VISION SUPER
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Local Authorities Superannuation Fund and its controlled entities

Annual Financial Report
30 June 2012

Contents

Local Authorities Superannuation Fund and its controlled entities
Statement of net assets as at 30 June 2012

	Note	Consolidated		Fund	
		2012	2011	**2012**	2011
		$000	$000	**$000**	$000
ASSETS					
Cash at bank		**7,203**	8,899	**7,050**	7,830
Contributions receivable	*11*	**504,967**	22,140	**504,967**	22,140
Other receivables		**782**	9,315	**492**	8,930
Prepayments		**25**	25	-	-
ATO tax refund receivable		**22,954**	19,074	-	-
Deferred tax assets	*14*	**74,515**	60,030	-	6
Investments					
Cash		**955,058**	676,906	-	-
Diversified bonds		**515,868**	672,856	-	-
Australian equities		**1,063,564**	1,079,231	-	-
International equities		**851,364**	862,041	-	-
Property		**570,965**	559,415	-	-
Private equity		**499,090**	473,066	-	-
Infrastructure		**586,702**	540,108	-	-
Absolute return		**74,983**	90,169	-	-
Units in Vision Pooled Superannuation Trust		-	-	**4,495,241**	4,400,807
Derivative assets		**32,684**	32,632	-	-
Total assets		**5,760,724**	5,105,907	**5,007,750**	4,439,713
LIABILITIES					
Benefits payable		**18,580**	15,356	**18,580**	15,356
Other payables		**6,107**	7,611	**696**	1,628
Amounts held in trust		**465**	464	**465**	464
Current tax liabilities	*13*	**43,182**	48,706	**43,182**	48,706
Deferred tax liabilities	*14*	**78,615**	4,446	**75,698**	4,446
Derivative liabilities		**3,662**	1,093	-	-
Net assets attributable to non-controlling interests	*2(d)*	**740,984**	659,118	-	
Total liabilities (excluding net assets available to pay benefits)		**891,595**	736,794	**138,621**	70,600
Net assets available to pay benefits		**4,869,129**	4,369,113	**4,869,129**	4,369,113

The statement of net assets is to be read in conjunction with the accompanying notes.

Local Authorities Superannuation Fund and its controlled entities
Statement of changes in net assets for the year ended 30 June 2012

	Note	Consolidated		Fund	
		2012	2011	**2012**	2011
		$000	$000	**$000**	$000
Investment revenue					
Interest		**86,757**	44,747	**-**	-
Dividends and trust distributions revenue		**179,111**	155,581	**-**	-
Other investment income		**1,037**	1,258	**-**	-
Changes in net market value of investments	8	**(69,667)**	233,527	**84,789**	349,970
		197,238	435,113	**84,789**	349,970
Direct investment expense	9	**(23,148)**	(26,608)	**-**	-
Net investment revenue		**174,090**	408,505	**84,789**	349,970
Contributions revenue					
Employer contributions		**801,374**	392,850	**801,374**	392,850
Member contributions		**58,832**	45,712	**58,832**	45,712
Transfer from other funds		**101,001**	79,742	**101,001**	79,742
		961,207	518,304	**961,207**	518,304
Other revenue					
Group life insurance proceeds		**4,149**	1,062	**4,149**	1,062
Other revenue		**497**	505	**497**	505
		4,646	1,567	**4,646**	1,567
Total revenue		**1,139,943**	928,376	**1,050,642**	869,841
Expenses					
Benefits paid		**(404,087)**	(312,731)	**(404,087)**	(312,731)
General administration expenses	10	**(18,026)**	(17,403)	**(18,026)**	(17,403)
Group life insurance premium expense	17	**(13,576)**	(11,737)	**(13,576)**	(11,737)
Superannuation contributions surcharge		**(3)**	(1)	**(3)**	(1)
		(435,692)	(341,872)	**(435,692)**	(341,872)
Change in net assets before income tax		**704,251**	586,504	**614,950**	527,969
Income tax expense	12	**(116,740)**	(70,872)	**(114,934)**	(52,279)
Change in net assets after income tax		**587,511**	515,632	**500,016**	475,690
Change in net assets after income tax attributable to non-controlling interests	2(d)	**87,495**	39,942		
Change in net assets after income tax & non-controlling interests available to pay benefits		**500,016**	475,690		
Net assets available to pay benefits at the beginning of the financial year		**4,369,113**	3,893,423	**4,369,113**	3,893,423
Net assets available to pay benefits at the end of the financial year		**4,869,129**	4,369,113	**4,869,129**	4,369,113

The above statement of changes in net assets is to be read in conjunction with the accompanying notes.

Notes to the financial statements for the year ended 30 June 2012

1. Operation of the Fund

Local Authorities Superannuation Fund (the "Fund") is a superannuation fund domiciled in Australia. The address of the Fund is Level 5, 1 Spring Street in Melbourne.

The Trustee of the Fund is Vision Super Pty Ltd (VSPL). The Fund is a standard employer-sponsored fund with both a defined benefit section and accumulation section. The defined benefits section of the Fund was closed to new entrants from 31 December 1993, with all new entrants joining the accumulation section of the Fund.

The Fund's governing rules are contained within the Local Authorities Superannuation Fund Trust Deed dated 26 June 1998. The majority of members and participating employees are drawn from the local government, water and community services sectors.

The Fund provides a range of benefits and services including defined benefit and defined contribution lump sums, pensions, and post retirement products.

The consolidated financial statements of the Fund as at and for the financial year ended 30 June 2012 comprises the Fund and its subsidiary, Vision Pooled Superannuation Trust (VPST) (together referred to as the "Group").

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 Standard AAS 25 Financial Reporting by Superannuation Plans, other applicable Accounting Standards, the provisions of the Trust Deed and the requirements of the Superannuation Industry (Supervision) Act 1993 and Regulations.

The financial statements are presented in Australian Dollars and all values are rounded to the nearest thousand dollars except where otherwise stated.

(b) Statement of compliance

The financial statements comply with AAS 25. Since AAS 25 is the principal standard that applies to the financial statements, other standards, including AIFRS, are also applied where necessary except to the extent that they differ from AAS 25.

International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards adopted by the AASB. The financial statements of the Group do not comply with IFRS.

The financial statements were authorised for issue by the Directors of the Trustee, Vision Super Pty Ltd, on 28 September 2012.

(c) Significant accounting judgements, estimates and assumptions

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

Deferred Tax Asset recognition - The significant accounting judgements are discussed in Note 2 (m).

Valuation of Accrued Benefits - The amount of accrued benefits has been actuarially determined. The key assumptions are discussed in Note 4.

Valuation of Investments and Derivatives – the key assumptions are set out in Note 2 (e) and Note 18 (a).

Notes to the financial statements for the year ended 30 June 2012

2. Summary of significant accounting policies (continued)

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of Local Authorities Superannuation Fund (the Fund) and Vision Pooled Superannuation Trust (collectively referred to as "the Group") as at 30 June 2012.

Subsidiaries are all those entities over which the Fund has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a Fund controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the Fund. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intragroup transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Fund and cease to be consolidated from the date on which control is transferred out of the Fund.

Investments in subsidiaries held by the Fund are accounted for at net market value in the separate financial statements of the Fund.

(e) Investments

Investments of the Group are initially recorded at cost, being the fair value of the consideration given.

After initial recognition, investments are measured at net market value and movements in the net market value of investments are recognised in the Statement of Changes in Net Assets.

Estimated costs of disposal have been deducted in determining net market value. As disposal costs are generally immaterial, unless otherwise stated net market value is considered a reasonable approximation of fair value.

The Group recognises financial assets on the date it becomes a party to the contractual provisions of the asset. Financial assets are recognised using trade date accounting. From this date any gains and losses arising from changes in net market value are recorded.

Net market values have been determined as follows:

(i) Market quoted investments

Market quoted investments comprises short-term deposits and listed securities. The net market value of an investment for which there is a readily available market quotation is determined as the last quoted sale price as at the close of business on reporting date, less an appropriate allowance for costs expected to be incurred in realising the investments.

(ii) Non-market quoted investments

Investments for which market quotations are not readily available are valued at the net fair value determined by the Trustee as follows:

Unlisted investments and pooled funds – valued at the redemption price at reporting date as advised by the investment managers and are based on the net market value of the underlying investments. Unit values denominated in foreign currency are then translated to Australian dollars at the current exchange rates.

Derivative financial instruments including futures, options, warrants, swaps, forward foreign exchange contracts and forward rate agreements are recorded at market value at balance date.

Notes to the financial statements for the year ended 30 June 2012

2. Summary of significant accounting policies (continued)

(e) Investments (continued)

(ii) Non-market quoted investments

Investment managers are mandated to use derivative instruments provided they do not gear the portfolios and have cash or securities to back their use.

Investments are maintained for the long-term purpose of providing benefits to members and retirement, death or disability. Due to the long-term objective the amount recoverable through sale within 12 months cannot be determined.

(f) Cash and cash equivalents

Cash and cash equivalents in the statement of net assets comprise cash at bank and short-term deposits with an original maturity of three months or less that are readily convertible to cash and subject to an insignificant risk of changes in value.

(g) Financial liabilities

The Group recognises financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

The Group recognises financial liabilities at net market value as at reporting date with any change in net market values of the Group's financial liabilities since the beginning of the reporting period included in the statement of changes in net assets for the reporting period.

(h) Benefits payable

Benefits payable are valued at net market value which comprises the entitlements of members who have claimed a benefit prior to the end of the year, and the entitlement had not been paid at reporting date. Benefits entitlements rolled over within the Fund are not included as benefits payable. Benefits payable are generally settled within 30 days.

(i) Accrued benefits

For defined benefit members, the amount of accrued benefits has been determined on the basis of the present value of expected future payments which arise from membership of the Fund up to the measurement date. The figure reported has been determined by reference to expected future salary levels and by application of a market-based, risk-adjusted discount rate and relevant actuarial assumptions. Refer to Note 4 for disclosure of accrued benefits.

For defined contribution members, the liability for accrued benefits is the Fund's present obligation to pay benefits to members and beneficiaries. This has been calculated as the difference between the carrying amount of the assets and the carrying amounts of the sundry liabilities and income tax liabilities as at balance date.

(j) Other payables

Other payables are carried at nominal amounts which approximate net market value. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid when the Group becomes obliged to make future payments in respect of the purchase of these goods or services. Payables are normally settled on 30 day terms.

Notes to the financial statements for the year ended 30 June 2012

2. Summary of significant accounting policies (continued)

(k) Foreign currency

Both the functional and presentation currency of the Fund and Group are Australian dollars.

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Statement of Change in Net Assets.

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

(l) Revenue recognition

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

(i) Changes in net market values

Changes in the net market value of investments and derivatives are calculated as the difference between the net market value at sale, or at balance date, and the net market value at the previous valuation point and recognised in the Statement of Change in Net Assets.

(ii) Contributions revenue and transfers in

Contributions revenue and transfers in are recognised when control of the asset has been attained and are recorded, gross of any tax, in the period to which they relate.

Contribution revenue includes the funding call for the unfunded liability of the defined benefits plan and its interest component. The participating employers in the defined benefits plan are compelled by Participation Agreements with the Fund's Trustee to make contributions and fund the deficit.

(iii) Interest revenue

Interest income is recognised in the Statement of Change in Net Assets as it accrues, using the original effective interest rate of the instrument calculated at the acquisition or origination date. Interest income includes the amortisation of any discount or premium, transaction costs or other difference between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

(iv) Dividend revenue

Revenue from dividends is recognised on the date the shares are quoted ex-dividend and if not received at reporting date, is reflected in the Statement of Net Assets as a receivable at net market value.

(v) Distributions

Distributions from managed investment schemes are recognised as at the date the unit value is quoted ex-distribution and if not received at reporting date, are reflected in the Statement of Net Assets as a receivable at net market value.

Notes to the financial statements for the year ended 30 June 2012

2. Summary of significant accounting policies (continued)

(m) Income tax

Income tax on the benefits accrued as a result of operations for the year comprises current and deferred tax. Income tax is recognised in the Statement of Changes in Net Assets except to the extent that it relates to items recognised directly in members' funds in which case it is recognised directly in members' funds.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill, the initial recognition of assets and liabilities that affect neither accounting nor taxable profit, nor differences relating to investments in controlled entities to the extent that it is not probable they will reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantively enacted at reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent it is no longer probable that the related tax benefit will be realised.

Income tax has been provided in the current year at the rate of 15% as it is the expectation of the Trustee that the Fund will be treated as a complying superannuation fund and its subsidiary VPST's taxable income is "standard income". If the Fund is subsequently deemed to be a non-complying fund for the current year or VPST has "special income", then income tax will be payable at a rate of 47% on the Group's taxable income.

The expense (and any corresponding liability) is brought to account in the period in which the assessments are received by the Trustee and are payable by the Group.

(n) Derecognition of financial assets and financial liabilities

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group transfers substantially all the risks and rewards of the ownership of the assets; and
- the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

(o) No-TFN contribution tax

Where a member does not provide their tax file number to a fund, the Fund may be required to pay no-TFN contributions tax at a rate of 31.50% which is in addition to the concessional tax rate of 15% which applies to the Fund's taxable income.

The no-TFN contributions tax liability recognised by the Fund will be charged to the relevant members' accounts. Where a tax offset is obtained by the Fund in relation to members' no-TFN contribution tax, the tax offset will be included in the relevant members' accounts.

Notes to the financial statements for the year ended 30 June 2012

2. Summary of significant accounting policies (continued)

(p) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST) recoverable from the Australian Taxation Office (ATO). In circumstances where the GST is not recoverable, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Net Assets.

(q) New accounting standards and interpretations

Accounting standards	Nature	Application date of standard	Application date for entities
AASB 1053 – Application of Tiers of Australian Accounting Standards	Differential reporting framework established allowing the availability of reduce disclosures to entities which do not have public accountability.	1 July 2013	1 July 2013
AASB 9 – Financial Instruments	Changes to the classification and measurement of financial assets.	1 January 2013	1 July 2013
AASB 10 – Consolidated Financial Statements	New control model established, expanding the definition of when an entity is considered to be controlled.	1 January 2013	1 July 2013
AASB 12 – Disclosure of Interest in Other Entities	Additional disclosure relating to judgements made by management to determine whether control exists.	1 January 2013	1 July 2013
AASB 13 – Fair Value Measurement	Additional disclosures for assets and liabilities carried at fair value.	1 January 2013	1 July 2013
AASB2011-4 Related Party	This Amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies.	1 July 2013	1 July 2013

The full extent of the impact of the changes listed above is currently still being assessed, however at this time no material change in the financial statements is expected.

(r) Reclassification of financial information

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

(s) Valuation dates

The investment held in VPST has been valued at 30 June 2012 from valuations obtained from the Custodian taking into account information received post balance date. The Vested Benefits value has been calculated using the daily unit price applicable as at 30 June 2012.

Notes to the financial statements for the year ended 30 June 2012

3. Group entities

During the year ended 30 June 2012 Local Authorities Superannuation Fund controlled VPST with an ownership interest of 85.8% (2011: 87.0%). VPST was incorporated in Australia. The Fund has no jointly controlled entities.

4. Accrued benefits

The valuation of accrued benefits was undertaken by the Actuary as part of a comprehensive actuarial valuation as at 31 December 2011. Accrued benefits were previously valued as part of an actuarial review as at 31 December 2008. A summary of the Actuarial Report as at 31 December 2011, prepared by the Fund's actuary from Russell Employee Benefits, is attached as an addendum.

	As at 31 December 2011 $000	As at 31 December 2008 $000
Accrued Benefits	**4,642,133**	3,616,422

The Trustee has a number of steps in place to manage the risks associated with the defined benefit plan. The Trustee has appointed an external actuary to advise on these risks, including establishing suitable funding objectives. The actuary conducts regular (at least every three years, or more frequently as required) actuarial investigations of the defined benefit plan at the Trustee's request. Taking into account the Trustee's policy on funding objectives and the Fund's circumstances, the actuary recommends the employers' required contribution levels.

Funding requirements for the Fund are impacted by various financial and demographic factors including investment earnings, salary inflation, benefit claims experience and pensioner mortality rates. The funding arrangements are primarily dependent upon investment performance relative to salary growth and pension growth. The Fund has a current Funding and Solvency Certificate. The next actuarial review for the Fund is currently scheduled for 31 December 2014.

The main financial assumptions used to calculate the accrued benefits for the defined benefit category of the Fund are as follows:
Net investment return – 7.50% p.a.
Salary inflation – 4.25% p.a.
Price inflation – 2.75% p.a.

The Fund's Actuary has completed a review of the Fund and recommended that participating employers increase to pay additional contribution to the level discussed in Note 7 due to the funding deficiency identified as at 31 December 2011.

The Trustee has accepted the actuarial recommendations and invoiced the employers of the Defined Benefit plan on 31 July 2012 for the unfunded liability as at 31 December 2011. The invoice is due and payable on 1 July 2013 with an option of a fifteen-year payment plan. The total invoiced amount is $539 million, which comprises of the unfunded accrued liability as at 31 December 2011 of $406 million, interest accrued to 1 July 2013 of $53 million and contribution tax of $80 million.

An amount of $495 million has been recognised as contributions receivable as at 30 June 2012. The contributions receivable is calculated by discounting the amount receivable ($539 million) as at 1 July 2013 at the rate of 7.5% per annum, the expected long-term investment return on the assets of Defined Benefits plan.

5. Guaranteed benefits

No guarantees have been made in respect of any part of the liabilities for accrued benefits.

Notes to the financial statements for the year ended 30 June 2012

6. Vested benefits

Vested benefits are benefits which 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 Fund membership as at the reporting date.

	2012 **$000**	2011 $000
Accumulation plan	**2,781,873**	2,582,891
Defined benefit plan	**2,207,714**	1,810,181
Total vested benefits	**4,989,587**	4,393,072
As compared to net assets available to pay benefits	**4,869,129**	4,369,113

Total Vested Benefits exceeded the Fund's Net assets as at 30 June 2012. Accordingly the Defined Benefit plans are in an "Unsatisfactory Financial Position" as defined by SIS Regulation 9.04. The Actuary and Trustee have followed the procedures required by Section 130 of the SIS Act and Regulations to arrive at an approved set of funding arrangements for the Defined Benefit plans as set out in Note 7 of these financial statements.

7. Funding arrangements

(a) LASF defined benefits

The actuarial investigation of the LASF defined benefit plan conducted as at 31 December 2011 showed that an actuarial shortfall of $406 million was identified. The actuarial shortfall is mainly caused by the poor investment return to 31 December 2011 and the assumed lower return in the future.

The Trustee has agreed the following funding plan to bring the LASF Defined Benefit Plan to a favourable financial position by the end of the fifteen-year period covered by the plan. Under the plan:

- Active members will continue to pay 6% of salary;
- Employers will continue to pay 9.25% of members' salaries; and
- Make additional contributions to cover the excess of the benefits paid as a consequence of retrenchment above the funded resignation or retirement benefit (the funded resignation or retirement benefit is calculated as the VBI multiplied by the benefit), plus contributions tax; and
- Make a top-up contribution of $453 million (plus contribution tax) payable on 1 July 2013

As approved by APRA, employers are offered a fifteen-year payment plan for the top-up contribution at the interest rate of 7.5% per annum, the expected long-term investment return on the assets of defined benefits plan.

(b) City of Melbourne – defined benefits

Members – members contribute at rates between 0 and 9% of salaries.

Employer – by agreement dated 1 December 2006 between the Trustee and the City of Melbourne and on the advice of the Actuary, the employer contribution rate is currently set at 4% of members' salaries.

Based on the actuarial investigation as at 31 December 2011, the Actuary recommended the following changes in funding arrangement to return City of Melbourne plan VBI to above 100% in no more than three years:

- Increase the employer contribution to 13% of members' salaries from 1 July 2012;
- Contribute an additional $2.2 million per annum by 30 June 2013, 2014 and 2015;

Notes to the financial statements for the year ended 30 June 2012

7. Funding arrangements (continued)

(b) City of Melbourne – defined benefits (continued)

- Fund the top up payments for existing members equal to the amount increased for contribution tax: *Benefits Payment less (Vested Benefit x VBI)*. Top up payments are to be calculated and invoiced quarterly in arrears from 1 July 2012.

(c) Parks Victoria – defined benefits

Members – members contribute at rates between 0 and 7.5% of salaries.

Employer – by agreement dated 1 April 2001 between the trustee and Parks Victoria and on the advice of the actuary, the employer contribution rate is currently set at 10% of members' salaries.

Based on the actuarial investigation as at 31 December 2011, the Actuary recommended the following changes in funding arrangement to return Parks Victoria plan VBI to above 100% in three to five years:

- Increase the employer contribution to 12% of members' salaries from 1 July 2012;
- Contribute an additional $1.9 million per annum by 30 June 2013, 2014 and 2015;
- Fund the top up payments for existing members equal to the amount increased for contribution tax: *Benefits Payment less (Vested Benefit x VBI)*. Top up payments are to be calculated and invoiced quarterly in arrears from 1 April 2012.

(d) Vision Super Saver

The Fund's Super Saver category receives both employer and employee contributions on a progressive basis. Employer contributions are normally based on a fixed percentage of employee earnings in accordance with the 9% required under Superannuation Guarantee Legislation. No further liability accrues to the employer as the superannuation benefits accruing to employees are represented by their share of the net assets of the Fund.

Notes to the financial statements for the year ended 30 June 2012

8. Change in net market values

	Consolidated		Fund	
	2012 $000	2011 $000	**2012 $000**	2011 $000
Investments held at balance date				
Cash	**-**	199	**-**	-
Diversified bonds	**22,145**	(25,381)	**-**	-
Australian equities	**(103,771)**	33,192	**-**	-
International equities	**10,096**	29,506	**-**	-
Property	**(263)**	17,511	**-**	-
Private equity	**(5,348)**	(14,555)	**-**	-
Infrastructure	**42,866**	58,934	**-**	-
Absolute return	**(7,234)**	14,251	**-**	-
Units in VPST	**-**	-	**84,789**	349,970
Total unrealised gains/(losses)	**(41,509)**	113,657	**84,789**	349,970
Cash	**7,851**	-	**-**	-
Diversified bonds	**43,013**	30,136	**-**	-
Australian equities	**(22,944)**	11,538	**-**	-
International equities	**(44,672)**	49,323	**-**	-
Property	**(569)**	5,688	**-**	-
Private equity	**3,268**	21,702	**-**	-
Infrastructure	**-**	-	**-**	-
Absolute return	**(14,105)**	1,483	**-**	-
Total realised gains/(losses)	**(28,158)**	119,870	**-**	-
Total changes in net market values	**(69,667)**	233,527	**84,789**	349,970

9. Direct investment expenses

	Consolidated		Fund	
	2012 $000	2011 $000	**2012 $000**	2011 $000
Custodian fees	**2,520**	2,257	**-**	-
Fund managers' fees	**11,698**	13,412	**-**	-
VPST's trustee services fees	**5,158**	7,567	**-**	-
Other investment expenses	**3,772**	3,372	**-**	-
Total	**23,148**	26,608	**-**	-

Notes to the financial statements for the year ended 30 June 2012

10. Administration expenses

	Consolidated		Fund	
	2012 $000	2011 $000	**2012 $000**	2011 $000
Annual lodgement fee - APRA	**858**	269	**858**	269
Banking & Regulatory Charges	**58**	55	**58**	55
External audit fees	**50**	32	**50**	32
Trustee services fees	**16,962**	16,959	**16,962**	16,959
Other administration expenses	**98**	88	**98**	88
Total	**18,026**	17,403	**18,026**	17,403

11. Contributions receivable

Contributions for outstanding 2002 defined benefit unfunded liability accounts are payable by the year 2013. Contributions for outstanding 2010 defined benefits unfunded liability accounts are payable by the year 2021.

The funding call resulted from Trustee's actuarial investigation as at 31 December 2011 are payable on 1 July 2013. Employers are offered a fifteen-year payment plan at the interest rate of 7.5% per annum.

Contributions for defined benefits members' ongoing service are payable on the 21 day of the first month in each quarter.

	Consolidated		Fund	
	2012 $000	2011 $000	**2012 $000**	2011 $000
Ongoing service	**2,107**	11	**2,107**	11
Past service	**502,860**	22,129	**502,860**	22,129
Contributions receivable	**504,967**	22,140	**504,967**	22,140

Notes to the financial statements for the year ended 30 June 2012

12. Income tax expense

	Consolidated 2012 $000	Consolidated 2011 $000	Fund 2012 $000	Fund 2011 $000
Current tax expense				
Current income tax	**55,756**	56,442	**43,182**	48,706
Adjustment of current income tax of previous years	**1,299**	(1,291)	**495**	(730)
	57,055	55,151	**43,677**	47,976
Deferred tax expense				
Relating to origination and reversal of temporary difference	**67,193**	18,727	**71,257**	4,303
Adjustment of deferred income tax of previous years	**(7,508)**	(3,006)	**-**	-
	59,685	15,721	**71,257**	
	116,740	70,872	**114,934**	52,279

Numerical reconciliation between tax expense and net change for the year before tax

	Consolidated 2012 $000	Consolidated 2011 $000	Fund 2012 $000	Fund 2011 $000
Benefits accrued before income tax	**789,040**	936,474	**620,444**	527,969
At the tax rate of 15%	**118,356**	140,471	**93,067**	79,195
Additional tax on no TFN contributions	**-**	-	**-**	-
Increase in tax expenses due to:				
Non-deductible benefits paid	**60,614**	46,910	**60,614**	46,910
Imputation credits from franked dividends received	**2,770**	3,302	**-**	-
Foreign tax credits	**325**	64	**-**	-
Deferred franking credit	**-**	286	**-**	-
Other	**4,609**	1,989	**(622)**	(159)
Decrease in tax expenses due to:				
Non-assessable contributions	**(8,825)**	(6,857)	**(8,825)**	(6,857)
Non-assessable rollovers	**(15,116)**	(11,934)	**(15,116)**	(11,934)
Death and disability insurance	**(794)**	(1,275)	**(794)**	(1,275)
Anti-detriment deduction	**(342)**	(376)	**(342)**	(376)
Non-taxable income/loss from PST	**(20,716)**	(61,661)	**(13,542)**	(52,495)
Pension exemption	**(6,766)**	(5,335)	**-**	-
Imputation and foreign tax credits	**(20,256)**	(23,798)	**-**	-
Adjustment to recognise losses at 10%	**5,647**	(6,616)	**-**	-
No TFN tax credit	**-**	-	**-**	-
Over/under provision in previous year	**(2,766)**	(4,298)	**494**	(730)
Income tax expense reported in operating statement	**116,740**	70,872	**114,934**	52,279

13. Tax assets and liabilities

The current tax liabilities for the Fund of $43,182,000 (2011: $48,706,000) represents the amount of income taxes payable in respect of current and prior financial years.

Notes to the financial statements for the year ended 30 June 2012

14. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Consolidated		Fund	
	2012	2011	**2012**	2011
Deferred tax assets	**$000**	$000	**$000**	$000
Unrealised taxable capital losses	**74,515**	58,830	-	-
Investment liability	-	1,088	-	-
Other	-	112	-	6
	74,515	60,030	-	6
Deferred tax liabilities				
Contributions receivable	**75,698**	4,446	**75,698**	4,446
Unrealised investment income	**2,917**	-	-	-
Other	-	-	-	-
	78,615	4,446	**75,698**	4,446
Net deferred tax assets/(liabilities)	**(4,100)**	55,584	**(75,698)**	(4,440)

Movement in temporary differences during the year:

2012 Consolidated

	Opening balance $000	Recognised in income $000	Acquisition /disposal $000	Exchange differences $000	Closing balance $000
Deferred tax liabilities:					
Contribution receivable	4,446	71,252	-	-	75,698
Unrealised taxable capital gain	-	-	-	-	-
Investment income	-	-	-	-	-
Operating assets	-	-	-	-	-
Other	-	2,917	-	-	2,917
	4,446	74,169	-	-	78,615
Deferred tax assets:					
Investment liability	1,087	(1,087)	-	-	-
Unrealised taxable capital losses	58,831	15,684	-	-	74,515
Other	112	(112)	-	-	-
	60,030	14,485	-	-	74,515
	55,584	(59,684)	-	-	(4,100)

Notes to the financial statements for the year ended 30 June 2012

14. Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year (continued):

2011 Consolidated

	Opening balance $000	Recognised in income $000	Acquisition/ disposal $000	Exchange differences $000	Closing balance $000
Deferred tax liabilities:					
Contribution receivable	143	4,303	-	-	4,446
Unrealised taxable capital gain	-	-	-	-	-
Investment income	788	(788)	-	-	-
Operating assets	-	-	-	-	-
Other	-	-	-	-	-
	931	3,515	-	-	4,446
Deferred tax assets:					
Employee entitlements	-	-	-	-	-
Investment liability	2,830	(1,743)	-	-	1,087
Unrealised taxable capital losses	69,058	(10,227)	-	-	58,831
Other	348	(236)	-	-	112
	72,236	(12,206)	-	-	60,030
	71,305	(15,721)	-	-	55,584

2012 Fund

	Opening balance $000	**Recognised in income $000**	**Acquisition /disposal $000**	**Exchange differences $000**	**Closing balance $000**
Gross deferred tax liabilities:					
Contribution receivable	**4,446**	**71,252**	-	-	**75,698**
Unrealised taxable capital gain	-	-	-	-	-
Investment income	-	-	-	-	-
Operating assets	-	-	-	-	-
Other	-	-	-	-	-
	4,446	**71,252**	-	-	**75,698**
Gross deferred tax assets:					
Investment liability	-	-	-	-	-
Other	**6**	**(6)**	-	-	-
	6	**(6)**	-	-	-
	(4,440)	**(71,258)**	-	-	**(75,698)**

Notes to the financial statements for the year ended 30 June 2012

14. Deferred tax assets and liabilities (continued)

2011 Fund

	Opening balance $000	Recognised in income $000	Acquisition/ disposal $000	Exchange differences $000	Closing balance $000
Gross deferred tax liabilities:					
Contribution receivable	143	4,303	-	-	4,446
Unrealised taxable capital gain	-	-	-	-	-
Investment income	-	-	-	-	-
Operating assets	-	-	-	-	-
Other	-	-	-	-	-
	143	4,303	-	-	4,446
Gross deferred tax assets:					
Employee entitlements	-	-	-	-	-
Investment liability	-	-	-	-	-
Other	6	-	-	-	6
	6	-	-	-	6
	(137)	(4,303)	-	-	(4,440)

15. Related parties

(a) Trustee and key management personnel

The trustee of the Fund is Vision Super Pty Ltd. The trustee company comprised of eight Directors and five Alternates. The names of persons who were Directors and Alternates of the trustee company of the Group during the financial year are:

Member Directors:
Brian Parkinson
Wendy Phillips
Tony Tuohey
Russell Atwood

Alternates:
Lisa Darmanin is the Alternate Director for all member Directors

Employer directors:
Michael Tilley
Angela Emslie
Rob Spence
Geoff Lake

Alternates:
Steve Bird
Leigh Harder
Alison Lyon
Alison Lyon

Director Michael Tilley was replaced as Employer Director on 1 July 2012 by Peter Wilson. Director Angela Emslie resigned on 14 September 2012.

Notes to the financial statements for the year ended 30 June 2012

15. Related parties (continued)

(a) Trustee and key management personnel (continued)

Each Director attended the following meetings and Board Committees during the year as a member of the Board or relevant Committee.

Name	Board Meetings	
	Held	Attended
Rob Spence	14	14
Brian Parkinson	14	13
Wendy Phillips	14	13
Tony Tuohey	14	13
Russell Atwood	14	12
Michael Tilley	14	11
Angela Emslie	14	11
Geoff Lake	14	14

Board Committees are open to all Directors and were attended by a quorum of Directors on all occasions. Apart from Directors of the Trustee Company, the Chief Executive Officer, General Manager Finance and Compliance, Chief Operating Officer, Manager Investments and General Manager Fund Development are considered to be Key Management Personnel (KMP) for the purpose of these financial statements.

(b) Key management personnel and executives' compensation

The KMP's compensation is presented in the table below for year 2012. Total compensation received, or due and receivable, by key management personnel amounted to $1,832,000 (2011: $1,766,000). The detail is as follows:

	2012	2011
	$000	$000
Short-term employee benefits	**1,663**	1,618
Other long-term benefits	**-**	-
Post-employment benefits	**170**	148
	1,832	1,766

Notes to the financial statements for the year ended 30 June 2012

15. Related parties (continued)

(b) Key management personnel and executives' compensation (continued)

The table below lists the number of Key Management Personnel and executive positions named above whose income falls within the following bands for the financial year ending 30 June:

Amounts falling between...	2012	2011
Upto $39,999	3	3
$40,000 - $49,999	7	7
$70,000 - $79,999	1	1
$210,000 – $229,999	1	1
$230,000 - $249,999		1
$250,000 - $259,999	1	
$260,000 - $269,999		2
$270,000 - $279,999	2	
$400,000 - $419,000	1	1

The remuneration paid to Chairman is $79,668, Directors $43,229 and $1,090 for Alternate Directors. There is no additional remuneration for Directors' attendance at Committee meetings.

Any Director of the Company or other key management personnel who is a member of the Fund contributes to the Fund on the same terms and conditions as other members. No retirement benefits were paid to Directors or key management personnel during the year.

The Trustee has not made, guaranteed or secured any loan to any Director or member of staff or to any other related party.

	2012 $000	2011 $000
Rollins from KMP to LASF/VSF	-	-
Benefits paid to KMP	60	230
Vested Benefits of KMP	8,186	8,158

(c) Related party transactions

(i) Members Equity

The Group is a minority investor in Industry Super Holding Pty Ltd, the owner of Members Equity. Members Equity is the provider of Super Members Home Loans

(ii) Regional Infrastructure Fund

VPST is the sole shareholder in Regional Infrastructure Fund Pty Ltd (RIF).

RIF was established primarily to invest in regional infrastructure projects. RIF has four Directors, all of whom are current or former Directors of Vision Super Pty Ltd, namely, Tony Tuohey, Michael Tilley, James Coghlan and Darrell Cochrane.

The objective for RIF is to invest in infrastructure projects and it currently wholly owns Regional Wind Farms Pty Ltd.

Notes to the financial statements for the year ended 30 June 2012

15. Related parties (continued)

(c) Related party transactions (continued)

(iii) Regional Wind Farms Pty Ltd

Regional Wind Farms Pty Ltd is wholly owned company and was established by RIF to invest in wind farms. Project development, construction and operations are contracted out to third party providers. Director Tony Tuohey is also a Director of Regional Wind Farms Pty Ltd. Other Directors are appointed by Industry Funds Management (IFM).

(iv) Vision Super Pty Ltd

As described in Note 1, Vision Super Pty Ltd is the trustee of the Fund.

	Consolidated		Fund	
	2012 $000	2011 $000	**2012 $000**	2011 $000
Trustee services fees payable/paid to VSPL	**22,893**	32,093	**17,357**	24,526

(v) Directors

Ms Emslie's partner, Garry Weaven, is Executive Chair of IFM, which manages infrastructure and private equity investments for the Group and provides management services to RIF. Mr Weaven is also a Director of Members Equity.

Director Tony Tuohey has a commercial relationship with Bridgewater Associates, a fund manager engaged by the Group, and absented himself from any determination relating to this manager.

16. Auditor's remuneration

	Consolidated		Fund	
	2012 $000	2011 $000	**2012 $000**	2011 $000
Amounts received or due and receivable by Ernst & Young for:				
An audit of the financial statements of the Group	**102**	84	**67**	55
Other services in relation to the Group	**19**	12	**-**	-
Total	**121**	96	**67**	55

17. Insurance

The Fund has a group policy in place with CommInsure to provide both Death & Disability and Income Protection insurance cover for SuperSaver and Personal plan members. The Fund provides Death & Disability insurance cover for Defined Benefits plan members.

Notes to the financial statements for the year ended 30 June 2012

18. Investments and derivatives

(a) Classification of financial instruments under the Fair Value Hierarchy

AAS 25 requires investments to be measured using net market value. The following table shows financial instruments recorded at net market value, analysed between those whose net market value is based on quoted market prices, those involving valuation techniques where all the model inputs are observable in the market and those where the valuation technique involves the use of non-market observable inputs that are significant to the determination of net market value. Net market value is considered a reasonable approximation of fair value, and for the purposes of the "fair value hierarchy", estimated costs of disposal have been disregarded for Level 1 financial assets. Listed equities, listed trusts and cash and deposits have been disclosed within level 1 and 2 in the fair value hierarchy, as the Trustee considers this is the most appropriate treatment that reflects how listed equities, listed trusts and cash and deposits are valued.

The analysis is consistent for both the consolidated entity and Fund. The categorisation within the fair value hierarchy is the same for both the Fund and consolidated entity.

	2012			
	Value at quoted market price (level 1)	Valuation technique – market observable inputs (level 2)	Valuation technique – non-market observable inputs (level 3)	Total
	$000	$000	$000	$000
Cash	955,058	-	-	955,058
Diversified bonds	9,052	436,361	70,455	515,868
Australian equities	931,786	131,694	85	1,063,565
International equities	684,983	166,379	2	851,364
Property	2,782	1,280	566,903	570,965
Private equities	14,219	12,141	`472,730	499,090
Infrastructure	-	-	586,702	586,702
Absolute return	-	74,983	-	74,983
Derivative assets	14,632	1,572,189	-	1,586,821
Derivative liabilities	(392)	(1,557,408)	-	(1,557,800)
Total	2,612,120	837,619	1,696,877	5,146,616

Notes to the financial statements for the year ended 30 June 2012

18. Investments and derivatives (continued)

(a) Classification of financial instruments under the Fair Value Hierarchy (continued)

	2011			
	Value at quoted market price (level 1) $000	Valuation technique – market observable inputs (level 2) $000	Valuation technique – non-market observable inputs (level 3) $000	Total $000
Cash	655,134	21,722	-	676,956
Diversified bonds	20,943	548,766	103,147	672,856
Australian equities	940,223	139,008	-	1,079,231
International equities	697,104	164,934	3	862,041
Property	2,431	596	556,388	559,415
Private equities	1,713	-	471,353	473,066
Infrastructure	-	-	540,108	540,108
Absolute return	3,885	86,284	-	90,169
Derivative assets	22,782	1,543,848	-	1,566,630
Derivative liabilities	(39)	(1,535,052)	-	(1,535,091)
Total	2,344,176	970,156	1,670,999	4,985,331

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

Disclosure of the method and assumptions applied in determining the net market value for each class of financial assets and financial liabilities are included in 2(e).

(b) Level 3 financial instruments transactions

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.

Consolidated

	2012 $000	2011 $000
Opening balance	**1,670,998**	1,662,257
Realised/unrealised gains and losses	**19,255**	48,041
Purchases/applications	**66,919**	100,519
Sales/redemptions	**(41,569)**	(126,650)
Accrued interests	**313**	3.169
Adjustments	**(19,771)**	(17,613)
Transfers into level 3	**732**	1,275
Transfers out of level 3	**-**	-
Closing balance	**1,696,877**	1,670,998

Notes to the financial statements for the year ended 30 June 2012

18. Investments and derivatives (continued)

(b) Level 3 financial instruments transactions (continued)

Fund

	2012 $000	2011 $000
Opening balance	**1,538,712**	1,531,109
Realised/unrealised gains and losses	**16,530**	41,784
Purchases/applications	**57,449**	87,425
Sales/redemptions	**(35,687)**	(110,152)
Accrued interests	**269**	2,754
Adjustments	**(16,972)**	(15,317)
Transfers into level 3	**629**	1,109
Transfers out of level 3	**-**	-
Closing balance	**1,560,930**	1,538,712

Total gains/(losses) recognised in the Statement of Changes in Net Assets for Level 3 transactions are presented in the movement in net market value of investments as follows:

Consolidated

	2012 $000	2011 $000
Total gains/(losses) recognised in the Statement of Changes in Net Assets for the period	**19,255**	48,041
Total gains/(losses) recognised in the Statement of Changes in Net Assets for the period for assets held at the end of the reporting period	**20,399**	47,949

Fund

	2012 $000	2011 $000
Total gains/(losses) recognised in the Statement of Changes in Net Assets for the period	**16,530**	41,785
Total gains/(losses) recognised in the Statement of Changes in Net Assets for the period for assets held at the end of the reporting period	**17,512**	41,703

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 possibly produce a different net market value measurement. If the impact of using those alternative assumptions would cause the fair value of Level 3 asset to be higher or lower by 5% the net assets of the Group and the result for the year would have been higher or lower by $85 million (2011: $84 million).

(c) Transfers between hierarchy levels

There have been no significant transfers between Level 1 and Level 2 of the fair value hierarchy during the year.

Notes to the financial statements for the year ended 30 June 2012

19. Risk management

(a) Financial risk management objectives, policies and processes

The Group's principle financial instruments, other than derivatives, comprise units in pooled superannuation trusts, unlisted investments, equity securities, insurance policies, fixed interest securities, cash and short-term deposits. The main purpose of these financial instruments is to generate a return on investment.

The Group also has various other financial instruments such as sundry receivable and payables, which arise directly from its operations. These are mainly current in nature.

Risks arising from holding financial instruments are inherent in the Group's activities, and are managed through a process of ongoing identification, measurement and compliance monitoring. The Group is exposed to credit risk, liquidity risk and market risk, including interest rate risk, equity price risk and foreign currency risk.

The Trustee is responsible for identifying and controlling the risks that arise from these financial instruments. The Trustee reviews and agrees policies for managing each of these risks as summarised below. The Group also monitors the market price risk arising from all financial instruments.

Information about the total fair value of financial instruments exposed to risk, as well as compliance with established investment mandate limits, is monitored by the Trustee. These mandate limits reflect the investment strategy and market environment of the Group, as well as the level of risk that the Group is willing to accept.

This information is prepared and reported to the Trustee on a monthly basis.

Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or when a number of counterparties are engaged in similar business activities, have activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

In order to avoid excessive concentrations of risk, the Group monitors its exposure to ensure concentration of risk remain within acceptable levels in accordance with the Group mandate and either reduces exposure or uses derivative instruments to manage the excessive risk concentrations when they arise.

The Group's accounting policies in relation to derivatives are set out in note 2 (e).

Notes to the financial statements for the year ended 30 June 2012

19. Risk management (continued)

(b) Credit risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Group to incur a financial loss.

With respect to credit risk arising from the financial assets of the Group, other than derivatives, the Group's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the Statement of Net Assets. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values. The risk associated with these contracts is minimised by undertaking transactions with high quality counterparties on recognised exchanges, and ensuring that transactions are undertaken with a number of counterparties.

Credit risk arising from investments is mitigated by extensive tax and legal due diligence undertaken by the Group prior to the appointment of fund managers to ensure fund managers have appropriate skills and expertise to manage the Group's allocated investments. In addition, the Group conducts annual review of derivative risk statements and internal controls and processes for all appointed fund managers to ensure fund managers maintain those skills and expertise.

The Group holds no collateral as security or any other credit enhancements. There are no significant financial assets that are past due or impaired. Credit risk is not considered to be significant to the Group except in relation to investments in debt securities.

Credit quality per class of debt instruments

The credit quality of financial assets is managed by the Group using Standard & Poor's rating categories, in accordance with the investment strategy of the Trustee. The Group's exposure in each grade is monitored on a monthly basis. This review process allows the Trustee to assess the potential loss as a result of risks and take corrective action. The table below shows the credit quality by class of asset for debt instruments.

2012 – Consolidated and Fund

	AAA to AA-	A+ to A-	BBB+ to BBB-	CCC	Short term A-1+ to A2	Not rated or available	Total
	$000	$000	$000	$000	$000	$000	$000
Loans	-	-	150	-	-	2,632	2,782
Fixed interest bonds	286,898	33,579	13,597	-	-	27,376	361,450
Indexed bonds	65,463	-	-	-	-	4,494	69,957
Floating rate notes	2,728	1,788	-	-	-	104	4,620
Zero coupon bonds	96	-	-	-	-	-	96
Mortgage backed securities	-	-	-	-	-	-	-
Discount securities	192	-	-	-	-	-	192
Cash & deposits	-	-	-	-	-	1,023,459	1,023,459
Pooled funds*	-	-	-	-	-	153,104	153,104
Total	355,377	35,367	13,747	-	-	1,211,169	1,615,660

Notes to the financial statements for the year ended 30 June 2012

19. Risk management (continued)

(b) Credit risk (continued)

2011 – Consolidated and Fund

	AAA to AA-	A+ to A-	BBB+ to BBB-	CCC	Short term A-1+ to A2	Not rated or available	Total
	$000	$000	$000	$000	$000	$000	$000
Loans	-	-	-	-	-	2,183	2,183
Fixed interest bonds	227,477	15,420	2,590	-	-	158,634	404,121
Indexed bonds	52,320	-	-	-	-	81,669	133,989
Floating rate notes	3,069	727	160	-	-	-	3,956
Zero coupon bonds	-	-	-	-	-	175	175
Mortgage backed securities	-	-	-	-	-	2	2
Discount securities	435	-	-	-	21,772	6,089	28,296
Cash & deposits	-	-	-	-	-	756,476	756,476
Pooled funds*	-	-	-	-	-	209,561	209,561
Total	283,301	16,147	2,750	-	21,772	1,214,789	1,538,759

Instruments are either not rated or ratings are not available at NAS.

Risk concentration of credit risk exposure

Concentration of credit risk is managed by counterparty, by geographical region and by industry sector.

Notes to the financial statements for the year ended 30 June 2012

19. Risk management (continued)

(b) Credit risk (continued)

The Group's financial assets can be analysed by the following geographic regions:

	Consolidated		Fund	
	2012	2011	**2012**	2011
	$000	$000	**$000**	$000
Australia	**4,562,684**	4,449,241	**3,917,013**	3,869,373
North America	**415,930**	334,323	**357,072**	290,773
Europe	**143,338**	158,691	**123,054**	138,019
Asia	**23,642**	39,721	**20,297**	34,547
Others	**4,293**	3,353	**3,685**	2,918
Total	**5,149,887**	4,985,330	**4,421,121**	4,335,930

Significant economic sector exposure exists as follows:

	Consolidated		Fund	
	2012	2011	**2012**	2011
	$000	$000	**$000**	$000
Financials	**420,995**	371,412	**361,419**	323,031
Materials	**254,820**	290,401	**218,760**	252,573
Industrials	**151,858**	168,364	**130,368**	146,433
Energy	**121,514**	139,958	**104,319**	121,726
Consumer discretionary	**141,879**	132,461	**121,802**	115,207
Consumer staples	**123,559**	121,044	**106,074**	105,277
Information technology	**156,710**	120,050	**134,534**	104,412
Health care	**106,746**	105,900	**91,640**	92,105
Telecommunication	**61,435**	49,721	**52,741**	43,245
Utilities	**33,660**	27,275	**28,897**	23,722

The above table does not include investments in unlisted trusts or pooled funds.

Notes to the financial statements for the year ended 30 June 2012

19. Risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. This risk is controlled through the Group's investment in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Group maintains sufficient cash and cash equivalents to meet normal operating requirements.

As at 30 June 2012 - Consolidated	Less than 1 month ($000)	1 to 3 months ($000)	3 to 12 months ($000)	1 to 5 years ($000)	Over 5 years ($000)	No stated maturity ($000)	Total ($000)
Financial liabilities							
Benefits payable	18,580	-	-	-	-	-	18,580
Other payables	6,107	-	-	-	-	-	6,107
Vested benefits	4,989,587	-	-	-	-	-	4,989,587
Total undiscounted financial liabilities (excluding gross settled derivatives)							
Gross settled derivatives:							
Swaps							
Gross cash outflow	-	-	-	-	-	-	-
Warrants							
Gross cash inflow				4,562	10,060		14,622
Options							
Gross cash inflow	341	39					380
Gross cash outflow	(69)	(2)					(71)
Futures							
Gross cash inflow		4	5				9
Gross cash outflow			(391)				(391)
Forward foreign currency contracts							
Gross cash inflow	508	1,064					1,572
Gross cash outflow	(502)	(1,055)					(1,557)
Total undiscounted gross settled derivatives inflow/(outflow)	5,014,552	50	(386)	4,562	10,060	-	5,028,838

Notes to the financial statements for the year ended 30 June 2012

19. Risk management (continued)

(c) Liquidity risk (continued)

As at 30 June 2011 - Consolidated	Less than 1 month ($000)	1 to 3 months ($000)	3 to 12 months ($000)	1 to 5 years ($000)	Over 5 years ($000)	No stated maturity ($000)	Total ($000)
Financial liabilities							
Benefits payable	15,356	-	-	-	-	-	15,356
Other payables	7,611	-	-	-	-	-	7,611
Vested benefits	4,393,072	-	-	-	-	-	4,393,072
Total undiscounted financial liabilities (excluding gross settled derivatives)							
Gross settled derivatives:							
Swaps							
Gross cash outflow	-	-	-	-	-	(407)	(407)
Warrants							
Gross cash inflow	-	-	14,213	6,845	-	-	21,058
Options							
Gross cash inflow	575	233	235	-	-	-	1,043
Gross cash outflow	(84)	(27)	-	-	-	-	(111)
Futures							
Gross cash inflow	-	-	1,723	-	-	-	1,723
Gross cash outflow	-	-	(39)	-	-	-	(39)
Forward foreign currency contracts							
Gross cash inflow	873,719	638,675	30,411	-	-	-	1,542,805
Gross cash outflow	(867,753)	(636,432)	(30,348)	-	-	-	(1,534,533)
Total undiscounted gross settled derivatives inflow/(outflow)	4,422,496	2,449	16,195	6,845	-	(407)	4,447,578

The Group undertakes cashflow projection analysis daily to ensure minimal exposure to liquidity risk. For unlisted investments, the Group also undertakes commitment cashflow projections as a part of monthly rebalancing review and understanding of liquid and illiquid components

The Group's significant financial liabilities are benefits payable to members.

In relation to vested superannuation benefits, these would be considered on demand, which payments comprise the entire defined contribution component and the vested portion of the defined benefit component.

The Group manages its obligation to pay the defined contribution component on an expected maturity basis based on management's estimates and actuarial assumptions of when such funds will be drawn down by members. The Group considers it is highly unlikely that all defined contribution members will request to roll over their superannuation fund account at the same time. Furthermore, in relation to the vested defined benefit component, the Group has adequate resources readily convertible to cash to satisfactorily meet these obligations when called upon.

Other financial liabilities of the Group comprise trade and other payables which are contractually due within 30 days and derivative liabilities comprising futures payable within 12 months.

Notes to the financial statements for the year ended 30 June 2012

19. Risk management (continued)

(d) 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, foreign exchange rates, and equity prices. Market risk is diversified through ensuring that all investment activities are undertaken in accordance with established investment policies of the Group.

The Trustee employs diversification investment strategy to mitigate the market risk in each market segment. Further, the Fund also enters into forward foreign exchange contracts to hedge against adverse foreign exchange movements.

(i) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because changes in market interest rates.

In determining the reasonably possible change for interest rate risk, the sensitivity of the "official cash rate" as set by the Reserve Bank of Australia (RBA) from time to time is used.

Based on the NAS Accounting Policy Manual June 2012, a 50 basis points movement in interest rate is considered reasonably possible for the 2011/2012 reporting period. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

An increase/decrease of 50 basis points in interest rates at the reporting date would have increased/(decreased) the changes in net assets available to pay benefits by the amounts shown below:

2012 – Consolidated and Fund

Asset class sector	**Change in basis points Increase/decrease**	**Sensitivity of interest income and changes in net assets $000 Increase/decrease**
Cash and cash equivalents	**+/-50**	**-**
Fixed interest securities	**+/-50**	**(14,188)/14,195**
Derivatives	**+/-50**	**168/(168)**

2011 – Consolidated and Fund

Asset class sector	Change in basis points Increase/decrease	Sensitivity of interest income and changes in net assets $000 Increase/decrease
Cash and cash equivalents	+/-50	-
Fixed interest securities	+/-50	(18,634)/18,648
Derivatives	+/-50	354/(354)

Notes to the financial statements for the year ended 30 June 2012

19. Risk management (continued)

(d) Market risk (continued)

(ii) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Trustee manages its exposure to foreign currency risk and mitigates effects of its foreign currency translation exposure placing limits on the portion of the assets which can be invested in different currencies and by appointing specialist currency managers to implement passive hedge over foreign currency exposure. This foreign exchange policy is monitored against actual on an ongoing basis throughout the year.

Based on the NAS Accounting Policy Manual June 2012, the movement of main currency exchange rates below is considered reasonably possible for the 2011/2012 reporting period:

USD	5%
British pounds	10%
Euro	10%
Japanese Yen	5%

The percent strengthening/weakening of the AUD against the following basket of foreign currencies as 30 June would have increased/(decreased) the changes for the year in net assets available to pay benefits by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

Currency	**2012**		2011	
	Change in Currency rate %	**Effect on changes in net assets $000**	Change in currency rate%	Effect on changes in net assets $000
USD	**+/-5**	**(19,424)/21,469**	+/-10	29,768/(36,383)
Euro	**+/-10**	**(7,117)/8,699**	+/-10	17,263/(21,099)
Japanese Yen	**+/-5**	**(1,311)/1,449**	+/-5	4,287/(4,739)
British pounds	**+/-10**	**(2,607)/3,187**	+/-5	2,607/(2,881)

(iii) Equity price risk

Equity price risk is the risk that the fair value of investments in equities decreases or increases as a result of changes in market prices, whether those changes are caused by factors specific to the individual share price or factors affecting all equity instruments in the market. Equity price risk exposure arises from the Group's investment portfolio.

To limit equity price risk the Trustee diversifies its investment portfolio in line with its investment strategy. The majority of equity investments are of a high quality and are publicly traded on recognised, reputable exchanges. The Trustee monitors the Group's exposure to various asset classes on an ongoing basis throughout the year ensuring its investment strategy is adhered to.

Based on the NAS Accounting Policy Manual June 2012, a 10% movement in equity price is considered reasonably possible for the 2011/2012 reporting period. This analysis assumes that all other variables, in particular, interest rates and foreign exchange rates, remain constant. The analysis is performed on the same basis for 2011.

The "10%" increase/decrease in the equity price against the investments of the Group at 30 June would have increased/(decreased) the changes for the year in net assets available to pay benefits by the amounts shown below:

Notes to the financial statements for the year ended 30 June 2012

19. Risk management (continued)

(d) Market risk (continued)

(iii) Equity price risk (continued)

Consolidated and Fund

	2012		2011	
Asset class sector	**Change in equity price**	**Effect on changes in net assets**	Change in equity price	Effect on changes in net assets
	%	$000	%	$000
Life insurance policies	**+/-10**	**14,238/(14,238)**	+/-15	19,801/(19,801)
Listed equities	**+/-10**	**150,011/(150,011)**	+/-15	219,738/(219,738)
Listed property trusts	**+/-10**	**4,701/(4,701)**	+/-15	5,037/(5,037)
Listed units trust	**+/-10**	**1,676/(1,676)**	+/-15	2,627/(2,627)
Pooled development fund	**+/-10**	**2,924/(2,924)**	+/-15	4,329/(4,329)
Preference shares	**+/-10**	**301/(301)**	+/-15	457/(457)
Unlisted equities	**+/-10**	**24,584/(24,584)**	+/-15	32,818/(32,818)
Unlisted MIS	**+/-10**	**164,746/(164,746)**	+/-15	257,047/(257,047)
Others	**+/-10**	**10,820/(10,820)**	+/-15	16,038/(16,038)

20. Investment commitments

The Group has a private market commitment of $1,742 million (2011: $1,749 million) as at the reporting date consists of the drawn commitment of $1,559 million (2011: $1,506 million) and undrawn commitment of $183 million (2011: $243 million).

21. Contingent liabilities/assets

The Group has no contingent liabilities/assets as at 30 June 2012.

22. Significant events after balance date

Between 30 June 2012 and the date of approval of this financial report, there have been no matters or circumstances not otherwise dealt with in the financial period that have significantly affected or may significantly affect the Group.

LOCAL AUTHORITIES SUPERANNUATION FUND

Statement by Trustee

In the opinion of the Trustee:

(a) The accompanying financial statements of the Local Authorities Superannuation Fund and its controlled entities are drawn up so as to present fairly the net assets of the Group as at 30 June 2012 and the changes in net assets for the year then ended;

(b) The financial statements have been prepared in accordance with the Australian Accounting Standards, other mandatory professional reporting requirements and the provisions of the Trust Deed dated 26 June 1998; and

(c) The operation of the Local Authorities Superannuation Fund has been carried out in accordance with its Trust Deed dated 26 June 1998 and in compliance with the provisions of the Superannuation Industry (Supervision) Act 1993 and Regulations, and the Corporations Act 2001 and Regulations and Guidelines during the year ended 30 June 2012.

Signed in accordance with a resolution of the Directors of the trustee company, Vision Super Pty Ltd.

Brian Parkinson

Rob Spence
Director

Brian Parkinson
Director

Melbourne, 10 October 2012

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ERNST & YOUNG

LOCAL AUTHORITIES SUPERANNUATION FUND (ABN: 24 496 637 884)

REPORT BY THE INDEPENDENT APPROVED AUDITOR TO THE TRUSTEE AND MEMBERS

Financial statements

I have audited the financial statements of Local Authorities Superannuation Fund for the year ended 30 June 2012 comprising the statement of net assets, statement of changes in net assets, summary of significant accounting policies, other explanatory notes and the Trustee statement.

Trustee's Responsibility for the Financial Statements

The superannuation entity's trustee is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the requirements of the 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.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted an independent audit of the financial statements in order to express an opinion on them to the trustee and members of Local Authorities Superannuation Fund.

My audit has been conducted in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the trustee's preparation and fair presentation of the financial statements 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 trustee's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustee, as well as evaluating the overall presentation of the financial statements.

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

Ernst & Young

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Auditor's Opinion

In my opinion the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards, the net assets of Local Authorities Superannuation Fund as at 30 June 2012 and the changes in net assets for the year ended 30 June 2012.

Emphasis of Matter

I draw attention to Notes 6 and 7 to the financial statements. These notes describe the "Unsatisfactory Financial Position" of the Defined Benefit plans together with the Trustee approved future funding arrangements, including notification to APRA, which meet the requirements of the SIS Act and regulations together with the contractual arrangement between the Trustee and the relevant Employers. My opinion is not qualified in respect of these matters.

Ernst & Young

Ernst & Young

Martin Walsh
Partner
Melbourne

15 October 2012

Russell Investments

ACTUARIAL STATEMENT FOR THE PURPOSES OF AUSTRALIAN ACCOUNTING STANDARD AAS 25

REPORTING PERIOD ENDED 31 DECEMBER 2011
LOCAL AUTHORITIES SUPERANNUATION FUND

This statement has been prepared at the request of the Trustee of the Fund and sets out the value of Accrued Benefits and other actuarial information required under AAS 25, for disclosure in the financial statements of the Fund. This statement provides the necessary information for the total Fund and the three significant defined benefit sub-plans of the Fund, namely the Defined Benefit plan, the City of Melbourne plan and the Parks Victoria plan.

Results

For the disclosure purposes of AAS 25, the Accrued Benefits under the Fund as at 31 December 2011 are determined to be $4,642,133,000 comprising of the following components:

ACCRUED BENEFITS AS AT 31 DECEMBER 2011	
	$
Value of Accrued Benefits for Defined Benefit plan members, deferred beneficiaries and pensioners	2,023,240,000
Value of Accrued Benefits for City of Melbourne plan members	54,465,000
Value of Accrued Benefits for Parks Victoria plan members	31,577,000
Value of Accrued Benefits for other members and Accumulation Benefits	2,532,851,000
Total	4,642,133,000

Accrued Benefits have not been subjected to a minimum of the Vested Benefits, either on an individual member or plan basis. The aggregate amount of Vested Benefits at 31 December 2011 was $4,838,503,000 which includes an amount for pension liabilities. The Fund was in an unsatisfactory financial position as at 31 December 2011.

Method

Accrued Benefits are based on the expected future benefit payments (measured using actuarial assumptions and valuations where appropriate) that arise from membership of the Fund up to the measurement date (based on "Actual Accrual" approach). The present value of expected future payments are determined as the benefits payable to defined benefit members, taking into account expected future salary increases, the probability of payment, and the discounting back to present-day dollars.

Accrued Benefits have been calculated in a manner consistent with Professional Standard 402 and Guidance Note 454 issued by the Institute of Actuaries of Australia.

Data and Assumptions

The assumptions and data used to calculate Accrued Benefits are the same as those used in the actuarial investigation of the Fund as at 31 December 2011. The financial assumptions are summarised as follows:

Discount Rate:	7.50% per annum (active members) 8.25% per annum (pensioners)
Future Salary Increases:	4.25% per annum
CPI Increases:	2.75% per annum

The discount rate of 7.5% per annum is considered to be a reasonable expectation of actual future Fund returns over the average expected term of the benefit liabilities, calculated to be 6.9 years, in light of the Fund's present investment strategy and taxation position. These assumptions have been adopted in consideration of the views of Russell and the Fund's asset consultants, Frontier.

Summary of Actuarial Report

For the purposes of AAS 25, the "Report on the Actuarial Investigation as at 31 December 2011" dated 25 June 2012 may be summarised as follows:

Data

The following table summarises the membership for the three main defined benefit sub-plans as at 31 December 2011:

Plan	Number of members	Total Salaries ($m)
Defined Benefit	4,972*	350.1^
City of Melbourne	177	14.8
Parks Victoria	105	8.2

** includes one former Ports plan member.*

^ excludes 22 members who exited after 31 December 2011.

Funding Method and Recommendations

The method of funding benefits adopted is the aggregate funding method. This method aims to provide sufficient funding to meet all the future benefit payments as they fall due. In making the recommendations, we have also considered the proposed Prudential Standard (SPS 160) which is expected to require superannuation funds to fully fund the vested benefit shortfall within three years,.

Based on this funding method and the actuarial assumptions set out in the actuarial report, the actuary recommended that each employer should make contributions to the Fund at least equal to:

- Defined Benefit plan:
  - (a) Contributions equal to 9.25% of salary for employee members;
  - (b) An additional contribution to cover the excess of the benefits paid as a consequence of retrenchment above the funded resignation or retirement benefit (the funded resignation or retirement benefit is calculated as the VBI multiplied by the benefit), plus contribution tax;
  - (c) Top up contributions of $406 million (plus contribution tax and interest from 31 December 2011) payable as at 1 July 2013. The "actuarial shortfall" with interest to 1 July 2013 is $453 million (plus contribution tax). (While Employers will be encouraged to pay their share of this amount by 1 July 2013, other funding options will be provided);
  - (d) Additional top up contributions that may be required in the future so that the Defined Benefit plan is no longer in an unsatisfactory financial position.
- City of Melbourne plan:
  - (a) Contributions equal to 13% (inclusive of 1% salary continuance cover) of salary for employee members;
  - (b) Top up contributions of $2.2 million (inclusive of 15% contribution tax) per annum payable in 2012/13, 2013/14 and 2014/15;

(c) Top-up payments for exiting members to cover the excess of the benefits paid above the unfunded vested benefits, plus contribution tax.

- Parks Victoria plan:

(a) Contribute the amount due in 2011/12 of approximately $0.4 million as per the previous funding plan;

(b) Contributions equal to 12% of salary for Division E;

(c) Contribute the current accruing cost contribution rates for Division F members - 17.0% of salary for former Revised Scheme and for former Transport Scheme members, current rates recommended in "Report on the Actuarial Investigation as at 31 December 2011" based on the members' contribution rates or such other rates as agreed between the Trustee, the Port's employers and the actuary.

(d) Top up contributions of $1.9 million (inclusive of 15% contribution tax) per annum payable in 2012/13, 2013/14 and 2014/15;

(e) Top-up payments for exiting members to cover the excess of the benefits paid above the unfunded vested benefits, plus contribution tax.

At the time of finalising the report there were ongoing discussions between the Trustee and Parks Victoria. An alternative funding plan may be agreed and separate actuarial advice will be provided if this occurs.

In relation to the Defined Benefit plan the funding plan is expected to fully fund vested benefits, but not within three years. Accordingly, this funding plan may need to be revised if the finalised Prudential Standard (SPS 160) requires funding plans to achieve 100% coverage of vested benefits within three years, unless an adjustment or exclusion from this requirement is provided by APRA for the Defined Benefit plan.

Financial Condition

The coverage of various measures of benefit liabilities by assets at 31 December 2011 was as follows:

Total Fund	Assets	Liabilities	Ratio
Vested Benefits	4,315,323,989	4,838,502,739	89%
Accrued Benefits	4,315,323,989	4,642,132,589	93%
Minimum Requisite Benefits	4,315,323,989	4,097,316,948	105%

- The asset value shown in this table was also used to determine the recommended contribution rates. As at 31 December 2011, in my opinion the assets of the Fund were not sufficient to meet the value of the liabilities of the fund in respect of Accrued Benefits.
- In addition to the position reported above, the actuary projected the Fund's ongoing ability to meet both Accrued and Vested Benefits over the three years following the date of the investigation. This was undertaken on the basis that:
  - the actuarial assumptions as to investment returns, salary inflation, rate of pension increase and membership turnover would apply over the next three years;
  - no new members would be admitted as defined benefit members; and
  - the Authorities will contribute to the Fund over the next three years in accordance with the recommendations outlined in the Local Authorities Superannuation Fund actuarial report.
- Based on the assumptions in the above projection, it is anticipated that:
  - the Vested Benefits will not be covered by Fund assets throughout the three years following the date of the investigation; and
  - While the assets are currently less than the Accrued Benefits, if the top-up contributions recommended in the actuarial investigation for the Defined Benefit plan are invoiced by 1 July 2013 and these amounts are able to be included in the assets, the Accrued Benefits are expected to be covered by Fund assets by the end of the three year projection period..

Self Insurance

- Defined Benefit plan:

  The Defined Benefit plan provides death and disablement benefits that are significantly higher than the resignation/retirement benefits. The Fund self insures this risk. This continues to be appropriate in light of the Fund's size, experience, present membership and benefit levels.

- City of Melbourne plan:

  The plan provides death and disablement benefits that are significantly higher than the resignation/retirement benefits. The plan also includes a salary continuance benefit. The Fund self insures these risks.

  There are risks with self insuring only 177 members because experience could vary significantly. Variation in the claim experience could have a large impact on the plan's funding position and increase the likelihood of more variable contributions. We recommend that the Fund seek external insurance in relation to the death and disablement benefits and the salary continuance benefits in order to mitigate these risks.

- Parks Victoria plan:

  The Parks plan provides death and disablement benefits that are significantly higher than the resignation/retirement benefits. The Fund self insures these risks.

  Variation in the claims experience could have a large impact on the plan's funding position and increase the likelihood of more variable contributions. We recommend that the Fund seek external insurance in relation to the death and disablement benefits in order to mitigate these risks.

Material Risks

- Technical Insolvency Risk

  Because the MRBI of the Defined Benefit plan was 113% as at 31 December 2011, there is a risk the Defined Benefit plan could become Technically Insolvent. The risk is expected to reduce if the Defined Benefit plan top-up contributions due from 1 July 2013 are able to be included in the assets.

  .

- Investment Risk

  The most significant risk facing the defined benefit plans is that investment returns will not be as high as expected which might result in additional contribution calls in the future.

  It is recommended that the funding position of the defined benefit plans continue to be considered in setting investment policy.

- Liquidity Risk

  As at 31 December 2011, 43% of the investments are invested in illiquid asset classes which include Private Equity, Infrastructure, Opportunistic Investments and Direct Property.

  We understand that the Board has determined that no further commitments are to be made to illiquid investments and is considering plans to reduce the allocation to illiquid assets to 25-30% over approximately three to five years.

  Given the maturity of the plans, it is recommended that the Board should consider the time frame over which they will reduce the exposure to illiquid assets in the defined benefit plans to zero.

- Asset Risks

We understand that in preparing the financial statement, Vision Super has determined the defined benefit plan assets by deducting the defined contribution assets (or liabilities) from the total Fund assets.

We recommend that the Board should satisfy itself that no cross subsidies are occurring or could occur between the defined benefit and defined contribution plans. Consideration should be given to the Fund segregating the accounting process for defined benefit and defined contribution plans.

- Retrenchment Risk

The retrenchment benefit is larger than the resignation benefit for most members. Also, currently resignation benefits are not fully funded. Therefore, a significant number of retrenchments would have a negative impact on funding and liquidity unless additional contributions are required to fund the shortfall when a member is retrenched. This is also appropriate when a member over or under 55 is retrenched even if it is not a retrenchment benefit being paid from the Defined Benefit plans.

As per our recommendations, Vision Super should require top-up contributions to be made by the Authorities to manage this risk.

- Reserving Risks

In the Draft Prudential Standards, there are proposals to require funds to allocate a proportion of assets to an operational reserve. If defined benefit plan assets were used to establish any of this reserve then the VBI, DABI and MRBI would reduce. Authorities would be required to make additional contributions to achieve the VBI of 100%.

Matthew Burgess
Fellow of the Institute of Actuaries of Australia

Gabrielle Baron
Fellow of the Institute of Actuaries of Australia

18 July 2012

Russell Employee Benefits (ABN 70 099 865 013, AFSL 220705)

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