

AustralianSuper

Annual financial report 30 June 2020

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Statement of financial position

	Notes	2020 \$m	2019 \$m
Assets			
Cash and cash equivalents	2(a)	32,782	6,463
Listed equity securities	2(c)	79,574	84,476
Fixed income securities	2(c)	34,709	41,929
Derivatives	2(c)	3,055	1,079
Unlisted unit trusts	2(c)	38,945	36,873
Unlisted equity securities	2(c)	561	534
Receivables	2(b)(i)	270	442
Receivable for securities sold	2(b)(iii)	1,515	534
Income tax receivable		-	46
Total assets		191,411	172,376
Liabilities			
Derivatives	2(c)	1,186	777
Payables	2(b)(ii)	136	181
Payable for securities purchased	2(b)(iii)	4,562	1,378
Income tax payable		78	
Deferred tax liabilities	2(f)(iv)	3,071	3,256
Total liabilities excluding members' benefits		9,033	5,592
Net assets available for members' benefits		182,378	166,784
Members' benefits	7	181,688	166,150
Net assets		690	634
Equity - reserves			
Operational risk financial reserve	9	460	400
Other reserves		230	234
Total reserves		690	634

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

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Income statement

	Notes	2020 \$m	2019 \$m
Revenue			
Interest	3(a)(i)	1,151	987
Dividends and distributions	3(a)(ii)	3,270	5,864
Other investment income	3(a)(iv)	59	107
Net changes in fair value of financial instruments	3(a)(iii)	(3,703)	6,859
Sundry income	3(a)(iv)	(8)	(47)
Total revenue		769	13,770
Expenses			
Investment expenses	3(c)	(498)	(538)
Trustee service fees		(356)	(313)
Total expenses		(854)	(851)
Operating result before income tax		(85)	12,919
Income tax (expense) / benefit	2(f)(i)	424	(621)
Operating result after income tax		339	12,298
Net investment income credited to members		(537)	(12,628)
Administration fees charged to members		254	238
Net operating result		56	(92)

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

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Statement of changes in members' benefits

	Notes	2020 \$m	2019 \$m
Opening balance of members' benefits		166,150	139,406
Employer contributions		9,515	8,263
Member contributions		2,644	2,165
Transfers from other superannuation plans		15,519	13,064
Income tax on contributions	2(f)(iii)	(1,413)	(1,222)
After tax contributions		26,265	22,270
Benefit payments to members or beneficiaries		(10,680)	(7,674)
Insurance premiums charged to members		(666)	(550)
Death and disability benefits credited to members		336	308
Net investment income credited to members		537	12,628
Administration fees charged to members		(254)	(238)
Closing balance of members' benefits	7	181,688	166,150

The statement of changes in members' benefits should be read in conjunction with the accompanying notes

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Statement of changes in reserves

	Operational risk financial reserve \$m	Investment reserve \$m	Administration reserve \$m	Insurance reserve \$m	Total reserves \$m
Balance at 1 July 2019	400	70	55	109	634
Net transfers to/from reserve	57	(92)	35	-	-
Operating result	3	112	(16)	(43)	56
Balance at 30 June 2020	460	90	74	66	690

	Operational risk financial reserve \$m	Investment reserve \$m	Administration reserve \$m	Insurance reserve \$m	Total reserves \$m
Balance at 1 July 2018	347	134	52	193	726
Net transfers to/from reserve	35	(24)	(11)	-	-
Operating result	18	(40)	14	(84)	(92)
Balance at 30 June 2019	400	70	55	109	634

Further information about the Fund's Reserves can be found at Note 9.

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

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Statement of cash flows

	Notes	2020 \$m	2019 \$m
Cash flows from operating activities			
Interest income received		1,151	987
Dividend and distribution income received		3,495	5,996
Death and disability claims received		336	308
Other income (paid)/received		(8)	(47)
Insurance premiums paid		(670)	(545)
Trustee service fee paid		(344)	(309)
Investment expenses paid		(528)	(487)
Income tax (paid)/received		358	257
Net cash inflow (outflow) from operating activities	4(b)	3,790	6,160
Cash flows from investment activities			
Sales of financial instruments		335,296	200,827
Purchase of financial instruments		(328,344)	(221,172)
Net cash inflow (outflow) from investing activities		6,952	(20,345)
Cash flows from financing activities			
Contributions received and transfers from other superannuation entities		27,676	23,492
Benefits paid to members or beneficiaries		(10,703)	(7,657)
Tax paid on contributions		(1,396)	(1,222)
Net cash inflow (outflow) from financing activities		15,577	14,613
Net increase (decrease) in cash and cash equivalents		26,319	428
Cash and cash equivalents at beginning of year		6,463	6,035
Cash and cash equivalents at end of year	4(a)	32,782	6,463

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

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Notes to the financial statements

1 Fund structure and operation

AustralianSuper (the “Fund”) is a defined contribution superannuation fund domiciled in Australia. The Fund is constituted by a Trust Deed dated 13 December 1985, as amended, that established the Fund with effect from 1 August 1985 and provides retirement and insurance benefits to its members. The Fund has both accumulation members and retirement members. While the Fund exists for the benefit of members, for the purposes of the financial statements the Fund is a for profit entity under accounting standards.

The Trustee of the Fund is AustralianSuper Pty Ltd (the “Trustee”). The registered office of the Trustee is level 33, 50 Lonsdale Street, Melbourne, Victoria.

This financial report covers the Fund as an individual entity, and was authorised for issue by the directors of the Trustee on 10 September 2020. The directors of the Trustee have the power to amend and reissue this financial report.

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How the numbers are calculated

2 Statement of financial position

(a) Cash and cash equivalents

Cash and cash equivalents includes cash at bank, deposits held at call with financial institutions and other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(b) Other receivables and payables

(i) *Receivables*

Receivables includes amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment.

(ii) *Payables*

Payables includes investment manager fees and trustee service fees accrued and members' benefits payable at the end of the reporting period.

(iii) *Receivables/payables for securities sold/purchased*

Receivables for securities sold and payables for securities purchased represent trades that have been contracted for but not yet delivered at the end of the year. Trades are recorded on trade date and normally settled within three business days.

(c) Investments

The investments, including derivatives, of the Fund are recorded at fair value and changes in the fair value are recognised in the income statement in the year they occur.

Financial assets and 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 and liabilities are recognised from that date.

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

Transaction costs, including brokerage and stamp duty, that are incurred to acquire investment securities are recognised in the income statement as an expense as incurred. Transaction costs associated with direct investments in property and infrastructure, including legal and due diligence fees, are capitalised and recognised as part of the cost of the investment.

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How the numbers are calculated (continued)

2 Statement of financial position (continued)

(d) Fair value measurement of financial assets and liabilities

(i) *Fair value hierarchy*

The Fund classifies fair value measurements using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities and includes market quoted investments. The main investments in this category are listed equity securities whose fair value is determined using the last quoted sale price.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes fixed income securities and derivative contracts not traded on public exchanges and unlisted unit trusts that hold listed securities. Fixed income securities for which no active market is observable are valued at current market rates using broker quotations and/or independent pricing services.
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs) which includes non-market quoted investments. Unlisted investments in infrastructure, private credit, property and private equity are included in this category. Further information regarding unobservable inputs and the measurement of fair value for Level 3 investments is included below.

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

(ii) *Fair value in an active market*

The fair values of financial assets and financial liabilities that are traded in active markets are based on prices obtained directly from an exchange on which the instruments are traded or obtained from a broker that provides an unadjusted quoted price from an active market for identical instruments. These include investments in equities, fixed income and bonds. For all other financial instruments, the Fund determines fair value using other valuation techniques.

(iii) *Fair value in an inactive or unquoted market*

The Fund's financial assets and liabilities are a combination of directly held investments and indirectly held investments made via unlisted trusts which in turn invest in a variety of underlying investments. These include investments in infrastructure, private credit, private equity and property that are domiciled in Australia and overseas. The Fund has adopted a valuation standard, the purpose of which is to ensure that AustralianSuper has an appropriate framework to value investment assets in a manner that ensures they are valued on an equitable and consistent basis. The Fund ensures that valuation techniques are consistent and may utilise independent parties to undertake reviews of the investment valuation framework controls and procedures on a periodical and as needs basis.

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How the numbers are calculated (continued)

2 Statement of financial position (continued)

(d) Fair value measurement of financial assets and liabilities (continued)

(iii) *Fair value in an inactive or unquoted market (continued)*

COVID-19 considerations for the fair value of level 3 investments

The COVID-19 pandemic has had, and continues to have, a significant impact on the general business environment and financial markets. The Trustee's evaluation of level 3 investment valuations has included further consideration relating to the economic implications of the COVID-19 pandemic and the measures taken to contain it.

Estimating the valuation implications of COVID-19 for the Fund's level 3 investments has required considerable judgement by the third party valuers (for directly held assets), external investment managers (for indirectly held assets), and the Trustee. In particular, the valuers have estimated discount rates and future cash flows as the COVID-19 pandemic continues to evolve and with limited economic data relating to the medium to long term implications for the Fund's level 3 investments. For certain investments, the third party valuers and the Trustee acknowledge that current valuations are subject to 'material valuation uncertainty' as a consequence of this. The valuation of the Fund's level 3 investments is based on data available at the time of the relevant valuation which may change as circumstances and events continue to unfold. The Fund's level 3 investment valuations will continue to be closely monitored through the COVID-19 pandemic. Valuations are updated when new information becomes available or circumstances change, in accordance with the Fund's Valuation Standard and will be reflected in member balances at the time.

Fair value of directly held assets

In the case of directly held assets, the Fund appoints independent external valuation experts and property appraisers to provide regular investment valuations with most material investments being valued on a quarterly basis. These independent valuers are selected from the Fund's approved list of valuers. The Fund has policies and procedures governing the appointment and rotation of third-party valuers. The expertise, knowledge and familiarity with local market conditions, market transactions and industry trends of independent valuation experts and property appraisers are important inputs to the valuation process.

Valuations performed by third party valuers are reviewed by the portfolio team within the Fund to confirm that an appropriate valuation methodology has been used and that key inputs, assumptions and judgements made by the valuer are appropriate and have included estimates on the impact of COVID-19 on the valuation provided.

Valuers generally provide a valuation range and it is the Trustee's policy to adopt the mid-point valuation unless there are reasons which indicate it is more appropriate to adopt a different valuation within the range provided by the valuer.

The valuations are reviewed by an internal valuation committee, separate to the portfolio team, to consider and if required, endorse the adoption of the appropriate point of the valuation range.

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How the numbers are calculated (continued)

2 Statement of financial position (continued)

(d) Fair value measurement of financial assets and liabilities (continued)

(iii) *Fair value in an inactive or unquoted market (continued)*

Fair value of directly held assets (continued)

During the year, AustralianSuper may review valuations of the level 3 investments more frequently to ensure that the most current valuations are reflected in member balances. This is to improve the responsiveness and accuracy of the current valuation process in both normal and stressed market circumstances.

Where valuations are performed at a date other than balance sheet date, the Fund considers whether the valuation continues to remain appropriate as at the balance sheet date.

Fair value of indirectly held assets

The Fund generally values interests in level 3 investments managed by external investment managers using the valuation provided by the relevant external investment manager. As the underlying Fund's interest in these investments are not actively traded in a public market, the valuation provided by the external investment manager is considered unobservable and is therefore classified as a Level 3 investment.

The Fund reviews the valuation methodology adopted by the relevant investment manager and makes further enquiries, as appropriate, relating to valuation methodology and key inputs used to determine valuations.

Valuation techniques

The Fund's directly held investments that are not traded in an active market are determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions. The valuation of unquoted investments is subjective by nature. However, the relevant methodologies are commonly applied by other market participants and have been consistently applied over time.

For indirect investments the Fund ensures that the valuation techniques used by fund managers are consistent with the Fund's valuation standard and accepts the value provided by fund managers unless there is a specific and objectively verifiable reason to vary from the value provided. Fund managers of indirect investments provide valuations on a monthly or quarterly basis.

Valuation models are each sensitive to a number of key assumptions, such as projected future earnings and cash flows, comparator multiples, marketability discounts and discount rates. For most investments the most significant assumptions are the discount rate and the projected future cash flows of the investment.

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How the numbers are calculated (continued)

2 Statement of financial position (continued)

(d) Fair value measurement of financial assets and liabilities (continued)

(iii) Fair value in an inactive or unquoted market (continued)

Valuation techniques (continued)

Where discounted cash flow techniques are used, estimated future cash flows are based on best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions.

The discount rate is composed of two elements: a risk-free rate, which is the return that would be expected from a secure, liquid, virtually risk-free investment such as a high-quality government bond; plus a risk premium. The risk premium is estimated from, where observable, implied values of similar publicly traded investment or sales of similar investments. If such information is not available, the risk premium is estimated at a level that compensates for the incremental amount of risk associated with a particular investment. The selected discount rates are chosen to be consistent with the risk inherent in the stream of cash flows to which they are applied.

Level 3 investments are valued using financial models, the resulting valuations are significantly affected by non-observable inputs. The most significant inputs to these financial models are the discount rate and estimated future net cash flows of the investment which in the case of property investments may be estimated using a capitalisation rate.

The following table summarises the unobservable inputs used in fair value measurement of the Fund's material directly held investments.

2020	Fair value \$m	Significant unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Australian Infrastructure	6,719	Discount rate	8.05% - 11.00%	The higher the discount rate, the lower the fair value
International Property	4,287	Capitalisation rate	3.75% - 6.25%	The higher the capitalisation rate, the lower the fair value
		Discount rate	6.00% - 13.50%	The higher the discount rate, the lower the fair value
2019	Fair value \$m	Significant unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Australian Infrastructure	7,044	Discount rate	8.20% - 10.90%	The higher the discount rate, the lower the fair value
International Property	4,759	Capitalisation rate	3.85% - 5.10%	The higher the capitalisation rate, the lower the fair value
		Discount rate	6.60% - 8.00%	The higher the discount rate, the lower the fair value

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How the numbers are calculated (continued)

2 Statement of financial position (continued)

(d) Fair value measurement of financial assets and liabilities (continued)

(iii) Fair value in an inactive or unquoted market (continued)

Valuation techniques (continued)

The number and fair value of investments held by the Fund that have been valued using the type of unobservable inputs discussed above are shown in the table below.

2020

	Directly held investments		Indirectly held investments		Total investments	
	Number	Fair value \$m	Number	Fair value \$m	Number	Fair value \$m
Australian infrastructure	9	6,719	4	4,339	13	11,058
International infrastructure	-	-	4	6,741	4	6,741
Australian private credit	3	878	-	-	3	878
International private credit	6	1,968	-	-	6	1,968
Australian private equity	30	764	17	328	47	1,092
International private equity	5	32	2	4,617	7	4,649
Australian property	2	19	9	6,264	11	6,454
International property	8	4,28	3	8	11	4,295
Other	44	74	1	10	45	756
	107	15,584	40	22,307	147	37,891

2019

	Directly held investments		Indirectly held investments		Total investments	
	Number	Fair value \$m	Number	Fair value \$m	Number	Fair value \$m
Australian infrastructure	10	7,044	5	4,314	15	11,358
International infrastructure	-	-	6	5,000	6	5,000
Australian private credit	3	813	-	-	3	813
International private credit	4	1,130	-	-	4	1,130
Australian private equity	31	615	9	291	40	906
International private equity	3	32	8	4,736	11	4,768
Australian property	1	174	9	6,113	10	6,287
International property	8	4,759	4	14	12	4,773
Other	40	704	1	24	41	728
	100	15,271	42	20,492	142	35,763

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How the numbers are calculated (continued)

2 Statement of financial position (continued)

(d) Fair value measurement of financial assets and liabilities (continued)

(iv) *Recognised fair value measurements*

The table below sets out the level of the fair value hierarchy within which the fair value measurements of the Fund are categorised.

2020	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m
Listed equity securities	79,560	1	13	79,574
Fixed income securities	3,338	27,878	3,493	34,709
Unlisted unit trusts	-	5,121	33,824	38,945
Unlisted equity securities	-	-	561	561
Derivative assets	164	2,891	-	3,055
Derivative liabilities	(157)	(1,029)	-	(1,186)
	82,905	34,862	37,891	155,658
2019	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m
Listed equity securities	84,471	-	5	84,476
Fixed income securities	5,895	33,473	2,561	41,929
Unlisted unit trusts	-	4,210	32,663	36,873
Unlisted equity securities	-	-	534	534
Derivative assets	218	861	-	1,079
Derivative liabilities	(190)	(587)	-	(777)
	90,394	37,957	35,763	164,114

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

2020	Listed equity securities	Fixed income securities	Unlisted unit trusts	Unlisted equity securities	Total
	\$m	\$m	\$m	\$m	\$m
Opening balance	5	2,561	32,663	534	35,763
Gains or losses recognised in income statement	(7)	6	(1,847)	(27)	(1,875)
Applications	7	1,057	3,653	50	4,767
Redemptions	(3)	(139)	(645)	-	(787)
Transfers into level 3	11	8	-	4	23
Transfers out of level 3	-	-	-	-	-
	13	3,493	33,824	561	37,891
Unrealised gains recognised in income statement	(5)	5	(1,754)	(27)	(1,781)

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How the numbers are calculated (continued)

2 Statement of financial position (continued)

(d) Fair value measurement of financial assets and liabilities (continued)

(v) *Recognised fair value measurements (continued)*

2019	Listed equity securities \$m	Fixed income securities \$m	Unlisted unit trusts \$m	Unlisted equity securities \$m	Total \$m
Opening balance	20	1,865	28,517	480	30,882
Gains or losses recognised in income statement	(23)	122	1,611	48	1,758
Applications	27	891	3,840	13	4,771
Redemptions	(17)	(211)	(1,306)	(7)	(1,541)
Transfers into level 3	2	-	1	-	3
Transfers out of level 3	(4)	(106)	-	-	(110)
Total	5	2,561	32,663	534	35,763
Unrealised gains recognised in income statement	(24)	120	1,466	51	1,613

(e) Derivatives

Derivative 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 recognised amounts and there is an intention to settle transactions on a net basis, or realise the asset and settle the liability simultaneously.

The Fund enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting arrangements. Under such arrangements derivative financial assets and liabilities could potentially be offset at the counterparty level under certain circumstances such as default. The amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency would be aggregated into a single net amount payable by one party to the other and the relevant arrangements terminated. The ISDA agreements do not meet the criteria for offsetting in the statement of financial position as the Fund does not have a legally enforceable right of set-off.

The gross and net positions of financial assets and liabilities that have been offset in the statement of financial position are disclosed in the table below. Also shown in the table is the amount that could, under netting arrangements, be offset at the counterparty level should circumstances allow the Fund a legally enforceable right of set-off.

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How the numbers are calculated (continued)

2 Statement of financial position (continued)

(e) Derivatives (continued)

	Derivative fair value \$m	Derivative amounts set off \$m	Net amounts presented in statement of financial position \$m	Amounts subject to master netting arrangements \$m	Net amount \$m
2020					
Financial assets					
Futures contracts	164		164	(171)	(7)
Swaps contracts	10,253	(9,441)	812	(542)	270
Options contracts	116		116	-	116
Foreign currency forward contracts	1,963		1,963	(646)	1,317
	12,496	(9,441)	3,055	(1,359)	1,696
Financial liabilities					
Futures contracts	(157)		(157)	164	7
Swaps contracts	(9,982)	9,441	(541)	250	(291)
Options contracts	-		-	116	116
Foreign currency forward contracts	(488)		(488)	684	196
	(10,627)	9,441	(1,186)	1,214	28
Net financial asset/(liability)	1,869	-	1,869	(145)	1,724

	Derivative fair value \$m	Derivative amounts set off \$m	Net amounts presented in statement of financial position \$m	Amounts subject to master netting arrangements \$m	Net amount \$m
2019					
Financial assets					
Futures contracts	218	-	218	(247)	(29)
Swaps contracts	8,261	(8,106)	155	(83)	72
Options contracts	100	-	100	(4)	96
Foreign currency forward contracts	606	-	606	(557)	49
	9,185	(8,106)	1,079	(891)	188
Financial liabilities					
Futures contracts	(190)	-	(190)	218	28
Swaps contracts	(8,272)	8,106	(166)	108	(58)
Options contracts	(4)	-	(4)	100	96
Foreign currency forward contracts	(417)	-	(417)	536	119
	(8,883)	8,106	(777)	962	185
Net financial asset/(liability)	302	-	302	71	373

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How the numbers are calculated (continued)

2 Statement of financial position (continued)

(f) Income tax

The Fund is a complying superannuation fund within the provisions of the Income Tax Assessment Acts and the Fund's income tax disclosures are prepared in accordance with AASB 1056 *Superannuation Entities* and AASB 112 *Income Taxes*.

Accordingly, the income tax rate for Australian superannuation funds of 15% has been applied to net investment earnings less deductions allowable for expenses relevant to accumulation fund members and transition to retirement members. In the case of retirement income members, investment earnings are tax exempt.

Investment assets held for less than 12 months are taxed at 15%. For investment assets that are held on capital account for tax purposes for a period of more than 12 months, the Fund is entitled to a one-third Capital Gains Tax discount leading to an effective tax rate of 10% on gains or losses arising from the disposal of such investment assets.

The deferred tax balances are measured at the tax rates enacted at reporting date.

Income tax expense reported in the income statement for the year comprises current and deferred tax.

Current tax is the expected tax payable or receivable on the taxable income for the current year and any adjustment to tax payable in respect of prior years.

Deferred tax is recognised in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the cost base amount of the assets or liabilities used for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation of assets or settlement of liabilities.

Deferred tax assets are recognised only if it is probable that future taxable amounts will become available to utilise those losses.

(i) Income tax expense reported in income statement

	2020 \$m	2019 \$m
Current income tax		
Current tax expense/(benefit) on operating result for the year	(253)	(154)
Adjustment for current tax of prior periods	14	(11)
Total current tax benefit	<u>(239)</u>	<u>(165)</u>
Deferred income tax		
Increase/(decrease) in deferred tax liabilities	(185)	786
Total deferred tax expense/(benefit)	<u>(185)</u>	<u>786</u>
Income tax expense/(benefit)	<u>(424)</u>	<u>621</u>

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How the numbers are calculated (continued)

2 Statement of financial position (continued)

(f) Income tax (continued)

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

	2020	2019
	\$m	\$m
Operating result before income tax	(85)	12,919
Tax at the Australian rate of 15% (2019: 15%)	(13)	1,938
Tax effect of amounts that are not deductible/(taxable) in calculating taxable income:		
Impact of movement of tax discount on capital gains	108	(133)
Exempt pension income	(37)	(224)
Imputation credits	(496)	(952)
Other	-	3
Adjustments for current tax of prior periods	14	(11)
Income tax expense/(benefit)	(424)	621

(iii) *Income tax expense recognised in the statement of changes in members' benefits*

	2020	2019
	\$m	\$m
Contributions and transfers in recognised in the statement of changes in members' benefits	27,678	23,492
Tax at the Australian rate of 15% (2019: 15%)	4,152	3,524
Tax effect of amounts that are not deductible/(taxable) in calculating taxable income:		
Non assessable contributions and transfers in	(2,640)	(2,219)
Anti detriment paid on death benefits	-	(2)
Other	(99)	(81)
Total	1,413	1,222

AustralianSuper Annual financial report 30 June 2020

How the numbers are calculated (continued)

2 Statement of financial position (continued)

(f) Income tax (continued)

(iv) *Deferred tax balances*

The movements in temporary differences during the year were:

	Beginning of year \$m	Recognised in income statement \$m	End of year \$m
At 30 June 2020			
Deferred tax asset			
Payables	31	(5)	26
Deferred tax liability			
Unrealised gains on financial instruments	(3,287)	190	(3,097)
Net deferred tax assets/(liabilities)	(3,256)	185	(3,071)
At 30 June 2019			
Deferred tax asset			
Payables	25	6	31
Deferred tax liability			
Unrealised gains on financial instruments	(2,495)	(792)	(3,287)
Net deferred tax assets/(liabilities)	(2,470)	(786)	(3,256)

AustralianSuper Annual financial report 30 June 2020

How the numbers are calculated (continued)

3 Income statement

(a) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest

Interest income is recognised in the income statement for all financial instruments that are held at fair value through the effective interest method. Income from cash and cash equivalents is presented as interest income. Interest income on assets held at fair value in the income statement is included in net changes in fair value of financial instruments.

(ii) Dividends and distributions

Dividend and distribution income is recognised on the date the investments are quoted ex-dividend/distribution and if not received at reporting date, is reflected in the statement of financial position as a receivable.

(iii) Net changes in fair value of financial instruments

Net changes in financial assets measured at fair value:

	2020	2019
	\$m	\$m
Cash and cash equivalents	(284)	150
Listed equity securities	(1,343)	5,360
Fixed interest securities	496	1,710
Derivatives	(800)	(1,894)
Unlisted unit trusts	(1,799)	1,483
Unlisted equity securities	27	50
	<u>(3,703)</u>	<u>6,859</u>

Changes in the fair value of investments are recognised in the income statement and are determined as the difference between the fair value at year end or consideration received (if sold during the year) and the fair value as at the prior year end or cost (if the investment was acquired during the period).

(iv) Other investment income and sundry income

Other investment income is primarily securities lending income. Sundry income relates to the insurance premiums retained by the Fund to cover the cost of the insurance product and the Premium Adjustment Model as described in note 9(d).

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How the numbers are calculated (continued)

3 Income statement (continued)

(b) Foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement in net changes in fair value of financial instruments.

(c) Investment expenses

Master custodian and investment manager fees and other investment expenses are recognised on an accruals basis and represent costs incurred directly by the Fund in managing the investment portfolio. They do not include fees incurred within underlying investment vehicles. Total investment expenses including direct and indirect expenses are recovered from members by deducting an investment fee from investment returns before they are credited to members' accounts.

(d) Goods and services tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of 55% or 75%; hence expenses have been recognised in the income statement net of GST recoverable from the Australian Taxation Office (ATO). Payables are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the statement of financial position. Cash flows relating to GST are included in the statement of cash flows on a gross basis.

AustralianSuper Annual financial report 30 June 2020

How the numbers are calculated (continued)

4 Statement of cash flows

(a) Cash and cash equivalents

	2020	2019
	\$m	\$m
Cash and cash equivalents	<u>32,782</u>	<u>6,463</u>

(b) Reconciliation of operating result after income tax to net cash inflow (outflow) from operating activities:

	2020	2019
	\$m	\$m
Operating result for the period after income tax	56	(92)
Movements in fair value of financial instruments	3,703	(6,859)
Death and disability benefits received	336	308
Insurance premiums paid	(670)	(545)
Net benefits allocated to members	283	12,390
Change in operating assets and liabilities		
(Increase) decrease in receivables	172	32
Increase (decrease) in payables	(28)	37
Increase (decrease) in current tax payable	123	103
Increase (decrease) in deferred tax payable	(185)	786
Net cash inflow (outflow) from operating activities	<u>3,790</u>	<u>6,160</u>

(c) Non-cash financing activities

There were no non-cash financing activities during the year (2019: nil).

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How the numbers are calculated (continued)

5 Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires the making of some estimates and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses. Actual results may differ from those estimates.

Estimates are continually evaluated, and any revisions are recognised in the period in which they occur. Estimates are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The key estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements are described in Note 2(d) Fair value measurement of financial assets and liabilities.

6 Insurance arrangements

The Fund provides income protection, death and disability benefits to its members. The Trustee has group policies in place with third party insurance companies to insure these death and disability benefits for the members of the Fund.

The Fund collects premiums from members on behalf of the insurer. Therefore insurance premiums are not expenses of the Fund and do not give rise to insurance liabilities. Similarly insurance claim amounts are not income of the Fund and do not give rise to reinsurance assets. Insurance premiums charged to members and insurance claims paid by the insurer are recognised in the statement of changes in members' benefits.

7 Members' benefits

Obligations relating to members' benefits are recognised as liabilities. They are not conditional upon continued membership of the Fund (or any factor other than resignation from the Fund) and include benefits which members were entitled to receive had they terminated their membership at reporting date, subject to preservation requirements.

	2020 \$m	2019 \$m
Members' account balances - accumulation	157,472	145,126
Members' account balances - retirement	24,216	21,024
	<u>181,688</u>	<u>166,150</u>

AustralianSuper Annual financial report 30 June 2020

Risk management

8 Financial risk management

(a) Overview

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

The Trustee has overall responsibility for the establishment and oversight of the Fund's Risk Management Framework including the Risk Appetite Statement, which includes the financial risks of the Fund. The financial risks, and in particular the risks associated with investments, are managed by the Trustee through approving the investment objectives and strategic asset allocation investment ranges for each investment plan. The Trustee ensures effective structures, policies, processes and systems are in place to facilitate the monitoring and management of risks to which the Fund is exposed.

The Board has delegated certain powers to the Investment Committee. The Investment Committee oversees the Fund's investment program including setting ranges for the management of the portfolio mix for each investment option, approving asset class strategies, monitoring the key risk exposures within the portfolio and reviewing the performance of each investment option.

The Investment Committee is responsible for overseeing the investment governance framework, including policies, procedures, systems and methodologies. In carrying out these responsibilities the Investment Committee receives reporting from management and external advisers.

(b) Market risk

Market risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Changes in market prices are reflected in earnings credited to members. Market risk comprises three types of risk: currency risk, interest rate risk and price risk.

(i) Currency risk

The Fund is exposed to currency risk on financial assets and liabilities that are denominated in a currency other than the functional currency (Australian dollars) of the Fund.

Derivatives and currency overlays are utilised to actively manage the level of currency exposure in line with the Fund's strategic asset allocation for each investment option which specifies the range for currency exposure. This is reviewed on a regular basis and reported to the Investment Committee.

The Fund monitors the exposure of all foreign currency denominated assets and liabilities and hedges according to the currency exposure range specified for each investment option.

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Risk management (continued)

8 Financial risk management (continued)

(b) Market risk (continued)

(i) Currency risk (continued)

The Fund's exposure to foreign currencies after derivative impact at the reporting date is summarised in the table below.

2020	USD A\$m	Euro A\$m	GBP A\$m	Other currencies A\$m	Total A\$m
Cash and cash equivalents	2,586	567	212	1,240	4,605
Listed equity securities	30,552	6,333	2,725	8,012	47,622
Fixed income securities	12,283	3,281	1,450	2,389	19,403
Unlisted unit trusts	1,860	-	2,303	216	4,379
Receivables for securities sold	1,406	19	8	42	1,475
Payables for securities purchased	(3,780)	(6)	(6)	(3)	(3,795)
Increase (decrease) from derivative contracts	(29,811)	(8,411)	(5,780)	(3,041)	(47,043)
Net exposure to foreign exchange risk	15,096	1,783	912	8,855	26,646
2019	USD A\$m	Euro A\$m	GBP A\$m	Other currencies A\$m	Total A\$m
Cash and cash equivalents	1,330	388	95	485	2,298
Listed equity securities	29,637	6,499	3,175	8,915	48,226
Fixed income securities	8,013	1,888	400	2,865	13,166
Unlisted unit trusts	591	529	2,710	96	3,926
Receivables for securities sold	568	29	10	49	656
Payables for securities purchased	(1,372)	(6)	(9)	(14)	(1,401)
Increase (decrease) from derivative contracts	(26,090)	(6,873)	(4,345)	(1,931)	(39,239)
Net exposure to foreign exchange risk	12,677	2,454	2,036	10,465	27,632

Of the remaining Other currencies exposure 61.5% (2019: 58.7%) was attributable to investments denominated in Japanese Yen, Swiss Francs and Hong Kong Dollars (2019: Hong Kong Dollars, Japanese Yen and Swiss Francs).

The table on page 29 summarises the sensitivity of the Fund's financial assets and liabilities to currency risk.

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Risk management (continued)

8 Financial risk management (continued)

(b) Market risk (continued)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's investments in bonds, fixed interest securities, debt securities and cash are subject to interest rate risk.

Interest rate risk is managed by holding a diversified portfolio of instruments, including holding a mixture of fixed and floating rate securities. Where appropriate the Fund uses interest rate derivatives to change the exposure to fixed or floating interest rates.

The Fund's interest rate risk is monitored and managed on a regular basis by the Income Assets team and the investment managers awarded mandates in these asset classes in accordance with the investment guidelines set for them.

The Fund's exposure to interest rate risk at the reporting date is summarised in the table below.

2020	Fixed interest rate \$m	Floating interest rate \$m	Total \$m
Cash and cash equivalents	-	32,782	32,782
Fixed income securities	22,247	12,462	34,709
Increase (decrease) from derivative contracts	(655)	612	(43)
Net exposure to interest rate risk	21,592	45,856	67,448

2019	Fixed interest rate \$m	Floating interest rate \$m	Total \$m
Cash and cash equivalents	-	6,463	6,463
Fixed income securities	22,516	19,413	41,929
Increase (decrease) from derivative contracts	(757)	726	(31)
Net exposure to interest rate risk	21,759	26,602	48,361

The table on page 29 summarises the sensitivity of the Fund's assets to interest rate risk.

(iii) Price risk

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

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Risk management (continued)

8 Financial risk management (continued)

(b) Market risk (continued)

(iii) Price risk (continued)

Where non-monetary financial instruments are denominated in currencies other than the Australian dollar the price in the future will also fluctuate because of changes in foreign exchange rates.

The Fund manages price risk through diversification and careful selection of securities within the strategic asset allocation for each investment option.

Price risk is further managed by undertaking a thorough due diligence process and careful selection of investments and investment managers that receive a mandate to manage a portfolio of the Fund's assets. On an ongoing basis, investments and the investment managers are monitored by the different asset class teams. The results of the monitoring are reported to the Investment Committee.

As at 30 June the fair value of financial assets exposed to price risk were as follows:

	2020	2019
		\$m
Equity securities	79,574	84,476
Unlisted unit trusts	38,945	36,873
Unlisted equity securities	561	534
Net exposure to price risk	119,080	121,883

The Fund seeks to allocate members' funds in the investment portfolio to sectors where management believe the Fund can maximise the returns derived for the level of risk to which the Fund is exposed.

The table below is a summary of the sector concentrations within the listed equities portfolio.

	2020	2019
	Fund's equity portfolio (%)	Fund's equity portfolio (%)
Communication services	7.7	8.1
Consumer discretionary	15.6	11.1
Consumer staples	9.2	8.7
Energy	2.6	3.9
Financials	15.4	20.5
Health care	13.5	12.0
Industrials	9.3	10.1
Information technology	13.7	11.4
Materials	11.0	10.9
Real estate	1.6	2.3
Utilities	0.4	1.0
	100	100

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Risk management (continued)

8 Financial risk management (continued)

(b) Market risk (continued)

Summarised sensitivity analysis

The following tables summarise the sensitivity of the Fund's operating result and net assets available for members' benefits to currency risk, interest rate risk and price risk. The reasonably possible movements in the risk variables have been determined 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. However, 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.

Currency risk	2020	2020	2019	2019
	\$m	\$m	\$m	\$m
	-10%	+10%	-10%	+10%
USD	(1,510)	1,510	(1,268)	1,268
Euro	(178)	178	(245)	245
GBP	(91)	91	(204)	204
Other currencies	(886)	886	(1,047)	1,047
	(2,665)	2,665	(2,764)	2,764

Interest rate risk	2020	2020	2019	2019
	\$m	\$m	\$m	\$m
	-1%	+3%	-1%	+3%
	(674)	2,023	(484)	1,451

Price risk	2020	2020	2019	2019
	\$m	\$m	\$m	\$m
	-10%	+10%	-10%	+10%
	(11,908)	11,908	(12,188)	12,188

(c) Credit risk

Credit risk 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 Fund is exposed to counterparty credit risk on certain investments including debt securities, derivative financial instruments, cash and other receivables.

Credit risk arising from investments is managed by extensive due diligence undertaken by the Fund prior to the appointment of investment managers or the selection of investments via internal management, as well as ongoing monitoring of the investment portfolio by the investment team.

In addition, for cash and derivative investments, the Fund manages credit risk by dealing with highly rated counterparties and where appropriate, ensuring collateral is maintained.

The Fund's maximum credit risk exposure to derivative instruments as at the reporting date is as shown in note 2(e) under the heading net amount.

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Risk management (continued)

8 Financial risk management (continued)

(c) Credit risk (continued)

Credit risk associated with receivables is considered low as this is mainly comprised of dividends, distributions and interest receivable on investments.

Debt securities

The Fund invests in fixed income securities some of which are rated by external ratings agencies. For unrated assets the Trustee assesses credit risk using an approach similar to that used by external ratings agencies. An analysis of debt securities by rating is set out in the following table:

	2020	2019
	\$m	\$m
Rating		
Long term A and above or short term equivalent	20,581	30,699
Long term B and above to below A or short term equivalent	6,691	4,517
Long term below B or short term equivalent	489	798
Not rated	6,948	5,915
	<u>34,709</u>	<u>41,929</u>

Debt securities included in the not rated category are securities that do not have a third party credit rating at the security level and primarily relate to debt securities with various corporations. In recent years the Fund has increased its internal capabilities to lend money directly to corporates of appropriate credit quality. Non rated loans are valued on a regular basis by independent valuers.

Derivatives

The Fund permits (within the limitations prescribed in the respective investment mandate) that internal and external investment managers may utilise derivatives such as futures contracts, interest rate and currency swaps and forward foreign exchange contracts to gain access to, and allow flexibility in, the financial markets in order to manage and structure the Fund's investment portfolio in line with the Fund's investment strategy.

The Fund restricts its exposure to credit losses on the trading of derivative instruments it holds by entering into master netting arrangements as set out in note 2(e).

Securities lending

Under securities lending arrangements, the legal title to certain assets of the Fund have been transferred to other entities notwithstanding the fact that the risks and benefits of ownership of the assets remain with the Fund. The risks and rewards of ownership to which the Fund remains exposed are currency risk, interest rate risk, credit risk and price risk. As the Fund retains the risks and benefits of ownership, assets that have been loaned have not been derecognised.

The Fund participates in securities lending programs through agency arrangements with JP Morgan Chase Bank NA and directly with approved third-party borrowers.

AustralianSuper Annual financial report 30 June 2020

Risk management (continued)

8 Financial risk management (continued)

(c) Credit risk (continued)

Securities lending (continued)

The financial assets transferred to other entities under securities lending arrangements include Australian and International equities and fixed interest securities. The fair value of financial assets on loan at reporting date was \$6,681 million (2019: \$11,909 million).

The terms and conditions associated with the use of collateral held as security in relation to the assets lent are governed by Securities Lending Agreements that require the borrower to provide the lender with collateral to the value equal to or greater than the loaned securities.

The collateral held at reporting date as security consisted of cash, equity and fixed interest securities with a fair value of \$7,205 million (2019: \$13,364 million). No collateral has been sold or repledged during the year.

JP Morgan Chase Bank NA, as lending agent, in some transactions indemnifies the Fund for replacement of loaned securities due to a borrower default on a security loan.

(d) Liquidity risk

Liquidity risk is the risk the Fund may not be able to generate sufficient cash resources to settle its obligations in full as and when they fall due or can only do so on terms that are materially disadvantageous. The Fund's Trust Deed and Product Disclosure Statement provide for the daily withdrawal of benefits and switching of members' funds. The Fund is therefore exposed to the liquidity risk of meeting members' withdrawals at any time and switching of members' balances to a different investment choice option.

The Fund's financial instruments include unlisted investments that are not traded in organised public markets and may be illiquid. If required, the Fund may not be able to liquidate quickly some of these investments at an amount close to fair value (defined as the exit price agreed by a willing buyer and seller in an orderly market).

The Fund's listed securities are considered to be readily realisable as they are all listed on recognised stock exchanges around the world.

The Fund's liquidity risk is managed on a daily basis in accordance with the Fund's Liquidity Management Plan and Investment Strategy. Stress testing and scenario analysis are completed on a regular basis. The Fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. The Fund's overall liquidity risks are monitored by the Fund's Investment Committee.

The Liquidity Steering Committee regularly monitors the Fund's liquidity position and reviews liquidity forecasts across a number of different scenarios. These scenarios model the impact on the liquidity of the investment portfolio, and any consequential impact on asset allocations, for a range of stressed market events taking into account potential adverse impacts on cash flows resulting from factors such as investment switching by members and applications for early access to superannuation.

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Risk management (continued)

8 Financial risk management (continued)

(d) Liquidity risk (continued)

The Fund has sufficient liquidity to be able to pay benefits to members in the normal course of events and as required under the Government's Early Release Initiative for members who are suffering hardship resulting from the COVID-19 pandemic that may wish to gain access to some of their balance.

The contractual maturity of financial liabilities is set out below.

2020	Carrying amount	Contractual cash flows	Less than 1 month	1 to 3 months	3 months to 1 year	Greater than 1 year
	\$m	\$m	\$m	\$m	\$m	\$m
Members' benefits	181,688	181,688	181,688	-	-	-
Payables	136	136	136	-	-	-
Payable for securities purchased	4,562	4,562	4,562	-	-	-
Derivative liabilities	1,186	1,186	271	395	215	305
	187,572	187,572	186,657	395	215	305
2019	Carrying amount	Contractual cash flows	Less than 1 month	1 to 3 months	3 months to 1 year	Greater than 1 year
	\$m	\$m	\$m	\$m	\$m	\$m
Members' benefits	166,150	166,150	166,150	-	-	-
Payables	181	181	181	-	-	-
Payable for securities purchased	1,378	1,378	1,378	-	-	-
Derivative liabilities	777	777	288	274	95	120
	168,486	168,486	167,997	274	95	120

Members' benefits have been included in the "Less than 1 month" column above as this is the amount that members could call upon as at year end.

(e) Environmental, Social and Governance factors

Given the importance of Environmental, Social and Governance ("ESG") factors in managing risk and maximising long-term returns for members, consideration of ESG and Stewardship issues are integral to the Fund's investment processes.

Oversight of the Fund's ESG and Stewardship Policy is the responsibility of the Investment Committee, and the Investment Department is responsible for its implementation.

The objective of the Fund's ESG and Stewardship programme is to ensure that ESG risks and opportunities are integrated into the investment processes and to guide the Fund's stewardship activities so as to promote long-term value for our members.

It is envisaged that adherence to the guiding principles will lead to improved risk management and investment returns over the long-term. The key issues at the moment include board effectiveness, executive remuneration, climate change, maintaining a sustainable work force and gender diversity and inclusion.

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Other information

9 Reserves

(a) Operational Risk Financial Reserve

The reserve is operated in accordance with an Operational Risk Financial Reserve Policy that is reviewed annually. The purpose of the reserve is to provide funding for incidents where material losses may arise from operational risks (as opposed to investment risks).

The level of the reserve is determined by the Board annually based on assessment of the risks faced by the Fund and the requirements of the APRA Superannuation Prudential Standards SPS 114.

(b) Investment reserve

The reserve is used to accumulate investment income prior to it being allocated to Members' accounts. The investment reserve comprises the difference between the cumulative amount of investment income earned (net of expenses and tax) and the cumulative amount of investment income allocated to members' accounts. During the financial year, the reserve partially funded increases in the Operational Risk Financial Reserve.

(c) Administration reserve

The purpose of the reserve is to fund the operations of the Trustee office and enhance member services, extend the product range of the Fund and fund changes to achieve operational efficiencies. During the financial year, the reserve partially funded increases in the Operational Risk Financial Reserve. Account keeping fees charged to members fund the reserve.

(d) Insurance reserve

The reserve is operated in accordance with the Insurance Reserve Policy. The purpose of the reserve is to cover timing differences between the charging of insurance premiums to members' accounts and premiums becoming due to the insurer under insurance contracts, noting that premiums due to the insurer may be adjusted upwards or downwards under the Fund's Premium Adjustment Model (incorporated in the Fund's insurance contract) depending upon claims experience.

AustralianSuper Annual financial report 30 June 2020

Other information (continued)

10 Directors and key management personnel

(a) Directors

Key management personnel include persons who were Directors of the Trustee at any time during the financial year and up to the date of this report as follows:

Member nominated	Employer nominated	Independent
J Angrisano	G Coyne	J Craig
P Bastian (resigned 31 December 2019)	L Di Bartolomeo	D Russell
B Daley	J Dixon (appointed 26 September 2019)	
D Oliver	C Keating (appointed 1 January 2020)	
G Thompson (appointed 31 January 2020)	H Ridout (resigned 26 September 2019)	
D Walton	G Willis (resigned 31 December 2019)	
	I Willox	

The following persons were Alternate Directors of the Trustee during the financial year and up to the date of this report:

Member nominated	Employer nominated
N Apple	P Burn
P Cozens (appointed 12 December 2019)	A Flanagan
B Crofts	S Kay
R Lewtas (ceased 12 December 2019)	H Ridout (appointed 26 September 2019)
J Mitchell (appointed 30 June 2020)	G Stamas
M O'Neil (ceased 11 February 2020)	
C Pace	
J Schofield (appointed 12 December 2019)	

(b) Other key management personnel

Members of the Committees of the Board who are not Directors or Alternate Directors of the Trustee are considered key management personnel. These committee members are R. Maddox, M. Nicolaides (ceased 12 December 2019), C. Rosenberg (commenced 12 March 2020) and S. Weston (ceased 19 June 2020).

Other key management personnel were I. Silk, Chief Executive Officer, M. Delaney, Deputy Chief Executive Officer and Chief Investment Officer, S. Adams, Group Executive Strategy, Brand and Reputation (commenced 1 June 2020), S. Blackmore, Group Executive Member Experience, S. Burley, Acting Group Executive Strategy, Brand and Reputation (commenced acting 28 October 2019 ceased 29 May 2020), A. Cavanagh, Group Executive Risk (previously Group Executive Corporate Services, resigned 18 October 2019), P. Curtis, Group Executive Finance and Operations (appointed 5 August 2019), M. Glover, Group Executive, People and Culture, R. Kerlin, Group Executive Membership, P. Schroder, Chief Risk Officer (previously Group Executive, Strategy, Brand and Reputation, appointed 28 October 2019), F. Trewin, Group Executive Technology Services.

AustralianSuper Annual financial report 30 June 2020

Other information (continued)

10 Directors and key management personnel (continued)

(c) Remuneration of key management personnel

Key management personnel are paid by the Trustee.

	2020	2019
	\$'000	\$'000
Short term benefits	9,089	7,594
Post-employment benefits	404	363
Long term benefits	556	505
	10,049	8,462

Short-term benefits include cash salary, annual leave, lump sum payments, and other non-monetary benefits. Post-employment benefits relate to superannuation benefits. Other long-term benefits relate to long service leave entitlements and deferred Investment Performance Payment Plan payments.

(d) Transactions with key management personnel

The following key management personnel were members of AustralianSuper during the reporting period and up to the date of the financial report: S. Adams, J. Angrisano, N. Apple, P. Bastian, S. Blackmore, S. Burley, P. Burn, A. Cavanagh, G. Coyne, B. Crofts, B. Daley, J Dixon, M. Delaney, L. Di. Bartolomeo, A. Flanagan, S. Kay, R. Kerlin, R. Lewtas, M. Glover, J Mitchell, M. Nicolaidis, D. Oliver, M. O'Neil, C. Pace, H. Ridout, J Schofield, P. Schroder, I. Silk, G. Stamas, G Thompson, F. Trewin, D. Walton, S. Weston, G. Willis, and I. Willox. Their membership terms and conditions were the same as those applied to other members of the Fund.

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Other information (continued)

11 Related parties

(a) Transactions with Trustee

The Trustee is owned by the Australian Industry Group and ACTU Super Shareholding Pty Ltd. ACTU Super Shareholding Pty Ltd holds the shares on behalf of the Australian Council of Trade Unions and participating unions.

The Trustee paid the Australian Industry Group (“Ai Group”) \$211,000 (2019: \$207,000) and the Australian Council of Trade Unions (“ACTU”) \$211,000 (2019: \$207,000) for advertising related opportunities and general marketing for AustralianSuper. The Trustee also paid Ai Group \$132,000 (2019: \$130,000) and ACTU \$14,000 (2019: \$20,000) for directors’ fees for AustralianSuper directors and alternate directors who were employed by Ai Group and ACTU.

Under the terms of the Trust Deed, the Trustee is entitled to receive trustee services fees, calculated by reference to the costs incurred by the Trustee in running the Fund.

Fees paid and payable	2020	2019
Trustee services fee paid and payable by the Fund to the Trustee *	\$555 million	\$486 million
Amount payable by the Fund to the Trustee at the end of the reporting period	\$26.5 million	\$29.9 million
Expenses prepaid by the Fund	\$62.5 million	\$66.5 million
Accrued expenses payable to the Trustee	\$60.0 million	\$42.6 million

* The portion of the trustee services fee that relates to investment activities is recognised in investment expenses on the income statement.

(b) Transactions with other entities

The Trustee paid the following amounts to the organisations that employ either a Director or Alternate Director of the Trustee. Directors’ remuneration is set with reference to rates paid by comparable businesses in the financial services industry. Other payments include advertising, marketing and education services for AustralianSuper and are made on normal commercial terms.

2020 Organisation	Directors' payments	Other payments	Total payments
	\$	\$	\$
Australian Manufacturing Workers' Union	79,000	204,000	283,000
Australian Workers' Union	90,000	208,000	298,000
Finance Sector Union	52,000	30,000	82,000
United Voice	-	22,000	22,000
United Workers Union	-	8,100	8,100
Total	221,000	472,100	693,100

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Other information (continued)

11 Related parties (continued)

(b) Transactions with other entities (continued)

2019 Organisation	Directors' payments \$	Other payments \$	Total payments \$
Australian Manufacturing Workers' Union	84,000	185,000	269,000
Australian Workers' Union	50,000	190,500	240,500
Finance Sector Union	40,000	29,500	69,500
United Voice	-	180,000	180,000
Total	174,000	585,000	759,000

(c) Related party investments and transactions

Details of the Fund's related party investments and transactions are listed below.

(i) Industry Super Holdings Pty Ltd (ISH)

The Fund held a 19.95% (2019: 19.95%) shareholding in ISH valued at \$197,939,000 (2019: \$198,345,000). ISH has a number of subsidiary companies, one of which manages investments on behalf of the Fund. IFM Investors Pty Ltd (IFM) manages a selection of infrastructure, Australian listed equities, private equity, fixed interest and cash portfolios on behalf of the Fund.

IFM managed portfolios totalling \$52,570,977,000 (2019: \$46,076,635,000) on behalf of the Fund and received \$64,974,000 (2019: \$67,438,000) in fees for the management of these portfolios. These fees included fees paid to underlying investment managers for various portfolios and management fees paid directly to IFM of \$39,288,000 (2019: \$34,812,000). The income earned on the portfolios managed by IFM was (\$2,823,892,000) (2019: \$3,305,154,000).

ISH has various other subsidiaries with which the Fund transacts. These non-investment transactions are summarised in the following table.

Company	Nature of transaction	2020 \$	2019 \$
Industry Fund Services Limited	Financial planning, arrears collection and other member services	2,203,000	2,556,000
Industry Super Australia Pty Ltd	Marketing services	5,070,000	5,187,000
IFS Insurance Solutions Pty Ltd	Insurance services	245,000	1,156,000

P. Burn and I. Silk are directors of Industry Super Australia Pty Ltd which is a subsidiary of ISH.

L. Di Bartolomeo (ceased 15 November 2019), B. Crofts (commenced 8 April 2020) and G. Thompson were Directors of The New Daily Pty Ltd, a wholly owned subsidiary of ISH. During the year ended 30 June 2020, the Trustee paid L. Di Bartolomeo \$10,700 (2019: \$25,700) and B. Crofts \$5,300 (2019: \$0) for being AustralianSuper's nominee on the Board of The New Daily.

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Other information (continued)

11 Related parties (continued)

(c) Related party investments and transactions (continued)

(ii) *Members Equity Bank Limited (ME)*

The Fund held a 20.4% (2019: 20.4%) shareholding in ME valued at \$235,450,000 (2019: \$255,769,000). ME holds cash and short-term deposits on behalf of the Fund and other institutional clients and provides low-cost home loans and banking products to industry fund members. ME offers the Fund and other institutional investors the opportunity to invest in its fixed interest vehicle, Super Loans Trust.

ME managed a portfolio on behalf of the Fund and received \$33,000 (2019: \$53,000) in fees for the management of the portfolio. These fees included fees paid to an underlying investment manager and management fees paid directly to ME of \$7,000 (2019: \$19,000). The portfolio was valued at \$9,560,000 (2019: \$26,160,000) and the income earned was \$1,191,000 (2019: \$1,589,000). The Fund also had \$807,706,000 (2019: \$674,496,000) invested in cash and short-term deposits with ME at year end. The income earned on this portfolio was \$9,212,000 (2019: \$11,506,000).

(iii) *ISPT Pty Ltd (ISPT)*

The Fund held a 16.0% (2019: 16.0%) shareholding in ISPT valued at \$0 (2019: \$0). ISPT manages a range of unlisted property funds on behalf of the Fund and other institutional clients. ISPT in its capacity as trustee managed portfolios totalling \$4,671,525,000 (2019: \$4,307,374,000) on behalf of the Fund and received \$16,082,000 (2019: \$14,475,000) in fees for the management of these portfolios. These fees included fees paid to underlying investment managers for various portfolios and management fees paid directly to ISPT of \$12,131,000 (2019: \$11,325,000). The income earned on this portfolio was \$38,656,000 (2019: \$274,384,000).

The Fund held a 27.65% (2019: Nil) interest in ISPT Operations Trust valued at \$734,000 (2019: \$0). ISPT Operations Pty Ltd, which is wholly owned by ISPT Operations Trust, provides management services to ISPT.

B. Daley was a director of ISPT Pty Ltd, IIPT Pty Ltd (ceased 21 April 2020), a subsidiary of ISPT Pty Ltd, and ISPT Operations Pty Ltd during the year ended 30 June 2020.

(iv) *Frontier Advisors Pty Ltd (Frontier)*

The Fund held a 31.0% (2019: 31.0%) shareholding of ordinary shares valued at \$1,571,000 (2019: \$1,571,000) in Frontier. Frontier provides investment consulting services to the Fund and other institutional clients. Frontier received fees from AustralianSuper for investment consulting services. These fees were \$1,647,000 (2019: \$1,449,000).

L. Di. Bartolomeo (ceased 2 December 2019) and J. Dixon (appointed 27 February 2020) were directors of Frontier Advisors Pty Ltd during the year ended 30 June 2020.

(v) *Bellwether Holdings Pty Ltd*

During the year ended 30 June 2020 the Trustee paid an amount of \$0 (2019: \$45,000) for consultancy fees to Bellwether Holdings Pty Ltd a company 100% owned by J. Craig.

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Other information (continued)

11 Related parties (continued)

(c) Related party investments and transactions (continued)

(vi) *AustralianSuper (UK) Limited*

AustralianSuper (UK) Limited, a wholly owned subsidiary of the Fund domiciled in the UK, was incorporated to provide investment management services to the Fund. AustralianSuper (UK) Limited is entitled to receive service fees, calculated by reference to the costs it incurs. Fees paid and payable by the Trustee and the Fund to AustralianSuper (UK) Limited during the year totalled \$14,186,000 (2019: \$6,447,000). The Trustee has a net amount payable of \$1,722,000 (2019: \$1,261,000 payable) to AustralianSuper (UK) Limited at year end.

(vii) *Royal Automobile Club of Victoria*

During the year ended 30 June 2019 the Trustee paid an amount of \$10,000 to the Royal Automobile Club of Victoria for the hire of event space. A. Flanagan was employed by the Royal Automobile Club of Victoria during the year ended 30 June 2019.

(viii) *S. Weston*

During the year ended 30 June 2019 the Trustee employed S. Weston on a short-term contract. S. Weston received remuneration of \$149,000.

(ix) *SuperFriend – Industry Funds Mental Health Initiative (SuperFriend)*

SuperFriend advocates for, equips and empowers profit-to-member superannuation funds and insurers to achieve mentally healthy workplaces for their staff and members. During the year the Fund paid \$27,000 (2019: \$4,000) to SuperFriend.

P. Schroder (ceased 23 April 2020) and R. Kerlin (commenced 23 April 2020) were unpaid directors of SuperFriend during the year ended 30 June 2020.

(x) *Other significant investments*

The Fund has significant investments in the following entities:

Entity	Equity holding	
	2020	2019
	%	%
Ala Moana	25.00	25.00
Ausgrid	25.00	25.00
Hermes CMK *	50.00	50.00
NSW Ports	20.00	20.00
WestConnex	20.50	20.50

*Included in controlled entities note (Hermes CMK included in AS Property No 1 LLC)

These investments are included in the relevant investment categories in the Statement of financial position. There have been no transactions with these entities other than normal investment activities and distributions. All transactions with the related parties listed above were made on normal commercial terms, under normal conditions and at market rates.

AustralianSuper Annual financial report 30 June 2020

Other information (continued)

11 Related parties (continued)

(d) Controlled entities

The Fund invests in controlled entities that make up part of the total of the Level 3 securities disclosed at fair value in note 2(d).

The Fund has determined that it is an investment entity under the definition in AASB 10 as it meets the following criteria:

- the Fund has obtained funds from members for the purpose of providing them with investment management services;
- the Fund's business purpose, which it communicated directly to members, is investing solely for returns from capital appreciation and investment income; and
- the performance of investments made by the Fund are measured and evaluated on a fair value basis.

Consequently, the Fund does not consolidate these investments, but accounts for them at fair value.

The entities controlled by the Fund have been set up for the purpose of holding investments that generate capital appreciation and investment income; the investment strategies of the underlying entities may include the use of leverage. The Fund purchases shares, units or bonds from the controlled entity which enables the controlled entities to invest in the underlying entities. These underlying entities hold investments in infrastructure, private equity and property both internationally and within Australia.

The Fund's maximum exposure to loss from its interests in controlled entities is equal to the fair value of its investments in these entities plus any capital commitment made by a controlled entity to an underlying entity. Once the Fund has disposed of its interest in the controlled entity it ceases to be exposed to any risk from the controlled entity.

The Fund's exposure to the current fair value of investments held in the controlled entities and commitments to these entities are shown below:

2020	Number of	Fair value of	Commitments to
Asset class	controlled	controlled entities	controlled entities
	entities	\$'000	\$'000
International fixed income	1	405,658	-
Australian infrastructure	9	6,718,702	94,790
International infrastructure	4	1,642,285	1,119,629
International private credit	4	830,405	312,612
Australian private equity	3	235,885	27,055
International private equity	4	4,618,310	3,845,029
Australian property	1	188,796	103,847
International property	8	4,290,653	485,259
Total	34	18,930,694	5,988,221

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Other information (continued)

11 Related parties (continued)

(d) Controlled entities (continued)

2019 Asset class	Number of controlled entities	Fair value of controlled entities \$'000	Commitments to controlled entities \$'000
Australian infrastructure	9	6,847,128	114,000
International infrastructure	3	496,884	242,679
International private credit	2	386,562	91,615
Australian private equity	3	230,761	92,749
International private equity	3	4,501,659	3,030,786
Australian property	1	173,781	25,000
International property	8	4,762,553	360,176
Total	29	17,399,328	3,957,005

The fair values of these investments are included in the statement of financial position in the unlisted unit trust category.

Further details of the Fund's controlled entities are shown in the table below.

Name of entity	Equity holding	
	2020 %	2019 %
AustralianSuper Investment Fund	100	100
AustralianSuper Investment Fund No 2	100	100
AustralianSuper Investment Fund No 3	100	100
AustralianSuper Investment Fund No 4	100	100
AustralianSuper Investment Fund No 5	100	100
AustralianSuper Private Equity Trust	100	100
AS Private Equity Co-Invest LLC	100	100
AS Direct Australian Equities Trust	100	100
AustralianSuper Research Pty Ltd	100	100
AustralianSuper (UK) Limited	100	100
AustralianSuper (US) LLC	100	100
AS Infrastructure No 1 (Operating) Pty Ltd	100	100
AS Infrastructure No 1 (Holding) Trust	100	100
AS Infrastructure No 2 (Operating) Trust	100	100
AS Infrastructure No 2 (Holding) Trust	100	100
AS Infrastructure No 3 (Operating) Trust	100	100
AS Infrastructure No 3 (Holding) Trust	100	100
AS Infrastructure WestConnex Operating Trust	100	100
AS Infrastructure WestConnex Holding Trust	100	100
Mindarie Investment Trust	100	100
AS Property No 1 LLC	100	100
AS Property No 2 LLC	100	100
AS Property No 2 Trust	100	100
AS Property No 2 LP Trust	100	100
AS Property No 3 LLC	100	100
Kings Cross Central GP	67.5	67.5
AS Residential Property Trust	100	100

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Other information (continued)

11 Related parties (continued)

(d) Controlled entities (continued)

Name of entity	Equity holding	
	2020	2019
	%	%
AS NZ Property (Wiri)	100	100
AustralianSuper International Credit Trust	100	100
AustralianSuper RAAD Trust	100	100
AS RAAD Infrastructure Trust	100	-
AS RAAD Hybrid Debt Trust	100	-
AS International Fixed Income Trust	100	-
AS Infra PP Trust	100	-

The above entities are domiciled in Australia except for AS Property No 1 LLC, AS Property No 2 LLC, AS Property No 3 LLC, AS Private Equity Co-Invest LLC AustralianSuper (US) LLC which are domiciled in the USA and AustralianSuper (UK) Limited which is domiciled in the UK. In addition to the above, the Fund also controlled 24 (2019: 20) entities as at the reporting date which acted as the trustee for the above entities. Each entity had a carrying value of \$2 or less (2019: \$2 or less).

12 Auditor's remuneration

Auditors' remuneration is paid by the Trustee and forms part of Trustee fees charged to the Fund. Fees disclosed include all fees paid by the Trustee on behalf of all entities in the AustralianSuper group as set out in note 11(c).

	2020	2019
	\$'000	\$'000
Amounts paid and payable to PwC Australia for:		
Audit of financial statements	1,377	802
Other assurance services	204	127
Other services	282	48
	<u>1,863</u>	<u>977</u>
Amounts paid and payable to PwC UK for:		
Audit of financial statements and regulatory returns	87	73
Total	<u>1,950</u>	<u>1,050</u>

13 Commitments

The commitments of the Fund at the reporting date that have not been recognised as liabilities are detailed below.

	2020	2019
	\$m	\$m
Committed to		
Unlisted unit trusts	<u>8,202</u>	<u>5,095</u>
Total	<u>8,202</u>	<u>5,095</u>

The above commitments are at call with 3 months' notice normally required.

The Fund's commitments to controlled entities are included above, these are shown at Note 11(d).

AustralianSuper Annual financial report 30 June 2020

Other information (continued)

14 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period that would impact upon the financial position of the Fund disclosed in the statement of financial position as at 30 June 2020 or on the results and cash flows of the Fund for the year ended on that date.

15 Other 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) ('SIS') Act 1933 and Regulations and the provisions of the Trust Deed. The financial statements are presented in the 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.

(b) New and amended accounting standards

There are no standards, interpretations or amendments to standards that are effective for the first time in the financial year commencing on 1 July 2019 that have a material impact on amounts recognised in the prior or current periods or that will affect future periods.

(c) Rounding

All values in the financial report are rounded to the nearest million dollars except where otherwise indicated.

AustralianSuper Annual financial report 30 June 2020

Trustee's declaration

In the opinion of the Trustee of AustralianSuper:

- (a) the accompanying financial statements and notes set out on pages 3 to 43 are in accordance with:
 - (i) Australian Accounting Standards and other mandatory professional reporting requirements and
 - (ii) give a true and fair view of the Fund's financial position as at 30 June 2020 and of its performance for the financial year ended on the date, and
- (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 2020, 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 AustralianSuper Pty Ltd as Trustee for AustralianSuper.



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D. Russell
Director



.....

C. Keating
Director

Melbourne

10 September 2020



Independent Auditor's report on financial statements

Independent Auditor's report approved form for an Registrable Superannuation Entity (RSE) which is a reporting entity

Report by the RSE Auditor to the trustee and members of AustralianSuper (ABN: 65 714 394 898)

Opinion

I have audited the financial statements of AustralianSuper for the year ended 30 June 2020 comprising the Statement of Financial Position, Income Statement, Statement of Changes in Members' Benefits, Statement of Changes in Reserves, Statement of Cash Flows, summary of significant accounting policies and other explanatory notes.

In my opinion, the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards the financial position of AustralianSuper as at 30 June 2020 and the results of its operations, cash flows, changes in reserves and changes in members' benefits for the year ended 30 June 2020.

Basis for Opinion

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

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

Responsibilities of the trustee for the Financial Statements

The RSE's trustee is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards¹ 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 The Australian Accounting Standards issued by the Australian Accounting Standards Board.



Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

CJ Cummins
Partner

Melbourne
10 September 2020