



2018 ANNUAL REPORT

PART 2: CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

● SUPERANNUATION ● INVESTMENT ● ADVICE ● INSURANCE



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Important LGIAsuper's 2018 Annual Report consists of two parts:

Part 1: Investment performance and governance

Part 2: Consolidated financial statements for the year ended 30 June 2018

Both parts of the Annual Report should be read together. This document is Part 2 and was prepared on 19 October 2018.

Front cover image: LGIAsuper has a 31% ownership in Waterloo's Wind Farm (South Australia)

This annual report 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.

Consolidated statement of financial position as at 30 June 2018

	Notes	2018 \$'000	2017 \$'000
Assets			
Cash at bank	18	6,209	6,665
Cash and cash equivalents	8	579,278	1,004,331
Contributions receivable		13,149	8,883
Receivables/unsettled trades	9	55,098	119,740
Fixed interest securities	8	1,603,393	1,411,258
Listed equity investments and trusts	8	6,016,900	5,195,673
Unlisted equity investments and trusts	8	3,736,477	3,191,437
Derivative assets	8	42,750	73,438
Prepaid expenses		1,318	906
Property, plant & equipment	10	3,972	3,068
Intangible assets	11	10,708	11,065
Capitalised establishment costs		62	80
Total assets		12,069,314	11,026,544
Liabilities			
Benefits payable	12	755	1,651
Derivative liabilities	8	57,500	4,543
Payables/unsettled trades	13	58,745	203,948
Accrued employee entitlements		2,578	2,425
Income tax payable		2,319	14,091
Deferred tax liability (net)	17	217,463	164,313
Total liabilities excluding member benefits		339,360	390,971
Net assets available for member benefits			
		11,729,954	10,635,573
Defined contribution (DC) member liabilities		10,529,171	9,427,543
Defined benefit (DB) member liabilities		933,179	938,847
Total member liabilities		11,462,350	10,366,390
Total net assets		267,604	269,183
Reserves			
Operational Risk and General reserves		66,318	84,427
Defined benefits that are over/(under) funded	14(d)	201,286	184,756
Unallocated surplus/(deficit)		-	-
Total reserves		267,604	269,183

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

Consolidated income statement for the year ended 30 June 2018

	Notes	2018 \$'000	2017 \$'000
Superannuation activities			
Interest revenue		55,952	58,348
Dividends & trust distributions		471,534	291,665
Net change in fair value of financial instruments	4	650,546	647,731
Other investment revenue	5	3,001	3,531
Sundry revenue		1,648	953
Total net income		1,182,681	1,002,228
Investment expenses	6	38,081	35,723
Administration expenses	7	44,098	23,320
Depreciation and gain/loss on disposal of fixed assets		1,435	1,378
Amortisation of software development costs		357	-
Amortisation of capitalised establishment costs		18	-
Total expenses		83,989	60,421
Results from superannuation activities before income tax expense		1,098,692	941,807
Income tax expense	17	(95,755)	(74,925)
Results from superannuation activities after income tax expense		1,002,937	866,882
Net benefits allocated to defined contribution members		(932,070)	(775,640)
Net change in defined benefit member benefits		(72,601)	(51,150)
Operating result after income tax		(1,734)	40,092

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

Consolidated statement of changes in member benefits for the year ended 30 June 2018

	DC member benefits	City DB & DC member benefits	Regional DB member benefits	Total DB member benefits	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2016	8,418,342	70,601	947,814	1,018,415	9,436,757
Employer contributions	490,374	2,623	27,201	29,824	520,198
Member contributions	173,039	322	4,724	5,046	178,085
Transfers from other funds	165,112	-	-	-	165,112
Income tax on contributions	(67,493)	(373)	(4,080)	(4,453)	(71,946)
Net after tax contributions	761,032	2,572	27,845	30,417	791,449
Benefits paid and transfers to other funds	(520,093)	(5,174)	(154,679)	(159,853)	(679,946)
Insurance premiums charged to members	(38,940)	(248)	(1,338)	(1,586)	(40,526)
Death and disability insurance entitlements received	31,917	-	475	475	32,392
Other fees	(355)	(6)	-	(6)	(361)
General reserves transferred to/(from) members:	-	(165)	-	(165)	(165)
Net benefits allocated to members, comprising:					
Investment income	794,209	-	-	-	794,209
Administration fees	(18,569)	-	-	-	(18,569)
Net change in defined benefit member benefits	-	2,641	48,509	51,150	51,150
Balance at 30 June 2017	9,427,543	70,221	868,626	938,847	10,366,390
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 and transfers to other funds	(571,644)	(5,629)	(98,450)	(104,079)	(675,723)
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 from/(to) 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

The above 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 2018

	DC Operational Risk reserve	DC General reserve	DB Operational risk reserve	DB over/ (under) funded	Unallocated surplus/ (deficit)	Total Reserves
2017	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance	25,299	48,407	3,787	151,433	-	228,926
Net transfer to/(from) reserves	-	165	-	-	-	165
Operating result	2,215	4,319	235	33,323	-	40,092
Closing balance	27,514	52,891	4,022	184,756	-	269,183

	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

The above 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 2018

	Notes	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Purchase of financial instruments		(4,126,780)	(5,619,678)
Sale of financial instruments		3,643,672	5,230,099
Purchase of other assets		(2,335)	(11,292)
Sale of other assets		-	29
Interest received		57,185	58,506
Other income		4,764	4,424
Dividends and trust distributions received		467,782	291,788
Other general administrative expenses		(80,667)	(58,943)
Income tax paid on investment earnings		(75,665)	(46,165)
Insurance premiums paid		(44,726)	(40,526)
Insurance proceeds received		28,819	32,392
Net cash from operating activities	18	(127,951)	(159,366)
Cash flows from financing activities			
Employer contributions		514,617	518,733
Member contributions		146,057	177,724
Net transfers from other superannuation funds		204,472	165,112
Benefits paid		(690,001)	(668,107)
Income tax paid on contributions		(47,650)	(36,197)
Net cash flows from financing activities		127,495	157,265
Net decrease in cash held		(456)	(2,101)
Cash at the beginning of the financial year		6,665	8,766
Cash at the end of the financial year	18	6,209	6,665

The above 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 2018

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 28 September 2018.

The Fund accepts contributions from employers. In relation to defined benefit members, and 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 prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

(b) Statement of compliance

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.

(c) 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.

(d) 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 2018

Note 2 Statement of significant accounting policies (continued)

(e) New accounting standards and interpretations

The standards and interpretations which were in issue but not yet effective, and are relevant to the Fund, are listed below. The Directors anticipate the adoption of these standards and interpretations will have no material financial impact on the financial report of the Fund.

Standard/Interpretation	Key Requirements	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	AASB 9 addresses the classification, measurement, recognition and derecognition of financial assets and financial liabilities. AASB9 introduced revised rules around hedge accounting and impairment. The Trustee does not expect this to have a significant impact on the Fund's financial instruments as they are carried at fair value through profit or loss.	1 January 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers' and the relevant amending standards	This standard will replace AASB 118 which covers revenue arising from the sale of goods. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The Trustee does not expect this standard to have a significant impact. The Fund will not early adopt AASB 15.	1 January 2018	30 June 2019
AASB 16 'Leases'	This standard will result in most 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. As at the reporting date, the group has non-cancellable operating lease commitments of \$24m, see note 23.	1 January 2019	30 June 2020

(f) 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 2018

Note 2 Statement of significant accounting policies (continued)

(g) 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.

(h) 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.

(i) Comparative figures

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

(j) 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.

(k) Cash

For the purpose of presentation in the *Statement of Financial Position*, 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.

(l) 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 *Income Statement*.

(m) 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 25 basis points of the Accumulated Benefits Fund with a tolerance range of 15 to 70 basis points.

Notes to and forming part of the financial statements for the year ended 30 June 2018

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 Contribution 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 Contribution 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 2018

Note 4 Net change in fair value of financial instruments

	2018 \$'000	2017 \$'000
Designated at fair value through profit or loss		
Fixed interest securities	8,891	(19,945)
Equity investments and unlisted trusts	752,215	562,405
	761,106	542,460
Held for trading		
Derivatives	(110,560)	105,271
	(110,560)	105,271
Total	650,546	647,731

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

	2018 \$'000	2017 \$'000
Management fee rebates	306	556
Securities lending revenue	1,935	1,727
Proceeds from compensation claims	452	216
Other	308	1,032
Total	3,001	3,531

Note 6 Direct investment expenses

	Notes	2018 \$'000	2017 \$'000
External investment management fees		23,761	22,116
Master custodian fees		2,786	2,822
Administration expenses - Fund investment operations	7	2,918	2,229
Other fees & taxes		3,439	4,439
Performance fees		3,427	2,580
Asset consultant fees		1,462	1,355
Options/futures/brokerage & other expenses		288	182
Total		38,081	35,723



Notes to and forming part of the financial statements for the year ended 30 June 2018

Note 7 Administration expenses

	Notes	2018 \$'000	2017 \$'000
Staff salaries and associated costs		20,076	14,812
APRA levy and other government charges		1,875	1,722
Consultants' fees		11,688	2,234
Actuarial fees		13	25
Occupancy expenses		2,364	1,635
Maintenance and service agreements		1,636	1,264
Communication expenses		646	628
Insurances		452	405
Printing expenses		236	193
Staff travel and business expenses		739	712
Marketing and sponsorship expenses		1,066	954
Other management expenses		6,225	965
Total		47,016	25,549
Less:			
Reallocation to direct investment expenses	6	(2,918)	(2,229)
Total		44,098	23,320

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.

The rise in administration costs is largely due to the incurrence of software development costs associated with the replacement of the fund's administration platform.

Notes to and forming part of the financial statements for the year ended 30 June 2018

Note 8 Investments and derivatives

	Notes	2018 \$'000	2017 \$'000
Cash and cash equivalents			
Cash accounts		332,149	482,757
Short-term money market accounts		242,000	517,000
Futures deposit accounts		5,129	4,574
		579,278	1,004,331
Fixed interest securities			
Discount securities		70,630	47,652
Term deposits		321,384	203,582
Corporate bonds		128,790	132,238
Floating rate notes		21,897	32,388
Government and semi-government bonds		1,054,213	978,048
Other fixed interest securities		6,479	17,350
		1,603,393	1,411,258
Listed equity investments and trusts			
Equity investments		5,533,765	4,780,987
Property trusts		483,135	414,686
		6,016,900	5,195,673
Unlisted equity investments and trusts			
Equity investments		2,647,526	1,696,442
Alternatives		246,631	196,064
Property trusts		554,139	994,398
Diversified fixed interest		250,572	166,868
Socially responsible investments		37,609	137,665
		3,736,477	3,191,437



Notes to and forming part of the financial statements for the year ended 30 June 2018

Note 8 Investments and derivatives (continued)

	Notes	2018 \$'000	2017 \$'000
Derivative assets			
Options and Warrants			
Equity options		40,009	31,738
Fixed interest and currency options		38	4
Futures			
Fixed interest futures		842	1,266
Money market futures		53	4
Swaps			
Swaps floating		736	206
Swaps fixed		1,072	1,072
		42,750	34,290
Forward foreign exchange		-	39,148
Total derivative assets		42,750	73,438
Total investment assets		11,978,798	10,876,137
Derivative liabilities			
Options			
Fixed interest and currency options		(34)	-
Futures			
Fixed interest futures		(1,231)	(1,017)
Money market futures		(233)	(102)
Swaps			
Swaps floating		(990)	(874)
Swaps fixed		(970)	(2,550)
		(3,458)	(4,543)
Forward foreign exchange		(54,042)	-
Total derivative liabilities		(57,500)	(4,543)
Other financial assets			
Investment revenue receivable	9	29,280	28,520
Other receivables/unsettled trades	9	22,458	74,797
		51,738	103,317
Other financial liabilities			
Other payables/unsettled trades	13	(31,362)	(167,347)
Net investment assets		11,941,674	10,807,564

For the purpose of presentation in the Statement of financial position, 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 2018

Note 8 Investments and derivatives (continued)

Financial instruments

(i) Classification

The Fund's investments are classified as at fair value through the income statement. 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 2018

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. The Trustee values units in unit trusts classified as level 3 using the unit price provided by the underlying fund manager. These unit trusts hold illiquid investments such as unlisted property and infrastructure.

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.

	Level 1	Level 2	Level 3	Total
30 June 2018	\$'000	\$'000	\$'000	\$'000
Financial assets				
Equity investments	5,533,615	-	150	5,533,765
Listed trusts	483,135	-	-	483,135
Unlisted trusts	-	-	3,736,477	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	1,395,768	3,736,627	11,342,020

	Level 1	Level 2	Level 3	Total
30 June 2017	\$'000	\$'000	\$'000	\$'000
Financial assets				
Equity investments	4,756,069	23,565	1,353	4,780,987
Listed property trusts	414,686	-	-	414,686
Unlisted trusts	-	-	3,191,437	3,191,437
Fixed interest securities	152,190	1,259,068	-	1,411,258
Derivatives	1,271	72,167	-	73,438
Financial liabilities				
Derivatives	(1,119)	(3,424)	-	(4,543)
Total	5,323,097	1,351,376	3,192,790	9,867,263

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 2018

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 2018	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2017	1,353	3,191,437	-	-	3,192,790
Purchases	946	624,642	-	-	625,588
Sales	(1,200)	(142,156)	-	-	(143,356)
Transfers into level 3	1,475	-	-	-	1,475
Unrealised gains/(losses)	(927)	62,453	-	-	61,526
Realised gains/(losses)	(1,497)	101	-	-	(1,396)
Balance at 30 June 2018	150	3,736,477	-	-	3,736,627

	Equity securities	Unlisted unit trusts	Fixed interest securities	Derivatives	Total
30 June 2017	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2016	1,036	2,799,104	23,823	71	2,824,034
Purchases	2,966	372,260	-	-	375,226
Sales	(1,965)	(33,996)	-	-	(35,961)
Transfers into level 3	1,076	-	-	-	1,076
Transfers out of level 3	-	-	(23,823)	-	(23,823)
Unrealised gains/(losses)	(886)	53,193	-	-	52,307
Realised gains/(losses)	(874)	876	-	(71)	(69)
Balance at 30 June 2017	1,353	3,191,437	-	-	3,192,790

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 2018

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 2018	\$'000	\$'000	\$'000	\$'000
Equity securities	-	(1,475)	1,475	-
Total	-	(1,475)	1,475	-

	Level 1	Level 2	Level 3	Total
30 June 2017	\$'000	\$'000	\$'000	\$'000
Equity securities	-	(1,076)	1,076	-
Fixed interest securities	-	23,823	(23,823)	-
Total	-	22,747	(22,747)	-

Note 9 Receivables/unsettled trades

	2018 \$'000	2017 \$'000
Investment revenue receivable		
Interest receivable	710	1,805
Dividends receivable	14,615	11,248
Trust distributions receivable	13,955	15,467
	29,280	28,520
Other		
Sundry & other debtors	3,360	16,423
Other receivables & unsettled trades	22,458	74,797
	25,818	91,220
Total	55,098	119,740

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 2018

Note 10 Property, plant & equipment

	Furniture and equipment	Computer hardware	Computer software	Leasehold improve- ments	Motor vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance 1 July 2016	72	413	1,201	383	211	2,280
Additions	22	700	1,360	46	67	2,195
Disposals	(1)	(1)	-	-	(38)	(40)
Depreciation	(20)	(488)	(713)	(85)	(61)	(1,367)
Closing balance 30 June 2017	73	624	1,848	344	179	3,068
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

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.

Upon review, on 1 July 2017 computer software useful lives increased from 4 to 5 years.

Notes to and forming part of the financial statements for the year ended 30 June 2018

Note 11 Intangible assets

	Software development costs	
	2018 \$'000	2017 \$'000
Opening balance	11,065	2,048
Additions	-	9,017
Amortisation	(357)	-
Closing balance	10,708	11,065

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.

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.

	2018 \$'000	2017 \$'000
Lump sum benefits	755	1,651
Total	755	1,651

Note 13 Payables/unsettled trades

	2018 \$'000	2017 \$'000
Other payables & unsettled trades	31,362	167,347
Trade & sundry creditors	26,916	36,411
PAYG tax payable	467	190
Total	58,745	203,948

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.

Allowance has been made for an estimated \$1.7m insurance loss arrangement dating back to 2012.

Notes to and forming part of the financial statements for the year ended 30 June 2018

Note 14 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 2018. 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 2018.

(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 2018, 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.

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.

Notes to and forming part of the financial statements for the year ended 30 June 2018

Note 14 Member liabilities (continued)

Defined benefit fund	Assumption	Assumed at reporting date		Reasonably possible change		Change in member benefit liability	
		2018	2017	2018	2017	2018 \$'000	2017 \$'000
Regional Defined Benefits Fund	Discount rate	5.0%	5.5%	1.0% / (1.0%)	1.0% / (1.0%)	(5,330) / 7,335	(6,324) / 8,676
	Salary adjustment rate	4.0%	4.0%	1.0% / (1.0%)	1.0% / (1.0%)	3,646 / (3,663)	5,334 / (4,607)
City Defined Benefits Fund	Discount rate	5.0%	5.5%	1.0% / (1.0%)	1.0% / (1.0%)	(3,586) / 3,947	(3,508) / 3,845
	Salary adjustment rate	4.0%	4.0%	1.0% / (1.0%)	1.0% / (1.0%)	(295) / 5,774	2,644 / (3,056)

At year end, the Vested Benefits Index for the Regional Defined Benefits Fund was 100.33% (2017: 99.4%), and for the City Defined Benefits Fund it was 95.86% (2017: 92.9%).

(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:

	2018 \$'000	2017 \$'000
Regional Defined Benefits Fund	174,910	160,121
City Defined Benefits Fund	26,376	24,635
Total	201,286	184,756

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

Note 15 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.

Notes to and forming part of the financial statements for the year ended 30 June 2018

Note 16 Reserves

The Operational Risk Reserves may be used in certain circumstances to address operational risk events or claims against the Fund arising from operational risk.

The Trustee has assessed an Operational Risk Financial Requirement (ORFR) target of 0.30% of funds under management as appropriate for the Fund.

The General Reserve is used to cover any potential losses incurred by the Defined Contributions Fund members due to operational errors which could not be funded from the Operational Risk Reserve. In addition, the General Reserve is used to fund administration expenses (including depreciation and amortisation of fixed assets) in excess of the recovery from members.

Note 17 Income tax

(i) Income tax expense

	Fund 2018 \$'000	Other 2018 \$'000	Fund 2017 \$'000	Other 2017 \$'000
Current income tax expense	42,545	60	11,477	-
Deferred income tax expense	53,150	-	63,448	-
Total	95,695	60	74,925	-

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

Operating result before income tax expense	1,098,491	200	941,807	-
Tax at the rate of 15%	164,774	-	141,271	-
Tax at the rate of 30%	-	60	-	-
Non-deductible expenses	6,663	-	5,307	-
Other non-assessable income	(15,099)	-	(12,690)	-
Dividend imputation and foreign tax credits (net)	(26,804)	-	(23,212)	-
Discount on capital gains	(5,006)	-	-	-
Adjustments for current tax of prior periods	2,399	-	186	-
Other movements in deferred tax assets/deferred tax liabilities	(33,250)	-	(37,512)	-
Recovery of anti-detriment payments from ATO	2,018	-	1,575	-
Income tax expense	95,695	60	74,925	-

In addition to the above \$68,939k (2017: \$71,946k) is recognised in the statement of changes in member benefits relating to tax on contributions deducted from member accounts.

Notes to and forming part of the financial statements for the year ended 30 June 2018

Note 17 Income tax (continued)

	Fund 2018 \$'000	Service Entity 2018 \$'000	Fund 2017 \$'000	Service Entity 2017 \$'000
Deferred income tax				
Deferred income tax at 30 June relates to the following:				
Deferred income tax liabilities				
Taxable temporary differences – assets subject to CGT	218,675	-	153,603	-
Taxable temporary differences – other assets	11,595	-	16,433	-
	230,270	-	170,036	-
Movements:				
Opening balance at 1 July	170,036	-	108,968	-
Charged/(credited) to the Income Statement	60,234	-	61,068	-
Closing balance at 30 June	230,270	-	170,036	-

The deferred tax liabilities expected to be settled in more than 12 months are \$218,675k (2017: \$153,603k).

Deferred income tax assets				
Taxable temporary differences – assets subject to CGT	55	-	3,428	-
Taxable temporary differences – other assets	12,752	-	2,295	-
	12,807	-	5,723	-
Movements:				
Opening balance at 1 July	5,723	-	8,103	-
Charged/(credited) to the Income Statement	7,084	-	(2,380)	-
Closing balance at 30 June	12,807	-	5,723	-
Net deferred tax liability	217,463	-	164,313	-

The deferred tax assets expected to be settled in more than 12 months are \$55k (2017: \$3,428k).

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.

Notes to and forming part of the financial statements for the year ended 30 June 2018

Note 17 Income tax (continued)

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.

Note 18 Cash flow statement reconciliation

	2018 \$'000	2017 \$'000
Cash at bank	6,209	6,665
Reconciliation of net cash from operating activities to net profit after Income tax		
Loss/(profit) after income tax	(1,734)	40,093
Adjustments for:		
Purchases of financial assets	(4,126,780)	(5,619,678)
Sales of financial assets	3,643,672	5,230,099
Purchases of other assets	(2,335)	(11,292)
Sales of other assets	-	29
Net change in fair value of financial instruments	(650,546)	(647,720)
Depreciation	1,435	1,367
Amortisation	375	-
Net change in defined benefit member benefits	72,601	51,150
Net benefits allocated to defined contribution members	932,070	775,640
Insurance premiums paid	(44,726)	(40,526)
Insurance proceeds received from insurer	28,819	32,392
<i>Change in operating assets / liabilities</i>		
(Increase)/decrease in receivables	(517)	1,545
(Decrease)/increase in payables	(628)	(1,224)
Increase/(decrease) in income tax payable	20,343	28,759
Net cash outflows from operating activities	(127,951)	(159,366)

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 2018

Note 19 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

(i) 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 50% of its currency exposure in the global equities sector, using forward foreign exchange contracts. Compliance with the Fund's hedging policy is monitored by the Trustee on a regular basis.

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

30 June 2018	AUD \$'000	USD \$'000	JPY \$'000	EUR \$'000	GBP \$'000	Other \$'000	Total \$'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

30 June 2017	AUD \$'000	USD \$'000	JPY \$'000	EUR \$'000	GBP \$'000	Other \$'000	Total \$'000
Gross investment assets	5,083,151	3,330,960	313,971	656,613	479,581	904,142	10,768,418
Foreign exchange contracts (notional value)	3,083,453	(2,046,581)	(146,164)	(341,081)	(278,920)	(270,707)	-
Total	8,166,604	1,284,379	167,807	315,532	200,661	633,435	10,768,418
Fair value of foreign exchange contracts	40,454	(2,680)	-	1	2	1,370	39,147
Total investments and derivatives - refer Note 8	8,207,058	1,281,699	167,807	315,533	200,663	634,805	10,807,565

Notes to and forming part of the financial statements for the year ended 30 June 2018

Note 19 Financial instruments and risk management (continued)

(a) Market risk (continued)

(ii) Liquidity and 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.

	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
30 June 2018				
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

	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
30 June 2017				
Assets				
Cash & cash equivalents	1,004,331	-	-	1,004,331
Fixed interest securities	51,143	1,360,115	-	1,411,258
Listed equity investments & property trusts	-	-	5,195,673	5,195,673
Unlisted equity investments & property trusts	-	-	3,191,437	3,191,437
Derivatives	210	2,342	70,886	73,438
Other financial assets	-	-	103,317	103,317
	1,055,684	1,362,457	8,561,313	10,979,454
Liabilities				
Derivatives	(976)	(3,567)	-	(4,543)
Other financial liabilities	(2)	-	(167,345)	(167,347)
	(978)	(3,567)	(167,345)	(171,890)
Total	1,054,706	1,358,890	8,393,968	10,807,564



Notes to and forming part of the financial statements for the year ended 30 June 2018

Note 19 Financial instruments and risk management (continued)

(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	2018	2018	2017	2017
	Reflects higher asset prices	Reflects lower asset prices	Reflects higher asset prices	Reflects lower asset prices
Australian equities	19.7%	(19.7%)	19.7%	(19.7%)
International equities	17.1%	(17.1%)	17.2%	(17.2%)
Australian & global listed property	16.3%	(16.3%)	16.5%	(16.5%)
Asset backed securities	6.4%	(6.4%)	6.4%	(6.4%)
Emerging markets cash	6.0%	(6.0%)	6.1%	(6.1%)
Emerging markets equities	24.7%	(24.7%)	24.6%	(24.6%)
High yield debt	12.1%	(12.1%)	11.8%	(11.8%)
Global infrastructure	17.1%	(17.1%)	17.1%	(17.1%)
	2018 \$'000	2018 \$'000	2017 \$'000	2017 \$'000
Effect on net assets available to pay benefits	1,724,874	(1,724,874)	1,490,398	(1,490,398)

Interest Rate risk

Volatility factors	2018	2018	2017	2017
	Reflects higher asset prices	Reflects lower asset prices	Reflects higher asset prices	Reflects lower asset prices
Australian sovereign bonds	1.4%	(1.4%)	1.5%	(1.5%)
Australian corporate bonds	1.5%	(1.5%)	1.6%	(1.6%)
International sovereign bonds	0.9%	(0.9%)	1.0%	(1.0%)
International corporate bonds	1.2%	(1.2%)	1.3%	(1.3%)
Australian real yields	1.2%	(1.2%)	1.3%	(1.3%)
International real yields	0.7%	(0.7%)	0.6%	(0.6%)
	2018 \$'000	2018 \$'000	2017 \$'000	2017 \$'000
Effect on net assets available to pay benefits	(27,470)	27,470	(32,483)	32,483

Notes to and forming part of the financial statements for the year ended 30 June 2018

Note 19 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 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
30 June 2017				
US dollars	11.5%	(11.5%)	(226,878)	226,878
Japanese yen	14.5%	(14.5%)	(17,439)	17,439
Euro	9.9%	(9.9%)	(29,569)	29,569
British pounds	11.0%	(11.0%)	(27,287)	27,287
Other	9.9%	(9.9%)	(17,679)	17,679
			(318,852)	318,852

(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 2018

Note 19 Financial instruments and risk management (continued)

(c) Liquidity risk (continued)

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)

30 June 2017	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	(203,948)	-	-	-	-	(203,948)
Current tax liabilities	(14,091)	-	-	-	-	(14,091)
Accrued employee entitlements	(2,054)	-	-	(163)	(208)	(2,425)
Benefits payable	(1,651)	-	-	-	-	(1,651)
Defined contribution member liabilities	(9,427,543)	-	-	-	-	(9,427,543)
Total Non-derivatives	(9,649,287)	-	-	(163)	(208)	(9,649,658)
Gross settled derivatives						
Inflow	2,919,875	541,028	20,185	337,504	119,445	3,938,037
(Outflow)	(2,919,845)	(615,472)	(6,157)	(475,386)	(119,591)	(4,136,451)
Net settled derivatives	30	(74,444)	14,028	(137,882)	(146)	(198,414)

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 2018

Note 19 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 \$'000	A+ to A- \$'000	BBB+ to BB+ \$'000	CCC+ \$'000	Not Rated \$'000	Total \$'000
2018	1,033,901	458,219	79,503	-	31,770	1,603,393
2017	977,537	313,677	81,539	-	38,505	1,411,258

(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 2018

Note 20 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 2018 \$'000	Fair value of investment 2017 \$'000
Australian property funds	142,512	29,595
Australian infrastructure funds	444,910	573,417
Australian alternative funds	803,099	635,761
International infrastructure funds	194,262	159,949
	1,584,783	1,398,722

The fair value of financial assets of \$1,585k (2017: \$1,399k) 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 2018, net (losses) on investments in investee funds were (\$16,423k) (2017: net gains \$1,130k).

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

Note 21 Auditors' remuneration

	2018 \$	2017 \$
Amount received or due and receivable by PricewaterhouseCoopers:		
- Audit of financial statements and APRA return	177,990	160,140
- Taxation services	257,949	376,501
- Legal services	16,667	62,000
- Specified assertions audit on custodian balances and agreed upon procedures	49,280	46,568
- Other	88,292	87,281
Total	590,178	732,490

Notes to and forming part of the financial statements for the year ended 30 June 2018

Note 22 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 2018:

Director	Director and committee member	Representative body	Appointment date	Resignation / term expired date
Mr N P Cass	Director and committee member	Member representative	1 July 2008 **	30 June 2018
Ms F Connor	Director and committee member	Member representative	1 July 2001	30 June 2018
Mr R L Curtis	Director and committee member	Member representative	1 July 2011	30 June 2018
Ms M A de Wit OAM	Director and committee member	Employer representative	1 June 2013	30 June 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	
Mr J S Smith	Chair and committee member	Independent	1 December 2013 1 October 2016-Chair	
Mr J F Wilson	Director and committee member	Independent	1 December 2013	27 February 2018
Mr P Kazacos OAM	Director and committee member	Independent	8 December 2016	
Mr R R Dewhurst	Director	Independent	6 June 2018	

** Previous term 1 July 1995 – 30 June 2004

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 2018:

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



Notes to and forming part of the financial statements for the year ended 30 June 2018

Note 22 Related parties (continued)

(b) Executives

The Chief Executive Officer (CEO) is appointed by LGIASuper Trustee. The CEO in turn appoints the executives. The following persons were executives of LGIASuper Trustee for the year ended 30 June 2018:

	Position	Appointment date	Employment terms
Ms K L Farrar	Chief Executive Officer	16 April 2018	Executive contract
Mr D J Todd	Chief Executive Officer/Chief Investment Officer	17 July 2006/ 16 April 2018	Executive contract
Mr I D Harcla	Chief Risk Officer & Deputy Chief Executive Officer	30 January 2006	Executive contract
Mr T J Willmington	Chief Operating Officer	29 August 2005	Executive contract
Mr P C Gamin	Chief Financial Officer	21 January 2013	Executive contract
Mr W Woo	Chief Digital Officer	20 March 2017	Executive contract
Ms E K Noonan	Chief People & Culture	1 November 2017	Executive contract

(c) Remuneration of Directors

Directors		Short-term		Post-employment	Total remuneration
		Trustee fee	Trustee committee fee	Superannuation	
Name	Position	\$'000	\$'000	\$'000	\$'000
2017 - 2018					
Mr J S Smith	Chair	115	16	25	156
Ms M A de Wit OAM ¹	Director	58	5	12	75
Mr N P Cass ¹	Director	51	27	25	103
Ms F Connor ¹	Director	54	15	19	88
Mr R L Curtis ¹	Director	52	18	23	93
Mr J F Wilson ²	Director	46	16	-	62
Mr P Kazacos	Director	76	11	-	87
Cr M Bourke	Director	63	12	7	82
Cr C O'Neil	Director	63	29	8	100
Mr R R Dewhurst ³	Director	5	-	1	6
Total remuneration		583	149	120	852

Special Advisors

2017 - 2018

Mr A Cormie	-	17	2	19
Mr M Petrie	-	9	-	9
Total remuneration	-	26	2	28

1 Term expired 30 June 2018

2 Resigned 27 February 2018

3 Appointed 6 June 2018

Notes to and forming part of the financial statements for the year ended 30 June 2018

Note 22 Related parties (continued)

(c) Remuneration of Directors (continued)

Directors		Short-term		Post-employment	Total remuneration
		Trustee fee	Trustee committee fee	Superannuation	
Name	Position	\$'000	\$'000	\$'000	\$'000
2016 - 2017					
Mr J S Smith ²	Chair	75	20	35	130
Ms B K Morris ¹	Former Chair	54	6	5	65
Ms M A de Wit OAM	Director	51	13	12	76
Mr N P Cass	Director	40	20	35	95
Ms F Connor	Director	51	15	17	83
Mr R L Curtis	Director	36	21	33	90
Mr J F Wilson	Director	35	23	35	93
Mr P Kazacos ³	Director	44	5	-	49
Cr M Bourke ⁴	Director	61	9	7	77
Cr C O'Neil ⁵	Director	44	8	5	57
Cr P J Pisasale ⁶	Director	14	-	3	17
Total remuneration		505	140	187	832

Special Advisors					
2016 - 2017					
Mr A Cormie		-	13	1	14
Mr M Petrie		-	12	-	12
Total remuneration		-	25	1	26

1 Resigned 30 November 2016

2 Appointed Chair 1 December 2016

3 Appointed 8 December 2016

4 Appointed 1 July 2016

5 Appointed 20 October 2016

6 Reappointed 1 July 2016 and resigned 15 September 2016

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 LGIA Super Trustee.



Notes to and forming part of the financial statements for the year ended 30 June 2018

Note 22 Related parties (continued)

(d) Remuneration of executives

Executives		Short-term			Post-employment		Termination benefits	Total remuneration
		Salary ¹	Non-monetary benefits ²	Bonus ³	Super	Other ⁴		
Name	Position	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2017 - 2018								
Ms K L Farrar ⁷	Chief Executive Officer	116	-	-	5	-	-	121
Mr D J Todd ⁸	Chief Executive Officer / Chief Investment Officer	453	59	-	25	13	-	550
Mr I D Harcla	Chief Risk Officer / Deputy CEO	304	25	-	25	9	-	363
Mr T J Willmington	Chief Operating Officer	301	38	31	25	(14)	-	381
Mr P C Gamin	Chief Financial Officer	252	40	-	25	8	-	325
Mr W Woo	Chief Digital Officer	304	3	-	25	-	-	332
Ms E Noonan ⁹	Chief People & Culture	212	2	6	25	-	-	245
Total remuneration		1,942	167	37	155	16	-	2,317

2016 - 2017								
Mr D J Todd	Chief Executive Officer	455	59	-	35	12	-	561
Mr I D Harcla	Chief Risk Officer / Deputy CEO	312	25	-	35	8	-	380
Mr T J Willmington	Chief Operating Officer	270	42	8	30	8	-	358
Mr P C Gamin	Chief Financial Officer	253	44	-	35	7	-	339
Mr B Barber ⁵	Chief Digital Officer	91	1	-	19	-	79	190
Mr W Woo ⁶	Chief Digital Officer	77	-	-	9	-	-	86
Total remuneration		1,458	171	8	163	35	79	1,914

1 Salary includes base pay plus annual leave accrued less annual leave taken less salary sacrificed non-monetary benefits

2 Non-monetary benefits includes salary sacrificed motor vehicles on a cost-neutral basis to the Fund

3 Bonus relates to a staged retention program in relation to the successful delivery of an IT software development project

4 Other post-employment includes long-service leave accrued, less long-service leave taken

5 Appointed 6 July 2015 and resigned 27 September 2016

6 Appointed 20 March 2017

7 Appointed 16 April 2018

8 Appointed Chief Investment Officer 16 April 2018

9 Appointed to Executive position 1 November 2017

Notes to and forming part of the financial statements for the year ended 30 June 2018

Note 22 Related parties (continued)

(d) Remuneration of executives (continued)

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

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

Note 23 Commitments and contingent liabilities

(a) Except for the liability for accrued benefits (Refer Note 14) 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:

	2018 \$'000	2017 \$'000
Not later than one year	910,289	514,728
Total	910,289	514,728

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

Contracted operating lease expenditure is payable as follows:

	2018 \$'000	2017 \$'000
Not later than one year	2,835	1,902
Later than one year and not later than five years	10,451	8,138
Later than 5 years	10,809	11,663
Total	24,095	21,703

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 24 Significant post balance date events

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 2018

Note 25 Parent entity financial information

(a) Summary financial information

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

	2018 \$'000	2017 \$'000
Total assets	12,064,349	11,026,411
Total liabilities	334,535	390,838
Net assets available for member benefits	11,729,814	10,635,573
Total member liabilities	11,462,350	10,366,390
Net assets	267,464	269,183
Reserves	267,464	269,183
Operating result after income tax	(1,874)	40,093

Notes to and forming part of the financial statements for the year ended 30 June 2018

Trustee's declaration

In the opinion of the Directors of LGIASuper Trustee:

- (a) The accompanying financial statements and notes set out on pages 4 to 40 are in accordance with:
 - (i) Australian Accounting Standards and other mandatory professional reporting requirements, and
 - (j) Present fairly the Fund's financial position as at 30 June 2018 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 2018; 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 Trustee of Directors of LGIASuper Trustee as trustee for LGIASuper.



John S Smith

Chair



Peter Kazacos OAM

Chair Audit and Risk Management Committee

28 September 2018
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 2018 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 2018 and the results of its operations, cash flows, changes in equity and changes in members' benefits for the year ended 30 June 2018.

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

David Coogan
Partner

Melbourne
28 September 2018





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 **SUPERANNUATION**  **INVESTMENT**  **ADVICE**  **INSURANCE**

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