

CARE Super
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

CARE Super
TABLE OF CONTENTS

| | Page |
|--|-------------|
| Statement of Financial Position | 2 |
| Income Statement | 3 |
| Statement of Changes in Member Benefits | 4 |
| Statement of Changes in Reserves | 5 |
| Statement of Cash Flows | 6 |
| | |
| Notes to the Financial Statements | |
| 1. Operation of the Fund | 7 |
| 2. Summary of significant accounting policies | 7 - 11 |
| 3. Member liabilities | 12 |
| 4. Financial assets and liabilities | 12 - 15 |
| 5. Receivables | 15 |
| 6. Property, plant and equipment | 15 |
| 7. Leases | 15 - 16 |
| 8. Payables | 17 |
| 9. Changes in fair value of investments | 17 |
| 10. Funding arrangements | 17 |
| 11. Income tax | 18 |
| 12. Auditors' remuneration | 18 |
| 13. Cash flow statement reconciliation | 19 |
| 14. Segment Information | 19 |
| 15. Related party disclosures | 19 - 20 |
| 16. Financial risk management objectives and policies | 21 - 26 |
| 17. Insurance | 26 |
| 18. Structured entities | 27 |
| 19. Operating expenses | 27 |
| 20. Commitments and contingent liabilities | 27 |
| 21. Significant events after balance date | 27 |
| | |
| Trustee Statement | |
| Independent Report by the Approved Auditor to the Trustee | |

CARE Super
Statement of Financial Position
As at 30 June 2020

| | Note | 2020 \$ '000 | 2019 \$ '000 |
|--|------|---------------------------|---------------------------|
| Assets | | | |
| Cash and cash equivalents | 13 | 47,446 | 45,955 |
| Receivables | 5 | 1,701 | 2,845 |
| Financial assets | 4 | | |
| Cash & short term deposits | | 2,186,430 | 1,956,851 |
| Capital guaranteed | | 157,067 | 102,353 |
| Australian shares | | 3,512,685 | 3,766,941 |
| Overseas shares | | 4,025,696 | 4,066,956 |
| Alternatives | | 3,453,776 | 3,663,823 |
| Fixed interest | | 933,889 | 972,315 |
| Property | | 1,937,432 | 1,981,696 |
| Derivative assets | | 8,140,912 | 3,207,927 |
| Income tax receivable | | 23,140 | 75,034 |
| Property, plant and equipment | 6 | 8,054 | 2,363 |
| Right-of-use assets | 7 | 29,479 | - |
| Deferred tax assets | 11 | 4,072 | 2,109 |
| Total assets | | <u>24,461,779</u> | <u>19,847,168</u> |
| Liabilities | | | |
| Payables | 8 | (40,721) | (32,245) |
| Income tax payable | | - | - |
| Deferred tax liabilities | 11 | (268,944) | (300,698) |
| Lease liabilities | 7 | (28,894) | - |
| Lease provisions | | (1,418) | - |
| Financial liabilities | 4 | (7,899,074) | (3,201,718) |
| Total liabilities excluding member benefits | | <u>(8,239,051)</u> | <u>(3,534,661)</u> |
| Net assets available for member benefits | | <u>16,222,728</u> | <u>16,312,507</u> |
| Member benefits | | | |
| Allocated to members | | (16,092,576) | (16,125,737) |
| Unallocated to members | | (19,891) | (21,203) |
| Total member liabilities | 3 | <u>(16,112,467)</u> | <u>(16,146,940)</u> |
| Net assets | | <u>110,261</u> | <u>165,567</u> |
| Equity | | | |
| General reserve | | (69,607) | (125,868) |
| Operational risk reserve | | (40,654) | (39,699) |
| Total equity | | <u>(110,261)</u> | <u>(165,567)</u> |

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

CARE Super
Income Statement
For the year ended 30 June 2020

| | Note | 2020 \$ '000 | 2019 \$ '000 |
|--|------|------------------|------------------|
| Superannuation activities | | | |
| Interest | | 64,222 | 74,207 |
| Dividends and distributions | | 582,884 | 695,229 |
| Net changes in fair value of financial instruments | 9 | (683,141) | 306,780 |
| Other investment income | | 7,681 | 14,445 |
| Other income | | 1,477 | 1,217 |
| Total superannuation activities income | | (26,877) | 1,091,878 |
| Investment expenses | | (66,257) | (50,699) |
| Administration expenses | | (12,035) | (15,146) |
| Operating expenses | 19 | (43,250) | (40,358) |
| Total expenses | | (121,542) | (106,203) |
| Result from superannuation activities before income tax expense | | (148,419) | 985,675 |
| Income tax (benefit)/expense | 11 | (57,321) | 17,396 |
| Result from superannuation activities after income tax expense | | (91,098) | 968,279 |
| Net (benefits)/losses allocated to members' accounts | | 35,792 | (971,940) |
| Operating result after income tax | | (55,306) | (3,661) |

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

CARE Super
Statement of Changes in Member Benefits
For the year ended 30 June 2020

| | 2020 | 2019 |
|---|-------------------|-------------------|
| | \$ '000 | \$ '000 |
| Opening balance of member benefits | 16,146,940 | 14,651,061 |
| Contributions: | | |
| Employer | 806,973 | 786,891 |
| Member | 186,615 | 173,881 |
| Transfers from other superannuation plans | 449,299 | 534,166 |
| Government co-contributions | 1,341 | 1,386 |
| Income tax on contributions | (115,646) | (106,228) |
| Net after tax contributions | 1,328,582 | 1,390,096 |
| Benefits paid to members/beneficiaries | (1,345,252) | (861,404) |
| Insurance premiums charged to members' accounts | (81,029) | (87,216) |
| Death and disability insurance entitlements credited to members' accounts | 99,018 | 82,464 |
| Benefits allocated to members' accounts, comprising: | | |
| Net investment income | 6,075 | 1,017,137 |
| Administration fees | (41,867) | (45,198) |
| Closing balance of member benefits | 16,112,467 | 16,146,940 |

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

CARE Super
Statement of Changes in Reserves
For the year ended 30 June 2020

| | General reserve \$ '000 | Operational risk reserve \$ '000 | Total equity \$ '000 |
|---|--|---|---------------------------------|
| Opening balance as at 1 July 2019 | 125,868 | 39,699 | 165,567 |
| Net transfers to/from reserves | (955) | 955 | - |
| Operating result | (55,306) | - | (55,306) |
| Closing balance as at 30 June 2020 | 69,607 | 40,654 | 110,261 |

| | General reserve \$ '000 | Operational risk reserve \$ '000 | Total equity \$ '000 |
|---|--|---|---------------------------------|
| Opening balance as at 1 July 2018 | 133,187 | 36,041 | 169,228 |
| Net transfers to/from reserves | (3,658) | 3,658 | - |
| Operating result | (3,661) | - | (3,661) |
| Closing balance as at 30 June 2019 | 125,868 | 39,699 | 165,567 |

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

CARE Super
Statement of Cash Flows
For the year ended 30 June 2020

| | Note | 2020 \$ '000 | 2019 \$ '000 |
|---|------|------------------|--------------------|
| Cash flows from operating activities | | | |
| Interest received | | 64,222 | 74,207 |
| Dividend and Distribution received | | 582,884 | 695,229 |
| Insurance proceeds (inwards) | | 99,018 | 82,464 |
| Administration expenses | | (12,035) | (16,507) |
| General Operating expenses | | (43,770) | (36,341) |
| Investment expenses | | (53,558) | (50,700) |
| Other income | | 2,603 | (1,107) |
| Insurance premiums (outwards) | | (81,004) | (89,292) |
| Income tax refunds/(paid) | | 75,497 | (44,953) |
| Sale/(Purchase) of fixed assets | | (5,690) | (290) |
| Net cash inflow/(outflow) from operating activities | 13 | 628,167 | 612,710 |
| Cash flows from investing activities | | | |
| Purchases of investments | | (1,074,234) | (1,333,001) |
| Proceeds from sale of investments | | 462,406 | 172,788 |
| Net cash inflow/(outflow) from investing activities | | (611,828) | (1,160,213) |
| Cash flows from financing activities | | | |
| Employer contributions | | 806,973 | 783,731 |
| Member contributions | | 186,615 | 173,881 |
| Transfers from other superannuation plans received | | 449,299 | 534,167 |
| Government co-contributions received | | 1,341 | 1,386 |
| Benefits paid to members | | (1,343,430) | (856,211) |
| Income tax paid on contributions received | | (115,646) | (106,228) |
| Net cash inflow/(outflow) from financing activities | | (14,848) | 530,726 |
| Net increase/(decrease) in cash and cash equivalents | | 1,491 | (16,776) |
| Cash and cash equivalents at the beginning of the financial year | | 45,955 | 62,731 |
| Cash and cash equivalents at the end of the financial year | 13 | 47,446 | 45,955 |

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

CARE Super
Notes to the Financial Statements
For the year ended 30 June 2020

1. Operation of the Fund

CARE Super is a defined contribution superannuation fund and was established by Trust Deed dated 18 December 1986. The Fund has both accumulation members and retirement members. Under the terms of the Fund's declaration of trust CARE Super Pty Ltd (A.B.N. 91 006 670 060) is appointed trustee. CARE Super Pty Ltd is a company limited by shares that is incorporated and domiciled in Australia. The registered office of CARE Super Pty Ltd is located at Level 6, 447 Collins Street, Melbourne, Victoria, Australia. The members' accounts are credited or debited with contributions and their proportionate share of the net investment income, expenses, and income tax expense of the Fund.

In accordance with the amendments to the *Superannuation Industry (Superannuation) Act 1993* the Fund was registered with the Australian Prudential Regulation Authority on 18 December 1986 (Registration number 125703943).

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 interpretations issued by the Australian Accounting Standards Board, the *Superannuation Industry (Supervision) Act 1993 and Regulations ("SIS")* and the provisions of the Trust Deed.

The financial statements are presented in Australian dollars.

The Fund is a not-for-profit entity for the purpose of preparing financial statements.

The financial statements were authorised for issue by the Board of Directors of the Trustee on 16 September 2020.

(b) New accounting standards and interpretations

AASB 16 *Leases* was issued in February 2016. It results in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised.

The standard is mandatory for annual reporting periods beginning on or after 1 January 2019.

The Fund has adopted AASB 16 *Leases* retrospectively from 1 July 2019, but has not restated comparatives for the 2019 reporting period, as permitted under specific transition provisions in the standard. The adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

On adoption of AASB 16, the Fund recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 *Leases*.

These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 2.70%.

(i) Practical expedients applied

In applying AASB 16 for the first time, the Fund has used the following practical expedients permitted by the standard:

- accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short term leases and
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application

The Fund has also elected not to reassess whether a contract is, or contains a lease at the date of initial application.

Instead, for contracts entered into before the transition date the Fund relied on its assessment made applying AASB 117 Interpretation 4 *Determining whether an Arrangement contains a Lease*.

(ii) Measurement of lease liabilities

| | 2019 |
|---|----------------|
| | \$ '000 |
| Operating lease commitments disclosed as at 30 June 2019 | 13,581 * |
| Discounted using the lessee's incremental borrowing rate at the date of initial application | 3,293 |
| Less: short term leases not recognised as liability | (794) |
| Lease liability recognised as at 1 July 2019 | 2,499 |
| Of which are: | |
| Current lease liabilities | 374 |
| Non-current lease liabilities | 2,125 |
| | 2,499 |

* The operating lease commitments disclosed as at 30 June 2019 include the lease commitment of \$10.4 million for the Melbourne office Level 6/ 447 Collins St. The lease commenced with the asset made available for use from 1 April 2020 for which lease liability has not been recognised under AASB 16 *Leases* as at 1 July 2019.

2. Summary of significant accounting policies (continued)

(iii) Measurement of right-of-use assets

The associated right-of-use assets were measured at the amount equal to the lease liability, including any make good costs provision.

(iv) Adjustments recognised in the balance sheet on 1 July 2019

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- right-of-use assets: increase by \$2,663,919
- lease liabilities and provisions: increase by \$2,663,919

Other significant accounting policies

(c) Consolidation

The Fund is an investment entity and, as such, does not consolidate the entities it controls.

(d) Financial assets and liabilities

(i) Classification

Financial assets and liabilities held at fair value through profit or loss

The Fund classifies its investments based on its business model for managing those financial instruments and the contractual cash flow characteristics of the financial instruments. The Fund's portfolio of financial instruments is managed and its performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund uses fair value information to assess performance of the portfolio and to make decisions to rebalance the portfolio or to realise fair value gains or minimise losses through sales or other trading strategies. The Fund's policy is for the Trustee to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

Equity securities, unlisted unit trusts and derivatives are measured at fair value through profit or loss. For debt securities, the contractual cash flows are solely payments of principal and interest, however they are neither held for collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, the debt securities are measured at fair value through profit or loss.

(ii) Recognition / derecognition

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

Investments are derecognised when the right to receive cash flows from the investments have expired or have been transferred and the Fund has transferred substantially all of the risks and rewards of ownership. Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires. Any gains or losses arising on derecognition of the asset or liability (calculated as the difference between the disposal proceeds and the carrying amount of the asset or liability) are included in the Income Statement in the reporting period that the asset or liability is derecognised as realised gains or losses on financial instruments.

2. Summary of significant accounting policies (continued)

(iii) Measurement

Financial assets and liabilities held at fair value through profit or loss

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately in the income statement.

Subsequent to initial recognition, all financial assets and financial liabilities held at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the financial assets or financial liabilities held at fair value through profit or loss are presented in the Income Statement within 'net gains/(losses) on financial instruments held at fair value through profit or loss' in the period in which they arise.

(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. Refer to Note 4.

(f) Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents in the Statement of Financial Position comprises cash at bank.

(g) Receivables and payables

Receivables may include amounts for dividends, interest and trust distributions and are measured at fair value. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in note 2(i) below. Amounts are generally received within 30 days of being recorded as receivables.

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

2. Summary of significant accounting policies (continued)

(h) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, ranging from three to ten years.

(i) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The specific recognition criteria described below must also be met before revenue is recognised.

Changes in fair value

Changes in the fair value of investments and derivatives are calculated as the difference between the fair value at sale, or at balance 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 tax expense in the income statement.

(j) Income tax

Under the Income Tax Assessment Act, the Fund is a complying superannuation fund. As such, a concessional tax rate of 15% is applied on net investment earnings with deductions allowable for administrative and operational expenses. Financial assets held for less than 12 months are taxed at the Fund's rate of 15%. For financial assets held for more than 12 months, the Fund is entitled to a further discount on the tax rate leading to an effective tax rate of 10% on any gains/(losses) arising from the disposal of investments.

Current tax is the expected tax payable on the estimated taxable income for the current year based on the applicable tax rate adjusted for instalment payments made to the ATO during the year and by changes in deferred tax assets and liabilities attributable to temporary differences.

Deferred tax is recognised in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the amounts used for taxation purposes. Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(k) Goods and services tax (GST)

Revenues, 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 amounts 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.

2. Summary of significant accounting policies (continued)

(l) 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.

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.

(m) Member liabilities

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

(n) Reserves

The Fund retains two separate reserve sub-accounts as follows: General Reserve and the Operational Risk Reserve. The Reserves are intended to cover unforeseen contingencies that may require restitution of members' accounts or other events not within the specifications of the Operational Risk Reserve. The General Reserve may be used to fund approved expenses, projects, system development or other costs as determined by the Fund where there is a benefit to members over the long term. Investment earnings are held in the reserve accounts during each financial year. The reserves ensure that, as far as possible, funds are available to provide for any operational error or other unforeseen events that would require members to be compensated beyond the normal unit pricing methodology, or to meet additional and unanticipated tax obligations.

The purpose of the Operational Risk Reserve is to provide protection to the Fund in the event that a loss is incurred from an operational risk event occurring. The use of the Operational Risk Reserve is governed by the requirements of SPS 114 Operational Risk Financial Requirement, which is applicable to all APRA-regulated funds. The target range is 25 basis points. At 30 June 2020 the Operational Risk Reserve is 25.06 bps (2019: 24.34 bps)

The purpose of the General Reserve is to cover expenses and any small mismatch of assets and liabilities due to timing of investments and liquidation of investments not met by fee deductions from members.

Transfers in and out of the reserves are made only at the authorisation of the Trustee and in accordance with the Fund's Reserve Policy.

(o) Use of estimates

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

For the majority of the Fund's financial instruments, quoted market prices are readily available. However, certain financial instruments, for example over-the-counter derivatives or unquoted securities, are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel. Refer to note 4 for details.

(p) Rounding of amounts

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

(q) Reclassification of financial information

Where necessary, comparative information has been reclassified to achieve consistency with current period disclosures.

CARE Super
Notes to the Financial Statements
For the year ended 30 June 2020

3. Member liabilities

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

Defined contribution member account balances are measured using unit prices determined by the Trustee based on the underlying investment option values selected by members.

The defined contribution members bear the investment risk relating to the underlying investment options. Unit prices used to measure defined contribution member liabilities are updated daily for movements in investment values. As at 30 June 2020, the net assets attributable to defined contribution members have been substantially allocated. Net investment income not yet allocated to members forms part of the balance in the General Reserve, shown in the statement of financial position within equity.

Refer to Note 16 for the Fund's management of the investment risks.

| | 2020 | 2019 |
|---|-------------------|-------------------|
| | \$ '000 | \$ '000 |
| Member liabilities vest 100% to members. | | |
| Member liabilities at end of the financial year | <u>16,112,467</u> | <u>16,146,940</u> |
| As compared to net assets available to pay benefits | <u>16,222,728</u> | <u>16,312,507</u> |

4. Financial assets and liabilities

(a) Asset classes

The investments of CARE Super are aggregated by asset class. The asset classes are broadly consistent with the asset classes listed in the Fund's Investment Guide, which is a supplement to the Product Disclosure Statement, released 1 April 2020.

The Fund separately discloses the value of derivative assets and liabilities, which may be used in various asset classes.

Cash & short term deposits

Cash investments include cash, term deposits (with terms normally less than one year) and marketable discount securities including bank accepted bills, commercial paper and short term fixed interest securities.

Capital guaranteed

This asset class invests in the AMP Capital Guaranteed Savings Account, which is a portfolio of cash and fixed interest investments wherein the capital and credited accrued interest are guaranteed by AMP Life Limited not to be reduced by negative investment returns.

Australian shares

Investments in Australian shares are equity securities listed on the Australian Securities Exchange (ASX) which represent part ownership in a company.

Overseas shares

Investments in Overseas shares are equity securities listed on various international securities exchanges which represent part ownership in a company.

Alternatives

Alternative investments is a broad term used to describe a range of different types of investments. The Fund groups these into four broad categories:

- Infrastructure: These are mainly equity holdings in transport, utility and 'social' assets. Some examples include airports, toll roads, shipping ports, schools, hospitals and electricity and gas generation and distribution assets.
- Private Equity: These investments comprise mainly equity holdings in unlisted companies, ranging from those in an early stage of development to more mature businesses seeking capital restructure, change of ownership or expansion.
- Credit: This asset class comprises investments in debt instruments that typically pay an interest rate that is floating. Examples of credit investments include direct loans made to companies, securitised bank loans, mortgage-backed securities and infrastructure debt.
- Absolute return: This asset class involves a mix of investment strategies which invest predominantly across fixed interest, credit and currency markets. The objective of this asset class is to produce a return in excess of cash over the long term, but with less volatility than would be expected from shares.

Fixed interest

Fixed interest investments (or bonds) are interest-bearing debt securities issued by governments and large corporations. They represent loans made to borrowers for a pre-determined period, for which regular interest payments are received.

Property

Property investments include commercial, industrial and retail real estate assets. These investments generate a return through rental income and by increases (or decreases) in capital value over time.

Derivative Assets / Liabilities

These derivative assets and liabilities represent Over The Counter (OTC) and exchange traded derivative securities, including futures, forward foreign exchange contracts, options, warrants and swaps. Derivative securities comprise the assets and liabilities of various asset classes of the Fund, but are aggregated and disclosed separately in the Financial Statements.

CARE Super
Notes to the Financial Statements
For the year ended 30 June 2020

4. Financial assets and liabilities (continued)

(b) Fair value hierarchy

AASB 13 *Fair Value Measurement* 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 prices (unadjusted) in active markets for identical assets and liabilities. These inputs are readily available in the market and are normally obtainable from multiple sources.
- Level 2 : inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly. The Trustee values fixed interest securities held by the Fund using broker quotes, units in unit trusts using the unit price provided by the underlying fund manager and OTC derivatives using valuation models.
- Level 3 : one or more of the significant inputs are not based on observable market data, examples include discount rates and other material unobservable inputs. The Trustee values units in unit trusts classified as level 3 using the unit price provided by the underlying fund manager. These unit trusts hold illiquid investments such as unlisted property and private equity.

| Types of assets/liabilities | 30 June 2020 | | | Total \$ '000 |
|------------------------------|--------------------|--------------------|--------------------|-------------------|
| | Level 1 \$ '000 | Level 2 \$ '000 | Level 3 \$ '000 | |
| Assets | | | | |
| Cash and Short Term Deposits | 1,005,082 | 1,181,348 | - | 2,186,430 |
| Capital Guaranteed | 157,067 | - | - | 157,067 |
| Australian Shares | 3,512,362 | 285 | 38 | 3,512,685 |
| Overseas Shares | 2,843,232 | 1,182,464 | - | 4,025,696 |
| Alternatives | 129,265 | 1,522,396 | 1,802,115 | 3,453,776 |
| Fixed Interest | 45,957 | 887,932 | - | 933,889 |
| Property | 15,542 | 8,832 | 1,913,058 | 1,937,432 |
| Derivative Assets | 2,915 | 8,137,997 | - | 8,140,912 |
| Total Assets | 7,711,422 | 12,921,254 | 3,715,211 | 24,347,887 |
| Liabilities | | | | |
| Derivative Liabilities | 2,812 | 7,896,262 | - | 7,899,074 |
| Total Liabilities | 2,812 | 7,896,262 | - | 7,899,074 |

| Types of assets/liabilities | 30 June 2019 | | | Total \$ '000 |
|------------------------------|--------------------|--------------------|--------------------|-------------------|
| | Level 1 \$ '000 | Level 2 \$ '000 | Level 3 \$ '000 | |
| Assets | | | | |
| Cash and Short Term Deposits | 876,123 | 1,080,728 | - | 1,956,851 |
| Capital Guaranteed | 102,353 | - | - | 102,353 |
| Australian Shares | 3,766,903 | - | 38 | 3,766,941 |
| Overseas Shares | 2,743,244 | 1,323,712 | - | 4,066,956 |
| Alternatives | 130,149 | 1,707,561 | 1,826,113 | 3,663,823 |
| Fixed Interest | 4,433 | 967,882 | - | 972,315 |
| Property | 22,506 | 18,881 | 1,940,309 | 1,981,696 |
| Derivative Assets | 3,559 | 3,204,368 | - | 3,207,927 |
| Total Assets | 7,649,270 | 8,303,132 | 3,766,460 | 19,718,862 |
| Liabilities | | | | |
| Derivative Liabilities | 2,421 | 3,199,297 | - | 3,201,718 |
| Total Liabilities | 2,421 | 3,199,297 | - | 3,201,718 |

Certain unlisted investments have been reclassified from Level 2 to Level 3 within the fair value hierarchy to better reflect the inputs to valuation techniques used to measure the fair value of these assets in accordance with AASB 13 Fair Value Measurement. Comparatives have been updated for consistency year on year and these are not considered a transfer between levels.

4. Financial assets and liabilities (continued)

(b) Fair value hierarchy (continued)

Valuation technique

Listed equities

When fair values of publicly traded equity securities are based on quoted market prices, or binding dealer price quotations, in an active market for identical assets without any adjustments, the instruments are included within Level 1 of the hierarchy. The Fund values these investments at bid price for long positions and ask price for short positions.

Unlisted unit trusts

The Fund invests in these trusts which are not quoted in an active market and which may be subject to restrictions on redemptions such as lock up periods, redemption gates and side pockets. 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 and therefore the NAV of these funds may be used as an input into measuring their fair value. In measuring this fair value, the NAV of the funds is adjusted, as necessary, to reflect restrictions on redemptions, future commitments, and other specific factors of the fund and fund manager. In measuring fair value, consideration is also paid to any transactions in the shares of the fund. Depending on the nature and level of adjustments needed to the NAV and the level of trading in the fund, the Fund classifies these funds as either Level 2 or Level 3.

Derivative assets and liabilities

The Fund uses widely recognised valuation models for determining fair values of over-the-counter interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including both credit and debit valuation adjustments for counterparty and own credit risk, foreign exchange spot and forward rates and interest rate curves. For these financial instruments, significant inputs into models are market observable and are included within Level 2.

Valuation process for Level 3 valuations

Level 3 investments comprise illiquid debt and equity securities usually accessed via pooled investment vehicles that are managed by the Fund's appointed third-party investment managers or direct equity holdings in companies that are not traded on an exchange. Some types of investments may be classified as Level 3, due to underlying exposures to assets for which valuation practices include the use of unobservable inputs. This Note discusses the approach to valuation of unlisted assets and the implementation of policies and processes to support the calculation of fair value of investment assets.

The Fund has an Asset Valuation Policy which sets out its approach to determining the carrying value of investment assets. The Asset Valuation Policy describes the Fund's use of asset valuations calculated by investment managers or other third parties. The Trustee-appointed Investment Committee is responsible for the oversight of the valuation process.

Holdings of Pooled Investment Vehicles

Some of the Fund's holdings of investments via pooled investment vehicles are classified as Level 3 in the Fair Value Hierarchy disclosure. This is due to the valuations of these vehicles being calculated using inputs that are not based on observable market inputs. Oversight of the valuation of external investment managers is achieved through regular review of valuation policies of the Fund's custodian and investment managers, to ensure they are consistent with the Fund's principles. Through its due diligence processes, the Trustee ensures the asset valuation standards of its investment managers follow industry guidelines. Assets classified as Level 3 are across the property, infrastructure, private equity and credit investments of the Fund.

Valuation of unlisted investment assets is conducted by the Fund's investment managers, or their administrators or responsible entities, notwithstanding that the ultimate responsibility lies with the Trustee. The inputs used to calculate valuations for these investments include discount cash flow models and observable transactions in similar securities.

Direct Holdings in Unlisted Equity

The Fund carries a small exposure to direct holdings in unlisted equity securities. These are classified as Level 3 in the Fair Value Hierarchy disclosure as the securities are not actively traded on an exchange and the valuation of these holdings is not observable through on-market transactional data. Valuation of the Fund's direct equity holdings is conducted according to the Asset Valuation Policy. Direct holdings in unlisted equity securities are valued using market multiples of comparable listed or unlisted companies. These valuations are conducted at least annually by a suitably qualified independent valuer. The independent valuer is periodically rotated.

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.

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

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

Estimating the valuation implications of COVID-19 for the Fund's Level 3 investments has required considerable judgement by the external investment managers and the Trustee. The valuation of the Fund's Level 3 investments is based on data available at the time of the relevant valuation which may change as circumstances and events continue to unfold. The Fund's Level 3 investment valuations will continue to be closely monitored through the COVID-19 pandemic. Valuations are updated when new information becomes available or circumstances change, in accordance with the Fund's Asset Valuation Policy and will be reflected in member balances at the time.

CARE Super
Notes to the Financial Statements
For the year ended 30 June 2020

4. Financial assets and liabilities (continued)

(b) Fair value hierarchy (continued)

Level 3 reconciliation

| 30 June 2020 | Australian Shares \$ '000 | Alternatives \$ '000 | Property \$ '000 | Total \$ '000 |
|-----------------------------------|--------------------------------------|---------------------------------|-----------------------------|--------------------------|
| Opening balance | 38 | 1,826,113 | 1,940,309 | 3,766,460 |
| Transfers into / (out of) Level 3 | - | 1,124 | - | 1,124 |
| Purchases/(sales) | - | 12,454 | 23,817 | 36,271 |
| Gains/(losses) | - | (37,576) | (51,068) | (88,644) |
| Closing Balance | 38 | 1,802,115 | 1,913,058 | 3,715,211 |

| 30 June 2019 | Australian Shares \$ '000 | Alternatives \$ '000 | Property \$ '000 | Total \$ '000 |
|-----------------------------------|--------------------------------------|---------------------------------|-----------------------------|--------------------------|
| Opening balance | 488 | 1,519,464 | 1,789,866 | 3,309,818 |
| Transfers into / (out of) Level 3 | - | 5,750 | - | 5,750 |
| Purchases/(sales) | (450) | 188,175 | 78,739 | 266,464 |
| Gains/(losses) | - | 112,724 | 71,704 | 184,428 |
| Closing Balance | 38 | 1,826,113 | 1,940,309 | 3,766,460 |

Transfers Between Hierarchy Levels

There have been net transfers of investments from Level 2 to Level 1 of \$2,498,494 and from Level 2 to Level 3 of \$1,124,183 during the financial year.

5. Receivables

| | 2020 \$ '000 | 2019 \$ '000 |
|-------------------------------------|-------------------------|-------------------------|
| Recoverable within 12 months | | |
| GST receivable | 989 | 1,145 |
| Prepayments | 124 | 261 |
| Unsettled sales receivable | 523 | 707 |
| Sundry receivables | 65 | 732 |
| | 1,701 | 2,845 |

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 16.

6. Property, plant and equipment

| | 2020 \$ '000 | 2019 \$ '000 |
|---------------------------------------|-------------------------|-------------------------|
| Opening net written down value | 2,363 | 2,387 |
| Additions | 6,411 | 482 |
| Disposals | - | - |
| Depreciation | (720) | (506) |
| Closing net written down value | 8,054 | 2,363 |

7. Leases

(i) Amounts recognised in the balance sheet

The Statement of Financial Position shows the following amounts relating to leases:

| | 2020 \$ '000 | 2019 \$ '000 |
|----------------------------|-------------------------|-------------------------|
| Right-of-use assets | | |
| Buildings | 29,343 | - |
| Equipment | 136 | - |
| | 29,479 | - |
| Lease liabilities | | |
| Current | 1,460 | - |
| Non-current | 27,434 | - |
| | 28,894 | - |

CARE Super
Notes to the Financial Statements
For the year ended 30 June 2020

7. Leases (continued)

(ii) Amounts recognised in the statement of profit and loss

The Income Statement shows the following amounts as Operating expenses relating to leases:

| | 2020 | 2019 |
|---|----------------|----------------|
| | \$ '000 | \$ '000 |
| Depreciation charge of right-of-use assets | | |
| Buildings | (996) | - |
| Equipment | (49) | - |
| | <u>(1,045)</u> | <u>-</u> |
| Interest expense | (229) | - |

The total cash outflow for leases in 2020 was \$441,572.

(iii) The Fund's leasing activities and how these are accounted for

The Fund leases various offices and equipments. Rental contracts are typically made for fixed periods of 6 months to 7 years, but may have extension options as described in (iv) below.

Contracts may contain both lease and non-lease components. The Fund allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Fund is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2019 financial year, leases of property, plant and equipment were classified as operating leases, see note 20 for details. From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Fund.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments less any lease incentives receivable. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the lessee's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Fund where possible, uses a quote for third-party financing as a starting point, adjusted to reflect changes in financing conditions. In absence of the quote received from the third-party, the Fund obtained the Bank Bill Swap Bid Rate (BBSY) as appropriate. It is noted that Superannuation Funds are not permitted to borrow against the assets of the Fund.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability and restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Fund is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Fund revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Fund.

Payments associated with short-term leases (lease terms of 12 months or less) of equipment and vehicles and all leases of low-value assets (equals or less than \$7,500) are recognised on a straight-line basis as an expense in profit or loss.

(iv) Extension and termination options

Extension and termination options are included in some of the leases of the Fund. These are used to maximise operational flexibility in terms of managing the assets used in the Fund's operations. The majority of extension and termination options held are exercisable only by the Fund and not by the respective lessor.

CARE Super
Notes to the Financial Statements
For the year ended 30 June 2020

8. Payables

| | 2020 | 2019 |
|---|----------------|----------------|
| | \$ '000 | \$ '000 |
| Due within 12 months | | |
| Insurance premiums payable | 6,241 | 6,219 |
| Audit fees payable | 48 | 49 |
| Unsettled investment purchases | 4,671 | 9,543 |
| Benefits payable | 9,715 | 7,894 |
| Operating expenses payable | 2,380 | 2,549 |
| Administration expenses payable | 1,960 | 3,230 |
| Provision for employee benefits - Current | 2,432 | 1,770 |
| Sundry creditors | 25 | 758 |
| Investment expenses payable* | 12,922 | - |
| Due later than 12 months | | |
| Provision for employee benefits | 327 | 233 |
| | <u>40,721</u> | <u>32,245</u> |

*The Fund recorded investment expenses incurred for the total amounts of \$12.9 million which were payable as at 30 June 2020. Accrued investment expenses have been included in the financial statements for 2020 to improve the quality of financial disclosures.

Comparatively, the Fund incurred \$10.1 million investment expenses which were payable as at 30 June 2019, however not accrued but expensed directly in the financial year ended 30 June 2020.

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 16.

9. Changes in fair value of investments

| | 2020 | 2019 |
|---|------------------|------------------|
| | \$ '000 | \$ '000 |
| Investments held at balance date | | |
| Cash and short term deposits | 18,292 | 6,049 |
| Capital guaranteed | (97) | (65) |
| Australian shares | (332,296) | 138,997 |
| Overseas shares | 86,809 | 209,049 |
| Alternatives | (140,826) | 155,008 |
| Fixed interest | (8,679) | 41,410 |
| Property | (57,645) | 71,048 |
| Derivative assets/liabilities | 224,719 | 4,408 |
| Total unrealised gains/(losses) | <u>(209,723)</u> | <u>625,904</u> |
| Investments realised during the year | | |
| Cash and short term deposits | 4,868 | 17,599 |
| Australian shares | (147,482) | (183,006) |
| Overseas shares | (32,498) | (47,412) |
| Alternatives | (53,082) | 7,210 |
| Fixed interest | (8,823) | 3,244 |
| Property | (3,911) | 78 |
| Derivative assets/liabilities | (232,490) | (116,838) |
| Total realised gains/(losses) | <u>(473,418)</u> | <u>(319,125)</u> |
| Change in fair value of investments | <u>(683,141)</u> | <u>306,779</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.

10. Funding arrangements

The Fund receives payment of contributions by employers at agreed rates. Employees are also able to make voluntary contributions. Transfers in during the year amounted to \$449,298,878 (2019: \$534,166,567).

CARE Super
Notes to the Financial Statements
For the year ended 30 June 2020

11. Income tax

| | 2020 | 2019 |
|---|-----------------|----------------|
| | \$ '000 | \$ '000 |
| (a) Major components of income tax expense for the years ended 30 June 2020 and 2019: | | |
| Income statement | | |
| Current tax expense | | |
| Current tax charge | (24,330) | (37,665) |
| Adjustments in respect of current income tax of previous years | 726 | 459 |
| Deferred tax | | |
| Relating to origination and reversal of temporary differences | | |
| Deferred tax assets | (1,963) | (280) |
| Deferred tax liabilities | (31,754) | 54,882 |
| Total tax expense as reported in the income statement | <u>(57,321)</u> | <u>17,396</u> |
| (b) Reconciliation between income tax expense and the accounting profit before income tax | | |
| Result from superannuation activities before income tax expense | (148,419) | 985,675 |
| Income tax at 15% | (22,263) | 147,851 |
| Net non-assessable income/(losses) | 20,515 | (17,814) |
| Exempt pension income | (3,432) | (5,935) |
| Net imputation and foreign tax credits | (52,867) | (107,165) |
| Under/(over) provision in the previous year | 726 | 459 |
| | <u>(57,321)</u> | <u>17,396</u> |

(c) Deferred tax

| | Opening | 2020 | Closing |
|---|------------------|-----------------------------|------------------|
| | Balance | (Charged) / Credited | Balance |
| | \$ '000 | to income | \$ '000 |
| | \$ '000 | \$ '000 | \$ '000 |
| Deferred tax assets | | | |
| Fund expenses accrued but not incurred | 2,109 | 1,963 | 4,072 |
| Unrealised losses on investments | - | - | - |
| | <u>2,109</u> | <u>1,963</u> | <u>4,072</u> |
| Deferred tax liabilities | | | |
| Income receivable | (2,382) | 2,366 | (16) |
| Unrealised gains on investments | (298,316) | 29,388 | (268,928) |
| | <u>(300,698)</u> | <u>31,754</u> | <u>(268,944)</u> |
| Net deferred tax (liability)/asset | <u>(298,589)</u> | <u>33,717</u> | <u>(264,872)</u> |

(c) Deferred tax (continued)

| | Opening | 2019 | Closing |
|---|------------------|-----------------------------|------------------|
| | Balance | (Charged) / Credited | Balance |
| | \$ '000 | to income | \$ '000 |
| | \$ '000 | \$ '000 | \$ '000 |
| Deferred tax assets | | | |
| Fund expenses accrued but not incurred | 1,829 | 280 | 2,109 |
| Unrealised losses on investments | - | - | - |
| | <u>1,829</u> | <u>280</u> | <u>2,109</u> |
| Deferred tax liabilities | | | |
| Income receivable | (2,869) | 487 | (2,382) |
| Unrealised gains on investments | (242,947) | (55,369) | (298,316) |
| | <u>(245,816)</u> | <u>(54,882)</u> | <u>(300,698)</u> |
| Net deferred tax (liability) / asset | <u>(243,987)</u> | <u>(54,602)</u> | <u>(298,589)</u> |

12. Auditor's remuneration

| | 2020 | 2019 |
|----------------------------|----------------|----------------|
| | \$ '000 | \$ '000 |
| Audit services | | |
| PwC | 194 | 179 |
| Other services - assurance | | |
| PwC | 175 | 354 |
| | <u>369</u> | <u>533</u> |

CARE Super
Notes to the Financial Statements
For the year ended 30 June 2020

13. Cash flow statement reconciliation

| | 2020 | 2019 |
|---|----------------|----------------|
| | \$ '000 | \$ '000 |
| 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: | | |
| Cash and cash equivalent | 47,446 | 45,955 |

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

| | | |
|--|----------------|----------------|
| Operating result after income tax | (55,306) | (3,661) |
| Adjustments for: | | |
| (Increase) / decrease in assets measured in fair value | 688,391 | (321,629) |
| Depreciation and impairment | 720 | 506 |
| (Increase) / decrease in insurance | 17,989 | (4,752) |
| (Increase) / decrease in receivables | 961 | (2,261) |
| Increase / (decrease) in payables | (1,395) | 530 |
| Increase / (decrease) in income tax payable | 18,177 | (27,556) |
| (Increase) / decrease in fixed assets | (5,578) | (407) |
| Allocation to members' accounts | (35,792) | 971,940 |
| Net cash inflow/(outflow) from operating activities | 628,167 | 612,710 |

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

14. 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, distributions, other investment income, gains on the sale of investments and unrealised changes in the value of investments.

15. Related party disclosures

(a) Trustee and Key Management Personnel

The Trustee of the Fund is CARE Super Pty Ltd. The directors who held office during the financial year were:

Employer Representatives

Katherine Sampson
Terence Wetherall (Chair)
Jeremy Johnson
Michelle Gardiner
Merran Kelsall (appointed 1 April 2020)
Claire Keating (resigned 31 December 2019)

Member Representatives

Keith Harvey
Alessandra Peldova-McClelland
Linda Scott
Robert Potter
Julie Bignell (resigned 31 December 2019)
Anthony Cavanagh (appointed 1 January 2020)

Key Management Personnel

Julie Lander (CEO)
Belinda Ray (EM)
Peter Theodorakopoulos (EM)
Rachel Reynolds (EM) (resigned 15 November 2019)
Suzanne Branton (CIO)
Paul Northey (EM)
Mark Lyons (EM)

The Trustee applied for a licence from the Australian Prudential Regulation Authority. The RSE licence was granted on 16 February 2006 (licence no L0000956). The Trustee received authority to offer a MySuper product on 10 April 2013 (MySuper number 98172275725867).

(b) Compensation of key management personnel

| | 2020 | 2019 |
|--|----------------|----------------|
| | \$ '000 | \$ '000 |
| Short-term employee benefits (salaries, director fees) | 3,286 | 2,780 |
| Post-employment benefits (superannuation) | 237 | 242 |
| Other long-term benefits | 556 | 409 |
| Total compensation | 4,079 | 3,431 |

Transactions between directors and the superannuation fund were transacted under normal terms and conditions with expenses incurred by the directors on the Fund's behalf fully reimbursed.

15. Related party disclosures (continued)

(c) Related Party Transactions

Trustee

CARE Super Pty Ltd invoiced CARE Super the amount of \$2,408,122 (2019: \$2,175,102) during the 2020 year for expenses incurred on behalf of the trustee company.

Trustee Directors

Certain directors are members of the Fund. Their membership terms and conditions are the same as those available to other members of the Fund. Included in the CARE Super Pty Ltd financial accounts are director fees of \$821,226 (2019: \$786,698) during the year.

Industry Superannuation Property Trust Pty Ltd and IIPT Pty Ltd

CARE Super Pty Ltd as trustee for CARE Super holds investments in the Industry Superannuation Property Trusts and the ISPT International Property Trust. The Industry Superannuation Property Trusts are property trust vehicles wherein the Fund together with other industry superannuation funds can make direct property investments. Ms Catherine Wood who resigned as a Director from CARE Super Pty Ltd on 31 December 2018, was a remunerated director of ISPT Pty Ltd, the trustee of the Industry Superannuation Property Trust No 1 & No 2 and IIPT Pty Ltd, the trustee of ISPT International Property Trust.

Industry Super Holdings Pty Ltd

CARE Super Pty Ltd as trustee for CARE Super is a shareholder in Industry Super Holdings Pty Ltd (ISH). ISH is the holding company for IFM Holdings Pty Ltd (IFM), Industry Super Australia Pty Ltd, The New Daily Pty Ltd and Industry Fund Services Limited (IFS). CARE Super Pty Ltd as trustee for CARE Super holds investments in IFM. IFS has a number of subsidiaries including Industry Funds Investments Limited (IFI), Super Members Investments Limited and IFS Insurance Solutions Pty Ltd.

CARE Super engages the services of a number of these entities. AUSfund provided cross matching services to the Fund and was the Fund's eligible rollover fund up until mid 2019. IFI is the Trustee of AUSfund. These non-investment transactions that relate to advertising, financial planning, credit control, insurance consulting and broking totalled \$2,024,031 (2019: \$2,996,609). All transactions were made on normal commercial terms, under normal conditions and at market rates. Mr Terence Wetherall is a Director of Industry Super Australia Pty Ltd and Ms Michelle Gardiner is a Director on the IFM Shareholder Advisory Board. Remuneration relating to the IFM position is paid directly to CareSuper.

Transactions with other organisations

CARE Super Pty Ltd as trustee for CARE Super transacts with the following list of organisations where there is a common Director, where the organisation is a nominating organisation or where a member of the Key Management Personnel is a Director of the organisation. This is for the purpose of membership, research, sponsorship of various events and education.

| Entity | 2020 \$'000 | | | 2019 \$'000 | | |
|---|-------------|-------------|----------------------------|-------------|-------------|----------------------------|
| | Membership | Sponsorship | Other (including training) | Membership | Sponsorship | Other (including training) |
| Business NSW | - | 46 | - | - | 38 | - |
| Victorian Chamber of Commerce and Industry | - | 117 | - | - | 121 | - |
| Australian Services Union | - | 44 | - | - | 7 | - |
| Australian Chamber of Commerce and Industry | - | 33 | - | - | 22 | - |
| Women In Super | - | - | 2 | 15 | - | - |
| Business Council of Cooperatives and Mutuals | 33 | - | - | 29 | 13 | - |
| Australian Council of Superannuation Investors | 118 | - | 54 | 118 | - | 47 |
| Fund Executives Association Limited | 16 | - | 1 | 5 | - | 6 |
| Mother's Day Classic Foundation | - | 34 | - | - | 34 | - |
| Australian Institute of Superannuation Trustees | 44 | - | 257 | 40 | - | 242 |

Terms and conditions of transactions with related parties

Outstanding balances at year end are unsecured and settlement occurs in cash. Transactions and Investments are made on normal commercial terms.

There have been no guarantees provided or received for any related party receivables.

For the year ended 30 June 2020, the Fund has not raised any provision for uncollectible amounts relating to amounts owed by related parties (2019: \$nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates in.

16. Financial risk management objectives and policies

(a) Strategy in using financial instruments

The Fund's principal financial instruments comprise individual mandates and units in managed trusts which invest in equity securities, insurance policies, fixed interest securities, property, infrastructure, private equity, hedge funds, cash and short term deposits. The main purpose of these financial instruments is to generate a return on investment.

The Fund also has various other financial instruments such as sundry receivables and payables, which arise directly from its operations.

The Fund also enters into derivative transactions, principally in equity & fixed interest futures and foreign exchange contracts. The main purpose is to manage financial risks associated with the Fund's investment transactions, and as a means of effecting a change in the asset mix. Investments in derivatives are not used to gear the Fund's investment portfolio, and are limited to the asset allocation limits for the underlying investment class.

The main risks arising from the Fund's financial instruments are interest rate risk, credit risk, market price risk and foreign currency risk. The Trustee reviews and agrees policies for managing each of these risks and they are summarised below.

The Fund's accounting policies in relation to derivatives are set out in Note 2 Summary of Significant Accounting Policies. The risk framework is documented in the Fund's Risk Management Plan and Strategy which is reviewed regularly by management and the Trustee.

(b) Liquidity and cash flow interest rate risk

Liquidity risk is the risk that the Fund will encounter difficulty in raising funds to meet commitments associated with financial instruments. Cash flow interest rate risk is the risk that future cash flows on a financial instrument will fluctuate because of changes in market interest rates.

To control liquidity and cash flow interest rate risk, the majority of the Fund's assets are invested in financial instruments, which under normal market conditions are readily convertible to cash. These investments include listed equities, cash and fixed interest investments.

(c) Price risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments in the market. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

Price risk is minimised through ensuring that all investment activities are undertaken in accordance with established mandate limits and investment strategies.

The Fund is exposed to the price risk relating to changes in the net market value of the respective investment options held by the Fund, namely unit trusts, equity prices, fixed interest and discount securities as well as infrastructure and direct property valuations. Any changes in the net market value of these investments are due to movements in the price of the underlying assets that the fund invests in and the volatility of those assets.

The Trustee, in consultation with JANA Investment Advisors Pty Ltd as the appointed investment consultant, moderates this risk through diversification and the careful selection of investment managers who trade in securities and other financial instruments within specified limits. The Fund's overall market positions are monitored on a monthly basis by the Trustee. In addition, the Trustee reviews each asset class and manager in detail each quarter to ensure that performance is within expectations and ranges of the specific mandate.

The asset allocation ranges for each investment sector have been determined by the Trustee in consultation with the investment consultant. These ranges have been set to ensure the appropriate overall fund risk/return ratio is maintained and to ensure satisfactory diversification across sectors. Investments in each sector are spread over more than one security manager. In this way the Fund is not overly exposed to one manager, asset class or underlying economic event. This approach is designed to produce a moderate out performance over time. The asset allocation of the Balanced Fund is monitored monthly and rebalanced to the target on a monthly basis. All other options are balanced back to benchmark on a weekly basis.

16. Financial risk management objectives and policies (continued)

(d) Sensitivity analysis

(d) (i) Price risk

The volatility of expected returns for the purpose of this analysis has been based on historical analysis and input from the investment consultant in collaboration with the Trustee. The following table represents the returns that would be considered reasonably possible based on the underlying asset classes as at 30 June 2020 and 30 June 2019. This analysis has been performed on a pre-tax basis.

| | <u>Increase</u> | <u>Decrease</u> |
|-------------------|--|-----------------|
| Australian Shares | 11% | -11% |
| Overseas Shares | 12% | -12% |
| Alternatives | 9% | -9% |
| Property | 9% | -9% |
| | Change for year in Net Assets available for Member Benefits | |
| | \$'000 | \$'000 |
| 30 June 2020 | 1,354,688 | (1,354,688) |
| 30 June 2019 | 1,722,820 | (1,722,820) |

(d) (ii) Interest rate risk

Interest rate risk represents the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Fund's exposure to market risk for changes in interest rates relate primarily to investments held in discounted securities and interest bearing securities.

The Fund's policy is to invest in fixed interest as a diversifying strategy as well as moderate the volatility of the expected returns of the Fund.

The risks within the fixed interest investments lie in the duration and credit limits held by the investment managers. Managers are subject to strict guidelines with regard to both parameters and they are monitored regularly by the Trustee in conjunction with the investment consultant.

The following table sets out the carrying amount of the Fund's financial instruments that are exposed to interest rate risk.

| 2020 | Floating interest rate | Fixed interest rate | Non-interest bearing | Total |
|---|-----------------------------------|--------------------------------|---------------------------------|--------------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Financial Assets | | | | |
| Cash at bank | 47,446 | | | 47,446 |
| Cash & short term deposits | 405,429 | 1,780,442 | 559 | 2,186,430 |
| Capital guaranteed | - | 157,067 | - | 157,067 |
| Australian shares | 151,284 | 28,472 | 3,332,928 | 3,512,684 |
| Overseas shares | 75,753 | 9,197 | 3,940,747 | 4,025,697 |
| Alternatives | 583,571 | 31,632 | 2,838,573 | 3,453,776 |
| Fixed interest | 214,710 | 455,212 | 263,967 | 933,889 |
| Property | - | - | 1,937,432 | 1,937,432 |
| Derivative assets | 181,209 | - | 7,959,703 | 8,140,912 |
| Total Financial Assets | 1,659,402 | 2,462,022 | 20,273,909 | 24,395,333 |
| Derivative liabilities | (177,676) | - | (7,721,398) | (7,899,074) |
| Total Financial Liabilities | (177,676) | - | (7,721,398) | (7,899,074) |
| Net Financial Assets/Liabilities | 1,481,726 | 2,462,022 | 12,552,511 | 16,496,259 |

16. Financial risk management objectives and policies (continued)

(d) (ii) Interest rate risk (continued)

| 2019 | Floating interest rate | Fixed interest rate | Non-interest bearing | Total |
|---|------------------------|---------------------|----------------------|--------------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Financial Assets | | | | |
| Cash at bank | 45,955 | - | - | 45,955 |
| Cash & short term deposits | 40,097 | 1,916,226 | 528 | 1,956,851 |
| Capital guaranteed | - | 102,353 | - | 102,353 |
| Australian shares | 141,247 | 38,410 | 3,587,284 | 3,766,941 |
| Overseas shares | 103,364 | 12,134 | 3,951,458 | 4,066,956 |
| Alternatives | 545,676 | 61,445 | 3,056,702 | 3,663,823 |
| Fixed interest | 93,320 | 343,744 | 535,251 | 972,315 |
| Property | - | - | 1,981,696 | 1,981,696 |
| Derivative assets | 41,111 | - | 3,166,816 | 3,207,927 |
| Total Financial Assets | 1,010,770 | 2,474,312 | 16,279,735 | 19,764,817 |
| Derivative liabilities | (41,200) | - | (3,160,518) | (3,201,718) |
| Total Financial Liabilities | (41,200) | - | (3,160,518) | (3,201,718) |
| Net Financial Assets/Liabilities | 969,570 | 2,474,312 | 13,119,217 | 16,563,099 |

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument.

The other financial instruments of the Fund that are not included in the above tables are non-interest bearing and therefore not subject to interest rate risk.

Sensitivity analysis for items exposed to interest rate risk

The following table represents the returns that would be considered reasonably possible based on expected movements in interest rates as at 30 June 2020 and 30 June 2019.

| 2020 | Carrying Amount | Movement in underlying sectors | Increase/ (Decrease) in benefits accrued as a result of operations | Increase/ (Decrease) in members liabilities for accrued benefits |
|---|------------------|--------------------------------|--|--|
| | \$'000 | 70 bps | \$'000 | \$'000 |
| Financial Assets | | | | |
| Cash at bank | - | 70bps | - | - |
| Cash & short term deposits | 1,780,442 | 70bps | (12,463) | 12,463 |
| Capital guaranteed | 157,067 | 70bps | (1,099) | 1,099 |
| Australian shares | 28,472 | 70bps | (199) | 199 |
| Overseas shares | 9,197 | 70bps | (64) | 64 |
| Alternatives | 31,632 | 70bps | (221) | 221 |
| Fixed interest | 455,212 | 70bps | (3,186) | 3,186 |
| Property | - | 70bps | - | - |
| Derivative assets | - | 70bps | - | - |
| Total Financial Assets | 2,462,022 | | (17,232) | 17,232 |
| Derivative liabilities | - | 70bps | - | - |
| Total Financial Liabilities | - | | - | - |
| Net Financial Assets/Liabilities | 2,462,022 | | (17,232) | 17,232 |

16. Financial risk management objectives and policies (continued)

(d) (ii) Interest rate risk (continued)

| | Carrying Amount | Movement in underlying sectors | Increase/ (Decrease) in benefits accrued as a result of operations | Increase/ (Decrease) in members liabilities for accrued benefits |
|---|------------------------|---------------------------------------|---|---|
| 2019 | \$'000 | 68 bps | \$'000 | \$'000 |
| Financial Assets | | | | |
| Cash at bank | - | 68bps | - | - |
| Cash & short term deposits | 1,916,226.00 | 68bps | (13,030) | 13,030 |
| Capital guaranteed | 102,353.00 | 68bps | (696) | 696 |
| Australian shares | 38,410.00 | 68bps | (261) | 261 |
| Overseas shares | 12,134.00 | 68bps | (83) | 83 |
| Alternatives | 61,445.00 | 68bps | (418) | 418 |
| Fixed interest | 343,744.00 | 68bps | (2,337) | 2,337 |
| Property | - | 68bps | - | - |
| Derivative assets | - | 68bps | - | - |
| Total Financial Assets | 2,474,312 | | (16,825) | 16,825 |
| Derivative liabilities | - | 68bps | - | - |
| Total Financial Liabilities | - | | - | - |
| Net Financial Assets/Liabilities | 2,474,312 | | (16,825) | 16,825 |

(e) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund has exposure to foreign currency risk implicit in the value of portfolio securities denominated in a foreign currency. These exposures are managed by a combination of the hedging policies of the underlying managers, and a currency overlay established by the Trustee, in conjunction with the investment consultant, to manage the exposure to international currency movements to a neutral benchmark. Exposure to currency risk is implemented through exposure to Overseas shares.

| 2020 | USD | EUR | HKD | Other | Total |
|-----------------------|---------------|---------------|---------------|---------------|---------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Net investment amount | 672,552 | 196,848 | 115,311 | 488,939 | 1,473,650 |
| | 672,552 | 196,848 | 115,311 | 488,939 | 1,473,650 |

| 2019 | USD | EUR | HKD | Other | Total |
|-----------------------|---------------|---------------|---------------|---------------|---------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Net investment amount | 707,503 | 231,544 | 177,453 | 699,899 | 1,816,399 |
| | 707,503 | 231,544 | 177,453 | 699,899 | 1,816,399 |

| Net market value of foreign exchange contracts | 2020 \$'000 | 2019 \$'000 |
|---|------------------------------|------------------------------|
| Foreign exchange contract assets | 7,946,470 | 3,164,775 |
| Foreign exchange contract liabilities | (7,719,327) | (3,159,707) |

16. Financial risk management objectives and policies (continued)

(e) Foreign currency risk (continued)

Sensitivity analysis

The table below indicates the currencies to which the Fund had significant exposure at 30 June 2020 and 30 June 2019 on its monetary assets and liabilities and forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Australian Dollar on the Statement of Financial Position and Income Statement, with all other variables held constant. Reasonably possible movements in currency are calculated using a 10 year average of the annual movement of the Australian dollar relative to a benchmark group of international currencies.

| Currency | 2020 | | | |
|----------|---------------------------|--|---------------------------|--|
| | Increase in currency rate | Effect on Net Assets / Investment Returns \$'000 | Decrease in currency rate | Effect on Net Assets / Investment Returns \$'000 |
| USD | 7.00% | (47,079) | 7.00% | 47,079 |
| EUR | 7.00% | (13,779) | 7.00% | 13,779 |
| HKD | 7.00% | (8,072) | 7.00% | 8,072 |
| OTHER | 7.00% | (34,226) | 7.00% | 34,226 |

| Currency | 2019 | | | |
|----------|---------------------------|--|---------------------------|--|
| | Increase in currency rate | Effect on Net Assets / Investment Returns \$'000 | Decrease in currency rate | Effect on Net Assets / Investment Returns \$'000 |
| USD | 9.00% | (63,675) | 9.00% | 63,675 |
| EUR | 9.00% | (20,839) | 9.00% | 20,839 |
| HKD | 9.00% | (15,971) | 9.00% | 15,971 |
| OTHER | 9.00% | (62,991) | 9.00% | 62,991 |

(f) Credit risk

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

With respect to credit risk arising from the financial assets of the Fund, other than derivatives, the Fund's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these investments.

In relation to derivative financial instruments, whether recognised or unrecognised, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The risk associated with these contracts is minimised by undertaking transactions with counterparties on recognised exchanges, and ensuring that transactions are undertaken with a large number of counterparties.

The Fund determines credit risk and measures expected credit losses for financial assets measured at amortised cost using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. Management consider the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

There are no significant concentrations of credit risk within the Fund.

(g) Liquidity risk

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

The Fund is obligated to pay member benefits upon request. The Trustee's policy is therefore to hold a substantial proportion of the Funds' assets in investments that are traded in an active market and can be readily disposed. Only a limited proportion of its assets are held in investments not actively traded on a stock exchange.

The Fund has sufficient liquidity to be able to pay benefits to members. This includes both account-based pension members and those who are suffering hardship resulting from the COVID-19 pandemic that may wish to gain access to some of their super balance through the Government's Early Release Initiative to superannuation provisions.

16. Financial risk management objectives and policies (continued)

(h) Maturities of financial liabilities

The tables below show the Fund's financial liabilities based on their contractual maturities using undiscounted cash flows. Liabilities to defined contribution members are payable upon request. The Fund considers it highly unlikely that all liabilities to members would fall due at the same time.

| 2020 | Less than 1 month \$'000 | 1-6 months \$'000 | 6-12 months \$'000 | 1-2 years \$'000 | Total \$'000 |
|---|--------------------------|-------------------|--------------------|------------------|-------------------|
| Non-derivatives | | | | | |
| Payables | 40,721 | - | - | - | 40,721 |
| Defined contribution member liabilities | 16,112,467 | - | - | - | 16,112,467 |
| Derivatives | | | | | |
| Net settled derivatives | 2,559,357 | 5,339,717 | - | - | 7,899,074 |
| Total | 18,712,545 | 5,339,717 | - | - | 24,052,262 |

| 2019 | Less than 1 month \$'000 | 1-6 months \$'000 | 6-12 months \$'000 | 1-2 years \$'000 | Total \$'000 |
|---|--------------------------|-------------------|--------------------|------------------|-------------------|
| Non-derivatives | | | | | |
| Payables | 32,245 | - | - | - | 32,245 |
| Defined contribution member liabilities | 16,146,940 | - | - | - | 16,146,940 |
| Derivatives | | | | | |
| Net settled derivatives | 928,231 | 2,273,487 | - | - | 3,201,718 |
| Total | 17,107,416 | 2,273,487 | - | - | 19,380,903 |

i) Environmental Social and Governance Risks

Environmental, Social and Governance (ESG) Risks have the potential to affect the value of financial assets held to support member balances and future cashflows from investments. Management of these risks is important to CARE Super's investment approach.

As a responsible investor the Fund considers ESG issues and sustainability considerations within the context of optimising risk-adjusted returns over the long term. To manage ESG risks, the Fund has a Responsible Investing policy which takes into consideration a range of ESG issues (e.g. labour standards, climate change, corporate governance practices including gender diversity etc.) when selecting, retaining or realising investments of the Fund. Our underlying investment managers across the different asset classes have been instructed to incorporate ESG considerations in their investment decision-making processes. This includes the requirement for them to identify and assess climate-related and other emerging risks and opportunities in their investment analysis.

Oversight of the Fund's Responsible Investing Policy is the responsibility of the Investment Committee and the Investment team is responsible for its implementation.

The Fund believes that adherence to the guiding principles set out in the Responsible Investing policy will lead to improved risk management and investment returns over the long-term.

17. Insurance

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

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

The Trustee determined that the Fund is not exposed to material insurance risk because:

- members (or their beneficiaries) will only receive insurance benefits if the external insurer pays the claim;
- insurance premiums are only paid through the Fund for administrative reasons; and
- insurance premiums are effectively set directly by reference to premiums set by an external insurer.

CARE Super
Notes to the Financial Statements
For the year ended 30 June 2020

18. Structured entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control.

Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. Depending on the Fund's power over the activities of the entity and its exposure to and ability to influence its own returns, it may control the entity. However, the Fund applies the Investment Entity Exemption available under AASB10 *Consolidated Financial Statements* and therefore does not consolidate its entities. In other cases it may have exposure to such an entity but not control it.

An interest in a structured entity is any form of contractual or non-contractual involvement which creates variability in returns arising from the performance of the entity for the Fund. Such interests include holding of units in unlisted trusts. The nature and extent of the Fund's interests in structured entities are titled units in unlisted investments and managed funds and are summarised in Note 4 and and Note 15 where appropriate. As at 30 June 2020, the Fund had no exposure to any managed fund investments that was greater than 10% of the Fund's net assets.

The Fund has exposures to unconsolidated structured entities through its investments. The Fund typically has no other involvement with the structured entity other than the securities it holds as part of investments and its maximum exposure to loss is restricted to the carrying value of the investment.

Exposures to investment assets are managed in accordance with financial risk management practices as set out in Note 16 Financial Risk Management, which includes an indication of changes in risk measures compared to the prior year.

The Fund has not provided any non-contractual financial support during the period and does not anticipate providing non-contractual support to unconsolidated structured entities in the future.

19. Operating expenses

| | 2020 | 2019 |
|-----------------------------|----------------|----------------|
| | \$ '000 | \$ '000 |
| Bank charges | 73 | 151 |
| Staff related costs | 20,644 | 20,192 |
| Office expenses | 3,897 | 3,668 |
| Advertising and sponsorship | 5,530 | 5,519 |
| Fund literature | 1,260 | 1,164 |
| Other operating costs* | 4,007 | 2,698 |
| Government charges | 1,260 | 1,262 |
| Professional services | 6,579 | 5,704 |
| | <u>43,250</u> | <u>40,358</u> |

* Other operating expenses include expenses relating to leases such as depreciation and interest expense under AASB 16 *Leases*. Refer to note 7.

20. Commitments and contingent liabilities

(a) Operating lease commitments

The Fund leases various offices and office equipments under non-cancellable operating leases with varying duration, terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

From 1 July 2019, the Fund has recognised right-of-use assets for these leases, except for short-term and low-value leases, refer note 7 and 2(b) for further information.

| | 2020 | 2019 |
|---|----------------|----------------|
| | \$ '000 | \$ '000 |
| Not later than one year | - | 1,492 |
| Later than one year but not later than five years | - | 7,252 |
| Later than five years | - | 4,837 |
| | <u>-</u> | <u>13,581</u> |

(b) Commitments yet to be called

CARE Super has \$633 million (2019: \$620 million) in private equity, property, credit and infrastructure commitments yet to be called.

21. Significant events after balance date

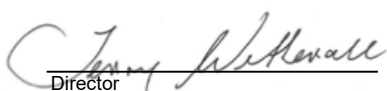
Since 30 June 2020 there have been no matters or circumstances which have arisen that have significantly affected or may significantly affect the financial position or operating results of the Fund.

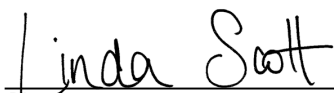
Trustees' declaration

In the opinion of the directors of the Trustee of CARE Super:

- (a) the accompanying financial statements and notes set out on pages 2 to 27 are in accordance with:
 - (i) Australian Accounting Standards and other mandatory professional reporting requirements and
 - (ii) present fairly the Fund's financial position as at 30 June 2020 and of its performance for the financial year ended on that date
- (b) the Fund has been conducted in accordance with its constituent Trust Deed and the requirements of the *Superannuation Industry (Supervision) Act 1993* and its accompanying Regulations; the relevant requirements of the *Corporations Act 2001 and Regulations*; the requirements under *section 13 of the Financial Sector (Collection of Data) Act 2001*, during the year ended 30 June 2020, and
- (c) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors of CARE Super Pty Ltd as Trustee for CARE Super.


Director


Director

Melbourne
29 September 2020



Independent Auditor's report on financial statements

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

Report by the RSE Auditor to the trustees and members of CARE Super (ABN: 98 172 275 725).

Opinion

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

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

Basis for Opinion

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

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

Responsibilities of the trustee for the Financial Statements

The RSE's trustee is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards¹ and the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee is also responsible for such internal control as the *trustee determines* is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustee is responsible for assessing the ability of the RSE to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustee either intends to liquidate the RSE or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an

¹ The Australian Accounting Standards issued by the Australian Accounting Standards Board.



audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

The PricewaterhouseCoopers logo is written in a cursive, handwritten style.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'George Sagonas'.

George Sagonas
Partner

Melbourne
29 September 2020