

AVSUPER FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

**AVSUPER FUND
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AVSUPER FUND
Statement of Financial Position
As at 30 June 2021

	Note	2021 \$	2020 \$
Assets			
Cash and cash equivalents	15	7,348,648	18,219,777
Receivables	7	121,880	136,604
Investments			
Cash, bills and deposits		405,845,132	421,575,894
Other interest bearing securities	6	222,365,850	218,289,069
Australian equities	6	636,257,909	496,947,778
International equities	6	763,066,931	515,112,628
Units in unlisted unit trusts	6	730,603,821	717,332,405
Derivative assets	6	615,651	37,652,408
Property, plant and equipment	8	1,705,898	1,947,638
Deferred tax assets	14	33,285	414,765
Total assets		<u>2,767,965,005</u>	<u>2,427,628,966</u>
Liabilities			
Payables	9	(2,892,498)	(5,020,885)
Derivative liabilities	6	(15,401,696)	(11,047,082)
Income tax payable		(10,519,268)	(1,198,685)
Deferred tax liabilities	14	(41,316,188)	(20,670,866)
Total liabilities excluding member benefits		<u>(70,129,650)</u>	<u>(37,937,518)</u>
Net assets available for member benefits		<u>2,697,835,355</u>	<u>2,389,691,448</u>
Member benefits			
Defined contribution member liabilities	3	(1,786,048,793)	(1,494,355,178)
Defined benefit member liabilities	4	(641,214,233)	(677,447,649)
Unallocated to members	3	(21,238)	(13,515)
Total member liabilities		<u>(2,427,284,264)</u>	<u>(2,171,816,342)</u>
Net assets		<u>270,551,091</u>	<u>217,875,106</u>
Equity			
Operational risk reserve	11	10,534,511	10,513,898
Other reserves	11	14,629,498	28,984,762
Defined benefits that are overfunded	5	245,387,082	178,376,446
Total equity		<u>270,551,091</u>	<u>217,875,106</u>

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

AVSUPER FUND
Income Statement
For the year ended 30 June 2021

	Note	2021 \$	2020 \$
Superannuation activities			
Interest from cash and cash equivalents		3,485	45,930
Interest from investments		5,421,669	10,381,164
Dividend revenue		18,780,047	25,856,199
Distributions from unit trusts		48,768,007	27,591,103
Changes in assets measured at fair value	10	323,634,631	(92,334,617)
Other investment income		1,410,340	2,159,518
Other income		41,325	665
Total superannuation activities income		398,059,504	(26,300,038)
Investment expenses		(8,432,380)	(10,015,492)
Administration expenses		(508,683)	(696,284)
Operating expenses	12	(6,523,027)	(5,651,540)
Other expenses		-	(92,750)
Total expenses		(15,464,090)	(16,456,066)
Net result from superannuation activities		382,595,414	(42,756,104)
Profit / (Loss) from operating activities			
Net benefits allocated to defined contribution member accounts		(253,559,533)	30,050,245
Net change in defined benefit member liabilities		(44,846,955)	(49,414,629)
Operating result		84,188,926	(62,120,488)
Income tax (expense) / benefit	14	(31,512,939)	8,085,001
Profit / (Loss) after income tax		52,675,987	(54,035,487)

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

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

Note	DC Members \$	DB Members \$	Total \$
Opening balance as at 1 July 2020	1,494,368,693	677,447,649	2,171,816,342
Employer contributions	57,713,079	4,388,835	62,101,914
Member contributions	5,783,627	6,966,417	12,750,044
Transfers from other superannuation plans	18,105,232	-	18,105,232
Government co-contributions	20,282	-	20,282
Income tax on contributions	(8,328,090)	(1,515,624)	(9,843,714)
Net after tax contributions	73,294,130	9,839,628	83,133,758
Benefits paid to members/beneficiaries	(51,080,590)	(73,323,518)	(124,404,108)
Transfers from defined benefit to defined contribution accounts	17,118,214	(17,118,214)	-
Insurance premiums charged to members' accounts	(1,959,246)	(478,266)	(2,437,512)
Death and disability insurance benefits credited to members' accounts	769,296	-	769,296
Benefits allocated to members' accounts, comprising:			
Net investment income	253,905,762	81,141,029	335,046,791
Administration fees	(346,229)	(60,658)	(406,887)
Net change in defined benefit member benefits	-	(36,233,416)	(36,233,416)
Closing balance as at 30 June 2021	1,786,070,031	641,214,233	2,427,284,264

Note	DC Members \$	DB Members \$	Total \$
Opening balance as at 1 July 2019	1,507,467,222	672,529,975	2,179,997,197
Employer contributions	52,622,449	8,695,406	61,317,855
Member contributions	10,543,198	998,388	11,541,586
Transfers from other superannuation plans	25,372,645	-	25,372,645
Government co-contributions	20,774	-	20,774
Income tax on contributions	(7,932,767)	(923,786)	(8,856,553)
Net after tax contributions	80,626,299	8,770,008	89,396,307
Benefits paid to members/beneficiaries	(92,015,350)	(25,363,533)	(117,378,883)
Transfers from defined benefit to defined contribution accounts	27,374,768	(27,374,768)	-
Insurance premiums charged to members' accounts	(2,176,291)	(528,662)	(2,704,953)
Death and disability insurance benefits credited to members' accounts	3,142,290	-	3,142,290
Benefits allocated to members' accounts, comprising:			
Net investment income	(29,684,129)	(12,517,207)	(42,201,336)
Administration fees	(366,116)	(4,886)	(371,002)
Net change in defined benefit member benefits	-	61,936,722	61,936,722
Closing balance as at 30 June 2020	1,494,368,693	677,447,649	2,171,816,342

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

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

	Note	Defined benefits that are overfunded \$	Operational risk reserve \$	Other reserves \$
Opening balance as at 1 July 2020		178,376,446	10,513,898	28,984,762
Decrease in defined benefit member liabilities		(44,846,955)	-	-
Operating result		111,857,591	20,613	(14,355,264)
Closing balance as at 30 June 2021		245,387,082	10,534,511	14,629,498

	Note	Total equity \$
Opening balance as at 1 July 2020		217,875,106
Decrease in defined benefit member liabilities		(44,846,955)
Operating result		97,522,940
Closing balance as at 30 June 2021	5 & 11	270,551,091

	Note	Defined benefits that are overfunded \$	Operational risk reserve \$	Other reserves \$
Opening balance as at 1 July 2019		240,288,890	10,451,297	21,170,406
Transfer in from insurance proceeds		-	425,000	-
Transfer out for operational risk event		-	(451,375)	-
Decrease in defined benefit member liabilities		(49,414,629)	-	-
Operating result		(12,497,815)	88,976	7,814,356
Closing balance as at 30 June 2020		178,376,446	10,513,898	28,984,762

	Note	Total equity \$
Opening balance as at 1 July 2019		271,910,593
Transfer in from insurance proceeds		425,000
Transfer out for operational risk event		(451,375)
Decrease in defined benefit member liabilities		(49,414,629)
Operating result		(4,594,483)
Closing balance as at 30 June 2020	5 & 11	217,875,106

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

AVSUPER FUND
Statement of Cash Flows
For the year ended 30 June 2021

	Note	2021 \$	2020 \$
Cash flows from operating activities			
Interest from cash and cash equivalents		3,485	45,930
Insurance proceeds		4,540,598	3,074,475
Other general administration expenses		(8,659,267)	(6,118,321)
Insurance premiums		(5,612,033)	(2,713,600)
Net income tax (paid) / refunded		(6,584,498)	6,551,484
Net cash (outflows) / inflows from operating activities	15	<u>(16,311,715)</u>	<u>839,968</u>
Cash flows from investing activities			
Net redemption/(purchase) of investments		42,105,539	38,839,830
Sale / (purchase) of fixed assets		-	(10,557)
Net cash inflows from investing activities		<u>42,105,539</u>	<u>38,829,273</u>
Cash flows from financing activities			
Employer contributions		62,101,914	61,317,855
Member contributions		12,750,044	11,541,586
Transfers from other superannuation plans		18,105,232	25,372,645
Government co-contributions		20,282	20,774
Benefits paid to members/beneficiaries		(125,217,655)	(117,378,883)
Income tax paid on contributions		(4,424,770)	(8,856,553)
Net cash outflows from financing activities		<u>(36,664,953)</u>	<u>(27,982,576)</u>
Net (decrease) / increase in cash		(10,871,129)	11,686,665
Cash at the beginning of the financial period		18,219,777	6,533,112
Cash at the end of the financial period	15	<u><u>7,348,648</u></u>	<u><u>18,219,777</u></u>

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

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

1. Operation of the Fund

AvSuper Fund (the "Fund") is constituted by the Trust Deed dated 17 July 1990, (as amended). The Trustee of the Fund is AvSuper Pty Ltd (ABN 46 050 431 797) (the "Trustee").

The Fund is a hybrid fund which provides defined benefit and accumulation benefits to its members.

Administration of the Fund is conducted by Mercer Administration Services (Australia) Pty Ltd (the outsourced administrator appointed by the Trustee from 29 November 2020). Prior to this administration of the Fund was conducted by Link Group Pty Ltd.

The principal place of business of the Fund is:
AvSuper Pty Ltd
Suite 2, Level 5, 221 London Circuit
Canberra City ACT 2601

2. Summary of significant accounting policies

(a) Basis of preparation

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

The financial statements are presented in Australian dollars. The Fund presents its statement of financial position in order of liquidity.

COVID 19 was declared a world wide pandemic by the World Health Organisation in March 2020. COVID 19, despite measures to slow the spread of the virus, has since had a significant impact on global economies and equity, debt and commodity markets. On 22 March 2020 the federal government announced a temporary measure due to the effects of coronavirus on the economy. This new rule allowed individuals to access up to \$10,000 of their superannuation in 2019/20 and a further \$10,000 in 2020/21. For the year ended 30 June 2021 the Fund paid out 312 (2020: 269) COVID-19 claims totalling \$2,958,633 (2020: \$2,546,861) in benefits to members seeking early access to their super.

The Fund is a profit for members superannuation fund for the purpose of preparing financial statements.

The financial statements were approved by the Board of Directors of the Trustee, AvSuper Pty Ltd on 15 September 2021.

(b) New accounting standards and interpretations

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

Amendments to IFRS 16 Covid-19 Related Rent Concessions

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

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

2. Summary of significant accounting policies (continued)

(b) New accounting standards and interpretations (continued)

Amendments to IAS 1 and IAS 8 Definition of Material

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

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

Accounting Standards and Interpretations issued but not yet effective

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

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

Accounting Standard and Nature	Application Date of Standard	Application Date of Fund
<p>AASB 2019-5 Amendments to Australian Accounting Standards - Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia</p> <p>This Standard amends AASB 1054 by adding a disclosure requirement for an entity intending to comply with IFRS Standards to disclose the information specified in paragraphs 30 and 31 of AASB 108 on the potential effect of an IFRS Standard that has not yet been issued by the AASB so that such entity complying with Australian Accounting Standards can assert compliance with IFRS Standards.</p>	1 Jan 2020	1 Jul 2021
<p>The impact of the adoption of AASB 2019-5 is not material to the Fund.</p>		
<p>AASB 2020-1 Amendments to AASs – Classification of Liabilities as Current or Non-current</p> <p>This Standard amends AASB 101 to clarify the requirements for classifying liabilities as current or non-current. Specifically:</p> <ul style="list-style-type: none"> - the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists; and - management's intention or expectation does not affect classification of liabilities. 	1 Jan 2022	1 Jul 2023
<p>The impact of the adoption of AASB 2020-1 is not material to the Fund.</p>		

Other significant accounting policies

The significant accounting policies have been consistently applied in the current financial year and the comparative period, unless otherwise stated. Where necessary, comparative information has been re-presented to be consistent with current period disclosures.

(c) Consolidation

The Fund is an investment entity and, as such, does not consolidate the entities it controls. Instead, the interest in its controlled entity, the Martin Currie Global Emerging Markets Fund, is classified as fair value through profit or loss and measured at fair value. Refer to Note 2(p) for further details.

2. Summary of significant accounting policies (continued)

(d) Financial assets and liabilities

(a) Classification

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

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

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

Financial assets

Financial assets measured at FVPL.

A financial asset is measured at FVPL if:

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

The Fund includes in this category:

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

Financial liabilities

Financial liabilities measured at FVPL.

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

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

(b) Recognition

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

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

(c) Derecognition

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

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

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

(d) Initial measurement

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

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

2. Summary of significant accounting policies (continued)

(d) Financial assets and liabilities (continued)

(e) Subsequent measurement

After initial measurement, the Fund measures financial instruments at fair value through profit or loss. Subsequent changes in the fair value of those instruments are recorded as 'changes in assets measured at fair value' through the income statement. Interest and dividends earned are recorded separately in 'interest revenue' and 'dividend revenue' in the income statement.

(e) Fair value measurement

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

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

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

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

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

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy.

(f) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

(g) Receivables and payables

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

(h) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses which approximates fair value.

2. Summary of significant accounting policies (continued)

(i) Revenue recognition

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

Changes in assets measured at fair value

Changes in the fair value of financial instruments are calculated as the difference between the fair value at sale, or at reporting date, and the fair value at the previous valuation point. All changes are recognised in the income statement.

Interest

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

Dividends and distributions

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

(j) Income tax

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

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences except:

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

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

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

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

Unrecognised deferred tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

2. Summary of significant accounting policies (continued)

(j) Income tax (continued)

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.

(k) Goods and services tax ("GST")

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

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

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

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

(l) Superannuation contribution surcharge

The Superannuation Laws Amendment (Abolition of Surcharge) Act 2005 abolishes both the superannuation contributions surcharge and the termination payments surcharge in respect of superannuation contributions and certain termination payments made or received on or after 1 July 2005. Assessments for surcharge in respect of contributions and payments for the year ended 30 June 2005 and prior years will continue to be issued and remain payable.

Superannuation contribution surcharge is levied on surchargeable contributions for a relevant year on the basis of the individual member's adjusted taxable income for that year. The liability for the superannuation contribution surcharge is recognised when the assessment is received, as the Trustee considers this is when it can be reliably measured.

The superannuation surcharge liability recognised by the Fund has been charged to the relevant members' accounts.

(m) Foreign currency

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

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

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

(n) Member liabilities

Member liabilities are measured as the amount of accrued benefits.

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

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

2. Summary of significant accounting policies (continued)

(o) Reserves

The Trustee maintains an operational risk reserve to provide the Trustee with access to funds to protect members' interests and mitigate the impact of an adverse event. Other reserves relate to amounts that the Trustee has put aside for projects as part of its operation of the Fund.

(p) Significant accounting judgements and estimates and assumptions

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

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

Fair value of investments

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

Changes in assumptions about these factors could affect the reported fair value of these investments.

Assessment as investment entity

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

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

The Fund's product disclosure statement details its objective of providing services to members which includes investing in units in unlisted unit trusts, listed securities, foreign securities, fixed interest securities, other unlisted equities and derivative financial instruments for the purpose of returns in the form of investment income and capital appreciation.

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

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

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

Valuation of defined benefit member liabilities

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

2. Summary of significant accounting policies (continued)

(q) Leases

Leases are recognised, measured and presented in line with AASB 16 Leases.

Valuation of right-of-use assets and lease liabilities

The application of AASB 16 requires the Fund to make judgements that affect the valuation of right-of-use assets (refer Note 8) and the valuation of lease liabilities (refer Note 9). These include determining contracts within the scope of AASB 16, determining the contract terms and determining the interest rate used for discounting of future cash flows. This valuation equates to fair value.

The lease terms determined by the Fund comprises non-cancellable period of lease contracts, periods covered by an option to extend the lease if the Fund is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Fund is reasonably certain not to exercise that option. The lease terms are applied to determine the depreciation rate of right-of-use assets.

For leases with terms not exceeding twelve months and for leases of low-value assets (less than \$5,000), the Fund has exercised the optional exemptions. The lease payments under these contracts are recognised on a straight-line basis over the lease term as other operating expenses.

In all other leases in which the Fund acts as the lessee, the present value of future lease payments is recognised as a financial liability. This valuation equates to fair value.

Correspondingly, the right-of-use asset is recognised within property, plant and equipment at the present value of the lease liability.

The present value of the lease liability is determined using the discount rate representing the weighted average incremental borrowing rate. The weighted average incremental borrowing rate for the leased liabilities recognised as of 1 July 2020 was 3.25% p.a.

The right-of-use asset is depreciated on a straight-line basis over the lease term or, if shorter the useful life of the leased asset.

3. Defined contribution member liabilities

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

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

At 30 June 2021 \$21,238 (2020: \$13,515) has not been allocated to members. The amount not yet allocated to members' accounts consists of contributions received by the Fund that have not been able to be allocated to members as at reporting date.

Defined contribution member liabilities vest 100%.

During the year, employers contributed to the Fund at varying rates with a minimum of 9.5% (2020: 9.5%) superannuation guarantee contributions for accumulation members.

Refer to Note 18 for the Fund's management of the investment risks.

	2021	2020
	\$	\$
Defined contribution members liability at end of the financial year	<u>1,786,048,793</u>	<u>1,494,355,178</u>

4. Defined benefit member liabilities

The Trustee engages the Fund Actuary on an annual basis to measure the defined benefit member liabilities. The Fund has no information that would lead to adjustments to the assumptions.

The actuarial valuation of member liabilities reflects the actuarial assessment of the benefits accrued up to the reporting date and payable to members on retirement, resignation, death and disability. This annual assessment may result in an employer being required to make additional contributions to the Fund.

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

- The future rate of investment earnings (net of investment taxes and fees): 4.1% p.a. (2020: 3.5% p.a.)
- The future rate of salary growth: 3.8% p.a. (2020: 3.1% p.a.)

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

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4. Defined benefit member liabilities (continued)

- i. The assumed future rate of investment earnings has been determined by reference to investment returns expected on an investment portfolio that reflects the opportunities reasonably available to the Fund in the investment markets, and also reflects the Fund's actual investments and investment strategy in respect of defined benefit member liabilities.
- ii. The assumed annual salary adjustment has been determined after discussion with the employer-sponsor. The assumption reflects current market rates for inflation, real economic growth, the share of economic growth of employees and promotional increases.

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

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

Assumption		Assumed at reporting date	Reasonable possible change	Amount of (increase) / decrease in member liabilities \$'000
Real Rate of Return (Investment Return - Salary Increase Rate)	2021:	0.30%	+0.5%	26,018
			-0.5%	(27,852)
	2020:	0.40%	+0.5%	28,312
			-0.5%	(30,363)

The funding policy adopted in respect of the Fund is directed in ensuring that benefits accruing to members and beneficiaries are fully funded as the benefits fall due.

As such, in framing employer contribution rates, the Actuary has considered long-term trends in factors such as membership, salary growth, investment earnings and average market value of investments of the Fund. Thus, any difference between the Net Assets Available for Member Benefits and the Accrued Benefits has been anticipated.

During the year, the principal employer contributed to the Fund in respect of defined benefit members at the rate of 0% (2020: 0%) of gross salaries for Full members and at the rate of 3% (2020: 3%) for those employees who remain members of the Commonwealth Superannuation Scheme.

Employees who are Full members are able to make defined benefits contributions to the Fund at varying rates between 0% and 10% of salary for superannuation purposes. Employees may also make contributions to an accumulation account.

There was no additional one-off employer contribution made during the financial year ended 30 June 2021 (2020: Nil).

5. Defined benefits that are overfunded

	2021 \$	2020 \$
AvSuper Fund defined benefit plan excess of assets over the value of liabilities	245,387,082	178,376,446

The Fund remains in surplus.

Airservices Australia commenced a Contributions holiday from 1 July 2018.

The Trustee remains satisfied that this will not adversely affect the financial position of the defined benefit division in the near term.

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6. Fair value of financial instruments

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

AASB 13 requires disclosures relating to fair value measurements using a three-level fair value hierarchy. The level within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability. The following table shows financial instruments recognised at fair value, categorised between those whose fair value is based on:

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

	30 June 2021			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Other interest bearing securities	222,365,850	-	-	222,365,850
Australian equities				
Listed equity securities	636,257,909	-	-	636,257,909
International equities				
Listed equity securities	763,066,931	-	-	763,066,931
Unlisted unit trusts				
Fiduciary International Real Estate Fund	-	-	38,865	38,865
Fiduciary International Real Estate Fund 2	-	-	98,290	98,290
Yield Plus Infrastructure Property Fund	-	-	7,555,230	7,555,230
Investa Commercial Property Fund	-	-	148,639,200	148,639,200
GPT Wholesale Shopping Centre Fund	-	-	37,166,474	37,166,474
Kapstream Capital Fund	-	87,407,282	-	87,407,282
Aurum ISIS AU Dollar Fund	-	62,504,083	-	62,504,083
Bentham Syndicate Fund	-	54,519,344	-	54,519,344
SG Distressed Opp Fund IV	-	-	8,821,418	8,821,418
HayFin Direct Lending Fund	-	-	484,114	484,114
Partners Group Direct Equities Fund	-	-	44,984,722	44,984,722
HayFin Direct Lending Fund II	-	-	24,391,280	24,391,280
Coller International Fund VI	-	-	7,559,614	7,559,614
QIC Global Infrastructure Fund	-	-	47,083,080	47,083,080
Coller International III LP	-	-	9,546,653	9,546,653
Partners Group Direct Equity Fund 2019	-	-	16,254,985	16,254,985
Continuity Capital Private Equity Fund No 5	-	-	5,488,560	5,488,560
Flexstone Select Opportunities Fund II	-	-	12,189,741	12,189,741
Flexstone Global Opportunities Fund IV	-	-	7,841,646	7,841,646
Stone Harbor Emerging Markets Debt	-	52,001,944	-	52,001,944
Brookfield Super Core Infrastructure Partners	-	-	71,934,065	71,934,065
North Haven Infrastructure Partner III	-	-	24,093,231	24,093,231
	-	256,432,653	474,171,168	730,603,821
Derivative assets				
Equity futures	-	10,800	-	10,800
Fixed interest futures	-	284,695	-	284,695
Forward foreign exchange contracts	-	320,156	-	320,156
	-	615,651	-	615,651
Derivative liabilities				
Equity futures	-	(3,210)	-	(3,210)
Fixed interest futures	-	(14)	-	(14)
Forward foreign exchange contracts	-	(15,398,472)	-	(15,398,472)
	-	(15,401,696)	-	(15,401,696)
Total	1,621,690,690	241,646,608	474,171,168	2,337,508,466

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6. Fair value of financial instruments (continued)

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

	30 June 2020			Total \$
	Level 1 \$	Level 2 \$	Level 3 \$	
Other interest bearing securities	218,289,069	-	-	218,289,069
Australian equities				
Listed equity securities	496,947,778	-	-	496,947,778
International equities				
Listed equity securities	515,112,628	-	-	515,112,628
Unlisted unit trusts				
Fiduciary International Real Estate Funds	-	-	184,472	184,472
Yield Plus Infrastructure Property Fund	-	-	8,206,352	8,206,352
Investa Commercial Property Fund	-	-	141,356,257	141,356,257
GPT Wholesale Shopping Centre Fund	-	-	36,282,820	36,282,820
Kapstream Capital Fund	-	102,499,013	-	102,499,013
Aurum ISIS AU Dollar Fund	-	54,462,164	-	54,462,164
Bentham Syndicate Fund	-	62,087,189	-	62,087,189
SG Distressed Opp Fund IV	-	-	10,100,481	10,100,481
HayFin Direct Lending Funds	-	-	32,604,916	32,604,916
Partners Group Direct Equities Fund	-	-	32,669,525	32,669,525
Coller International Fund VI	-	-	9,145,999	9,145,999
QIC Global Infrastructure Fund	-	-	35,686,320	35,686,320
Atlas Infrastructure Australian Feeder Fund	77,709,240	-	-	77,709,240
Partners Group Direct Equity Fund 2019	-	-	4,639,655	4,639,655
Continuity Capital Private Equity Fund No 5	-	-	2,872,780	2,872,780
Stone Harbor Emerging Markets Debt	-	47,776,159	-	47,776,159
Brookfield Super Core Infrastructure Partners	-	-	46,807,888	46,807,888
North Haven Infrastructure Partner III	-	-	7,463,746	7,463,746
Coller International III LP	-	-	4,777,429	4,777,429
	<u>77,709,240</u>	<u>266,824,525</u>	<u>372,798,640</u>	<u>717,332,405</u>
Derivative assets				
Equity futures	-	1,344,442	-	1,344,442
Options	-	31,200	-	31,200
Swaps	-	8,976,227	-	8,976,227
Fixed interest futures	-	8,792,861	-	8,792,861
Forward foreign exchange contracts	-	18,507,678	-	18,507,678
	-	<u>37,652,408</u>	-	<u>37,652,408</u>
Derivative liabilities				
Equity futures	-	(2,292)	-	(2,292)
Options	-	(17,007)	-	(17,007)
Swaps	-	(8,848,226)	-	(8,848,226)
Fixed interest futures	-	(108,700)	-	(108,700)
Forward foreign exchange contracts	-	(2,070,857)	-	(2,070,857)
	-	<u>(11,047,082)</u>	-	<u>(11,047,082)</u>
Total	<u>1,308,058,715</u>	<u>293,429,851</u>	<u>372,798,640</u>	<u>1,974,287,206</u>

Valuation techniques

Interest bearing securities

Interest bearing securities are floating rate instruments such as "at call" bank accounts and fixed interest rate instruments such as bonds. Other interest bearing securities are stated at market quotations as at the reporting date. To the extent that the significant inputs are observable, the Fund categorises these investments into Level 1 and 2.

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Notes to the Financial Statements

For the year ended 30 June 2021

6. Fair value of financial instruments (continued)

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

Valuation techniques (continued)

Australian and International equities

Australian and International equities quoted on a recognised stock exchange are stated at market quotations at reporting date and are classified as Level 1. For equities not listed on a recognised stock exchange the valuation is based on net asset value ("NAV") of the underlying investments and are classified as Level 2.

Unlisted unit trusts

The Fund invests in unlisted unit trusts which are not quoted in an active market. For unlisted unit trusts where the valuation is based on directly and indirectly observable inputs the Fund classifies these as Level 2. All non quoted unlisted unit trusts due to the nature, frequency of valuations, level of adjustments needed to the net asset value and the level of trading in the trust are classified as Level 3. Unlisted property unit trusts are stated at the price quoted by the trust managers as at reporting date. Infrastructure unit trusts are stated at a valuation based on the advice of the Fund's investment managers at the reporting date. The valuation of the unquoted unlisted unit trusts is based on the manager valuation policies of the Fund's investment managers as at the reporting date. The Fund considers the valuation techniques and inputs used in valuing these funds as part of its due diligence prior to investing to ensure they are reasonable and appropriate. The NAV of these trusts may be used as an input into measuring their fair value. In measuring this fair value, the NAV of the trusts is adjusted, as necessary, to reflect restrictions on redemptions for these financial instruments, significant future commitments, transactions and other specific factors of the trust.

Derivative assets and liabilities

The Fund uses widely recognised valuation models for determining fair values of financial futures, forward exchange contracts, swaps and forward rate agreements. The valuation technique used for these derivatives is a discounted cash flow method based on forward exchange rates at 30 June and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties. For these financial instruments, significant inputs into models are market observable and are included within Level 2.

Valuation process for Level 3 valuations

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

The investment committee, which is a sub-committee of the Trustee Board and reports directly to the Trustee, is responsible for the management of the Fund's financial instruments. The Trustee has appointed Frontier Advisors Pty Ltd as the Fund's asset consultant to advise on investment issues, including asset allocation, portfolio construction and manager selection and implementation. Frontier Advisors Pty Ltd is required to perform these functions in accordance with the terms of AvSuper's Investment Governance Framework Policy. The Trustee has also retained the services of a number of professional investment managers who have responsibility for investment of the Fund's assets within specified constraints. The Trustee has determined that the appointment of these professional investment managers is appropriate for the Fund and is in accordance with the Trustee's investment strategy.

The Fund's overall market positions are monitored via the custodian and the asset consultant performance report on a quarterly basis and are evaluated annually based on rolling three and five year results. The Board uses the best available information from the custodian and the professional investment manager or the asset consultant at any given point in time and will use observable methods (i.e. fair value) where available.

As at 30 June 2021, the Fund has measured the fair value of its unlisted investments at their redemption price. This followed an extensive due diligence process to ensure the unit-price reported by fund managers were a reasonable and appropriate reflection of the anticipated impact of COVID-19 on the investees' underlying assets, given updates to NAVs were applied by fund managers outside their most recent audit period.

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

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Notes to the Financial Statements

For the year ended 30 June 2021

6. Fair value of financial instruments (continued)

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

Valuation process for Level 3 valuations (continued)

Quantitative information of significant unobservable inputs - Level 3:

Description	Level 3 \$*	Valuation technique	Significant unobservable inputs	Range (weighted average)
Unlisted unit trusts	2021: \$353,772,624 2020: \$277,842,555	Discounted cash flow valuation	Discount rate	2021: 4.76%-9.78% (WA: 5.4%-9.32%) 2020: 4.55%-9.28% (WA: 5.2%-9.05%)
	2021: \$75,519,685 2020: \$50,282,441	Direct comparison approach	Average EBITDA	2021: 3.3x - 11.4x (WA: 10.14x - 10.61x) 2020: 3.3x - 11.6x (WA: 10.34x - 10.61x)
	2021: \$7,692,385 2020: \$8,390,824	Net asset value based on value of underlying property or investments	Terminal value of the assets	2021: -4.5% / + 18.3% 2020: -4.6% / 18.5%
	2021: \$37,186,474 2020: \$36,282,820	Net asset value based on value of underlying property or investments.	Discount rate	2021: 6.0% - 6.7% (WA - 6.5%) 2020: 6.0% - 6.7% (WA: 6.5%)

Sensitivity analysis to significant changes in unobversable inputs within Level 3 hierarchy:

Description	Input	Sensitivity used**	Effect on fair value \$
Unlisted unit trusts	Discount rate on cashflow	+ / - 5%	2021: (3,491,835) / 9,654,857 2020: (2,857,937) / 7,842,679
	Average EBITDA	1x	2021: 61,975 / (61,975) 2020: 40,076 / (40,076)
	Terminal value of the assets	+ / - 5%	2021: 1,423,091 / (353,850) 2020: 1,552,303 / (385,978)
	Discount rate on net asset value	+ / - 0.5%	2021: (340,856) / 876,335 2020: (332,573) / 855,039

*The fair value of the asset would increase/decrease if the discount rate increases/decreases. The fair value would increase/decrease if other inputs increase/decrease.

** The sensitivity refers to a percentage amount added or deducted from the input and the effect this has on the fair value.

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Notes to the Financial Statements

For the year ended 30 June 2021

6. Fair value of financial instruments (continued)

Valuation process for Level 3 valuations (continued)

(b) Level 3 reconciliation

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

30 June 2021

	Unlisted unit trusts	TOTAL
	\$	\$
Opening balance	372,798,640	372,798,640
Total gains / (losses) recognised in the income statement for the period	82,683,804	82,683,804
Purchases/Applications	18,688,724	18,688,724
Sales/Redemptions	-	-
Closing Balance	474,171,168	474,171,168

30 June 2020

	Unlisted unit trusts	TOTAL
	\$	\$
Opening balance	293,812,553	293,812,553
Total gains / (losses) recognised in the income statement for the period	(5,360,476)	(5,360,476)
Purchases/Applications	103,710,742	103,710,742
Sales/Redemptions	(19,364,179)	(19,364,179)
Closing Balance	372,798,640	372,798,640

(c) Transfers Between Hierarchy Levels

No investments were transferred between hierarchy levels during the year.

7. Receivables

	2021	2020
	\$	\$
Recoverable within 12 months		
GST receivable	108,587	87,449
Prepayments	13,293	49,155
	121,880	136,604

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk is the fair value of receivables. Information regarding credit risk exposure is set out in Note 18.

8. Property, plant and equipment

	2021	2020
	\$	\$
Property, plant and equipment		
Cost	82,989	90,582
Accumulated depreciation and impairment	(12,658)	(8,592)
Net written down value	70,331	81,990
Right of use assets		
Cost	1,865,648	2,108,029
Accumulated depreciation and impairment	(230,081)	(242,381)
Net written down value	1,635,567	1,865,648
Total Net written down value	1,705,898	1,947,638

Due to the nature of property, plant and equipment, their carrying value is assumed to approximate their fair value.

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9. Payables

	2021	2020
	\$	\$
Due within 12 months		
Trade and other creditors	1,002,895	2,611,184
Employee benefit liabilities	121,102	401,506
	<u>1,123,998</u>	<u>3,012,690</u>
Lease liability		
Less than one year	205,909	239,695
More than one year	1,562,592	1,768,500
	<u>1,768,501</u>	<u>2,008,195</u>
Total payables	<u><u>2,892,498</u></u>	<u><u>5,020,885</u></u>

Excluding the lease liability due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value. Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in Note 18.

10. Changes in assets measured at fair value

	2021	2020
	\$	\$
Investments held at reporting date		
Cash, bills and deposits	(7,211,739)	10,557,723
Other interest bearing securities	(8,796,396)	2,738,843
Australian equities	102,031,356	(48,221,000)
International equities	117,276,446	19,105,847
Units in unlisted unit trusts	41,975,456	(31,558,897)
Total unrealised gains / (losses)	<u>245,275,123</u>	<u>(47,377,484)</u>
Investments realised during the year		
Cash, bills and deposits	16,298,517	(11,481,014)
Other interest bearing securities	8,297,852	6,183,450
Australian equities	26,373,838	(11,567,991)
International equities	27,066,153	(22,292,917)
Units in unlisted unit trusts	323,148	(5,798,661)
Total realised gains / (losses)	<u>78,359,508</u>	<u>(44,957,133)</u>
Changes in assets measured at fair value	<u><u>323,634,631</u></u>	<u><u>(92,334,617)</u></u>

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

11. Reserves

	2021	2020
	\$	\$
Operational risk reserve	10,534,511	10,513,898
Other reserves	14,629,498	28,984,762
	<u>25,164,009</u>	<u>39,498,660</u>

Operational risk reserve

This reserve is operated in accordance with the Operational Risk Financial Requirement Reserve ("ORFR") Policy that was introduced into the Superannuation Industry (Supervision) Act 1993 ("SIS") from 1 July 2013. The purpose of the reserve is to provide funding for operational risk events where losses may arise relating to the Fund. The level of the reserve is determined by the Board based on an assessment of the risks faced by the Fund.

This reserve is separately set aside within the net assets of the Fund and is invested in cash or cash equivalents, which is in accordance with the investment strategy for the reserve as specified in the ORFR policy.

Transfers in and out of the reserve are made only at the authorisation of the Trustee and in accordance with the Fund's Reserve Policy. During the 2021 financial year there was no transfer out (2020: \$451,375) for an operational risk event and no transfer in (2020: \$425,000) from insurance to replenish the ORFR).

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11. Reserves (continued)

Other reserves

These reserves relate to amounts that the Trustee has put aside to pay for unplanned expenses which may relate to projects, increased regulatory requirements and other matters as part of the operation of the Fund.

12. Operating expenses

	2021	2020
	\$	\$
Audit and taxation services	229,539	326,683
Trustee liability insurance	223,069	113,207
APRA levies and fees	161,807	167,304
Consulting fees	398,402	558,132
Marketing expenses	54,033	94,566
Trustee expenses	1,050	8,079
Staff wages and related expenses	3,108,145	2,979,196
Legal fees	95,756	47,064
Actuarial services	106,113	136,824
Administration transition costs	1,428,883	776,801
General expenses	716,230	443,684
	<u>6,523,027</u>	<u>5,651,540</u>

13. Auditor's remuneration

	2021	2020
	\$	\$
Amount received or due and receivable by EY:		
Audit of financial reports and compliance	153,368	128,546
	<u>153,368</u>	<u>128,546</u>

14. Income tax

	2021	2020
	\$	\$
(a) Major components of income tax expense for the years ended 30 June:		
Income statement		
<i>Current tax expense</i>		
Current tax credit	(10,817,438)	(2,001,201)
Adjustments in respect of current income tax of previous years	331,301	528,607
<i>Deferred tax</i>		
Relating to origination and reversal of temporary differences	(21,026,802)	9,557,595
Total tax (expense) / benefit as reported in the income statement	<u>(31,512,939)</u>	<u>8,085,001</u>

(b) Reconciliation between income tax expense / (benefit) and the accounting profit / (loss) before income tax

Profit / (loss) before income tax	84,188,926	(62,120,488)
Income tax at 15%	(12,628,339)	9,318,073
Capital (gains)/losses not (assessable)/deductible	(20,619,286)	(4,380,743)
Non deductible expenses	(471,835)	(496,819)
Net benefits allocated to members' accounts	(7,771,587)	(2,904,657)
Derecognition of temporary differences	(378,133)	(299,955)
Exempt pension income	2,762,911	299,674
Net imputation and foreign tax credits	7,262,030	6,020,821
Overprovision in the previous year	331,301	528,607
	<u>(31,512,939)</u>	<u>8,085,001</u>

AVSUPER FUND

Notes to the Financial Statements

For the year ended 30 June 2021

14. Income tax (continued)

(c) Deferred tax

	Opening Balance \$	2021 (Charged) / Credited to income \$	Closing Balance \$
Deferred tax assets			
Unrealised losses on investments	-	33,285	33,285
Fund expenses accrued but not incurred	414,765	(414,765)	-
	<u>414,765</u>	<u>(381,480)</u>	<u>33,285</u>
Deferred tax liabilities			
Income receivable	(2,298)	173,168	170,870
Unrealised gains on investments	(20,668,568)	(20,818,490)	(41,487,058)
	<u>(20,670,866)</u>	<u>(20,645,322)</u>	<u>(41,316,188)</u>
Net deferred tax liability	<u>(20,256,101)</u>	<u>(21,026,802)</u>	<u>(41,282,903)</u>
	Opening Balance \$	2020 (Charged)/Credited to income \$	Closing Balance \$
Deferred tax assets			
Unrealised losses on investments	328,962	(328,962)	-
Fund expenses accrued but not incurred	208,430	206,335	414,765
	<u>537,392</u>	<u>(122,627)</u>	<u>414,765</u>
Deferred tax liabilities			
Income receivable	(348,720)	346,422	(2,298)
Unrealised gains on investments	(30,002,368)	9,333,800	(20,668,568)
	<u>(30,351,088)</u>	<u>9,680,222</u>	<u>(20,670,866)</u>
Net deferred tax liability	<u>(29,813,696)</u>	<u>9,557,595</u>	<u>(20,256,101)</u>

The Fund offsets deferred tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities.

15. Cash flow statement reconciliation

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2021 \$	2020 \$
Cash and cash equivalents	<u>7,348,648</u>	<u>18,219,777</u>

Reconciliation of net cash (outflows) / inflows from operating activities to net profit / (loss) after income tax

Net profit / (loss) after income tax	52,675,987	(54,035,487)
Adjustments for:		
(Increase) / decrease in assets measured in fair value	(389,597,038)	36,312,604
Depreciation	12,658	19,149
(Decrease) / increase in insurance liabilities	(854,669)	437,336
Decrease in receivables	14,723	49,521
(Decrease) / increase in payables	(1,898,305)	225,978
Increase in income tax payable / (receivable)	3,901,639	8,024,078
Increase / (decrease) in net deferred tax liability	21,026,801	(9,557,595)
Allocation to members' accounts	298,406,488	19,364,384
Net cash (outflows) / inflows from operating activities	<u>(16,311,716)</u>	<u>839,968</u>

AVSUPER FUND

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

16. Segment information

The Fund operates solely in one reportable business segment, being the provision of superannuation benefits to members. The Fund also operates from one reportable geographic segment, being Australia, from where its activities are managed. Revenue is derived from interest, dividends, gains on the sale of investments and unrealised changes in the value of investments.

17. Related party disclosures

(a) Trustee and key management personnel

The Trustee of the Fund is AvSuper Pty Ltd (ABN 46 050 431 797).

The following are Directors of AvSuper Pty Ltd and key management personnel, who held office during part or all of the year, or who have subsequently held office:

Employer Representatives

Hylton Mathews (resigned 31 March 2021)
Julie-Anne Schafer
Geoffrey Burgess
Tim Rothwell (appointed 27 June 2021)

Member Representatives

Michael Farrell
Ben Firkins (Chairman)
Stuart Brades

Independent Directors

Lawrence Cox
Denise Allen (resigned 17 February 2021)
Stephen Merlicek (resigned 30 June 2021)
Susan Darroch (appointed 25 May 2021)
Julie Orr (appointed 01 July 2021)

The other members of key management personnel are:

Chief Executive Officer	Michelle Wade (resigned 26 February 2021)
Chief Executive Officer	Michael Sykes (appointed 6 April 2021)
Executive Manager - Finance and Risk	Nicholas Smith

(b) Compensation of key management personnel

	2021 \$	2020 \$
Short-term benefits	1,227,748	1,158,671
Long-term benefits	121,262	260,379
Total Compensation	1,349,009	1,419,050

These amounts represent the total remuneration received by the key management personnel for their services in relation to the Fund.

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

(c) Employer company

Airservices Australia is the Principal Employer of the Fund. AvSuper Pty Ltd and the Civil Aviation Safety Authority are associate employer entities of the Fund. Contributions to the Fund are disclosed in the Statement of Changes in Member Benefits, and Note 4.

AirServices Australia paid \$nil (2020: \$3,634) in management expenses on behalf of the Fund for which it claimed reimbursement.

As at 30 June 2021, the Fund owed \$nil to Airservices Australia (2020: \$21,718).

18. Financial risk management objectives and policies

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

(a) Financial instruments management

The investments of the Fund comprise units in unit trusts and investments through managed portfolios with various investment managers.

The Investment Committee, which is a sub-committee of the Trustee Board and reports directly to the Trustee, is responsible for the management of the Fund's financial instruments. The Trustee appointed Frontier Advisors (Frontier) as the Fund's asset consultant to advise on investment issues, including asset allocation, portfolio construction and manager selection and implementation. The asset consultant is required to perform these functions in accordance with the terms of AvSuper's Investment Governance Framework Policy. The Trustee has also retained the services of a number of professional investment managers who have responsibility for investment of the Fund's assets within specified constraints. The Trustee has determined that the appointment of these professional investment managers is appropriate for the Fund and is in accordance with the Trustee's investment strategy.

BNP Paribas Securities Services ("BNP") acts as a master custodian on behalf of the Trustee and as such provides services including physical custody and safekeeping of the assets, settlement of trades, collection of dividends and accounting for investment transactions.

Administration of the Fund is conducted by Mercer Administration Services (Australia) Pty Ltd (the outsourced administrator appointed by the Trustee from 29 November 2020). Prior to this administration of the Fund was conducted by Link Group Pty Ltd.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenue and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in Note 2 to the financial statements.

(c) Capital risk management

The Trustee has developed a capital management plan in order to meet its obligations as a public offer entity.

The Trustee Board of the Fund has also established an operational risk reserve as identified in Note 11.

(d) Categories of financial instruments

The financial assets and financial liabilities of the Fund are recognised at fair value as at the reporting date. Changes in assets measured at fair value are recognised through the income statement.

(e) Financial risk management objectives

Risks arising from holding financial instruments are inherent in the Fund's activities. The Fund is exposed to credit risk, liquidity risk and market risk, including interest rate, equity price and foreign currency risk. The Trustee has developed risk management and investment policies to minimise the potential adverse effects of these risks on the Fund's financial performance. These policies may include the use of certain financial derivative instruments. The Trustee does not allow the use of derivatives to gear a portfolio. The Trustee expects that, over the long term, the use of these instruments will either enhance or reduce the volatility of returns. Derivatives are managed in accordance with suggested guidelines set down by the Australian Prudential Regulatory Authority ("APRA").

It is the Trustee's responsibility to ensure that there is an effective risk management control framework in place. The Trustee has developed, implemented and maintained a Risk Management Framework ("RMF"). This identifies the Trustee's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Fund. Annually, the Trustee certifies to APRA that adequate strategies have been put in place to monitor those risks, that the Trustee has systems in place to ensure compliance with legislative and prudential requirements and that the Trustee has satisfied itself as to the compliance with the RMF.

AvSuper is committed to effectively integrating climate change risks and opportunities into its investment processes across the Fund and expects its investment managers and advisors to integrate these throughout their investment process. We continue to consider our approach to climate change over time.

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

18. Financial risk management objectives and policies (continued)

(f) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Fund.

The maximum exposure at the reporting date is equal to the fair value of these instruments as disclosed in the statement of financial position.

Credit risk arising on investments is mitigated by investing in a wide variety of assets. The Fund does not have any significant exposure to any individual counterparty or industry. In order to achieve diversification, multiple specialist investment managers are employed for asset classes where appropriate. These managers generally invest only in rated companies.

Credit risk is not considered to be significant to the Fund as the underlying investments of the trusts are varied, hence there is no significant concentration of credit risk to counterparties. Credit risk associated with other receivables is considered minimal.

The Fund has exposure of cash held by the master custodian. Term deposits, fixed interest securities and equities invested by the Fund are also custodially held by the master custodian. Credit risk relating to the custodian is mitigated through contract indemnity provisions.

In addition, the Fund has the following investments and receivables which exceed 5% of the net assets available for member benefits:

	2021	2020
	\$	\$
Blackrock Cash Fund	219,362,579	242,850,710
Investa Commercial Property Fund	148,639,200	141,356,257
Schroder Australian Equity Fund	159,633,061	124,562,179
Loomis Sayles Global Equity Fund	154,991,266	152,242,090
	682,626,106	661,011,236

(g) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. The risk is controlled through the Fund's investment in financial instruments which, under normal market conditions, are readily convertible to cash.

The Fund has a high level of net inward cash flows from contributions which provides capacity to manage liquidity risk. In addition to the liquidity requirements imposed as a requirement of the RSE license, the Fund maintains sufficient cash and cash equivalents to meet normal operating requirements. There is an operational requirement that a minimum cash float of \$6,000,000 be maintained in the Fund's "at call" bank account. This is ensured by continuous daily monitoring of cash flows. Cash flow projections which take into account cash flows to meet liquidity requirements are prepared quarterly by the Administrator based on a reasonable estimate of what is likely to happen over this term. These projections are provided to the Trustee for review.

Financial liabilities of the Fund comprise insignificant trade and other payables which are typically settled within 30 days, together with the liability to pay benefits to members and rollover benefits which are payable within statutory timescales.

The Fund's overall strategy for liquidity risk management remains materially unchanged from 2020.

The following table summarises the maturity profile of the Fund's financial liabilities.

	2021	2020
	\$	\$
Less than 3 months		
Member liabilities	2,427,284,264	2,171,816,342
Payables	1,175,475	3,075,730
Income tax payable	10,519,268	1,198,685
Derivative liabilities*	15,401,696	11,047,082
Total	2,454,380,703	2,187,137,839

*The payment and receipt elements of derivative assets and derivative liabilities on the statement of financial position are disclosed separately. The derivatives for the forward exchange contracts are shown at their net value and the other derivatives are shown at their gross value. From a liquidity perspective, the settlement of these liabilities is significantly offset by the realisation of the derivative assets relating to the receipt element of the derivative arrangement (see derivative assets on the statement of financial position).

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

18. Financial risk management objectives and policies (continued)

(h) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, exchange rates and equity prices. Market risk is minimised through ensuring that all investments are undertaken in accordance with the Trustee's investment policies. The Fund's overall market positions are monitored via the investment consultant performance report on a quarterly basis and evaluated annually based on rolling three and five year results. There has been no material change to the Fund's exposure to market risks or the manner in which it manages and measures the risk during the 2021 financial year.

Interest rate risk management

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Fund's activities expose it to the financial risk of changes in interest rates. Floating rate instruments such as the "at call" bank account expose the Fund to cash flow risk, whereas fixed interest rate instruments, such as the bonds held by the Fund, expose it to fair value interest rate risk.

The Trustee monitors its exposure to interest rate risk and ensures that the returns achieved are in accordance with the individual manager's stated objectives and the objectives of the Fund. Performance of the Fund's fixed interest securities is measured against the Barclays Capital Aggregate Index.

2021	Weighted Average	Less than	1-5 Years	Over	Total
	interest rates	1 year		5 Years	
	%	\$	\$	\$	\$
Non interest bearing	n/a	2,351,315,753	-	-	2,351,315,753
Variable interest rate	0.16	85,225,430	-	-	85,225,430
Fixed interest securities	1.14	74,327,979	141,949,901	99,744,246	316,022,126
Total		<u>2,510,869,162</u>	<u>141,949,901</u>	<u>99,744,246</u>	<u>2,752,563,309</u>

2020	Weighted Average	Less than	1-5 Years	Over	Total
	interest rates	1 year		5 Years	
	%	\$	\$	\$	\$
Non interest bearing	n/a	1,934,354,931	-	-	1,934,354,931
Variable interest rate	0.71	170,745,808	-	-	170,745,808
Fixed interest securities	1.80	91,271,073	87,288,928	132,921,145	311,481,146
Total		<u>2,196,371,812</u>	<u>87,288,928</u>	<u>132,921,145</u>	<u>2,416,581,885</u>

The following illustrates the effect on the Fund's statement of financial position and income statement, from possible changes to interest rates. The Fund considers the percentage change selected below is reasonable given the current level of Australian interest rates.

2021	Change in Interest Rate	Effect on Net Assets/Investment Return
	+/-	\$ +/-
Interest rate risk	0.30%	1,203,743 / (1,203,743)
2020	Change in Interest Rate	Effect on Net Assets/Investment Return
	+/-	\$ +/-
Interest rate risk	0.30%	1,446,681 / (1,446,681)

AVSUPER FUND

Notes to the Financial Statements

For the year ended 30 June 2021

18. Financial risk management objectives and policies (continued)

(h) Market risk (continued)

Currency risk management

Foreign currency risk is the risk that the net market value or future cash flows of financial instruments will fluctuate because of changes in foreign currency exchange rates.

The Fund holds investments in foreign currency, hence the Fund is directly exposed to the effects of exchange rate fluctuations. This exchange rate exposure is managed in line with the Trustee's investment policies. The Trustee uses a partial hedge strategy 33% hedged for international equities (2020 : 50%) and 100% hedged for all other international investments (2020 : 50%) to manage the currency risk associated with its overseas equity investments. Performance of the overseas equities is monitored against the MSCI All Countries World Index ex Australia, which is considered by the Trustee to be a suitable benchmark for that asset class. The maximum exposure at reporting date is equal to the fair value of the investment as disclosed in the statement of financial position.

The following table sets out the Fund's exposure to foreign currency risk and the net exposure to foreign currencies of the monetary assets and liabilities.

2021			Forward Foreign	Net Exposure
	Assets	Liabilities	Exchange Contracts	
	\$	\$	\$	\$
US Dollars	554,473,307	(7,145,413)	(410,093,012)	137,234,882
Euro	125,823,630	-	(147,428,345)	(21,604,715)
Japanese Yen	31,929,799	-	(24,580,623)	7,349,176
British Pound	21,454,960	-	(28,877,793)	(7,422,833)
Other Currencies	75,821,666	-	(70,371,718)	5,449,948

2020			Forward Foreign	Net Exposure
	Assets	Liabilities	Exchange Contracts	
	\$	\$	\$	\$
US Dollars	379,779,246	(2,156,087)	(342,808,333)	34,814,826
Euro	91,106,039	(157,794)	(120,132,320)	(29,184,075)
Japanese Yen	36,440,133	(1,338,526)	(25,178,267)	9,923,340
British Pound	14,726,913	-	(22,168,599)	(7,441,686)
Other Currencies	60,180,667	(1,841,494)	(65,424,657)	(7,085,484)

The following table details the Fund's sensitivity to a 5% or 10% increase/(decrease) in the Australian dollar against the foreign currencies (i.e. 5% on US, Japanese and other foreign currencies and 10% on Euro and British Pound). The sensitivity rates on foreign currencies have been selected as these are considered reasonable given the currency exposure level and the volatility of exchange rates observed on both a historical basis and market expectations for future movement.

2021	Changes in Foreign Currency Rate	Effect on Net Assets/Investment Returns	
		+/-	\$ +/-
US Dollars	5%	(6,861,744)	6,861,744
Euro	10%	2,160,471	(2,160,471)
Japanese Yen	5%	(367,459)	367,459
British Pound	10%	742,283	(742,283)
Other Currencies	5%	(272,497)	272,497

2020	Changes in Foreign Currency Rate	Effect on Net Assets/Investment Returns	
		+/-	\$ +/-
US Dollars	5%	(1,740,741)	1,740,741
Euro	10%	2,918,407	(2,918,407)
Japanese Yen	5%	(496,167)	496,167
British Pound	10%	744,169	(744,169)
Other Currencies	5%	(354,274)	354,274

18. Financial risk management objectives and policies (continued)

(h) Market risk (continued)

Other market risk

Other market risk is the risk that the fair value of investments decreases as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual stock or factors affecting all instruments traded in the market. Market price risk exposure arises from the Fund's investment portfolio.

As the Fund's financial instruments are carried at fair value with changes in assets measured at fair value recognised in the income statement, all changes in market conditions will directly affect net income.

Market price risk is mitigated by constructing a diversified portfolio of investments traded on various markets in accordance with the Trustee's risk management and investment policies. Performance is measured against suitable indices such as the S&P/ASX Accumulation Index.

The following table illustrates the effect on the statement of financial position and income statement due to reasonably possible changes in market risk based on the risk the Fund was exposed to at the reporting date.

2021	Changes in Price Risk Rate	Effect on Net Assets/Investment Return
	+/-	+/-
Price risk	10%	234,672,625 / (234,672,625)
	-----	-----
2020	Changes in Price Risk Rate	Effect on Net Assets/Investment Return
	+/-	+/-
Price risk	10%	191,629,768 / (191,629,768)
	-----	-----

19. Insurance

The Fund provides death and disability benefits to members. These benefits are greater than the members' vested benefits and as such the Trustee has a group policy in place with a third party to insure death and disability benefits in excess of vested benefits. The Trustee acts as an agent for these arrangements.

20. Commitments and contingent liabilities

As at 30 June 2021, the Fund had commitments of \$170 million (2020: \$204 million) in respect of uncalled elements of its investments. Time bands cannot be placed on those commitments, as it is difficult to predict the exact timing and pace of capital calls for any commitment based investment.

21. Controlled entities

Name of Entity	Country of	2021 Ownership	2020 Ownership
Martin Currie Global Emerging Markets Fund	Australia	61%	76%

The Fund has adopted AASB 2013-5 "Amendments to Australian Accounting Standards – Investment Entities". As a result, the Fund does not consolidate its controlled entity, the Martin Currie Global Emerging Markets Fund; however, it is required to provide certain disclosures, as outlined above.

22. Significant events after balance date

Since 30 June 2021 the Your Future Your Super reforms were legislated and AvSuper has not passed the Performance Test. The Fund's Principal Employer in Airservices Australia has had a tax ruling approved which allows for the early retirement of some operational staff. These two events when taken holistically have the potential to impact the number of members and subsequent scale of the Fund.

**AVSUPER FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021
TRUSTEE DECLARATION**

In the opinion of the Trustee of the Fund:


- (i) The accompanying financial statements are drawn up so as to present fairly the financial position of the Fund as at 30 June 2021 and the results of its operations and cash flows for the year then ended; and
- (ii) The operation of the Fund has been carried out in accordance with its Trust Deed, as amended and in compliance with the requirements of the Superannuation Industry (Supervision) Act 1993, Regulations and the Guidelines issued by the Australian Prudential Regulation Authority and the Corporations Act 2001 and Regulations and Guidelines, during the year ended 30 June 2021; and
- (iii) The financial statements have been prepared in accordance with Accounting Standards, other mandatory professional reporting requirements and the provisions of the Trust Deed, as amended.

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

Signed at ~~Canberra~~ ^{Peth} this ^{15th} day of ^{September} 2021 .



Director



Director