabilities details of which are set out in note 14.

(h) Comparative figures

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

(i) Accounting for Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the item of expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from the ATO is included as a current asset in the balance sheet.

(j) Cash

For the purpose of presentation in the *Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows*, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(k) Currency fluctuations

Transactions in foreign exchange are recorded at the rate of exchange applicable at the date of each transaction. At balance date, investments and amounts payable and receivable in overseas currencies are converted to Australian Dollars at the rate of exchange applying at that date. Any exchange differences relating to foreign currency monetary items are brought to account in the *Consolidated Income Statement*

(l) Operational Risk and General Reserve

Superannuation Prudential Standard 114: Operational Risk Financial Requirement, (SPS114) which became effective 1 July 2013, requires Registered Superannuation Entity (RSE) licensees to maintain adequate financial resources to address losses arising from operational risks that may affect such entities within their business operations. The Fund's Operational Risk Reserve has been established for this purpose.

As a minimum the Fund aims to hold a target amount equal to 30 basis points of assets under management subject to a predetermined tolerance limit. The tolerance limit is set by the Trustee to reduce the need for small transfers to or from the Operational Risk Reserve for immaterial fluctuations in the reserve's value.

The Operational Risk Reserve may only be used to make a payment to address an operational risk event as defined by SPS 114.

When the amount falls below the tolerance limit additional funds are transferred into the Operational Risk Reserve. Any transfers to the Operational Risk Reserve must be approved by the Trustee.

The Fund has a General Reserve for the Accumulated Benefits Fund for operational risks which could not be funded from the Operational Risk Reserve. The Fund has a long-term target for the General reserve of 15 basis points of the Accumulated Benefits Fund with a tolerance range of 5 to 50 basis points.

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 3 Operation of the Fund

LGIAsuper continues in existence under the *Local Government Act (2009)*. The Fund is a hybrid fund which incorporates both Defined Benefits Funds and a Defined Contributions Fund. Effective 1 July 2011, the Brisbane City Council Superannuation Plan (City Super) merged with the Local Government Superannuation Scheme (LGsuper). LGIAsuper is the successor fund.

The merged fund consists of two separate Defined Benefits Funds, namely, the Regional Defined Benefits Fund (pertaining to previous LGsuper members) and the City Defined Benefits Fund (relating to previous City Super members), and a combined Defined Contributions Fund.

The Regional Defined Benefits Fund was closed to new entrants from 1 July 1998, with all new entrants since then joining the Defined Contributions Fund. The City Defined Benefits Fund was closed to new entrants from 30 October 1994, with all new entrants since then joining the Defined Contributions Fund.

Local Government employers contribute to the Fund in respect of certain of their employees, for defined benefit arrangements; and certain of their employees (including councillors and contractors) for defined contribution arrangements, in accordance with the Trust Deed and relevant statutory requirements.

From 12 June 2009, the *Local Government Act (1993)* was amended to allow the Trustee to specify in the Trust Deed the rate of Regional Defined Benefits Fund contributions paid into the Fund by Local Government employers. The level of Regional Defined Benefits Fund contributions must be in accordance with advice received from an actuary. This amendment enables the Trustee to vary the rate of employer contributions where the actuary has concerns as to the ongoing solvency of the Regional Defined Benefits Fund.

Benefits of members in the Defined Benefits Funds are calculated by way of formula as defined in the Trust Deed. Benefits of members of the Defined Contributions Fund are equal to the member's account balance, which is credited each year with contributions and a proportionate share of net investment earnings (positive or negative), expenses, insurance premia and income tax expense of the Fund.

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 4 Net change in fair value of financial instruments

| | 2019 \$'000 | 2018 \$'000 |
|--|----------------|----------------|
| Fair value through profit or loss | | |
| Fixed interest securities | 77,205 | 8,891 |
| Equity investments and unlisted trusts | 596,771 | 752,215 |
| Derivatives | (169,129) | (110,560) |
| Total | 504,847 | 650,546 |

The changes in net market value of investments reflect investment market conditions prevailing as at balance date in respect of investments held at balance date and during the year in respect of investments realised during the period.

Note 5 Other investment revenue

| | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------|----------------|----------------|
| Management fee rebates | 492 | 306 |
| Securities lending revenue | 1,948 | 1,935 |
| Proceeds from compensation claims | - | 452 |
| Other | 394 | 308 |
| Total | 2,834 | 3,001 |

Note 6 Direct investment expenses

| | Notes | 2019 \$'000 | 2018 \$'000 |
|--|-------|----------------|----------------|
| External investment management fees | | 28,883 | 23,761 |
| Master custodian fees | | 2,573 | 2,786 |
| Administration expenses - Fund investment operations | 7 | 5,067 | 2,918 |
| Other fees & taxes | | 5,810 | 3,727 |
| Performance fees | | 3,995 | 3,427 |
| Asset consultant fees | | 1,460 | 1,462 |
| Total | | 47,788 | 38,081 |

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 7 Administration expenses

| | Notes | 2019 \$'000 | 2018 \$'000 |
|--|-------|----------------|----------------|
| Staff salaries and associated costs | | 22,101 | 20,076 |
| APRA levy and other government charges | | 1,965 | 1,875 |
| Consultants' fees | | 3,779 | 11,688 |
| Actuarial fees | | 199 | 13 |
| Occupancy expenses | | 2,859 | 2,364 |
| Onerous contract expense | | 6,008 | - |
| Maintenance and service agreements | | 3,002 | 1,636 |
| Communication expenses | | 537 | 646 |
| Insurances | | 459 | 452 |
| Printing expenses | | 213 | 236 |
| Staff travel and business expenses | | 849 | 739 |
| Marketing and sponsorship expenses | | 2,009 | 1,066 |
| Other management expenses | | 1,666 | 6,225 |
| Total | | 45,646 | 47,016 |
| Less: | | | |
| Reallocation to direct investment expenses | 6 | (5,067) | (2,918) |
| Total | | 40,579 | 44,098 |

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Fund as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 8 Investments and derivatives

| | Notes | 2019 \$'000 | 2018 \$'000 |
|---|-------|------------------|------------------|
| Cash and cash equivalents | | | |
| Cash accounts | | 413,191 | 332,149 |
| Short-term money market accounts | | 343,000 | 242,000 |
| Futures deposit accounts | | 5,197 | 5,129 |
| | | 761,388 | 579,278 |
| Fixed interest securities | | | |
| Discount securities | | 65,957 | 70,630 |
| Term deposits | | 120,401 | 321,384 |
| Corporate bonds | | 125,102 | 128,790 |
| Floating rate notes | | 21,724 | 21,897 |
| Government and semi-government bonds | | 1,120,927 | 1,054,213 |
| Other fixed interest securities | | 28,436 | 6,479 |
| | | 1,482,547 | 1,603,393 |
| Listed equity investments and trusts | | | |
| Equity investments | | 5,819,067 | 5,533,765 |
| Property trusts | | 426,167 | 483,135 |
| | | 6,245,234 | 6,016,900 |
| Unlisted equity investments and trusts | | | |
| Equity investments | | 2,712,668 | 2,647,526 |
| Alternatives | | 239,977 | 246,631 |
| Property trusts | | 1,049,349 | 554,139 |
| Diversified fixed interest | | 260,448 | 250,572 |
| Socially responsible investments | | 39,573 | 37,609 |
| | | 4,302,015 | 3,736,477 |

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 8 Investments and derivatives (continued)

| | Notes | 2019 \$'000 | 2018 \$'000 |
|-------------------------------------|-------|-------------------|-------------------|
| Derivative assets | | | |
| Options and Warrants | | | |
| Equity options | | 29,077 | 40,009 |
| Equity futures | | 9 | - |
| Fixed interest and currency options | | - | 38 |
| Futures | | | |
| Fixed interest futures | | 1,106 | 842 |
| Money market futures | | - | 53 |
| Swaps | | | |
| Swaps floating | | 109 | 736 |
| Swaps fixed | | 3,282 | 1,072 |
| | | 33,583 | 42,750 |
| Forward foreign exchange | | 5,323 | - |
| Total derivative assets | | 38,906 | 42,750 |
| Total investment assets | | 12,830,090 | 11,978,798 |
| Derivative liabilities | | | |
| Options | | | |
| Fixed interest and currency options | | - | (34) |
| Futures | | | |
| Fixed interest futures | | (1,118) | (1,231) |
| Money market futures | | (63) | (233) |
| Swaps | | | |
| Swaps floating | | (13) | (990) |
| Swaps fixed | | (2,450) | (970) |
| | | (3,644) | (3,458) |
| Forward foreign exchange | | - | (54,042) |
| Total derivative liabilities | | (3,644) | (57,500) |
| Other financial assets | | | |
| Investment revenue receivable | 9 | 32,433 | 29,280 |
| Other receivables/unsettled trades | 9 | 42,624 | 22,458 |
| | | 75,057 | 51,738 |
| Other financial liabilities | | | |
| Other payables/unsettled trades | 13 | (36,140) | (31,362) |
| Net investment assets | | 12,865,363 | 11,941,674 |

For the purpose of presentation in the Consolidated statement of financial position and Consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 8 Investments and derivatives (continued)

Financial instruments

(i) Classification

The Fund's investments are classified as at fair value through the income statement in accordance with AASB 1056. They comprise:

- **Financial instruments held for trading**

Derivative financial instruments such as futures, forward contracts, options and interest rate swaps are included under this classification.

- **Financial instruments designated at fair value through income statement upon initial recognition**

These include financial assets that are not held for trading purposes and which may be sold. These are investments in exchange traded debt and equity instruments, unlisted trusts and commercial paper.

These investments are managed and their performance is evaluated on a fair value basis in accordance with the Fund's investment strategy.

(ii) Recognition/derecognition

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

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

At initial recognition, the Fund measures a financial asset or liability at fair value. Transaction costs are expensed in the income statement.

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

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

(iii) Offsetting financial instruments

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

(iv) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the majority of the Fund's financial instruments, quoted market prices are readily available. However, certain financial instruments, for example over-the-counter derivatives or unquoted securities, are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the responsible entity, independent of the area that created them.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty); volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 8 Investments and derivatives (continued)

(a) Fair value hierarchy

The Fund classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities. These inputs are readily available in the market and are normally obtainable from multiple sources.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly. The Trustee values fixed interest securities held by the Fund using broker quotes, units in unit trusts using the unit price provided by the underlying fund manager and OTC derivatives using valuation models.

Level 3: one or more of the significant inputs are not based on observable market data, examples include discount rates and other material unobservable inputs.

Recognised fair value measurements

The table below sets out the Fund's financial assets and liabilities at fair value according to the fair value hierarchy.

| 30 June 2019 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|------------------------------|-------------------|-------------------|-------------------|-------------------|
| Financial assets | | | | |
| Listed equity investments | 5,818,926 | - | 141 | 5,819,067 |
| Listed property trusts | 426,167 | - | - | 426,167 |
| Unlisted trusts | - | 2,673,757 | 1,628,258 | 4,302,015 |
| Fixed interest securities | 120,401 | 1,357,145 | 5,001 | 1,482,547 |
| Derivatives | 1,115 | 37,791 | - | 38,906 |
| Financial liabilities | | | | |
| Derivatives | (1,181) | (2,463) | - | (3,644) |
| Total | 6,365,428 | 4,066,230 | 1,633,400 | 12,065,058 |

| 30 June 2018 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|------------------------------|-------------------|-------------------|-------------------|-------------------|
| Financial assets | | | | |
| Listed equity investments | 5,533,615 | - | 150 | 5,533,765 |
| Listed property trusts | 483,135 | - | - | 483,135 |
| Unlisted trusts | - | 2,593,349 | 1,143,128 | 3,736,477 |
| Fixed interest securities | 193,424 | 1,409,969 | - | 1,603,393 |
| Derivatives | 915 | 52,077 | - | 52,992 |
| Financial liabilities | | | | |
| Derivatives | (1,464) | (66,278) | - | (67,742) |
| Total | 6,209,625 | 3,989,117 | 1,143,278 | 11,342,020 |

Investments not included in the above table are cash, cash equivalents, deposits and short-term receivables and payables as the carrying amount is a reasonable approximation of fair value.

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 8 Investments and derivatives (continued)

(b) A reconciliation of movements in Level 3 of the fair value hierarchy between the beginning and end of the reporting period is disclosed in the following table:

| | Equity securities | Unlisted unit trusts | Fixed interest securities | Derivatives | Total |
|--------------------------------|-------------------|----------------------|---------------------------|-------------|------------------|
| 30 June 2019 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance at 1 July 2018 | 150 | 1,143,128 | - | - | 1,143,278 |
| Purchases | 31 | 476,097 | 5,001 | - | 481,129 |
| Sales | (55) | (53,549) | - | - | (53,604) |
| Unrealised gains/(losses) | - | 61,694 | - | - | 61,694 |
| Realised gains/(losses) | 15 | 888 | - | - | 903 |
| Balance at 30 June 2019 | 141 | 1,628,258 | 5,001 | - | 1,633,400 |

| | Equity securities | Unlisted unit trusts | Fixed interest securities | Derivatives | Total |
|--------------------------------|-------------------|----------------------|---------------------------|-------------|------------------|
| 30 June 2018 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance at 1 July 2017 | 1,353 | 848,643 | - | - | 849,996 |
| Purchases | 946 | 245,246 | - | - | 246,192 |
| Sales | (1,200) | (44) | - | - | (1,244) |
| Transfers into level 3 | 1,475 | - | - | - | 1,475 |
| Unrealised gains/(losses) | (927) | 49,182 | - | - | 48,255 |
| Realised gains/(losses) | (1,497) | 101 | - | - | (1,396) |
| Balance at 30 June 2018 | 150 | 1,143,128 | - | - | 1,143,278 |

Valuation inputs and relationship to fair value

The following table summarises quantitative information about significant unobservable inputs used in level 3 fair value measurements. See (a) above for the valuation techniques adopted.

| | Valuation Approach | Key unobservable inputs | Inter-relationship between unobservable inputs and fair value |
|---------------------------|---|---|---|
| Equity securities | Last traded price | Trading price | Less actively traded equities or trading in less developed markets may alter the fair value |
| Unlisted unit trusts | Investment Manager - net asset value/redemption price | Valuation of underlying investments | Increase/(reduction) in the value of Fund investments will result in higher/(lower) fair values |
| Fixed interest securities | Discounted cashflow | Face value and interest rate of notes/bonds | Increase/(decrease) in interest rate results in an increase/(decrease) in fair value |
| Derivatives | Pricing models | Yields, cash flows, volatility, default probability | Higher/(lower) yields, cash flows and counterparty credit quality will result in higher/(lower) fair values |

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 8 Investments and derivatives (continued)

(c) Movements between levels in the fair value hierarchy are as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|-------------------|---------|---------|---------|--------|
| 30 June 2019 | \$'000 | \$'000 | \$'000 | \$'000 |
| Equity securities | - | - | - | - |
| Total | - | - | - | - |

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------|---------|----------------|--------------|--------|
| 30 June 2018 | \$'000 | \$'000 | \$'000 | \$'000 |
| Equity securities | - | (1,475) | 1,475 | - |
| Fixed interest securities | - | - | - | - |
| Total | - | (1,475) | 1,475 | - |

Note 9 Receivables/unsettled trades

| | 2019 | 2018 |
|--------------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Investment revenue receivable | | |
| Interest receivable | 1,001 | 710 |
| Dividends receivable | 14,066 | 14,615 |
| Trust distributions receivable | 17,366 | 13,955 |
| | 32,433 | 29,280 |
| Other | | |
| Sundry & other debtors | 3,008 | 3,360 |
| Other receivables & unsettled trades | 42,624 | 22,458 |
| | 45,632 | 25,818 |
| Total | 78,065 | 55,098 |

Receivable amounts are generally received within 30 days of being recorded as receivables. Collectability of receivables is reviewed regularly. Debts which are known to be uncollectable are written off by reducing the carrying amount.

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 10 Property, plant & equipment

| | Furniture and equipment | Computer hardware | Computer software | Leasehold improvements | Motor vehicles | Total |
|-------------------------------------|-------------------------------|----------------------|----------------------|---------------------------|-------------------|--------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Opening balance 1 July 2017 | 73 | 624 | 1,848 | 344 | 179 | 3,068 |
| Additions | 17 | 1,489 | 731 | 101 | 1 | 2,339 |
| Disposals | - | - | - | - | - | - |
| Depreciation | (20) | (709) | (585) | (75) | (46) | (1,435) |
| Closing balance 30 June 2018 | 70 | 1,404 | 1,994 | 370 | 134 | 3,972 |
| Opening balance 1 July 2018 | 70 | 1,404 | 1,994 | 370 | 134 | 3,972 |
| Additions | 2 | 23 | 2,389 | - | - | 2,414 |
| Disposals | - | - | - | - | (84) | (84) |
| Impairment | (17) | (279) | (2,800) | (87) | - | (3,183) |
| Depreciation | (19) | (836) | (839) | (74) | (21) | (1,789) |
| Closing balance 30 June 2019 | 36 | 312 | 744 | 209 | 29 | 1,330 |

The Fund's property, plant and equipment are stated at cost, which includes direct and incremental acquisition costs less accumulated depreciation and any impairment if required. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Fund and the cost of the item can be measured reliably. Repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the following methods over the asset's estimated useful economic life.

| Depreciation Method | Useful Life | |
|--------------------------------|-------------------|--|
| Computer hardware | Diminishing value | 3 - 5 years |
| Computer software | Straight line | 4 - 5 years |
| Office furniture and equipment | Diminishing value | 3 - 14 years |
| Motor vehicles | Diminishing value | 4 years |
| Leasehold improvements | Diminishing value | Lesser of unexpired lease term or 10 years |

The residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

A review of the recoverable amount of the Fund's infrastructure and software assets was undertaken following the signing of the outsourcing agreement with Tech Mahindra (refer to note 25). The assets and infrastructure associated with the Fund's administration platform were written down to a recoverable amount of \$1.3m, which was determined by reference to the value in use of these assets over the tenure of the agreement.

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 11 Intangible assets

| | 2019 \$'000 | 2018 \$'000 |
|------------------------|----------------|----------------|
| Opening balance | 10,708 | 11,065 |
| Additions | - | - |
| Impairment loss | (7,508) | - |
| Amortisation | (1,108) | (357) |
| Closing balance | 2,092 | 10,708 |

Intangible assets represent capitalised costs associated with an IT software development project. The Fund's intangible assets are stated at cost, which includes direct and incremental acquisition costs less accumulated amortisation and any impairment if required. Amortisation commences when the asset is available for use, and is operating in a manner intended by management. The Fund amortises intangible assets using the straight-line method over a useful life of 10 years.

A review of the recoverable amount of the Fund's intangible assets was undertaken following the signing of the outsourcing agreement with Tech Mahindra Limited (refer to note 25). Management has written down this asset to its recoverable amount of \$2.1m by reference to the assets fair value less costs of disposal. The main valuation inputs used were proposals to purchase the asset during the evaluation of outsourced providers. As there is no active traded market for this platform, given the bespoke nature of the asset and the outsourced arrangement, the fair value is classified as a level 3 fair value.

Note 12 Benefits payable

Benefits payable are valued at the amounts due to members at reporting date. Benefits payable represent payments pending at balance date.

| | 2019 \$'000 | 2018 \$'000 |
|-------------------|----------------|----------------|
| Lump sum benefits | 25 | 755 |
| Total | 25 | 755 |

Note 13 Payables/unsettled trades

| | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------|----------------|----------------|
| Other payables & unsettled trades | 36,140 | 31,362 |
| Trade & sundry creditors | 22,052 | 26,916 |
| PAYG tax payable | 242 | 467 |
| Total | 58,434 | 58,745 |

Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at the end of the reporting period. These amounts are unsecured and are usually paid within 30 days of recognition.

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 14 Provision for restructuring expenses

| | 2019 | 2018 |
|---------------------------------------|--------------|----------|
| | \$'000 | \$'000 |
| Provision for onerous lease contracts | 6,008 | - |
| Provision for redundancy expenses | 1,974 | - |
| Total | 7,982 | - |

The Fund entered into a business process outsourcing agreement on 12 July, 2019 with Tech Mahindra Limited. This contract is expected to result in the displacement of staff. Unutilised tenancy space has also been identified from this outsourcing agreement and a provision based on the present value of the remaining occupancy costs associated with these tenancies has been provided for.

Note 15 Member liabilities

(a) Recognition and measurement of member liabilities

The entitlements of members to benefit payments are recognised as liabilities. They are measured at the amount of the accrued benefits as at the reporting date, being the benefits that the Fund is presently obliged to transfer to members or their beneficiaries in the future as a result of the membership up to the end of the reporting period.

(i) Defined contribution member liabilities

Defined contribution member account balances are measured using earning rates determined by the Custodian based on the underlying investment option values.

(ii) Defined benefit member liabilities

Defined benefit member liabilities are measured as the estimated present value of a portfolio of investments that would be needed as at the reporting date to yield future net cash flows that would be sufficient to meet the accrued benefits on the date when they are expected to fall due.

The valuation of accrued benefits for the Regional Defined Benefits Fund and the City Defined Benefits Fund were undertaken by the actuary as part of an actuarial review as at 30 June 2019. Together, with the latest data set and actuarial assumptions, this review has been used as the basis for determining the accrued benefits at 30 June 2019.

(b) Defined contribution member liabilities

The defined contribution members bear the investment risk relating to the underlying investment options. Earning rates used to measure defined contribution member liabilities are updated each day for movements in investment values.

As at 30 June 2019, the net assets attributable to defined contribution members have been substantially allocated. Unallocated amounts are shown in the statement of financial position as "Unallocated surplus (deficit)" within equity.

(c) Defined benefit member liabilities

The Fund has two defined benefit funds (Regional Defined Benefits Fund and City Defined Benefits Fund).

The Fund engages qualified actuaries to measure the defined benefit member liabilities in each of its two defined benefit plans. Member liabilities can only be satisfied with assets of the relevant plan and are quarantined from the other assets of the Fund. Both plans provide lump sum benefits which are payable to members on retirement.

The Fund manages its obligation to pay member liabilities on an expected maturity basis which is based on estimates of when such funds will be drawn down by members.

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 15 Member liabilities (continued)

Significant estimates

The Fund has identified two assumptions (discount rate and rate of salary adjustment) for which changes are reasonably possible and would have a material impact on the amount of the liabilities.

(i) Discount rate

The assumed discount rate for the two plans has been determined by reference to the investment returns expected on the investment portfolio which reflects the Fund's actual investments and investment strategy in respect of defined benefit member liabilities. The assumed discount rate is the same for each of the two defined benefit plans.

(ii) Rate of salary adjustment

Defined member benefits in each of the Fund's two plans are based on an average of each member's salary at specified anniversary dates in each of the last three years of their expected membership of their plan. The assumed annual salary adjustments for each of the Fund's two plans has been determined by reference to the Wage Price Index produced by the Australian Bureau of Statistics and in consultation with the employer-sponsors.

The Trustee considers the potential impact of changes to key variables about which assumptions need to be made. The following are sensitivity calculations for each of the discount rate and rate of salary assumptions used for the Regional Defined Benefits Fund and the City Defined Benefits Fund.

| Defined benefit fund | Assumption | Assumed at reporting date | | Reasonably possible change | | Change in member benefit liability | |
|--------------------------------|------------------------|---------------------------|------|----------------------------|-------------|------------------------------------|----------------|
| | | 2019 | 2018 | 2019 | 2018 | 2019 \$'000 | 2018 \$'000 |
| Regional Defined Benefits Fund | Discount rate | 4.8% | 5.0% | 1.0%/(1.0%) | 1.0%/(1.0%) | (2,937)/4,142 | (5,330)/7,335 |
| | Salary adjustment rate | 3.0% | 4.0% | 1.0%/(1.0%) | 1.0%/(1.0%) | 1,239/(1,162) | 3,646/(3,663) |
| City Defined Benefits Fund | Discount rate | 4.8% | 5.0% | 1.0%/(1.0%) | 1.0%/(1.0%) | (2,892)/3,180 | (3,586)/3,947 |
| | Salary adjustment rate | 3.0% | 4.0% | 1.0%/(1.0%) | 1.0%/(1.0%) | (2,095)/(6,140) | (295)/5,774 |

At year end, the Accrued Benefits Index for the Regional Defined Benefits Fund was 100.41% (2018: 100.33%), and for the City Defined Benefits Fund it was 93.50% (2018: 95.86%).

(d) Defined Benefit Funds that are over funded

For the two defined benefit superannuation funds, there were no unexpected events that changed defined benefit member liabilities materially. The Trustee has no information that would lead it to adjust the assumptions around pension index rates, resignations and mortality, which are all unchanged from the previous reporting period.

The Fund's two defined benefit funds are over-funded by the amounts disclosed below:

| | 2019 \$'000 | 2018 \$'000 |
|--------------------------------|----------------|----------------|
| Regional Defined Benefits Fund | 192,206 | 174,910 |
| City Defined Benefits Fund | 30,527 | 26,376 |
| Total | 222,733 | 201,286 |

Both Funds continue to remain in surplus. The employers of both Funds are contributing at the rate recommended by the actuary.

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 16 Insurance arrangements

The Fund provides death and disability benefits to its members. The Trustee has a group policy in place with a third party insurance company to insure these death and disability benefits for the members of the Fund.

The Fund collects premia from members on behalf of the insurance company. Insurance claim amounts are recognised where the insurer has agreed to pay the claim. Therefore, insurance premia are not revenues or expenses of the Fund and do not give rise to insurance contract liabilities or reinsurance assets. Insurance premia charged to members' accounts and reinsurance recoveries allocated are recognised in the statement of changes in members' benefits.

Note 17 Reserves

In 2017, LGIASuper investing in Bravura Solutions, the software provider of LGIASuper's superannuation administration platform. As a strategic investment, this investment should have been acquired from the General Reserve of the Fund rather than as an investment of the Fund.

In 2018, LGIASuper sold this investment and made a profit of \$18.2m. These funds were transferred to the General Reserve to align with the strategic nature of the investment and the future benefits of the software for the Fund. The software has been transferred to the external administrator, who will maintain, enhance and provide the service back to the Fund as part of a 10-year contract.

For more information go to lgiasuper.com.au/about-us/governance

Note 18 Income tax

(i) Income tax expense

| | Fund | Service Entity | Fund | Service Entity |
|---|---------------|-------------------|---------------|-------------------|
| | 2019 | 2019 | 2018 | 2018 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Current tax on profits for the year | 14,385 | - | 38,796 | - |
| Adjustments for current income tax of prior periods | 829 | 99 | 3,7497 | 60 |
| Total current tax expense | 15,214 | 99 | 42,545 | 60 |
| Decrease/ (increase) in deferred tax assets | 7,364 | - | (7,084) | - |
| (Decrease)/ increase in deferred tax liabilities | (2,014) | - | 59,565 | - |
| Adjustments for deferred tax of prior periods | (53) | - | 669 | - |
| | 5,297 | - | 53,150 | - |
| Total | 20,511 | 99 | 95,695 | 60 |

The current income tax expense of the Fund for 2019 is significantly less than that for 2018, primarily due to a number of large share buy-backs undertaken by major Australian listed companies during the year. A significant proportion of share buy-back proceeds is treated as franked dividends rather than capital consideration. This resulted in a higher than usual proportion of dividend imputation credits received.

In addition the lower allocation of capital proceeds resulted in capital losses which were able to be offset against capital gains on other disposals. These two factors combined to give a lower than usual current income tax expense for the Fund for 2019, as well as the current tax receivable from the ATO due to the monthly tax instalments paid exceeding the reduced current income tax expense. Following the completion and lodgement of the 2019 income tax return of the Fund, a refund of any excess monthly tax instalments will be received.

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 18 Income tax (continued)

(ii) Reconciliation of income tax expense to prima facie tax payable

| | Fund | Service Entity | Fund | Service Entity |
|---|----------------|----------------|------------------|----------------|
| | 2019 | 2019 | 2018 | 2018 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Operating result before income tax expense | 885,033 | 330 | 1,098,491 | 200 |
| Tax at the rate of 15% | 132,755 | - | 164,774 | - |
| Tax at the rate of 30% | - | 99 | - | 60 |
| Non-deductible expenses | 7,576 | - | 6,663 | - |
| Other non-assessable income | (16,474) | - | (15,099) | - |
| Dividend imputation and foreign tax credits (net) | (50,120) | - | (26,804) | - |
| Discount on capital gains | (15,375) | - | (5,006) | - |
| Adjustments for current tax of prior periods | 80 | - | 2,399 | - |
| Other movements in deferred tax assets/deferred tax liabilities | (38,680) | - | (33,250) | - |
| Recovery of anti-detriment payments from ATO | 749 | - | 2,018 | - |
| Income tax expense | 20,511 | 99 | 95,695 | 60 |

In addition to the above \$77,199k (2018: \$68,939k) is recognised in the statement of changes in member benefits relating to net tax on contributions and deducted from member accounts.

Deferred income tax

Deferred income tax at 30 June relates to the following:

Deferred income tax liabilities

| | | | | |
|---|----------------|----------|----------------|----------|
| Taxable temporary differences – assets subject to CGT | 226,911 | - | 218,675 | - |
| Taxable temporary differences – other assets | 1,292 | - | 11,595 | - |
| | 228,203 | - | 230,270 | - |

Movements:

| | | | | |
|--|----------------|----------|----------------|----------|
| Opening balance at 1 July | 230,270 | - | 170,036 | - |
| Charged/(credited) to the Income Statement | (2,067) | - | 60,234 | - |
| Closing balance at 30 June | 228,203 | - | 230,270 | - |

The deferred tax liabilities expected to be settled in more than 12 months are \$226,911k (2018: \$218,675k).

Deferred income tax assets

| | | | | |
|---|--------------|----------|---------------|----------|
| Taxable temporary differences – assets subject to CGT | - | - | 55 | - |
| Taxable temporary differences – other assets | 5,443 | - | 12,752 | - |
| | 5,443 | - | 12,807 | - |

Movements:

| | | | | |
|--|--------------|----------|---------------|----------|
| Opening balance at 1 July | 12,807 | - | 5,723 | - |
| Charged/(credited) to the Income Statement | (7,364) | - | 7,084 | - |
| Closing balance at 30 June | 5,443 | - | 12,807 | - |

| | | | | |
|-----------------------------------|----------------|----------|----------------|----------|
| Net deferred tax liability | 222,760 | - | 217,463 | - |
|-----------------------------------|----------------|----------|----------------|----------|

The deferred tax assets expected to be settled in more than 12 months are nil (2018: \$55k).

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 18 Income tax (continued)

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

Income tax in the *Statement of financial position* for the year comprises current and deferred tax.

Current income tax expense is the expected tax payable on the taxable income for the year using the concessional tax rate of 15% for Fund income and any adjustment to tax payable in respect of previous years.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by balance date.

Deferred income 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 income tax liabilities are recognised for all taxable temporary differences.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, 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.

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

Unrecognised deferred income tax assets are reassessed at each balance sheet 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 income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on 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.

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 19 Cash flow statement reconciliation

| | 2019 \$'000 | 2018 \$'000 |
|--|-----------------|------------------|
| Cash at bank | 5,464 | 6,209 |
| Reconciliation of net cash from operating activities to net profit after Income tax | | |
| (Loss)/profit after income tax | (1,428) | (1,734) |
| Adjustments for: | | |
| Purchases of financial assets | (5,259,136) | (4,126,780) |
| Sales of financial assets | 4,852,058 | 3,643,672 |
| Purchases of other assets | (2,413) | (2,335) |
| Sales of other assets | - | - |
| Net change in fair value of financial instruments | (504,847) | (650,546) |
| Depreciation | 1,872 | 1,435 |
| Amortisation | 1,124 | 375 |
| Impairment | 10,691 | - |
| Net change in defined benefit member benefits | 42,896 | 72,601 |
| Net benefits allocated to defined contribution members | 823,284 | 932,070 |
| Insurance premiums paid | (44,130) | (44,726) |
| Insurance proceeds received from insurer | 30,229 | 28,819 |
| <i>Change in operating assets / liabilities</i> | | |
| (Increase)/decrease in receivables | (3,607) | (517) |
| (Decrease)/increase in payables | 2,499 | (628) |
| Increase/(decrease) in income tax payable | (9,412) | 20,343 |
| Net cash outflows from operating activities | (60,320) | (127,951) |

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

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 20 Financial instruments and risk management

The Fund's activities expose it to a variety of financial risks: market risk (including price risk, currency risk, and interest rate risk), credit risk and liquidity risk.

The Fund has an Investment Governance Framework established by the Trustee. This Framework sets out the Trustees' policies and procedures for the selection, management and monitoring of investments for the Fund. For each investment option offered by the Fund, the Trustee seeks to maximise the returns derived for the level of risk to which the Fund is exposed.

(a) Market risk

(ii) Foreign exchange risk

The Fund operates internationally and has assets and liabilities denominated in currencies other than the Australian dollar. Foreign exchange risk arises as the value of securities denominated in foreign currencies fluctuates due to changes in exchange rates.

The Fund's policy is to economically hedge up to 100% of direct foreign currency exposure in the Property, Infrastructure and Alternative sectors and 30% of its currency exposure in the global equities sector, using forward foreign exchange contracts.

The table below summarises the Fund's financial assets and liabilities which are denominated in foreign currencies.

| | AUD | USD | JPY | EUR | GBP | Other | Total |
|---|-------------------|------------------|----------------|----------------|----------------|----------------|-------------------|
| 30 June 2019 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Gross investment assets | 6,883,961 | 3,493,272 | 261,918 | 754,759 | 430,269 | 1,035,861 | 12,860,040 |
| Foreign exchange contracts (notional value) | 3,301,033 | (2,073,397) | (123,381) | (538,563) | (263,883) | (301,809) | - |
| Total | 10,184,994 | 1,419,875 | 138,537 | 216,196 | 166,386 | 734,052 | 12,860,040 |
| Fair value of foreign exchange contracts | 7,859 | (2,740) | 89 | 11 | 3 | 101 | 5,323 |
| Total investments and derivatives - refer Note 8 | 10,192,853 | 1,417,135 | 138,626 | 216,207 | 166,389 | 734,153 | 12,865,363 |

| | AUD | USD | JPY | EUR | GBP | Other | Total |
|---|------------------|------------------|----------------|----------------|----------------|----------------|-------------------|
| 30 June 2018 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Gross investment assets | 5,450,516 | 3,974,486 | 384,537 | 736,028 | 546,361 | 903,788 | 11,995,716 |
| Foreign exchange contracts (notional value) | 3,439,661 | (2,160,816) | (188,320) | (490,920) | (309,752) | (289,853) | - |
| Total | 8,890,177 | 1,813,670 | 196,217 | 245,108 | 236,609 | 613,935 | 11,995,716 |
| Fair value of foreign exchange contracts | (57,668) | 3,368 | - | (157) | 214 | 201 | (54,042) |
| Total investments and derivatives - refer Note 8 | 8,832,509 | 1,817,038 | 196,217 | 244,951 | 236,823 | 614,136 | 11,941,674 |

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 20 Financial instruments and risk management (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value Interest rate risk

The Fund is exposed to cash flow interest rate risk on financial instruments with variable interest rates. Financial instruments with fixed interest rates expose the Fund to fair value interest rate risk.

The table below summarises the Fund's direct exposure to interest rate risk including the Fund's use of interest rate swap contracts which are used to manage exposure to interest rate risk.

| 30 June 2019 | Floating interest rate \$'000 | Fixed interest rate \$'000 | Non-interest bearing \$'000 | Total \$'000 |
|---|-------------------------------------|----------------------------------|-----------------------------------|-------------------|
| Assets | | | | |
| Cash & cash equivalents | 761,388 | - | - | 761,388 |
| Fixed interest securities | 23,784 | 1,458,763 | - | 1,482,547 |
| Listed equity investments & property trusts | - | - | 6,245,234 | 6,245,234 |
| Unlisted equity investments & property trusts | - | - | 4,302,015 | 4,302,015 |
| Derivatives | 109 | 4,388 | 34,409 | 38,906 |
| Other financial assets | - | - | 75,057 | 75,057 |
| | 785,281 | 1,463,151 | 10,656,715 | 12,905,147 |
| Liabilities | | | | |
| Derivatives | (76) | (3,568) | - | (3,644) |
| Other financial liabilities | - | - | (36,140) | (36,140) |
| | (76) | (3,568) | (36,140) | (39,784) |
| Total | 785,205 | 1,459,583 | 10,620,575 | 12,865,363 |

| 30 June 2018 | Floating interest rate \$'000 | Fixed interest rate \$'000 | Non-interest bearing \$'000 | Total \$'000 |
|---|-------------------------------------|----------------------------------|-----------------------------------|-------------------|
| Assets | | | | |
| Cash & cash equivalents | 579,278 | - | - | 579,278 |
| Fixed interest securities | 50,212 | 1,553,181 | - | 1,603,393 |
| Listed equity investments & property trusts | - | - | 6,016,900 | 6,016,900 |
| Unlisted equity investments & property trusts | - | - | 3,736,477 | 3,736,477 |
| Derivatives | 789 | 1,952 | 40,009 | 42,750 |
| Other financial assets | - | - | 51,738 | 51,738 |
| | 630,279 | 1,555,133 | 9,845,124 | 12,030,536 |
| Liabilities | | | | |
| Derivatives | (1,223) | (2,234) | (54,043) | (57,500) |
| Other financial liabilities | (4) | - | (31,358) | (31,362) |
| | (1,227) | (2,234) | (85,401) | (88,862) |
| Total | 629,052 | 1,552,899 | 9,759,723 | 11,941,674 |

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 20 Financial instruments and risk management (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value Interest rate risk (continued)

The Fund is exposed to equity security and derivative price risk. This arises from investments held by the Fund for which prices in the future are uncertain.

At 30 June, the fair value of equities and related derivatives exposed to price risk were as follows:

| | 2019 \$'000 | 2018 \$'000 |
|-------------------------------------|-------------------|------------------|
| Australian equities | 3,260,545 | 2,985,685 |
| International equities | 4,727,929 | 4,534,614 |
| Australian & global listed property | 581,644 | 483,135 |
| Asset backed securities | 106 | 123 |
| Emerging markets cash | 68,277 | 63,795 |
| High yield debt | 165,085 | 177,084 |
| Global infrastructure | 1,743,664 | 1,508,941 |
| | 10,547,250 | 9,753,377 |

(b) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to members to interest rate risk, foreign exchange risk and price risk. The reasonably possible movements in the risk variables have been based on the Trustee's best estimate, having regard to a number of factors, including historical levels of changes in interest rates, foreign exchange rates and market volatility. Actual movements in the risk variables may be greater or less than anticipated due to a number of factors. As a result, historical variations in risk variables should not be used to predict future variations in the risk variables.

Price Risk

| Volatility factors - by asset class | 2019 | 2019 | 2018 | 2018 |
|---|---------------------------------|--------------------------------|---------------------------------|--------------------------------|
| | Reflects higher asset prices | Reflects lower asset prices | Reflects higher asset prices | Reflects lower asset prices |
| Australian equities | 19.5% | (19.5%) | 19.7% | (19.7%) |
| International equities | 17.0% | (17.0%) | 17.1% | (17.1%) |
| Australian & global listed property | 16.2% | (16.2%) | 16.3% | (16.3%) |
| Asset backed securities | 6.3% | (6.3%) | 6.4% | (6.4%) |
| Emerging markets cash | 6.0% | (6.0%) | 6.0% | (6.0%) |
| Emerging markets equities | 24.7% | (24.7%) | 24.7% | (24.7%) |
| High yield debt | 12.0% | (12.0%) | 12.1% | (12.1%) |
| Global infrastructure | 17.0% | (17.0%) | 17.1% | (17.1%) |
| | 2019 | 2019 | 2018 | 2018 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Effect on net assets available to pay benefits | 1,853,659 | (1,853,659) | 1,724,874 | (1,724,874) |

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 20 Financial instruments and risk management (continued)

(b) Summarised sensitivity analysis (continued)

Interest Rate risk

| Volatility factors | 2019 | 2019 | 2018 | 2018 |
|---|------------------------------|-----------------------------|------------------------------|-----------------------------|
| | Reflects higher asset prices | Reflects lower asset prices | Reflects higher asset prices | Reflects lower asset prices |
| Australian sovereign bonds | 1.4% | (1.4%) | 1.4% | (1.4%) |
| Australian corporate bonds | 1.5% | (1.5%) | 1.5% | (1.5%) |
| International sovereign bonds | 0.9% | (0.9%) | 0.9% | (0.9%) |
| International corporate bonds | 1.2% | (1.2%) | 1.2% | (1.2%) |
| Australian real yields | 1.1% | (1.1%) | 1.2% | (1.2%) |
| International real yields | 0.7% | (0.7%) | 0.7% | (0.7%) |
| | 2019 | 2019 | 2018 | 2018 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Effect on net assets available to pay benefits | 27,643 | (27,643) | (27,470) | 27,470 |

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 20 Financial instruments and risk management (continued)

(b) Summarised sensitivity analysis (continued)

Foreign Exchange Risk

| | Volatility factor % | Volatility factor % | Effect on net assets available to pay benefits \$'000 | Effect on net assets available to pay benefits \$'000 |
|---------------------|------------------------------|----------------------------|--|--|
| | Reflecting a stronger AUD | Reflecting a weaker AUD | Gain/(loss) on stronger AUD | Gain/(loss) on weaker AUD |
| 30 June 2019 | | | | |
| US dollars | 11.5% | (11.5%) | (228,776) | 228,776 |
| Japanese yen | 14.5% | (14.5%) | (11,929) | 11,929 |
| Euro | 9.9% | (9.9%) | (47,864) | 47,864 |
| British pounds | 11.0% | (11.0%) | (26,071) | 26,071 |
| Other | 10.0% | (10.0%) | (19,387) | 19,387 |
| | | | (334,027) | 334,027 |
| 30 June 2018 | | | | |
| US dollars | 11.5% | (11.5%) | (240,870) | 240,870 |
| Japanese yen | 14.5% | (14.5%) | (20,600) | 20,600 |
| Euro | 9.9% | (9.9%) | (42,919) | 42,919 |
| British pounds | 10.9% | (10.9%) | (30,681) | 30,681 |
| Other | 9.9% | (9.9%) | (19,128) | 19,128 |
| | | | (354,198) | 354,198 |

(c) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations to members or counterparties in full as they fall due or can only do so on terms that are disadvantageous.

The Fund is obligated to pay member benefits upon request. The Trustee's policy is therefore to primarily hold investments that are traded in an active market and can be readily disposed. The Fund's assets include investments in unlisted investments, property and infrastructure, which are not traded in an organised public market and which generally may be illiquid. As a result, the Board may not be able to liquidate some investments at an amount close to their fair value in order to meet immediate liquidity requirements.

(i) Maturities of financial liabilities

The tables below show the Fund's financial liabilities based on their contractual maturities using undiscounted cash flows. Liabilities to defined contribution members are payable upon request. Liabilities to defined benefit members are payable upon the member meeting a vesting condition (such as resignation or retirement) in accordance with the terms of the Fund's Trust Deed. The Fund considers it is highly unlikely that all liabilities to members would fall due at the same time.

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 20 Financial instruments and risk management (continued)

(c) Liquidity risk (continued)

| 30 June 2019 | Less than 1 month \$'000 | 1-3 months \$'000 | 3-12 months \$'000 | 1-5 years \$'000 | More than 5 years \$'000 | Total \$'000 |
|---|--------------------------------|-------------------------|--------------------------|------------------------|-----------------------------------|---------------------|
| Non-derivatives | | | | | | |
| Payables/unsettled trades | (58,434) | - | - | - | - | (58,434) |
| Current tax liabilities | - | - | - | - | - | - |
| Accrued employee entitlements | (1,787) | - | - | (350) | (19) | (2,156) |
| Benefits payable | (25) | - | - | - | - | (25) |
| Defined contribution member liabilities | (11,490,653) | - | - | - | - | (11,490,653) |
| Total Non-derivatives | (11,550,899) | - | - | (350) | (19) | (11,551,268) |
| Gross settled derivatives | | | | | | |
| Inflow | 1,278,462 | 2,411,950 | 40,714 | 314,795 | - | 4,045,921 |
| (Outflow) | (1,278,462) | (2,474,933) | (47,732) | (313,492) | - | (4,114,619) |
| Net settled derivatives | - | (62,983) | (7,018) | 1,303 | - | (68,698) |
| 30 June 2018 | | | | | | |
| 30 June 2018 | Less than 1 month \$'000 | 1-3 months \$'000 | 3-12 months \$'000 | 1-5 years \$'000 | More than 5 years \$'000 | Total \$'000 |
| Non-derivatives | | | | | | |
| Payables/unsettled trades | (58,745) | - | - | - | - | (58,745) |
| Current tax liabilities | (2,319) | - | - | - | - | (2,319) |
| Accrued employee entitlements | (948) | - | - | (1,112) | (518) | (2,578) |
| Benefits payable | (755) | - | - | - | - | (755) |
| Defined contribution member liabilities | (10,529,171) | - | - | - | - | (10,529,171) |
| Total Non-derivatives | (10,591,938) | - | - | (1,112) | (518) | (10,593,568) |
| Gross settled derivatives | | | | | | |
| Inflow | 1,112,553 | 2,808,709 | 90 | 344,499 | 125,636 | 4,391,487 |
| (Outflow) | (1,112,553) | (2,805,687) | (20,002) | (375,704) | (126,303) | (4,440,249) |
| Net settled derivatives | - | 3,022 | (19,912) | (31,205) | (667) | (48,762) |

The above analysis excludes any vested benefits payable which are payable on demand.

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 20 Financial instruments and risk management (continued)

(d) Credit risk

The Fund is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when they fall due, causing a financial loss to the Fund.

The main credit risks, to which the Fund is exposed, arise from the Fund's investment in interest-bearing securities. The Fund is also exposed to credit risk on derivative financial instruments, cash and cash equivalents, amounts due from brokers and other receivables. The Trustee monitors the Fund's credit risk exposure on a regular basis.

(i) Fixed interest securities

The Fund invests in fixed-interest securities which are rated by Standard and Poor's. For unrated assets the Trustee assesses credit risk using an approach similar to that used by rating agencies.

An analysis of debt securities by rating is set out in the following table.

| | AAA to AA | A+ to A- | BBB+ to BB+ | CCC+ | Not Rated | Total |
|-------------|-----------|----------|----------------|--------|-----------|-----------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| 2019 | 1,116,696 | 244,290 | 95,776 | - | 25,785 | 1,482,547 |
| 2018 | 1,033,901 | 458,219 | 79,503 | - | 31,770 | 1,603,393 |

(ii) Settlement of securities transactions

All transactions in listed securities are settled for upon delivery using brokers approved by the Trustee. The risk of default is considered low, as delivery of securities sold is only made once the broker has received payment.

(iii) Cash and cash equivalents

The Fund's exposure to credit risk for cash and cash equivalents is considered low as all counterparties have a rating of AA (as determined by Standard and Poor's) or higher.

(iv) Assets in custody

Substantially all of the Fund's assets are held in custody by JP Morgan Chase Bank, which also manages clearing and depository function for the Fund's security transactions. The financial position and credit quality of the custodian is monitored by the Trustee.

(v) Maximum exposure to credit risk

The Fund's maximum exposure to credit risk is the carrying amount of the financial assets. None of these assets are impaired nor past due but not impaired.

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 21 Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, and the relevant activities are directed by means of contractual arrangements.

The Fund considers all investments in managed investment schemes (funds) to be structured entities. The Fund invests in underlying managed funds for the purpose of capital appreciation and/or earning investment income.

The investee funds' objectives are to achieve medium to long-term capital growth. The investee funds invest in a number of different financial instruments, including equities and debt instruments. The investee funds finance their operations by issuing redeemable shares which are puttable at the holder's option and entitle the holder to a proportional stake in the respective fund's net assets.

The exposure to investments in investee funds at fair value, by investment strategy, is disclosed below:

| | Fair value of investment 2019 \$'000 | Fair value of investment 2018 \$'000 |
|------------------------------------|--|--|
| Australian property funds | 165,224 | 142,512 |
| Australian infrastructure funds | 482,100 | 444,910 |
| Australian alternative funds | 854,126 | 803,099 |
| International infrastructure funds | 258,913 | 241,646 |
| | 1,760,363 | 1,632,167 |

The fair value of financial assets of \$1,708k (2018: \$1,632k) is included in financial assets in the balance sheet.

The Fund's maximum exposure to loss from its interests in investee funds is equal to the total fair value of its investments in the investee funds.

During the year ended 30 June 2019, net (losses) on investments in investee funds were \$59,287k (2018: net loss \$16,423k).

During the year the Fund earned fair value gains and distribution income as a result of its interests in other funds.

Note 22 Auditors' remuneration

| | 2019 \$ | 2018 \$ |
|---|----------------|----------------|
| Amount received or due and receivable by PricewaterhouseCoopers: | | |
| - Audit of financial statements and APRA return | 205,737 | 177,990 |
| - Taxation services | 219,137 | 257,949 |
| - Legal services | - | 16,667 |
| - Specified assertions audit on custodian balances and agreed upon procedures | 37,549 | 49,280 |
| - Other | 32,078 | 88,292 |
| Total | 494,501 | 590,178 |

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 23 Related parties

Details of compensation

Key management personnel include both Directors and executives who have authority and responsibility for planning, directing and controlling the activities of the Fund.

(a) Directors

The following persons were Directors of LGIASuper Trustee for the year ended 30 June 2019:

| Director | Director and committee member | Representative body | Appointment date | Resignation / term expired date |
|-------------------|-------------------------------|-------------------------|--|---------------------------------|
| Mr J S Smith | Chair and committee member | Independent | 1 December 2013 1 October 2016 - Chair | |
| Mr R R Dewhurst | Director and committee member | Independent | 6 June 2018 | |
| Mr P Kazacos OAM | Director and committee member | Independent | 8 December 2016 | |
| Mr M B Jamieson | Director and committee member | Employer representative | 1 July 2018 | |
| Cr M W Bourke | Director and committee member | Employer representative | 1 July 2016 | |
| Cr C J O'Neil | Director and committee member | Employer representative | 20 October 2016 | |
| Cr R Heit | Director and committee member | Member representative | 1 July 2018 | |
| Mrs J J Sanders | Director | Member representative | 1 July 2018 | |
| Mr R J Burton PSM | Director and committee member | Member representative | 1 July 2018 | |

To assist the Trustee in their functions, special advisors to Trustee committees have been appointed by the Trustee.

The following persons were special advisors to Trustee committees for the year ended 30 June 2019:

| Name | Position | Committee | Appointment date |
|-------------|-----------------|-------------------------------------|------------------|
| Mr M Petrie | Special Advisor | Audit and Risk Management Committee | 1 February 2017 |
| Mr A Cormie | Special Advisor | Investment Committee | 2 February 2017 |
| Mr J Wilson | Special Advisor | Investment Committee | 6 February 2019 |

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 23 Related parties (continued)

(b) Executives

The Chief Executive Officer (CEO) is appointed by LGIA Super Trustee. The CEO in turn appoints the executives. The following persons were executives of LGIA Super Trustee for the year ended 30 June 2019:

| Name | Position | Appointment date | Employment terms |
|------------------|--|---------------------------------------|--------------------|
| Ms K L Farrar | Chief Executive Officer | 16 April 2018 | Executive contract |
| Mr D J Todd | Chief Investment Officer | 16 April 2018 | Executive contract |
| Mr P C Gamin | Chief Financial Officer & Chief Risk Officer | 21 January 2013 | Executive contract |
| Ms E K Noonan | Chief Operating Officer | 11 August 2018 | Executive contract |
| Mr G L Hollier | Chief of Member Advice | 03 September 2018 | Executive contract |
| Ms A R Peters | Chief Growth Officer | 02 October 2018 | Executive contract |
| Mr I O Ortiz | Chief Technology Officer | 01 January 2019 | Executive contract |
| Mr T Willmington | Chief Operating Officer | 29 August 2005 – 30 July 2018 | Executive contract |
| Mr W Woo | Chief Technology Officer | 20 March 2017 – 26 September 2018 | Executive contract |
| Mr I D Harcla | Chief Risk Officer and Deputy Chief Executive Officer | 30 January 2006 – 28 December 2018 | Executive contract |

(c) Remuneration of Directors

| | 2019 \$'000 | 2018 \$'000 |
|---------------------------|----------------|----------------|
| Short-term benefits | 851 | 732 |
| Post-employment benefits | 113 | 120 |
| Total remuneration | 964 | 852 |

Special Advisors

| | 2019 \$'000 | 2018 \$'000 |
|---------------------------|----------------|----------------|
| Short-term benefits | 42 | 26 |
| Post-employment benefits | 1 | 2 |
| Total remuneration | 43 | 28 |



Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 23 Related parties (continued)

(c) Remuneration of Directors (continued)

Governance of remuneration arrangements for Directors occurs through the Trustee. The Trustee considers industry practice, an external independent review every two years and members' interests in setting Directors' fees. All Directors are reimbursed for reasonable expenses incurred while conducting business on behalf of the Fund.

All remuneration is paid directly to each Director or their nominated service entity. No remuneration is paid to representative organisations. The remuneration shown above is the full remuneration and no Director receives remuneration from related parties for their role as a Director of LGIASuper Trustee.

(d) Remuneration of executives

| | 2019 \$'000 | 2018 \$'000 |
|---------------------------|----------------|----------------|
| Short-term benefits | 3,045 | 2,146 |
| Post-employment benefits | 243 | 171 |
| Termination benefits | 552 | - |
| Total remuneration | 3,840 | 2,317 |

For full remuneration details of Directors and Executives, please visit lgiasuper.com.au

Executives and management staff are employed under individual employment contracts and are paid under packaging arrangements. Remuneration is benchmarked with market rates for employees in the financial services industry every two years by an external independent expert.

Other staff are employed in line with award-based conditions. An annual performance payment is potentially available for all staff below Manager level.

(e) Related party transactions

The Trustee for Grimes Investments Trust was engaged during the year to provide lease management services to the Fund. Grimes Investments Trust is a related party to Ms K L Farrar. An amount of \$5,000 was paid during the year to Grimes Investments Trust. The engagement is on normal commercial terms and conditions and was approved by the Board prior to commencement, and was managed separately from Ms K L Farrar.

The Fund undertakes transactions with its wholly owned subsidiary LGIASuper Services Pty Ltd. A net intercompany payable is owed to LGIASuper Services Pty Ltd by the Fund in the amount of \$374k (2018: \$92k) in relation to operating and capital expenses incurred by the Services Entity on behalf of the Fund.

There are no other related party transactions between either the Trustee or the Fund and key management personnel or employees.

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 24 Commitments and contingent liabilities

(a) Except for the liability for accrued benefits (Refer Note 15) there were no material contingent assets or liabilities of a significant value at balance date.

(b) The Fund's infrastructure and property investment programs result in the Fund entering into arrangements with investment managers which can result in undrawn commitments of less than one year.

Details of investment commitments are as follows:

| | 2019 \$'000 | 2018 \$'000 |
|-------------------------|----------------|----------------|
| Not later than one year | 722,320 | 910,289 |
| Total | 722,320 | 910,289 |

(c) Operating lease commitments exist for both the main office premises and the disaster recovery site.

Contracted operating lease expenditure is payable as follows:

| | 2019 \$'000 | 2018 \$'000 |
|---|----------------|----------------|
| Not later than one year | 2,879 | 2,835 |
| Later than one year and not later than five years | 9,422 | 10,451 |
| Later than 5 years | 7,424 | 10,809 |
| Total | 19,725 | 24,095 |

Significant accounting judgements - operating lease commitments

The Fund has entered into commercial property leases on its investment property portfolio and has determined that since all the significant risks and rewards of ownership are retained, the leases are to be classified as operating leases.

Note 25 Significant post balance date events

On the 12 July, 2019, the Fund entered into a ten year business process outsource agreement with Tech Mahindra Limited. Tech Mahindra Limited have been engaged to provide administration and support services for the Fund's member and technology platforms. These services are currently provided either in-house or by third parties.

There have been no other matters or circumstances not otherwise dealt with in the financial report that have significantly affected or may significantly affect the Fund since the end of the financial year.

Notes to and forming part of the financial statements for the year ended 30 June 2019

Note 26 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

| | 2019 \$'000 | 2018 \$'000 |
|--|----------------|----------------|
| Total assets | 12,950,529 | 12,064,349 |
| Total liabilities | 309,311 | 334,535 |
| Net assets available for member benefits | 12,641,218 | 11,729,814 |
| Total member liabilities | 12,351,161 | 11,462,350 |
| Net assets | 290,060 | 267,464 |
| Reserves | 290,060 | 267,464 |
| Operating result after income tax | (1,658) | (1,874) |

Notes to and forming part of the financial statements for the year ended 30 June 2019

Trustee's declaration

In the opinion of the Directors of LGIASuper Trustee:

- (a) The accompanying financial statements and notes set out on pages 56 to 93 are in accordance with:
 - (i) Australian Accounting Standards and other mandatory professional reporting requirements, and
 - (ii) Present fairly the Fund's financial position as at 30 June 2019 and of its performance for the financial year ended on that date.
- (b) The Fund has been conducted in accordance with its constituent Trust Deed and the requirements of the *Superannuation Industry (Supervision) Act 1993* and its accompanying Regulations; the relevant requirements of the *Corporations Act 2001* and *Regulations*; the requirements under *section 13 of the Financial Sector (Collection of Data) Act 2001*, during the year ended 30 June 2019; and
- (c) There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors of LGIASuper Trustee as trustee for LGIASuper.



John S Smith

Chair



Peter Kazacos OAM

Chair Audit and Risk Management Committee

30 September 2019
Brisbane

Independent Auditor's report on financial statements

Independent Auditor's report approved form for an RSE which is a reporting entity¹

*Report by the RSE Auditor² to the trustee and members of LGIAsuper
(ABN: 23 053 121 564)*

Opinion

I have audited the financial statements of LGIAsuper for the year ended 30 June 2019 comprising the statement of financial position, income statement, statement of changes in members' benefits, statement of changes in equity, statement of cash flows and corresponding notes. In my opinion, the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards the financial position of LGIAsuper as at 30 June 2019 and the results of its operations, cash flows, changes in equity and changes in members' benefits for the year ended 30 June 2019.

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 (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.

Responsibility 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 Standards³ 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.

¹ APRA-regulated RSEs aside from Small APRA Funds (SAFs), as per Australian Accounting Standard AASB 1056 Preface and paragraph BC 35

² RSE Auditor as defined in Section 10 of the SIS Act.

³ The Australian Accounting Standards issued by the Australian Accounting Standards Board.

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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 judgement and maintained professional scepticism throughout the audit. I also:

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


PricewaterhouseCoopers


George Sagonas
Partner

Melbourne
30 September 2019



LGIAsuper
has 100%
ownership in
Mildura Citrus
(Victoria)



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