



Annual Financial Report 30 June 2020

Telstra Superannuation Scheme
RSE: R1004441

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Statement of Financial Position

As at 30 June 2020

	Note	2020 \$000	2019 \$000
Assets			
Cash and cash equivalents	17	1,343,535	1,625,751
Australian fixed interest securities	9	4,686,618	3,731,290
International fixed interest securities	9	2,111,219	1,953,091
Australian equities	9	4,090,715	5,332,159
International equities	9	4,718,909	4,772,075
Hedge funds	9	232,900	867,610
Private equities	9	476,095	448,740
Property	9	2,750,519	2,553,186
Infrastructure	9	968,571	843,081
Derivative assets	9	187,571	31,792
Investment income receivable		34,488	51,540
Unsettled investment sales		121,956	138,434
Accounts receivable	10	6,630	7,078
Current income tax receivable	14	-	62,830
Property, plant and equipment	11	7,802	6,558
Right-of-use lease assets	18	19,583	-
Total assets		21,757,111	22,425,215
Liabilities			
Benefits payable		(7,465)	(13,541)
Accounts payable	12	(27,209)	(30,003)
Unsettled investment purchases and payables		(384,487)	(244,415)
Derivative liabilities	9	(17,822)	(23,785)
Lease liabilities	18	(19,769)	-
Current income tax payable	14	(1,333)	-
Deferred income tax liabilities	14	(191,729)	(300,697)
Total liabilities excluding member benefits		(649,814)	(612,441)
Net assets available for member benefits		21,107,297	21,812,774
Member benefits			
Defined contribution member liabilities	3	(19,064,893)	(19,450,854)
Defined benefit member liabilities	4	(1,620,426)	(1,816,929)
Total member liabilities		(20,685,319)	(21,267,783)
Total net assets		421,978	544,991
Equity			
Operational risk financial reserves		52,967	53,341
Insurance reserve	8	1,884	2,000
Administration reserve		69,125	63,845
Unallocated surplus		298,002	425,805
Total equity		421,978	544,991

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

Statement of Comprehensive Income

For the year ended 30 June 2020

	<i>Note</i>	2020	2019
		\$000	\$000
Superannuation activities			
Interest		156,786	150,820
Dividends and distributions		365,621	598,163
Property trust income		109,036	108,563
Net foreign exchange gains/(losses)		(163,736)	175,344
Changes in assets measured at fair value	13	(666,745)	440,516
Other investment income/(losses)		(16,815)	3,031
Other operating income		3,256	2,879
Total superannuation activities income/(losses)		(212,597)	1,479,316
Investment expenses		(90,816)	(82,578)
Administration expenses	15	(58,871)	(55,324)
Interest on lease liability		(136)	-
Total expenses		(149,823)	(137,902)
Net result from superannuation activities		(362,420)	1,341,414
Profit/(loss) from operating activities		(362,420)	1,341,414
Net losses/(benefits) allocated to defined contribution member accounts		289,150	(1,242,921)
Net change in defined benefit member liabilities		(140,460)	(95,546)
Profit/(loss) before income tax		(213,730)	2,947
Income tax benefit	14	85,103	7,555
Profit/(loss) after income tax		(128,627)	10,502

The above statement of comprehensive income should be read with the accompanying notes.

Statement of Changes in Member Benefits

For the year ended 30 June 2020

	Defined Contribution Members	Defined Benefit Members	Total	Defined Contribution Members	Defined Benefit Members	Total
	2020	2020	2020	2019	2019	2019
	\$000	\$000	\$000	\$000	\$000	\$000
Opening balance as at 1 July	19,450,854	1,816,929	21,267,783	18,176,285	2,120,892	20,297,177
Employer contributions	461,330	34,390	495,720	477,907	55,836	533,743
Member contributions	269,716	3,962	273,678	249,776	5,129	254,905
Government contributions	1,878	-	1,878	2,016	-	2,016
Transfers from other superannuation funds	601,832	2,532	604,364	679,854	17,103	696,957
Transfers to other superannuation funds	(619,081)	(369,554)	(988,635)	(608,686)	(466,665)	(1,075,351)
Income tax on contributions	(67,231)	(5,158)	(72,389)	(66,016)	(8,375)	(74,391)
Benefits to members/beneficiaries	(738,197)	(591)	(738,788)	(682,809)	(2,270)	(685,079)
Insurance premiums charged to members' accounts	(35,656)	(2,294)	(37,950)	(37,984)	(2,641)	(40,625)
Insurance benefits credited to members' accounts	33,879	82	33,961	28,172	362	28,534
Reserves transferred to/(from) members:						
Insurance reserve	-	116	116	-	3,000	3,000
Administration reserve	(4,866)	(413)	(5,279)	(10,406)	(972)	(11,378)
Operational risk financial reserve	(415)	(35)	(450)	(176)	(16)	(192)
Net benefits allocated to members' accounts:						
Net investment income	(244,177)	-	(244,177)	1,286,129	-	1,286,129
Administration fees	(44,973)	-	(44,973)	(43,208)	-	(43,208)
Net change in DB member benefits	-	140,460	140,460	-	95,546	95,546
Closing balance as at 30 June	19,064,893	1,620,426	20,685,319	19,450,854	1,816,929	21,267,783

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

Statement of Changes in Reserves

For the year ended 30 June 2020

	Unallocated surplus \$000	Operational risk financial reserve \$000	Insurance reserve \$000	Administration reserve \$000	Total equity \$000
Operating balance as at 1 July 2019	425,805	53,341	2,000	63,845	544,991
Transfer from DC member accounts	-	415	-	4,866	5,281
Transfer from/(to) DB member accounts	-	35	(116)	414	333
Profit/(loss)	(127,803)	(824)	-	-	(128,627)
Closing balance as at 30 June 2020	298,002	52,967	1,884	69,125	421,978
	Unallocated surplus \$000	Operational risk financial reserve \$000	Insurance reserve \$000	Administration reserve \$000	Total equity \$000
Operating balance as at 1 July 2018	416,507	51,945	5,000	52,467	525,919
Transfer from DC member accounts	-	176	-	10,406	10,582
Transfer from/(to) DB member accounts	-	16	(3,000)	972	(2,012)
Profit	9,298	1,204	-	-	10,502
Closing balance as at 30 June 2019	425,805	53,341	2,000	63,845	544,991

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

Statement of Cash Flows

For the year ended 30 June 2020

	<i>Note</i>	2020	2019
		\$000	\$000
Cash flows from operating activities			
Interest received		157,731	150,885
Dividends and distributions		382,429	610,301
Property trust income		109,036	108,563
Other incomes		(12,565)	2,633
Investment expenses		(90,673)	(87,060)
Administration expenses		(57,204)	(50,635)
Interest on lease liability		(136)	-
Group life insurance premiums		(37,949)	(40,625)
Insurance benefits credited to members' accounts		33,961	28,534
Income tax refund/(paid) by operating activities		40,297	(59,570)
Net cash inflows from operating activities	17	524,927	663,026
Cash flows from investing activities			
Proceeds from sales of investment assets		27,259,967	19,833,501
Purchases of investment assets		(27,629,953)	(20,097,760)
Purchase of property, plant and equipment		(3,385)	(1,808)
Net cash outflows from investing activities		(373,371)	(266,067)
Cash flows from financing activities			
Employer contributions received		494,076	534,263
Member contributions received		273,663	254,910
Government co-contributions received		1,878	2,016
Transfers from other superannuation funds received		604,364	696,957
Transfers paid to other superannuation funds		(988,635)	(1,075,352)
Benefits paid to members and beneficiaries		(744,863)	(671,616)
Payment of principal portion of lease liabilities		(1,866)	-
Income tax paid by financing activities		(72,389)	(74,391)
Net cash outflows from financing activities		(433,772)	(333,213)
Net increase/(decrease) in cash		(282,216)	63,746
Cash at the beginning of the financial year		1,625,751	1,562,005
Cash at the end of the financial year	17	1,343,535	1,625,751

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

Notes to the Financial Statements

For the year ended 30 June 2020

1. Operation of the Scheme

The Telstra Superannuation Scheme (Scheme) was established by a Trust Deed dated 1 July 1990 to provide benefits for the employees of Telstra Corporation Limited (Telstra) and its related companies. The Deed has been amended from time to time. The Scheme is a hybrid fund with both defined benefit and defined contribution divisions. The defined benefit divisions are closed to new members. The Scheme is domiciled in Australia and the Scheme's registered office is 215 Spring Street, Melbourne, VIC 3000.

Benefits of members in the defined benefit divisions are calculated by way of formulae as defined in the Trust Deed. Benefits of members in the defined contribution divisions are equal to the member account balance which is credited or debited each year with contributions, net investment income, insurance, expenses and income taxes.

The Trustee of the Scheme is Telstra Super Pty Ltd and it is the holder of a Registrable Superannuation Entity Licence (Licence No. L0001311). The Scheme is a Regulated Fund in accordance with the *Superannuation Industry Supervision Act 1993* (SIS Act), and is a Registrable Superannuation Entity (registration No. R1004441).

2. Summary of significant accounting policies

(a) Basis of preparation

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

The financial statements are presented in Australian Dollars and all values are rounded to the nearest \$'000 except where otherwise indicated.

The financial statements were approved by the Board of Directors of the trustee, Telstra Super Pty Ltd on 6 August 2020.

(b) New accounting standards and interpretations

Adoption of AASB 16 Leases

AASB 16 supersedes AASB 117 *Leases*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

The Scheme adopted AASB 16 using the modified retrospective method, with the date of initial application of 1 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Scheme elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 July 2019. Instead, the Scheme applied the standard only to contracts that were previously identified as leases under AASB 117 at the date of initial application.

The effect of adopting AASB 16 as at 1 July 2019 is, as follows:

	\$000
Assets	
Right-of-use assets	15,044
Office furniture and fittings	6,591
Total assets	<u>21,635</u>
Liabilities	
Lease liability	<u>21,635</u>
Total liabilities	<u>21,635</u>
Total adjustment to equity	<u>-</u>

Notes to the Financial Statements

For the year ended 30 June 2020

2. Summary of significant accounting policies (continued)

(b) New accounting standards and interpretations (continued)

Upon adoption of AASB 16, the Scheme applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 2(q) *Leases* for the accounting policy. The standard provides specific transition requirements and practical expedients, which have been applied by the Scheme.

The Scheme also applied the available practical expedients wherein it:

- Used a single lease discount rate to a portfolio of leases with reasonably similar characteristics
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019, as follows:

	\$000
Assets	
Operating lease commitments as at 30 June 2019	37,718
Lease discount rate as at 1 July 2019	4.89%
Discounted operating lease commitments as at 1 July 2019	23,074
<i>Less:</i>	
Commitments relating to short-term/low-value leases	1,082
Commitments relating to novated leases	357
Lease liabilities as at 1 July 2019	21,635

Adoption of IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Scheme determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Scheme applies significant judgment in identifying uncertainties over income tax treatments. Since the Scheme has investments both in Australia and in overseas tax jurisdictions, it assessed whether the Interpretation had an impact on its financial statements.

The Scheme takes a low risk conservative approach in all tax matters by considering significant transactions and issues and seeking professional advices to support its tax positions. As a result the Scheme does not have particular uncertain tax positions.

The adoption of the Interpretation did not have an impact on the Scheme's financial statements.

Notes to the Financial Statements

For the year ended 30 June 2020

2. Summary of significant accounting policies (continued)

(b) New accounting standards and interpretations (continued)

Accounting Standards and Interpretations issued but not yet effective

Certain Australian Accounting Standards and Interpretations have been issued or amended but are not yet effective and have not been adopted by the Scheme for the annual reporting period ended 30 June 2020. The impact of these standards and interpretations has been assessed and to the extent applicable to the Scheme are outlined in the table below. Standards and Interpretations that are not expected to have a material impact on the Scheme have not been included.

Accounting standard	Nature	Application date of standard	Application date for the Scheme
AASB 2019-5 <i>Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia</i>	This Standard amends AASB 1054 by adding a disclosure requirement for an entity intending to comply with IFRS Standards to disclose the information specified in paragraphs 30 and 31 of AASB 108 on the potential effect of an IFRS Standard that has not yet been issued by the AASB so that such entity complying with Australian Accounting Standards can assert compliance with IFRS Standards. The impact of the adoption of AASB 2019-5 is not material to the Scheme.	1 January 2020	1 July 2021
AASB 2020-4 <i>Amendments to AASs – Covid-19-Related Rent Concessions</i>	This Standard amends AASB 16, allowing lessees to not account for COVID-19 rent concessions as lease modifications, provided certain conditions are met. The impact of the adoption of AASB 2020-4 is not material to the Scheme.	1 June 2020	1 July 2020
AASB 2020-1 <i>Amendments to AASs – Classification of Liabilities as Current or Non-current</i>	This Standard amends AASB 101 to clarify the requirements for classifying liabilities as current or non-current. Specifically: <ul style="list-style-type: none"> the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists; and management's intention or expectation does not affect classification of liabilities. 	1 January 2022	1 July 2022

Notes to the Financial Statements

For the year ended 30 June 2020

2. Summary of significant accounting policies (continued)

Other significant accounting policies

(c) Consolidation

The Scheme is an investment entity and, as such, does not consolidate the entities it controls. Instead, interests in subsidiaries are measured at fair value through profit or loss. Refer to Note 21 for further details.

(d) Financial assets and liabilities

i. Classification

Financial assets measured at fair value through profit or loss

A financial asset is measured at fair value through profit or loss if:

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

The Scheme includes all investment assets in this category.

Financial liabilities measured at fair value through profit or loss

A financial liability is measured at fair value through profit or loss if it meets the definition of held for trading. The Scheme includes in this category, derivative contracts in a liability position and equity and debt instruments sold short since they are classified as held for trading.

ii. Recognition

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

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

iii. Derecognition

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

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

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

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

2. Summary of significant accounting policies (continued)

(d) Financial assets and liabilities (continued)

iv. Initial measurement

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

v. Subsequent measurement

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

(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 to the Scheme.

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 Scheme 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 9 for further details.

(f) Cash and cash equivalents

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

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

(g) Receivables

Receivables are carried at nominal amounts due which approximate fair value. Receivables are normally settled within 30 days. An allowance for uncollectible amounts is only made where there is objective evidence that the debt will not be collected. Objective evidence may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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.

(i) Benefits payable

Benefits payable are valued in accordance with AASB 1056 and comprise the entitlements of members who have claimed a benefit prior to the end of the financial year and the entitlement had not been paid at reporting date. Benefit entitlements rolled over within the Scheme are not included as benefits payable. Benefits payable are generally settled within 30 days.

(j) Other payables

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

(k) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Scheme 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 for the major revenue must also be met before it is recognised:

i. Changes in assets measured at 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 statement of comprehensive income.

ii. Interest

Interest revenue on cash and interest bearing financial assets measured at fair value is recorded according to the terms of the contract and is recognised in the statement of comprehensive income.

iii. Dividends, distributions and property trust income

Dividend, distribution and property trust income are recognised when the Scheme'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 statement of comprehensive income.

(l) Income tax

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

Income tax benefit/expense for the year comprises current and deferred tax and is recognised in the statement of comprehensive income.

Current income tax liability is the expected tax payable on the taxable income for the year less any instalment payments that have been paid as at balance date.

Notes to the Financial Statements

For the year ended 30 June 2020

2. Summary of significant accounting policies (continued)

(l) Income tax (continued)

Deferred tax assets and liabilities are provided for using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The Scheme is currently in a net deferred tax liability position.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted at balance date.

Deferred tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxation authority.

(m) Goods and services tax (GST)

Where applicable, GST incurred by the Scheme that is not recoverable from the Australian Taxation Office (ATO), has been recognised as part of the expense to which it applies. Receivables and payables are stated with any applicable GST included in the value. The amount of any GST recoverable from, or payable to, the ATO is included as a receivable or payable in the statement of comprehensive income.

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 ATO are classified as operating cash flows.

(n) Administration expenses

The Scheme is a self-administered fund and all administration expenses are paid directly by the Scheme. Administration expenses are recognised in the period in which the expenditure is incurred.

(o) Foreign currency

The functional and presentation currency of the Scheme is Australian Dollars, which is the currency of the primary economic environment in which it operates. The Scheme'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 statement of comprehensive income 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.

(p) Member liabilities

Member liabilities are measured at the amount of accrued benefits.

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

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

Notes to the Financial Statements

For the year ended 30 June 2020

2. Summary of significant accounting policies (continued)

(q) Leases

The Scheme assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Scheme applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Scheme recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i. Right-of-use assets

The Scheme recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

· Office buildings	2 to 12 years
· Computer hardware	4 years

If ownership of the leased asset transfers to the Scheme at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

ii. Lease Liabilities

At the commencement date of the lease, the Scheme recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Scheme uses its lease discount rate as described in Note 2(s)(iv) at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments.

iii. Short-term leases and leases of low-value assets

The Scheme applies the short-term lease recognition exemption to its short-term leases of computer hardware. It also applies the lease of low-value assets recognition exemption to leases of computer hardware that is considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense when they incurred..

(r) Employee entitlements

i. Salaries, annual leave and sick leave

Liabilities for salaries (including non-monetary benefits) and annual leave are recognised in the provisions for employee entitlements and are represented by the amount that the Scheme has a present obligation to pay at balance date. The provisions have been calculated based on remuneration rates that the Scheme expects to pay when the employee entitlement is settled. Related on-costs are included. No liability for sick leave has been recognised as it is non-vesting and no additional cost is incurred by staff absence. Sick leave is recognised when the leave is taken and is measured at the rates paid or payable.

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

2. Summary of significant accounting policies (continued)

(r) Employee entitlements (continued)

ii. Long service leave

The liability for long service leave is recognised in the provision for employee entitlements and is measured as the present value of the estimated future cash outflows to be made by the Scheme at balance date. Liabilities for employee entitlements that are not expected to be settled within twelve months are discounted using the rates attached to corporate bond securities at balance date, which most closely match the terms of maturity of the related liabilities.

In determining the liability for employee entitlements, consideration has been given to future increases in salary rates, the Scheme's experience with staff departures, and the probability that employees as a group will achieve an unconditional qualifying period of service. Related on-costs have also been included in the liability.

iii. Superannuation scheme

The employees of the Scheme are eligible to be members of the Scheme, and contributions are made on their behalf. The majority of staff are defined contribution members, and contributions for these staff are charged as expenses when the contributions are paid or become payable. Contributions for staff, who are defined benefit members, are also charged as expenses when due and payable. The Trustee has no obligation or entitlement to any deficit/surplus and therefore AASB 119 has not been applied. Refer to Note 22 for details of the defined benefit surplus/(deficit).

iv. Funding arrangements

Funding requirements for the defined contribution divisions of the Scheme are determined by Government legislation and the Trust Deed, whilst funding requirements for the defined benefit divisions of the Scheme are impacted by various financial and demographic factors including investment earnings, salary inflation, and benefit claims experience.

The funding policy adopted in respect of the defined benefit divisions is directed at ensuring that benefits accruing to members and beneficiaries are fully funded as the benefits fall due. An actuarial investigation is carried out every three years. As at 30 June 2018, the Actuary for the Scheme, Mr. M. Burgess FIAA completed an actuarial investigation of the defined benefit divisions of the Scheme and reported that the Scheme was in a satisfactory funding position. Under the SIS Act, a fund is in a "Satisfactory Financial Position" when the market value of assets (excluding any amount held to meet the Operational Risk Financial Reserve) exceeds its vested benefits.

The next triennial actuarial investigation as at 30 June 2021 will be carried out in the 2022 financial year

As per the recommendations contained in the Actuary's report as at 30 June 2018, Telstra and certain associated employer sponsors have continued to make employer contributions to the Scheme in respect of defined benefit and defined contribution divisions at required rates.

The Trustee and Telstra monitor and report each month on the Vested Benefit Index (VBI) - the ratio of fund assets to members' vested benefits of the Scheme's defined benefit divisions. The Actuary provides an opinion on a quarterly basis as to the reasonableness of the then current employer contribution rate.

The VBI for the defined benefits divisions at 30 June 2020 calculated as a monthly outcome averaged over a calendar quarter was 110% (2019: 112%).

(s) Significant accounting judgements, estimates and assumptions

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

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

2. Summary of significant accounting policies (continued)

(s) Significant accounting judgements, estimates and assumptions (continued)

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

i. Fair value of investments

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

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

Refer to Note 9(a) for further details in relation to the Scheme's valuation techniques.

COVID-19 valuation uncertainty

Whilst all valuations contain some element of uncertainty, the impact of COVID-19 on the markets in which the Scheme holds unlisted equity, property and infrastructure investments is not fully known due to limited transactional evidence since the outbreak of the pandemic.

As at 30 June 2020, the Scheme has measured the fair value of its unlisted investments at their net asset value (NAV). This followed an extensive due diligence process to ensure NAVs reported by fund managers were a reasonable and appropriate reflection of the anticipated impact of COVID-19 on the investees' underlying assets, given updates to NAVs were applied by fund managers outside their most recent audit period.

For property and infrastructure assets held within trusts controlled by the Scheme, significant valuation uncertainty clauses have been incorporated into external valuation reports adopted for the NAV of these trusts as at 30 June 2020. This is consistent with global industry practice. This uncertainty does not mean the valuations adopted cannot be relied upon; however the clauses indicate the higher degree of valuer judgment in determining significant valuation assumptions.

As a result, the Scheme has exercised a significantly higher degree of judgment in measuring the fair value of its unlisted investments as at 30 June 2020.

ii. Assessment as investment entity

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

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

The Scheme's product disclosure statement details its objective of providing services to members which includes investing in equities, fixed income securities and private equity for the purpose of returns in the form of investment income and capital appreciation.

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

2. Summary of significant accounting policies (continued)

(s) Significant accounting judgements, estimates and assumptions (continued)

ii. Assessment as investment entity (continued)

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

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

The Trustee has therefore concluded that the Scheme meets the definition of an investment entity. These conclusions are reassessed on an annual basis for any changes in criteria or characteristics.

iii. Valuation of defined benefits member liabilities

The amount of defined benefits member liabilities has been determined using actuarial valuation techniques and assumptions. An actuarial valuation involves making various assumptions about the future. Actual developments in the future may differ from these assumptions. The assumptions are discount rate, inflationary salary increases, promotional salary increases, rates of demographic movements and rate of retrenchment. Due to the complexities involved in the valuation and its long term nature, defined benefit member liabilities are highly sensitive to changes in these assumptions. Assumptions are reviewed at each reporting date.

iv. Leases – estimating the lease discount rate

The Scheme cannot readily determine the interest rate implicit in the lease, therefore, it uses its lease discount rate to measure lease liabilities. The lease discount rate is the rate of interest that the Scheme would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The rate therefore reflects what the Scheme 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

3. Defined contribution member liabilities

Defined contribution member account balances are determined by both the unit prices and the number of units as at the reporting date. The unit prices are determined based on the underlying investment asset values.

Defined contribution members bear the investment risk relating to the underlying assets. Daily unit prices are used to measure the member liabilities.

At 30 June 2020 the net assets attributable to defined contribution members but not allocated to those members is \$5,704,301 (2019: \$8,647,286).

Refer to Note 23 for the Scheme's management of investment risk.

Notes to the Financial Statements

For the year ended 30 June 2020

4. Defined benefit member liabilities

The Scheme engages the qualified actuary on an annual basis to measure the defined benefits member liabilities.

The actuarial valuation of member liabilities reflects the actuarial assessment of the benefits accrued up to the reporting date and payable to members on retirement, resignation, death and disability. This annual assessment may result in an employer being required to make additional contributions to the divisions. The defined benefit divisions are quarantined from the other assets of the Scheme.

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

- The discount rate (net of investment taxes and fees): 2.75% p.a. (2019: 3.90% p.a.)
- The inflationary salary increases: 2.00% p.a. (2019: 2.75% p.a.).

Due to the social and economic uncertainty caused by COVID-19, the key inputs of the above assumptions may change significantly and unexpectedly over a relatively short period of time. These assumptions have been prepared based on information available at 30 June 2020.

The defined benefit members' liabilities have changed in the current financial year as a result of salary increases and additional service accrual.

The Scheme's Actuary reports to management each quarter on the status of the defined benefit divisions. Where divisions are in or are likely to enter an unsatisfactory financial position, the report sets out any remedial action and agreed rectification programs in respect of each employer.

The Trustee has a number of steps in place to manage the risks associated with defined benefit divisions. As stated in Note 2(r), the Trustee has appointed an external consulting actuary to advise on the risks, including establishing suitable funding objectives. These funding objectives and the defined benefit divisions' circumstances are taken into account by the Actuary when recommending the required employer contribution levels.

The Trustee also uses sensitivity analysis to monitor the potential impact of changes to key variables about which assumptions need to be made. The Trustee has identified two assumptions, the discount rate and the inflationary salary increases, for which changes are reasonably possible that would have a material impact on the amount of the defined benefit member liabilities.

- The assumed discount rate has been determined by reference to the Scheme's asset consultant advice.
- The inflationary salary increases is the best estimate, which is developed during the ongoing discussions following the recent actuarial investigations.

The other variables about which assumptions have been made in measuring defined benefit member liabilities for which reasonably possible changes would not be expected to have a material effect. These variables are promotional salary increases, rates of demographic movements and rate of retrenchment.

The following are sensitivity calculations on a univariate basis for the discount rate and rate of inflationary salary increase assumptions for the defined benefit divisions.

Assumption	Assumed at reporting date	Reasonable possible change	Amount of (increase)/decrease in member benefit liabilities \$000
Discount rate	2.75% (2019: 3.90%)	+1.0%/-1.0% (2019: +1.0%/-1.0%)	(107,600)/122,800 [2019: (125,000)/143,000]
Inflationary salary increases	2.00% (2019: 2.75%)	+0.5%/-0.5% (2019: +0.5%/-0.5%)	52,500/(49,700) [2019: 61,900/(58,500)]

At the reporting date the accrued benefits of the defined benefit members is \$1,620.5 million (2019:\$1,816.9 million).

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

5. Funding arrangements

The employers have contributed to the Scheme during the financial year at a rate of at least 9.5% (2019: 9.5%) of the gross salaries of those employees who were defined contribution members of the Scheme.

The employers for the defined benefit members have contributed to the Scheme at the rate of 5% (2019: 5%). The contribution rate is determined by the Actuary.

Employees are also able to make voluntary contributions.

6. Unallocated surplus

The defined benefits continue to remain in surplus as at the reporting date. The employer-sponsors intend to keep the defined benefit divisions in surplus for the foreseeable future. The defined benefit divisions are contributing at the rate recommended by the Actuary.

The unallocated surplus also includes timing differences relating to investment valuations and timing on the tax alignment in unit pricing.

7. Guaranteed benefits

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

8. Reserves

The reserves provide the Trustee with access to funds to protect members' interests and mitigate the impact of an adverse event regarding the operational and insurance activities of the Scheme.

The administration reserve receives amounts from operational surpluses over the corporate business plan cycle. This reserve, subject to approval from the Board, may be used for purposes, including but not limited to meeting large or unexpected expenses, loss of members' funds through fraud or error, and meeting uninsured losses arising from a period of unusually high claims experience.

The operational risk financial reserve was established on 1 July 2013 in accordance with the Superannuation Prudential Standards SPS 114 Operational Risk Financial Requirements. This reserve may be used in certain circumstances to address operational risk events or claims against the Scheme arising from operational risk. This reserve is funded from transfers from members.

The Trustee has assessed an operational risk reserve of approximately 0.25% of funds under management as appropriate for the Scheme in respect of both defined contribution and defined benefit member interests. This requirement has been met since 30 June 2016 and maintained as at the reporting date.

The Trustee has also allocated the amount of \$1,883,951 (2019: \$2,000,000) for the purpose of maintaining a self-insurance reserve for its defined benefits members.

Transfers in and out of all reserves are made only at the authorisation of the Trustee and in accordance with the Scheme's Reserves Policy.

Notes to the Financial Statements

For the year ended 30 June 2020

9. Fair value of financial instruments

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

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

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

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

	30 June 2020			Total \$000
	Level 1 \$000	Level 2 \$000	Level 3 \$000	
Australian fixed interest				
Listed equities	5,479	-	-	5,479
Trusts & special purpose vehicles	-	-	74,545	74,545
Bonds, discount & asset backed securities	1,514,635	3,087,953	4,006	4,606,594
	1,520,114	3,087,953	78,551	4,686,618
International fixed interest				
Listed equities	1,388	-	195	1,583
Trusts & special purpose vehicles	-	234,308	109,996	344,304
Bonds, discount & asset backed securities	55,991	1,699,233	10,108	1,765,332
	57,379	1,933,541	120,299	2,111,219
Australian equities				
Listed equities	3,682,555	-	165	3,682,720
Trusts & special purpose vehicles	397,340	7,342	3,013	407,695
Unlisted equities	-	-	300	300
	4,079,895	7,342	3,478	4,090,715
International equities				
Listed equities	4,692,829	-	6	4,692,835
Trusts & special purpose vehicles	25,699	-	375	26,074
	4,718,528	-	381	4,718,909
Hedge funds				
Trusts & special purpose vehicles	-	-	232,900	232,900
	-	-	232,900	232,900
Private equities				
Trusts & special purpose vehicles	-	-	470,714	470,714
Unlisted equities	-	-	5,381	5,381
	-	-	476,095	476,095
Property				
Listed equities	43,183	-	-	43,183
Trusts & special purpose vehicles	273,007	-	2,346,913	2,619,920
Bonds, discount & asset backed securities	-	-	87,416	87,416
	316,190	-	2,434,329	2,750,519

Notes to the Financial Statements

For the year ended 30 June 2020

9. Fair value of financial instruments (continued)

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

	30 June 2020			Total \$000
	Level 1 \$000	Level 2 \$000	Level 3 \$000	
Infrastructure				
Listed equities	137,269	-	-	137,269
Trusts & special purpose vehicles	22,381	-	808,921	831,302
	159,650	-	808,921	968,571
Derivative assets				
Futures	18,510	-	-	18,510
Options	-	19,887	-	19,887
Swaps	-	21,634	-	21,634
Foreign exchange contracts	-	127,540	-	127,540
	18,510	169,061	-	187,571
Derivative liabilities				
Futures	(3,020)	-	-	(3,020)
Options	-	(1,565)	-	(1,565)
Swaps	-	(13,237)	-	(13,237)
	(3,020)	(14,802)	-	(17,822)
Total investments	10,867,246	5,183,095	4,154,954	20,205,295
	30 June 2019			Total \$000
	Level 1 \$000	Level 2 \$000	Level 3 \$000	
Australian fixed interest				
Listed equities	-	-	1,089	1,089
Bonds, discount & asset backed securities	916,379	2,813,822	-	3,730,201
	916,379	2,813,822	1,089	3,731,290
International fixed interest				
Listed equities	894	-	435	1,329
Trusts & special purpose vehicles	-	165,591	134,720	300,311
Bonds, discount & asset backed securities	43,761	1,595,664	12,026	1,651,451
	44,655	1,761,255	147,181	1,953,091
Australian equities				
Listed equities	4,870,264	-	172	4,870,436
Trusts & special purpose vehicles	436,904	23,246	1,273	461,423
Unlisted equities	-	-	300	300
	5,307,168	23,246	1,745	5,332,159
International equities				
Listed equities	4,667,742	-	6	4,667,748
Trusts & special purpose vehicles	22,697	72,316	384	95,397
Bonds, discount & asset backed securities	8,930	-	-	8,930
	4,699,369	72,316	390	4,772,075
Hedge funds				
Trusts & special purpose vehicles	-	99,256	768,354	867,610
	-	99,256	768,354	867,610
Private equities				
Trusts & special purpose vehicles	-	9,634	432,951	442,585
Unlisted equities	-	-	6,155	6,155
	-	9,634	439,106	448,740

Notes to the Financial Statements

For the year ended 30 June 2020

9. Fair value of financial instruments (continued)

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

	30 June 2019			Total \$000
	Level 1 \$000	Level 2 \$000	Level 3 \$000	
Property				
Listed equities	69,393	-	-	69,393
Trusts & special purpose vehicles	435,531	9,126	2,039,136	2,483,793
	504,924	9,126	2,039,136	2,553,186
Infrastructure				
Listed equities	196,932	-	-	196,932
Trusts & special purpose vehicles	34,648	93,660	517,841	646,149
	231,580	93,660	517,841	843,081
Derivative assets				
Futures	7,302	-	-	7,302
Options	-	13,095	-	13,095
Swaps	-	11,093	-	11,093
Foreign exchange contracts	-	302	-	302
	7,302	24,490	-	31,792
Derivative liabilities				
Futures	(7,796)	-	-	(7,796)
Options	-	(1,266)	-	(1,266)
Swaps	-	(14,723)	-	(14,723)
	(7,796)	(15,989)	-	(23,785)
Total investments	11,703,581	4,890,816	3,914,842	20,509,239

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 classified within Level 1 in the fair value hierarchy.

When publicly traded equity securities are suspended, they are valued by using the last traded price. Such instruments are classified within either Level 2 or Level 3 in the fair value hierarchy depending on the pricing source and the timing since the price last updated.

Unlisted equities

The Scheme holds the majority of unlisted equities through trusts and the underlining assets are valued by their investment managers.

The valuation of unlisted equity investments requires significant management judgement due to the absence of quoted market prices, inherent lack of liquidity and the long-term nature of such assets. As such, private equity investments are often valued initially based upon cost. Each quarter, valuations are reviewed utilising available market data to determine if the carrying value of these investments should be adjusted. Such market data primarily includes observations of the trading multiples of public companies considered comparable to the private companies being valued. Valuations are adjusted to account for company-specific issues, the lack of liquidity inherent in a non-public investment and the fact that comparable public companies are not identical to the companies being valued.

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

9. Fair value of financial instruments (continued)

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

Valuation technique (continued)

Unlisted equities (continued)

In addition, a variety of additional factors are reviewed by management, including, but not limited to, financing and sales transactions with third parties, current operating performance and future expectations of the particular investment, changes in market outlook and the third-party financing environment. Unlisted equity investments are classified within Level 3 of the fair value hierarchy.

Bonds, discount and asset-backed securities

Where quoted prices are available in an active market, bonds, discount and asset-backed securities are classified as Level 1 in the hierarchy. If quoted market prices are not available for the specific security, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Examples of such instruments are collateralised mortgage obligations and high-yield debt securities which would generally be classified within Level 2 in the fair value hierarchy.

Most fixed income investments are valued by using an evaluated price provided by an independent pricing vendor, broker or dealer. If trade information is used along with observable inputs, the fixed income investments are classified within Level 2 in the fair value hierarchy. In certain cases where there is limited activity or less transparency around inputs to the valuation. Such instruments are classified within Level 3 in the fair value hierarchy.

Trusts and special purpose vehicles

The Scheme invests in these trusts and special purpose vehicles which may or may be quoted in an active market. When the fair values of trusts and vehicles are based on quoted market prices, in an active market for identical assets without any adjustments, the instruments are classified as Level 1 of the hierarchy. The Scheme holds such investments in listed property trusts and other listed trusts.

When trusts and vehicles are not quoted in an active market and subject to restrictions on redemptions such as lock up periods, redemption gates and side pockets, the net asset value (NAV) of the trusts and vehicles may be used as input into measuring their fair value. In measuring this fair value, the NAV is adjusted, as necessary, to reflect restrictions on redemptions, future commitments, and other specific factors of the fund to fund managers. 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 instruments can be classified within either Level 2 or Level 3 in the fair value hierarchy. The Scheme holds such investments in unlisted property and infrastructure trusts, unlisted equity trusts and unlisted cash and fixed income trusts.

Derivatives

Exchange-traded derivatives valued using quoted prices are classified within Level 1 of the fair value hierarchy.

Depending on the types and contractual terms of OTC derivatives, vendors and broker/dealers provide fair valuation measurements that are modelled using a series of techniques, such as the Black-Scholes option pricing model, simulation models or a combination of various models, which are consistently applied. Where derivative products have been established for some time, fair valuation measurement is based on models that are widely accepted in the financial services industry. These models reflect the contractual terms of the derivatives, including the period to maturity, and market-based parameters such as interest rates, volatility, and the credit quality of the counterparty. Further, many of these models do not contain a high level of subjectivity as the methodologies used in the models do not require significant judgment, and inputs to the model are readily observable from actively quoted markets. Such instruments are generally classified within Level 2 of the fair value hierarchy.

Derivatives that are valued based upon models with significant unobservable market parameters and that are normally traded less actively, have trade activity that is one way, and/or are traded in less-developed markets may be classified within Level 3 of the fair value hierarchy.

Notes to the Financial Statements

For the year ended 30 June 2020

9. Fair value of financial instruments (continued)

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

Valuation process for Level 3 financial instruments

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

The valuation of unlisted unit trusts, special purpose vehicles and unlisted equities are performed at least quarterly by the investment managers of the underlining assets and reviewed by both the Scheme's investment team and investment operations team.

The Trustee has the Valuation Investment Policy (Policy) in place to specify the valuation processes adopted by the Trustee so that it can process transactions at values that are materially accurate, fair and equitable. The following valuation principles are included in the Policy:

- Valuations are independent and unbiased
- Investments and financial exposures are frequently measured
- Valuations are available with reference to a relevant market
- Active markets may not exist for all securities held
- Understanding the basis and assumptions underlying the valuation methodology adopted
- Relevance of the valuation being used
- Market disruption or inability to determine values, and
- Approval process for accepting valuations.

For property and infrastructure assets held within trusts controlled by the Scheme, valuations are sourced from an independent valuation firm on a rotating basis.

The Trustee uses an independent custodian, JPMorgan Chase & Co. (Custodian), to hold the Scheme's investment assets in safe keeping. The Custodian also provides the Scheme with investment accounting services. This service includes providing market valuations on daily basis for all assets held. The Custodian has a Pricing Policy for the proper valuation of securities.

The Custodian's policy is consistent with valuation principles set out above and has been adopted for the purpose of valuing the Scheme's assets on a daily basis. This Policy and the Custodian's Global Pricing Policy are reviewed at least every two years by management.

Further to the Custodian's valuation policy the Trustee seeks to ensure that the valuations of property and infrastructure investments follow the specific guidelines outlined in the Policy.

There were no other changes in valuation techniques during the year.

Quantitative information of significant unobservable inputs – Level 3

The table below sets out information about significant unobservable inputs used in measuring financial instruments classified as Level 3 in the fair value hierarchy.

Notes to the Financial Statements

For the year ended 30 June 2020

9. Fair value of financial instruments (continued)

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

Quantitative information of significant unobservable inputs – Level 3 (continued)

Description	Fair Value \$000	Valuation technique	Significant unobservable inputs
Listed equities	2020: 366 2019: 614	Last traded prices	Unit prices
Trusts & special purpose vehicles	2020: 4,047,377 2019: 3,895,747	Redemption prices provided by fund managers	Unit prices
Unlisted equities	2020: 5,681 2019: 6,455	Redemption prices provided by fund managers	Unit prices
Others	2020: 101,530 2019: 12,026	Redemption prices provided by fund managers	Unit prices

The analysis below indicates the effect on the statement of comprehensive income and statement of financial position due to a reasonably possible change of 12% (2019: 10%) in unit prices.

2020	Effect on changes in assets measured in fair value and net assets			
	Description	Amount \$000	+12% \$000	-12% \$000
	Listed equities	366	44	(44)
	Trusts & special purpose vehicles	4,047,377	485,685	(485,685)
	Unlisted equities	5,681	682	(682)
	Others	101,530	12,184	(12,184)

2019	Effect on changes in assets measured in fair value and net assets			
	Description	Amount \$000	+10% \$000	-10% \$000
	Listed equities	614	61	(61)
	Trusts & special purpose vehicles	3,895,747	389,675	(389,675)
	Unlisted equities	6,455	646	(646)
	Others	12,026	1,203	(1,203)

Notes to the Financial Statements

For the year ended 30 June 2020

9. Fair value of financial instruments (continued)

(b) Level 3 financial instruments transactions

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

30 June 2020

	Listed equities	Trusts & special purpose vehicles	Unlisted equities	Others	Total
	\$000	\$000	\$000	\$000	\$000
Opening balance	614	3,895,747	6,455	12,026	3,914,842
Total gains/(losses)	(277)	15,537	(774)	(1,941)	12,545
Purchases/applications	30	861,109	-	91,892	953,031
Sales/redemptions	-	(837,436)	-	(448)	(837,884)
Transfers into level 3	-	112,420	-	-	112,420
Closing Balance	367	4,047,377	5,681	101,529	4,154,954

30 June 2019

	Listed equities	Trusts & special purpose vehicles	Unlisted equities	Others	Total
	\$000	\$000	\$000	\$000	\$000
Opening balance	755	3,745,543	5,449	9,877	3,761,624
Total gains/(losses)	(156)	154,076	1,006	500	155,426
Purchases/applications	64	292,787	-	3,950	296,801
Sales/redemptions	(49)	(296,659)	-	(2,301)	(299,009)
Closing Balance	614	3,895,747	6,455	12,026	3,914,842

Gains or losses recognised in the statement of comprehensive income for Level 3 transactions are presented in the movement in fair value of investments as follows:

30 June 2020

	Listed equities	Trusts & special purpose vehicles	Unlisted equities	Others	Total
	\$000	\$000	\$000	\$000	\$000
Total gains/(losses) recognised in the statement of comprehensive income for the period	(36)	(2,789)	-	134	(2,691)
Total gains/(losses) recognised in the statement of comprehensive income for the period for assets held at the end of the reporting period	(241)	18,326	(774)	(2,075)	15,236

Notes to the Financial Statements

For the year ended 30 June 2020

9. Fair value of financial instruments (continued)

(b) Level 3 financial instruments transactions (continued)

30 June 2019

	Listed equities	Trusts & special purpose vehicles	Unlisted equities	Others	Total
	\$000	\$000	\$000	\$000	\$000
Total gains/(losses) recognised in the statement of comprehensive income for the period	-	(4,385)	(19)	60	(4,344)
Total gains/(losses) recognised in the statement of comprehensive income for the period for assets held at the end of the reporting period	(156)	158,461	1,025	440	159,770

(c) Transfers between hierarchy levels

Due to changes in the observability of inputs for a range of the Scheme's investments in private equities, property and infrastructure asset classes as a result of COVID-19, the following investments have been transferred from Level 2 to Level 3:

Security	Amount (\$000)
GIP Gemini Fund LP	90,681
TSPL Private Market No 1	9,634
Kayne Intermediate	9,126
QIC Global Infrastructure US AIV	2,979
Total	112,420

Transfers between levels of the fair value hierarchy, are deemed to have occurred at the beginning of the reporting period.

There were no other transfers between the Level 2 and Level 3 fair value hierarchies during the current year.

10. Accounts receivable

Recoverable within 12 months	2020	2019
	\$000	\$000
Contributions receivable	3,599	1,940
Other receivables	945	2,641
Prepayment	2,086	2,497
Total accounts receivable	6,630	7,078

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 23.

Notes to the Financial Statements

For the year ended 30 June 2020

11. Property, plant and equipment

	2020 \$000	2019 \$000
Cost	14,346	11,437
Accumulated depreciation and impairment	(6,544)	(4,879)
Written down value	7,802	6,558

12. Accounts payable

Due within 12 months	2020 \$000	2019 \$000
Investment expenses payable	13,949	15,228
Administration expenses payable	2,686	2,303
Employee entitlements	4,870	3,825
Unallocated member contributions	5,704	8,647
Total accounts payable	27,209	30,003

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 23.

13. Changes in fair value of investments

	2020 \$000	2019 \$000
Investments held at balance date		
Cash	7,185	10,083
Australian fixed interest securities	1,628	35,600
International fixed interest securities	(7,288)	41,163
Australian equities	(359,464)	286,294
International equities	(113,794)	187,991
Hedge funds	(6,190)	15,708
Private equity	(65,545)	(39,857)
Property	(17,272)	132,557
Infrastructure	2,311	22,286
Derivative	14,304	(2,806)
Total unrealised gains	(544,125)	689,019

	2020 \$000	2019 \$000
Investments realised during the year		
Cash	(3,775)	28,538
Australian fixed interest securities	6,022	1,218
International fixed interest securities	44,022	8,527
Australian equities	(182,141)	(317,779)
International equities	64,041	15,294
Hedge funds	12,451	(1,369)
Private equity	1	-
Property	(24,433)	(8,779)
Infrastructure	(28,290)	10,190
Derivative	(10,518)	15,657
Total realised gains	(122,620)	(248,503)
Change in fair value of investments	(666,745)	440,516

Notes to the Financial Statements

For the year ended 30 June 2020

14. Income tax

The major components of income tax expense are:

	2020 \$000	2019 \$000
Current income tax expense		
Income tax payable current year	33,596	(31,907)
Adjustments in respect of prior years	(9,510)	(15,066)
	24,086	(46,973)
	2020 \$000	2019 \$000
Deferred income tax expense		
Relating to origination and reversal of temporary differences	(109,215)	33,737
Adjustments in respect of deferred income tax of previous years	26	5,681
	(109,189)	39,418
Income tax (benefit)/expense reported in the statement of comprehensive income	(85,103)	(7,555)

A reconciliation between income tax expense and profit from operating activities is as follows:

	2020 \$000	2019 \$000
Profit/loss from operating activities	(362,420)	1,341,414
Income tax at 15%	(54,363)	201,212
Increase/(decrease) in tax expense due to:		
Imputation & foreign tax offsets gross up	11,293	22,195
Non-Deductible Expenses	(14)	13
Differences between tax and accounting investment income	35,344	(38,775)
Adjustments in respect of income tax of previous year	(9,484)	(9,385)
Allocated pension exempt income	(694)	(41,646)
Imputation & foreign tax offsets	(67,185)	(141,169)
Income tax (benefit)/expense in statement of comprehensive income	(85,103)	(7,555)

Current income tax (assets)/liabilities at 30 June relates to the following:

Income tax payable current year	105,917	42,562
Payments made during the year	(104,584)	(105,392)

	1,333	(62,830)
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Deferred income tax assets and liabilities at 30 June relates to the following:

Contributions receivable	533	286
Investment income receivable	1,810	3,941
Unrealised Gains on investments	241,067	378,159
Expense provisions	(1,062)	(883)
Imputation Tax Offsets	(1,482)	(4,628)
Allocated pension exempt income share of gains/losses	(49,137)	(76,178)

Net deferred income tax liabilities	191,729	300,697
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Notes to the Financial Statements

For the year ended 30 June 2020

15. Administration expenses

	2020 \$000	2019 \$000
Salaries and related employment costs	28,704	24,987
Trustee expenses	973	974
Professional and audit fees	4,428	4,898
Member communication expenses	1,872	1,834
Office rental and expenses	8,952	9,141
Financial planning service fees	11,445	11,545
Actuarial fees	104	157
Advertising expenses	-	29
APRA levy	1,864	1,353
Other expenses	529	406
Total administration expenses	58,871	55,324

16. Auditors' remuneration

Amount received or due and receivable by EY:	2020 \$	2019 \$
Audit and review of financial reports and compliance	415,093	373,115
Other services	10,300	87,963
Total remuneration	425,393	461,078

17. Cash flows reconciliation

(a) Reconciliation of cash and cash equivalents

	2020 \$000	2019 \$000
Cash and cash equivalents	1,343,535	1,625,751

(b) Reconciliation of cash flows from operating activities

	2020 \$000	2019 \$000
Profit/(loss) after income tax	(128,627)	10,502
Adjustments for:		
Depreciation	4,193	1,825
Net foreign exchange gains	163,736	(175,344)
Changes in assets measured at fair value	666,745	(440,516)
Insurance premiums charged on members' accounts	(37,949)	(40,625)
Death and disability benefits credited to members' accounts	33,961	28,534
(Increase)/Decrease in investment income receivable	17,051	8,666
(Increase)/Decrease in other receivables	1,696	261
(Increase)/Decrease in prepayments	411	(14)
Increase/(Decrease) in accounts payable	(2,794)	(1,604)
Increase/(Decrease) in current tax liabilities	64,162	(106,466)
Increase/(Decrease) in deferred tax liabilities	(108,968)	39,340
Allocation to members' accounts	(148,690)	1,338,467
Net cash from operating activities	524,927	663,026

Notes to the Financial Statements

For the year ended 30 June 2020

18. Leases

The Scheme has lease contracts for various items of computer hardware and office buildings used in its operations. Leases of computer hardware generally have lease terms of 4 years, while office buildings generally have lease terms between 2 and 12 years. The Scheme's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Scheme is restricted from assigning and subleasing the leased assets.

The Scheme also has certain leases of computer hardware with lease terms of 12 months or less or of low value. The Scheme applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Computer Hardware \$000	Office Buildings \$000	Total \$000
As at 1 July 2019			
Additions on adoption of AASB 16	1,262	20,373	21,635
Depreciation expense	(459)	(1,593)	(2,052)
As at 30 June 2020	803	18,780	19,583

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2020
	\$000
As at 1 July 2019	-
Additions on adoption of AASB 16	21,635
Accretion of interest	136
Payments	(2,001)
As at 30 June	19,770

The following are the amounts recognised in profit or loss:

	2020
	\$000
Depreciation expense of right-of-use assets	2,052
Interest expense on lease liabilities	136
Expense relating to leases of short-term and low-value assets	444
Total amount recognised in profit or loss	2,632

The Scheme had total cash outflows for leases of \$2,581,000 (2019: \$2,552,000). The Scheme also had non-cash additions to right-of-use assets and lease liabilities of \$21,634,000.

19. Segment information

The Scheme operates solely to provide superannuation benefits to members and beneficiaries and operates in Australia only. Revenue is derived from investments and contributions.

Notes to the Financial Statements

For the year ended 30 June 2020

20. Related party disclosures

(a) Employer company

Telstra Corporation is the principal employer. Reach Services Australia Ltd, Sensis Pty Ltd, 3GIS Pty Ltd, Foxtel Pty Ltd, Telstra Super Financial Planning Pty Ltd, and Telstra Super Pty Ltd (as trustee for the Scheme) are associated employer sponsors. Of total employer contributions of \$495,720,469 (2019: \$533,742,949) as disclosed in the statement of changes in member benefits, those made by Telstra and associated employers were \$251,513,010 (2019: \$304,475,306). Contributions are made in accordance with recommendations of the Actuary, the Trust Deed, and relevant legislative requirements. Telstra Corporation also provides the Scheme with telecommunication services. Such services are provided at arm's length and on normal commercial terms.

The Scheme held the following investments in Telstra Corporation Limited at market value as at 30 June.

	2020	2019
	\$	\$
Shares	154,611,211	197,082,520
Fixed interest securities	16,554,724	15,156,440
Total investments	171,165,935	212,238,960

The Scheme received the following income from the investments in Telstra Corporation Limited.

	2020	2019
	\$	\$
Dividends received for the year	7,552,704	8,142,316
Interest received for the year	596,390	723,020
Total income	8,149,094	8,865,336

(b) Trustee and key management personnel

Telstra Super Pty Ltd (TSPL) is the trustee of the Scheme and is the holder of a Registrable Superannuation Entity Licence (Licence No. L0001311). The following people were Directors of TSPL during the financial year:

Anne-Marie Corboy (Chair) (appointed on 1 July 2019)	David Burns (retired on 8 August 2019)
Bronwyn Clere	Scott Connolly
Melissa Donnelly (retired on 4 June 2020)	Graham Lorrain
Steven Fousekas	Julian Clarke
Dahlia Khatab	Megan Bonighton (appointed on 13 September 2019)

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

Name	Board		Committees					
			Claims Review		Audit, Risk Compliance		Governance and Remuneration	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
A Corboy	13	13	-	-	-	-	6	6
M Bonighton	10	10	-	-	1	1	-	-
D Burns	1	1	-	-	-	-	-	-
B Clere	13	13	-	-	3	3	-	-
S Connolly	13	12	4	4	-	-	6	6
J Clarke	13	11	4	4	-	-	6	6
M Donnelly	13	13	-	-	3	3	-	-
S Fousekas	13	12	-	-	3	1	-	-
D Khatab	13	13	-	-	-	-	-	-
G Lorrain	13	13	-	-	3	3	-	-

Notes to the Financial Statements

For the year ended 30 June 2020

20. Related party disclosures (continued)

(b) Trustee and key management personnel (continued)

Remuneration & Nominations Committee was restructured and renamed as Governance and Remuneration Committee on 12 December 2019.

Restructured and new Board committees

Claim Review Committee ceased to exist after its last meeting on 25 March 2020 and Member Experience Committee was established.

Audit, Risk and Compliance Committee was split into two committees, Audit Committee and Risk Committee on 12 December 2019. Investment Committee became a Board committee on 12 December 2019, which held its first meeting as a Board committee on 28 January 2020.

Each Director attended the following meetings during the year as a member of the relevant restructured committee:

Name	Committees							
	Investment		Audit		Risk		Member Experience	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
A Corboy*	5	5	2	2	3	3	1	1
M Bonighton	-	-	-	-	3	3	-	-
D Burns	-	-	-	-	-	-	-	-
B Clere	-	-	-	-	3	3	-	-
S Connolly	5	5	-	-	-	-	1	1
J Clarke	-	-	2	2	-	-	-	-
M Donnelly	-	-	2	2	-	-	-	-
S Fousekas	5	5	2	2	-	-	-	-
D Khatab	-	-	-	-	3	3	1	1
G Lorrain	-	-	2	2	3	3	1	1

*Attends Audit Committee, Risk Committee and Member Experience Committee as a non-voting member.

Other key management personnel who have had authority for planning, directing and controlling the activities of the Scheme during the financial year were as follows:

Chris Davies (Chief Executive Officer)
Paul Curtin (Chief Financial Officer)

Graeme Miller (Chief Investment Officer)

Remuneration:	2020	2019
	\$	\$
Short term - salaries, fees, bonuses and non-monetary benefits	2,713,527	2,761,932
Superannuation contributions	137,263	136,855
Total	2,850,790	2,898,787

Where instructed, a Director's income is paid directly to their employers:	2020	2019
	\$	\$
Telstra Corporation Limited	294,324	266,273
ACTU	75,184	73,494
CPSU	69,813	77,647
CWU	150,367	146,987
Total	589,688	564,401

Notes to the Financial Statements

For the year ended 30 June 2020

20. Related party disclosures (continued)

(b) Trustee and key management personnel (continued)

Directors' remuneration excludes insurance premiums of \$313,087 (2019: \$280,928) paid by the Trustee.

The table shown below lists the number of Directors and key management personnel whose income falls within the following bands for financial years ending 30 June.

Amount falling between	2020	2019
\$0 and \$9,999	1	-
\$10,000 and \$19,999	-	1
\$40,000 and \$49,999	-	1
\$60,000 and \$69,999	2	-
\$70,000 and \$79,999	6	7
\$200,000 and \$209,999	1	-
\$260,000 and \$269,999	-	1
\$460,000 and \$469,999	1	-
\$470,000 and \$479,999	-	1
\$720,000 and \$729,999	1	-
\$730,000 and \$739,999	-	1
\$840,000 and \$849,999	-	1
\$860,000 and \$869,999	1	-

Certain Directors and key management personnel are members of the Scheme. Their membership terms and conditions are identical to other members of the Scheme.

A fee is paid to the trustee company, Telstra Super Pty Ltd, for providing trustee services. The fee charged to the Scheme for providing trustee services was \$1,002,586 (2019: \$1,004,676).

(c) Related parties

i. Telstra Super Financial Planning Pty Ltd (TSFP)

TSFP is an investment wholly owned by Telstra Super Pty Ltd as the Trustee for the Scheme. The principal activity of the company during the course of the financial year was to provide financial planning advice to the Scheme's members. The Scheme held the following investment in TSFP at net asset value as at 30 June.

	2020	2019
	\$	\$
Shares	4,349,650	5,835,644

The following Directors or Officers are also Directors of TSFP during the financial year:

Anne-Marie Corboy (appointed on 1 July 2019)	Chris Davies
Bronwyn Clere	Scott Connolly

TSFP is responsible for direct expenditure incurred. Shared costs with the Scheme are allocated on a fair and equitable basis. Transactions between the parties comprised of fees charged by TSFP to the Scheme for providing financial advice to members \$8,349,996 (2019: \$8,349,996) and fees charged by the Scheme to TSFP for in-house administration support and services \$900,000 (2019: \$900,000). The TSFP fee for providing financial advice to members is a flat fee for service as agreed to by the board of the Scheme. The Scheme also charged TSFP for Director fees \$25,325 (2019: \$22,609) and employer paid insurance premiums \$24,023 (2019: \$22,402).

At 30 June 2020 TSFP had nil receivables (2019: nil) from the Scheme and a payable of \$3,000 to the Scheme (2019: \$5,750).

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

20. Related party disclosures (continued)

(c) Related parties (continued)

ii. TelstraSuper sub trusts

Several investments are wholly owned by the Scheme. Details of these entities are disclosed in Note 21.

21. Related party investments

The table below lists details of related party investments held. The maximum exposure or loss is limited to the fair value. The fair value of the exposure will change throughout the reporting period and in subsequent periods, and will cease once the investments are disposed.

Ownership interest as at 30 June 2020	\$	%
Telstra Super Financial Planning Pty Ltd	4,349,650	100
TSPL Woollies Sub Trust	174,293,172	100
TSPL BTF Trust	51,653,545	100
TSPL CLP Trust	488,501,832	100
TSPL BP Trust	336,438,105	100
FDC Co Investment Trust	48,931,727	100
FDC Co Investment Trust – Brandon	390,046	100
TSPL Exchange Trust	97,080,572	100
TSPL DVP Trust	111,212,174	100
TSPL Chifley Trust	74,114,706	100
Northgate Investment Trust	32,823,075	100
Telstra Ventures	21,736,503	49.5
	1,441,525,107	
Ownership interest as at 30 June 2019	\$	%
Telstra Super Financial Planning Pty Ltd	5,835,644	100
TSPL Woollies Sub Trust	176,645,465	100
TSPL BTF Trust	49,246,053	100
TSPL CLP Trust	455,315,815	100
TSPL BP Trust	289,683,345	100
FDC Co Investment Trust	72,096,019	100
FDC Co Investment Trust – Brandon	341,168	100
Northgate Investment Trust	64,416,148	100
	1,113,579,657	

The Scheme has a controlling interest in the related party investments. As at 30 June 2020, there are no significant restrictions on the ability of an unconsolidated subsidiary to pay income or repay loans to the Scheme. In addition, the Scheme does not have any current commitments or intentions to provide financial or other support to the related party investments.

22. Employee entitlements

(a) Aggregate employee leave entitlements, including on-costs

	2020 \$000	2019 \$000
Current	3,811	3,043
Non-current	1,056	747
Total	4,867	3,790

Notes to the Financial Statements

For the year ended 30 June 2020

22. Employee entitlements (continued)

Employees are entitled to long service leave after seven years of service. The present values of employee entitlements not expected to be settled within twelve months of the reporting date have been calculated using the following weighted averages:

	2020	2019
Assumed rate of increase in wage and salary rates	2.13%	2.19%
Leave discount rate	1.11%	1.82%

(b) Superannuation scheme

There are four (2019: four) employees of the Scheme who are defined benefit members. Their proportionate share of the assets, the accrued benefits and the vested benefits are as follows:

	2020 \$000	2019 \$000
Proportionate share of the Scheme's assets at 30 June	2,586	2,551
Accrued benefits at 30 June	2,321	2,161
Excess of fund assets over accrued benefits	265	390
Vested benefits	2,353	2,248

An actuarially determined surplus or deficit in relation to all employees has not been recognised in the financial statements as the amount is not material. During the year, employer contributions of \$2,560,370 (2019: \$2,229,728) were paid/payable to the Scheme in respect of employees.

23. Financial risk management objectives and policies

(a) Financial risk management objectives, policies and processes

The Scheme's investments are managed on behalf of the Trustee by appointed managers and the internal investment team. All investments are held on behalf of the Trustee by JPMorgan Chase & Co. (Custodian) acting as the global custodian. Each investment manager is required to invest the assets managed by it in accordance with the terms of a written mandate. The Trustee has determined that appointment of these managers is appropriate for the Scheme and is in accordance with the Scheme's investment strategy. The Scheme's principal financial instruments, other than derivatives, comprise equity securities, fixed interest securities, interests in pooled investment vehicles (including private equity, property trusts and infrastructure), cash and short term money market investments. The main purpose of these financial instruments is to generate a return on investment. The Scheme also has various other financial instruments such as receivables and payables, which arise directly from its operations.

The Scheme uses derivative financial instruments to reduce foreign exchange and interest rate risks in the share, bond and currency markets and to increase or decrease the Scheme's exposure to particular investment classes or markets in line with the re-balancing strategy and other investment strategies. Derivative financial instruments are included in the statement of financial position, and the accounting policies in relation to derivatives are set out in Note 2 (d).

The main risks arising from the Scheme's financial instruments are credit risk, liquidity risk, and market risk. Market risk includes interest rate risk, equity price risk, and foreign currency risk. The Trustee reviews and agrees policies for managing each of these risks. These policies are summarised below. The Trustee also monitors market price risk for all financial instruments.

The Trustee acknowledges that an integral part of its good governance practice is a sound and prudent risk management framework. This framework is documented in the Trustee's Risk Management Framework and Risk Management Strategy which has been updated for the prudential standard SPS220 *Risk Management*. This Framework and Strategy are subject to regular review by management, the Trustee, and annual audits of the Scheme's Risk and Compliance programme. The Trustee manages this investment risk as part of its overall Risk Management Framework.

Notes to the Financial Statements

For the year ended 30 June 2020

23. Financial risk management objectives and policies (continued)

(a) Financial risk management objectives, policies and processes (continued)

The Trustee determines the asset allocation of the Scheme. The Trustee receives advice from its investment adviser in making its determination. The asset allocation is reviewed throughout the year in accordance with the Scheme's Risk Management and Investment Policies. The Trustee has established an Investment Committee, which is responsible for approving and monitoring the Scheme's investments subject to the limits outlined in the Committee charter. The Committee comprises of the Chair of the TSPL Board, the CEO and CFO, two other independent Committee members. The Committee minutes record all decisions made and are presented to the Board for ratification or noting as appropriate.

The internal investment management unit through its investment mandates is delegated responsibility for all day-to-day investment decisions for the internally managed funds.

The Scheme also undertakes due diligence to ensure fund managers have the appropriate skills and expertise to manage the Scheme's investments. In addition investment performance is tracked through appropriate monitoring of market conditions and benchmark analysis.

(b) Credit risk

Credit risk represents the risk that the counterparty to a financial instrument will fail to discharge an obligation and cause the Scheme to incur a financial loss. Credit risk primarily arises from investments in debt securities and from trading derivative products. Other credit risk arises from cash and cash equivalents and amounts due from brokers. The Scheme invests in debt securities that carry credit risks. The Scheme requires investment managers to manage the securities within approved credit limits as set out in their mandates. Compliance of managers with their mandates is monitored by the Custodian, as well as the Trustee.

The Scheme's maximum exposure to credit risk is as indicated by the carrying amounts of its assets including derivatives. The Scheme minimises credit risk by the diversity of investments, ensuring its assets are custodially held, and dealing through recognised exchanges and clearing houses. The Trustee also has a credit risk policy in place. Compliance with this policy is monitored on an ongoing basis.

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

Credit quality per class of debt instruments

The credit quality of financial assets is managed by the Scheme using Standard & Poor's rating categories, in accordance with the investment mandate of the Scheme, and is monitored on a regular basis in accordance with the Credit Risk Policy. This review process allows the Trustee to assess the potential loss as a result of risks and take corrective action. The table below shows the credit quality by class of asset.

2020

Credit quality	AAA to AA-	A+ to A-	BBB+ to B-	CCC+ to CC	Not rated	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Listed equities	-	-	-	-	8,563,069	8,563,069
Unlisted equities	-	-	-	-	5,681	5,681
Bonds, discount securities & asset backed securities	2,647,954	977,242	1,975,583	14,355	844,208	6,459,342
Trusts & special purpose vehicles	-	-	-	-	5,007,455	5,007,455
Derivative assets	-	-	-	-	187,571	187,571
Total	2,647,954	977,242	1,975,583	14,355	14,607,984	20,223,118

Notes to the Financial Statements

For the year ended 30 June 2020

23. Financial risk management objectives and policies (continued)

(b) Credit risk (continued)

2019

Credit quality	AAA to AA-	A+ to A-	BBB+ to B-	CCC+ to CC	Not rated	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Listed equities	-	-	-	-	9,805,838	9,805,838
Unlisted equities	-	-	-	-	6,455	6,455
Bonds, discount securities & asset backed securities	2,248,595	1,022,701	1,940,657	10,310	168,319	5,390,582
Trusts & special purpose vehicles	-	-	-	-	5,298,357	5,298,357
Derivative assets	-	-	-	-	31,792	31,792
Total	2,248,595	1,022,701	1,940,657	10,310	15,310,761	20,533,024

The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date. Collateral is held in regard to all securities lending activities. No collateral is held as security or other credit enhancements exist for all other financial assets held. No financial assets are considered past due as all payments are considered recoverable when contractually due. The Scheme's financial assets exposed to credit risk amounted to the following:

	2020	2019
	\$000	\$000
Accounts receivable	6,630	7,078
Investment income receivable	34,488	51,540
Australian fixed interest securities	4,686,618	3,731,290
International fixed interest securities	2,111,219	1,953,091
Derivative assets	187,571	31,792
Total	7,026,526	5,774,791

The Scheme's cash is substantially managed by Pandal and the internal investment management team. The custodian holds assets and cash in the name of the Scheme. Bankruptcy or insolvency by these financial institutions may cause the Scheme's rights with respect to the cash held to be delayed or limited. The Scheme monitors its credit risk by monitoring the credit quality and financial position of relevant institutions through regular analysis of their financial reports.

(c) Liquidity risk

Liquidity risk is the risk that the Scheme will encounter difficulty in raising funds to meet commitments associated with financial instruments and benefit payments. To control these risks, the Scheme invests in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Scheme maintains sufficient cash and cash equivalents to meet normal operating requirements.

The Scheme's liquidity risk is managed on a daily basis by the internal investment management and the finance functions in accordance with the Liquidity Management Plan and the Scheme's Risk Management Framework. Compliance with the plan is reported to the Trustee on a regular basis. The Scheme limits the allocation of illiquid assets and ensures that the allocation is consistent with the intended term of investment. The Scheme's membership profile, together with the bulk of its assets being invested in highly liquid asset classes, allows the Scheme to tolerate a lower liquidity in regard to its alternative investments (e.g. property and infrastructure investments) in an expectation of higher investment returns in the longer term.

The Scheme's financial instruments include unlisted investments that are not traded in organised public markets and may be illiquid. As a result the Scheme may not be able to quickly liquidate some of its unlisted investments at an amount close to fair value in order to meet its liquidity requirements. The value of these investments is monitored to comply with the asset allocation stipulated in the Scheme's investment strategy, Liquidity Policy and Risk Management Framework. Commitment cash flow projections are analysed as part of the periodic rebalancing review of the Scheme's investments. The risk in relation to illiquid investments is therefore considered minimal.

Notes to the Financial Statements

For the year ended 30 June 2020

23. Financial risk management objectives and policies (continued)

(c) Liquidity risk (continued)

The following table summarises the maturity of the Scheme's financial liabilities based on undiscounted cash flows.

2020	Less than 1 month \$000	1 month to 3 months \$000	3 months to 1 year \$000	Greater than 1 year \$000	Total \$000
Liability					
Benefits payable	7,465	-	-	-	7,465
Accounts payable	27,209	-	-	-	27,209
Derivative liabilities	215	4,613	38	12,956	17,822
Current tax liability	1,333	-	-	-	1,333
Lease liabilities - undiscounted	252	530	2,360	24,672	27,814
	36,474	5,143	2,398	37,628	81,643
2019					
Liability					
Benefits payable	13,541	-	-	-	13,541
Accounts payable	30,003	-	-	-	30,003
Derivative liabilities	500	7,999	671	14,615	23,785
Current tax liability	-	-	-	-	-
	44,044	7,999	671	14,615	67,329

The above table does not include the members' liabilities for accrued benefits amounting to \$20,685 million (2019: \$21,268 million) as it is not practicable to determine the timing of when such liabilities will be paid. The Scheme manages its obligation to pay such benefits based on management's estimates and actuarial assumptions of when such benefits will be drawn down by members. The Trustee considers it is highly unlikely that a substantial number of members will request to draw down their benefit at the same time.

Since the outbreak of the global COVID-19 pandemic, the Scheme has been closely monitoring its liquidity on a daily basis. Refer to Note 26(c) for more information.

(d) Market risk

Market risk represents the risk that the fair value of future cash flows 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.

Market risk comprises three types of risk: market interest rates (interest rate risk), foreign exchange (currency risk), and market prices (price risk). The Scheme's policies and procedures to mitigate the Scheme's exposure to market risk are detailed in the Trustee's Investment Policy and the Risk Management Framework. This includes the risk review processes and compliance testing undertaken by management and regularly reported to the Audit, Risk and Compliance Committee.

Market risk is also minimised through ensuring that all investment activities are undertaken in accordance with established mandate limits and investment strategies. The market risk disclosures are prepared on the basis of the Scheme's direct investments and not on a look through basis.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The majority of the Scheme's financial instruments are non-interest bearing with only cash, cash equivalents and fixed interest securities being directly subject to interest rate risk. However, movements in market interest rates can indirectly impact on the valuation of non-interest bearing investments. The Scheme may use derivatives to hedge against unexpected increases in interest rates.

Notes to the Financial Statements

For the year ended 30 June 2020

23. Financial risk management objectives and policies (continued)

(d) Market risk (continued)

Interest Rate Risk (continued)

The Scheme's exposures to interest rate movements on its financial instruments, by maturity, at balance date are as follows:

2020	Floating Interest rate \$000	1 year or less \$000	1 to 5 years \$000	More than 5 years \$000	Non-interest bearing \$000	Total \$000
Investments	4,828,554	102,527	647,304	881,299	13,745,611	20,205,295
Cash and cash equivalents	1,343,535	-	-	-	-	1,343,535
Total	6,172,089	102,527	647,304	881,299	13,745,611	21,548,830
2019	Floating Interest rate \$000	1 year or less \$000	1 to 5 years \$000	More than 5 years \$000	Non-interest bearing \$000	Total \$000
Investments	3,769,098	122,747	659,202	840,885	15,117,307	20,509,239
Cash and cash equivalents	1,625,751	-	-	-	-	1,625,751
Total	5,394,849	122,747	659,202	840,885	15,117,307	22,134,990

Interest on financial instruments classified as floating rate change at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. Although non-interest bearing financial instruments do not pay an interest rate, their value is subject to movement in market interest rates. Investments in managed trust vehicles are included under non-interest bearing and their risks are covered in the price risk section.

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates at the reporting dates. The analysis assumes that all other variables are held constant. Based on expected movements in the yields of ten-year Australian and US Government bonds, a reasonably possible change of 71bp (2019: 74bp) was an appropriate movement for 30 June 2020. A change of 71bp in interest rates with all other variables remaining constant would have increased interest income and net assets available for member benefits by \$45.9 million (2019: \$40.2 million). A change of -71bp in interest rates with all other variables remaining constant would have decreased interest income and net assets available for member benefits by \$45.9 million (2019: \$40.2 million).

The analysis is performed on the same basis for 2019. The impact on net assets available to pay benefits mainly arises from the effect that the reasonably possible change in interest rates will have on the fair value of fixed interest securities.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk is a component of price risk.

The Scheme has exposure to foreign exchange risk in the value of securities denominated in a foreign currency. Foreign exchange contracts are used by our investment managers and by the Scheme as an overlay control to reduce the exposure to such risk in the value of our underlying international investments by the use of forward currency contracts. The Scheme uses both passive and active managers to manage the risk of foreign exchange fluctuations in line with the Scheme's Risk Management Framework and the Scheme's Investment Policy. On this basis, the Scheme's overall exposure to foreign exchange risk is considered minimal after taking into account the forward currency contracts.

Notes to the Financial Statements

For the year ended 30 June 2020

23. Financial risk management objectives and policies (continued)

(d) Market risk (continued)

Foreign exchange risk (continued)

Foreign exchange sensitivity analysis

The tables below indicate the Scheme's exposures at balance date to foreign exchange rate movements on its international investments. The analysis calculates the effects of a reasonably possible movement of currency rates against the Australian Dollar based on forecasts at balance date. Based on an assessment of historical ranges of currency and one standard deviation expectation an assumption of 7% (2019: 9%) has been determined by the investment adviser as an appropriate assumption for this scenario analysis. A 7% strengthening/weakening of the Australian dollar against the following currencies at 30 June 2020 would have (decreased)/ increased the net foreign exchange gains/(losses) and net assets available for member benefits by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant.

The analysis was performed on the same basis for 2019. The impact mainly arises from the reasonably possible change in foreign currency exchange rates.

The reasonably possible movements in the risk variables have been determined based on the Trustee's best estimate, having regard to a number of factors including the average absolute divergence between the unhedged and hedged MSCI World Index ex Australian annual returns over a ten-year period.

2020	Effect on net foreign exchange gains/(losses) and net assets		
Currency Gross investment amounts denominated in:	Amount \$000	7% \$000	-7% \$000
USD	5,154,867	360,841	(360,841)
EUR	949,012	66,431	(66,431)
JPY	241,433	16,900	(16,900)
GBP	608,566	42,600	(42,600)
Other currencies	1,206,402	84,448	(84,448)
Total	8,160,280	571,220	(571,220)

2019	Effect on net foreign exchange gains/(losses) and net assets		
Currency Gross investment amounts denominated in:	Amount \$000	9% \$000	-9% \$000
USD	5,325,896	479,331	(479,331)
EUR	967,880	87,109	(87,109)
JPY	271,696	24,453	(24,453)
GBP	650,470	58,542	(58,542)
Other currencies	1,072,277	96,505	(96,505)
Total	8,288,219	745,940	(745,940)

Other Market Price Risk

Other market price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument, or factors affecting all similar instruments traded in the market. All security investments present a risk of loss of capital. The maximum risk is determined by the fair value of the financial instruments.

Notes to the Financial Statements

For the year ended 30 June 2020

23. Financial risk management objectives and policies (continued)

(d) Market risk (continued)

Other market risk (continued)

As all of the Scheme's financial instruments are measured at fair value with changes in fair value recognised in the statement of comprehensive income, all changes in market conditions will directly affect net investment income. Price risk is mitigated by investing in a diversified portfolio of financial instruments that are traded on various markets.

Other market price sensitivity analysis

All investment managers are subject to extensive due diligence prior to being appointed, with the recommendation for their appointment and removal made by the Investment Committee to the Board for final approval where required. All investment activities are undertaken in accordance with established mandate limits. Monthly reports are received from investment managers and the global custodian and these reports are reviewed in detail and assessed against relevant benchmarks. Investment manager performance is reported to the Investment Committee on a monthly basis, and the Board.

The Trustee has determined that these investments are appropriate for the Scheme and are in accordance with the Scheme's investment strategy

The analysis below indicates the effect on the statement of comprehensive income due to a reasonably possible change in market factors, as represented by the equity indices, with all other variables held constant. Based on analysis of historical data in respect of asset class returns over ten years and using this analysis to formulate expected future ranges of returns, the investment adviser has determined that the following assumptions are appropriate for this scenario analysis.

2020

Asset class	Change in market price	Effect on net assets/returns	
		\$000	\$000
Australian fixed interest	6%	281,197	(281,197)
International fixed interest	6%	126,673	(126,673)
Australian equities	12%	490,886	(490,886)
International equities	12%	562,562	(562,562)
Hedge funds	5%	11,645	(11,645)
Property	9%	247,547	(247,547)
Infrastructure	12%	116,229	(116,229)
Private equity	16%	81,117	(81,117)

2019

Asset class	Change in market price	Effect on net assets/returns	
		\$000	\$000
Australian fixed interest	6%	223,877	(223,877)
International fixed interest	7%	136,716	(136,716)
Australian equities	14%	746,502	(746,502)
International equities	16%	759,877	(759,877)
Hedge funds	6%	52,057	(52,057)
Property	9%	229,787	(229,787)
Infrastructure	11%	92,739	(92,739)
Private equity	17%	80,170	(80,170)

Notes to the Financial Statements

For the year ended 30 June 2020

23. Financial risk management objectives and policies (continued)

(e) Market risk (continued)

Other market risk (continued)

Other market price sensitivity analysis (continued)

A process for the valuation of unlisted, infrequently valued assets is used to ensure valid valuations are reported. This involved seeking assurances from managers, ensuring latest accurate information available has been included and where necessary reviewing the latest audited financials of the relevant entity. All available valuation information has been incorporated in these financials.

(f) Securities lending

The Scheme has entered into securities lending arrangements under which legal title to certain assets of the Scheme have been transferred to the Custodian, notwithstanding the fact that the risks and benefits of ownership of the assets remain with the Scheme.

The assets transferred under securities lending arrangements include Australian and international equities and bonds. The risks and rewards of ownership to which the Scheme remains exposed are currency risk, interest rate risk, credit risk and price risk.

The carrying amount of assets subject to securities lending at reporting date amounted to \$5,420.6 million (2019: \$7,550.8 million). Capped at 10% of the Scheme's FUM as at the reporting date, the carrying amount of assets on loan at reporting date was \$197.3 million (2019: \$488.7 million). The income received from securities lending was \$1.4 million (2019: \$1.2 million).

The Custodian is required to collect collateral in respect of the securities which are lent to third party borrowers. The terms and conditions associated with the use of collateral held as security in relation to the assets lent are governed by a Securities Lending Agreement that requires the Custodian to hold the collateral in a segregated account.

The collateral held at reporting date as security by the Custodian for the benefit of the Scheme. It consisted of both cash and non-cash collateral with a fair value of \$217.9 million (2019: 533.6 million) at the reporting date.

24. Insurance

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

25. Commitments and contingent liabilities

The Scheme has outstanding commitments and contingent liabilities as part of its business operations. These represent uncalled elements in respect of investments, litigation, as well as contractual arrangements entered into with third parties. The Scheme also has bank guarantees in place covering rental and office fitouts. Amounts as at 30 June were as follows:

	2020 \$000	2019 \$000
Investment commitments	925,445	1,264,448
Bank guarantees	894	894
Total	926,339	1,265,342

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

26. Coronavirus (COVID-19) impact

(a) Background

COVID-19, which is a respiratory illness caused by a new virus, was declared a world-wide pandemic by the World Health Organisation in March 2020. COVID-19, as well as measures to slow the spread of the virus, have since had a significant impact on the domestic and global economy and equity, debt and commodity markets.

The Trustee has considered the impact of COVID-19 and other market volatility in preparing its financial statements. Specific areas of judgment have been outlined within Note 2(s). Given the dynamic and evolving nature of COVID-19 as well as limited recent experience of the economic and financial impacts of such a pandemic, changes to the estimates and outcomes that have been applied in the measurement of the Scheme's assets and liabilities may arise in the future.

Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period (of which there were none), the impact of events that arise after the reporting period will be accounted for in future reporting periods.

The impact of COVID-19 on the macroeconomic outlook, including an explanation of the matters considered in determining the Scheme's assumptions in the valuation of unlisted investments and defined benefit member liabilities, is outlined in Notes 2(s)(i) and 4 to the financial statements.

Noting the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty of how COVID-19 and its social and economic consequences will follow, these matters represent reasonable and supportable forward looking views as at the reporting date.

COVID-19 Early Release of Superannuation Scheme

On 22 March 2020 the Australian Government announced the COVID-19 Early Release of Superannuation Scheme ('ERS') as a temporary measure to stimulate the Australian economy. This scheme allowed eligible members to access up to \$10,000 of their superannuation in both financial years 2020 and 2021.

For the year ended 30 June 2020 the Scheme paid \$54,346,780 in member benefits under the ERS. The Trustee expects an additional \$79,744,158 in benefits to be paid to members over the financial year ended 30 June 2021 under the ERS.

(b) Processes applied

In preparing these financial statements the Trustee considered the impact of COVID-19 in its:

- evaluation of any areas of judgment or estimation uncertainty in addition to those disclosed above;
- adoption of significant assumptions and market inputs used in:
 - valuing the Scheme's financial instruments (in particular, unlisted investments);
 - valuing the Scheme's defined benefit member liabilities; and
 - preparing disclosures for the fair value of financial assets and liabilities and financial risk management.
- review of external market communications to identify other COVID-19 related impacts;
- review of public forecasts and experience from previous economic downturns;
- assessment of the fair value of the Scheme's assets and liabilities;
- stress testing scenarios, which are an integral component of the Trustee's risk management framework, to assess the potential impacts of the COVID-19 pandemic on the Scheme's portfolio valuation and liquidity; and
- its determination of the completeness and appropriateness of financial statement disclosures.

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

26. Coronavirus (COVID-19) impact (continued)

(c) Consideration of the Statement of Financial Position and further disclosures

Key items within the Statement of Financial Position and related disclosures impacted by COVID-19 are as follows:

Financial instruments at fair value through profit and loss

Given recent market volatility, the Trustee reviewed the appropriateness of inputs to its valuation of financial instruments as well as performing out of cycle valuations. The impact of changes in valuation inputs has also been considered in terms of the classification of financial instruments in the fair value hierarchy, transfers within the fair value hierarchy and the Level 3 sensitivity analysis. The Scheme's financial instruments include a portfolio of unlisted equity investments which, in accordance with the Scheme's accounting policies, are measured at FVTPL. The determination of the financial instruments' carrying value included a consideration of the impact of COVID-19. Refer to Note 2(s) for more information.

Defined benefit member liabilities

Given recent market volatility, the Trustee reviewed the appropriateness of the significant assumptions used in its valuation of defined benefit member liabilities and disclosures of changes in these assumptions and the impact these may have on the Scheme's defined benefit surplus. Refer to Note 4 for more information.

Risk management

The Trustee's risk management framework continues to be applied across the Scheme's operations. The Trustee continues to monitor the impact of COVID-19 on the Scheme's risk profile. Non financial risks emerging from global movement restrictions, and remote working by our staff, counterparties and service providers have been identified, assessed, managed and governed through timely application of the Trustee's risk management framework.

The Trustee considers liquidity to be impacted driven by COVID-19 through a range of interconnected factors, including:

- Decreased contributions from members and employers;
- Increasing benefit payments through the COVID-19 Early Release Scheme;
- Managing foreign currency hedging programs (including necessary liquidity to respond to any margin call requirements); and
- Members shifting into cash or defensive investment options.

The management of liquidity risk is a key element of the Scheme's investment process. Our approach to managing liquidity is outlined in Liquidity Risk Management Plan which is approved by the Trustee and implemented by management. We're focused on the effects of the global COVID-19 pandemic and are monitoring it as it unfolds, specifically:

- we actively manage each Investment Option in line with its long-term investment strategy;
- we monitor member switching activity on a daily basis;
- we monitor asset allocation on a daily basis, and rebalance to targets where appropriate;
- we continue to monitor and respond to global investment markets;
- we manage the Scheme's cash flow on a daily basis;
- we prepare for events that may affect our liquidity position;
- we stress-test the portfolio for a range of possible scenarios.

27. Significant events after balance date

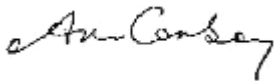
Between 30 June 2020 and the date of approval of this financial report, there have been no matters or circumstances not otherwise dealt with in the financial report that have significantly affected or may significantly affect the Scheme.

Trustee Statement

In the opinion of the Directors of Telstra Super Pty Ltd (ACN 007 422 522), Trustee of the Telstra Superannuation Scheme (Scheme):

1. The accompanying financial statements of the Scheme are properly drawn up so as to present fairly the financial position of the Scheme as at 30 June 2020 and the results of its operations and cash flows for the year then ended on that date in accordance with Australian Accounting Standards and other mandatory professional reporting requirements in Australia; and
2. The Scheme has been conducted in accordance with its constituent Trust Deed dated 1 July 1990 (as amended) and the requirements of the Superannuation Industry (Supervision) Act 1993 and Regulations and the Corporations Act 2001 and Regulations and Guidelines during the year.

Signed in accordance with a resolution of the Board of Directors of Telstra Super Pty Ltd.



.....
Name Anne-Marie Corboy
Director

.....
Name: Steve Fousekas
Director

Dated at Melbourne, this 6th day of August 2020.



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**Building a better
working world**

Telstra Superannuation Scheme
ABN 85 502 108 833

Report by the RSE Auditor to the trustee and members

Opinion

We have audited the financial statements of Telstra Superannuation Scheme for the year ended 30 June 2020 comprising the statement of financial position, income statement, statement of changes in member benefits, statement of cash flows and statement of changes in reserves.

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

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's responsibilities* section of our report. We are 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 our audit of the financial statements in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 Standards 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.

Emphasis of Matter: Fair Value of Unlisted Investments

We draw attention to Note 2(s) of the financial statements which describes the impact of the COVID-19 pandemic on the determination of the fair value of unlisted equity, property and infrastructure investments and how this has been considered by the Trustee in the preparation of the financial statements. Due to the increased valuation uncertainty, fair value may change significantly and unexpectedly over a relatively short period of time. Our opinion is not modified in respect of this matter.

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

As part of an audit in accordance with the Australian Auditing Standards, We exercised professional judgment and maintained professional scepticism throughout the audit. We 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 our 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 We conclude that a material uncertainty exists, We are required to draw attention in our auditor report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our auditor opinion. My conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the RSE to cease to continue as a going concern.
- ▶ Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Communicated with the trustee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that We identified during our audit.



Maree Pallisco
Partner
Melbourne

6 August 2020