



Annual Report

2020/21

About the artist – Acacia Collard

Acacia is a young Badimia Yamatji – Ballardong Noongar woman who comes from two large and prominent families in Western Australia.

She specialises in contemporary Aboriginal artworks and designs including canvas painting, rock art and sand murals.

Artwork description

As part of our Reconciliation Action Plan (RAP), we are committed to creating awareness of the history and cultures of Aboriginal and Torres Strait Islander peoples.

At the heart of all Aboriginal and Torres Strait Islander cultures is a close connection to the land, which involves paying careful attention to the changes in the seasons. The Noongar calendar recognises six distinct seasons in Western Australia – Birak, Bunuru, Djeran, Makuru, Djilba and Kambarang. Our 2020/21 Annual Report artwork depicts these six seasons.

The colour of each season is symbolic of the climate and prevalent flora and fauna of that season. For example, Birak represents the December to January period and its colour is red, symbolic of heat, sun and fire.

Statement of compliance

In accordance with Section 61 of the *Financial Management Act 2006* (FMA), we hereby submit for your information and presentation to parliament, the Annual Report for the Government Employees Superannuation Board, trading as GESB, for the financial year ended 30 June 2021.

The Annual Report has been prepared in accordance with the provisions of the following Acts:

- *Disability Services Act 1993*
- *Electoral Act 1907*
- *Financial Management Act 2006*
- *Freedom of Information Act 1992*
- *Public Interest Disclosure Act 2003*
- *Public Sector Management Act 1994*
- *State Records Act 2000*

Responsible Minister

The Hon. Ben Wyatt LLB MSc MLA, Treasurer; Minister for Finance; Aboriginal Affairs; Lands was GESB's responsible Minister for the period 1 July 2020 to 13 March 2021.

From 19 March 2021 to 30 June 2021, GESB's responsible Minister was the Hon. Mark McGowan, MLA, Premier; Treasurer; Minister for Public Sector Management; Federal-State Relations.

Ministerial directives

No ministerial directives were received during 2020/21.

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GESB profile

Purpose

GESB's purpose is to look after members' superannuation with excellence.

GESB's statutory framework is principally derived from the *State Superannuation Act 2000* (SSA) and the *State Superannuation Regulations 2001*. GESB's functions under the SSA are to:

- Manage the Government Employees Superannuation Fund (GES Fund)
- Administer GESB's schemes
- Provide information, advice and assistance to the Treasurer regarding matters relating to superannuation
- Provide or facilitate the provision of products and services to:
 - Members of superannuation schemes administered under the SSA or any other written law
 - Employers in the WA Public Sector, and
- Perform any other functions conferred upon GESB under any other written law

In carrying out these functions, GESB is required to act in the best interests of members, as far as is practicable and ensure that members and employers are fully informed of their rights and obligations under the Act.

Strategic objectives

GESB's corporate goal is improved long term superannuation benefits of our members.

GESB achieves its purpose by focusing on four objectives:

1. Financial outcomes for members
 - Net benefit to members through low fees and delivery of returns that meet or exceed investment objectives
2. Member experience
 - A positive experience for members when they engage with GESB
 - Give primacy to our members' perspective and be their advocate for appropriate outcomes
3. Efficient and effective operations
 - Value for money products and services, that meet members' needs
 - Insurance members can rely on
 - Supporting employers in meeting their superannuation obligations efficiently and effectively
 - Sufficient scale to support continued achievement of member outcomes

4. Positive culture and stakeholders

- A positive and supportive organisational culture underpinned by strong values
- Highly regarded by stakeholders

These objectives reflect GESB's focus on providing net benefits to members through sound investment returns, low fees and through increased member engagement with their superannuation.

GESB values

Members first

We are committed to providing excellent super and retirement products and services that meet our members' needs. This includes meeting the needs of members who might need help with accessing information about their super, and the unique needs of our Aboriginal and Torres Strait islander members and employees.

Sustainable performance

We are committed to consistently delivering well-regarded, value for money products and services with performance that meets or exceeds objectives.

Achieve together

We partner with our members, the WA Government, employers and other stakeholders to successfully deliver on our purpose.

Act with integrity

We approach every aspect of our work ethically, and operate transparently with full accountability. We demonstrate our sense of responsibility by taking ownership of issues to ensure a satisfactory outcome.

Report from the Chair

On behalf of our GESB Board, Executive Management Team and employees, I'm pleased to present to you our 2020/21 Annual Report.

The investment environment

Most investment markets generated strong returns in 2020/21 driven by massive government and central bank stimulus along with more optimism following the creation and distribution of COVID-19 vaccines. The Australian share market increased by +28% over the year to 30 June 2021, whilst overseas shares achieved a positive return of +29% in local currency terms.

Bond yields remained low over the year but did rise slightly (meaning prices fell) during the first quarter of 2021. This was primarily due to the improving economic growth outlook along with increasing inflation expectations.

The Reserve Bank of Australia (RBA) reduced the official interest rate once over the year, which at year's end stood at 0.10%. The RBA is not expected to cut rates from these levels in the near term given Australia's economic recovery and rebound in employment.

Although the global recovery is progressing well, inflationary pressures have shown signs of re-emerging. Some major central banks, particularly the US Federal Reserve, have increased their inflation forecasts and are signaling interest rates rises, possibly in the next two years.

Most of GESB's plans produced strong positive returns against the backdrop of the post COVID-19 recovery.

For the 12 months to June 2021, the My GESB Super option delivered an after fees and taxes return of 17.08%^ and the My West State Super* option delivered an after fees return of 17.20%^.

On a ten-year basis, the My GESB Super option has delivered an average return after fees and taxes of 8.65%^ p.a. and the My West State Super* option has delivered an average return after fees of 8.37%^ p.a.

GESB's total funds under management, including member net inflows and investment performance, increased over the year to \$34.7 billion, from

around \$29.3 billion at the start of the financial year.

Despite the strong returns achieved over the past year, the forward looking returns for most asset classes are expected to be lower than what has been achieved in the recent past.

Additionally, a number of challenges remain. The possibility of further lockdowns due to COVID-19 outbreaks could see economies and investment markets weaken. Rising interest rates, in response to higher inflation, are likely to impact growth assets the most.

Although periods of instability and uncertainty can challenge investment returns in the short to medium term, GESB's investment strategies remain well-diversified and appropriate for their longer-term objectives.

GESB regularly reviews its investment portfolio and is focused on delivering long-term returns that meet or exceed objectives, with sufficient flexibility to respond to evolving investment market conditions.

Managing Environmental, Social and Governance (ESG) risks

GESB recognises that climate change and the transition to a low carbon economy are important ESG factors. Stress testing recently undertaken has highlighted the potential adverse impact climate risks can have on our portfolio and on outcomes for member if left unmanaged.

I am pleased to advise that in June 2021 the Board approved the following statement concerning carbon emissions of GESB's investments:

'GESB is committed to transitioning its investment portfolio to net zero carbon emissions by 2050, which is consistent with the goals of the Paris Agreement and in line with Western Australian Climate Change Policy.'



John Langoulant
Chair

^Returns are based on transactional unit prices.

*West State Super is a Constitutionally protected fund (CPF) that does not pay tax on contributions or earnings it receives. Tax is deferred until the benefit is paid to the member or rolled over to a taxed fund.

To support this position on climate change, GESB's Investments team will be adopting a climate change transition plan, which details the intended pathway and metrics to measure progress towards our targets.

Member outcomes

We were pleased to release the outcomes of GESB's inaugural member outcomes assessment where our performance on a range of measures, both quantitative and qualitative, was assessed against the performance of MySuper products across the industry.

Pleasingly, this assessment demonstrated that our operating expenses, relative to the size of our membership base and assets, are in the lowest quartile and are well below industry medians. We are also well-regarded by our members, public sector employers and peers. Our GESB Super, West State Super and Retirement Income Pension products have each been awarded a platinum rating from SuperRatings for 13 consecutive years – which recognises GESB as a 'top value-for-money' fund¹.


Overall, the GESB Board determined that GESB is promoting the financial interests of the beneficiaries of the fund.

Thank you to our stakeholders

I would like to take this opportunity to thank all members of the Board, Audit and Risk Committee and Investment Committee for their dedicated work during the year. It has been a year dotted with virtual meetings and mask wearing requirements.

I also recognise the commitment of all staff to meeting our members' needs and continuing to work collaboratively with outsourced providers, to ensure service standards have been maintained in what has been a challenging year.

In closing, I wish to affirm the Board's commitment to strong governance and robust stewardship of our members' funds, and to our purpose of looking after our members' super with excellence.



John Langoulant
Chair

¹ SuperRatings Annual Benchmarking Report, 2020.

Report from the Chief Executive Officer

The COVID-19 coronavirus pandemic continued to impact the financial and social environment in the 2020/21 financial year. While economies began to recover as vaccines were rolled out around the world, uncertainty remained as outbreaks continued to force communities into lockdown.

For GESB, our focus remained resolutely on providing excellent superannuation and retirement products to our members while adapting to their changing needs and priorities. I'm proud to present our successes and learnings for the 2020/21 financial year.

Fund update

Total member numbers were relatively stable over the year at 239,538, compared to 240,099 at the prior year end.

Our Member Services Centre, operated by Link, handled over 155,000 inbound calls and 11,000 online chat queries, and processed more than 105,000 member account transactions. Pleasingly, our stakeholder satisfaction scores remained high, with 90.4% of members and 91% of employers being satisfied or very satisfied with their service from GESB.

The COVID early release scheme ended on 31 December 2020. The GESB Board was able to offer this early release mechanism to eligible GESB members and over the full period the scheme operated, we paid more than 19,000 COVID early release payments totalling more than \$164 million.

While we celebrate our successes, we know there are some things we need to do better. We received 303 complaints from members this year, representing a rate of one complaint per 790 member accounts. During the year, we implemented a new internal complaints management system to provide us with deeper insights into the 'pain points' experienced by members and identify steps to address these.

Continuous improvement in products and services offered to our members

We recognise that member and community expectations relating to the delivery of superannuation and financial services continued to evolve through the year. Our efforts focused on enhancing our tools, improving our systems and streamlining our processes to ensure that our members can interact with GESB in a timely manner and via a range of channels.

We worked with Link to improve response times for online queries and expanded availability of our online 'Contact us' form to 24/7. We continued to enhance our insurance product terms, including for our valued WA Police members.

Progress was made in the development of our project to redesign our Member Online portal, including the procurement of service providers and technology which will see significant enhancements to our online member experience. This project was launched officially in April 2021 and I'm tremendously excited to see this advance further in the coming year.



Ben Palmer
Chief Executive Officer

Key member outcomes

In line with our values and purpose, we focus on achieving appropriate outcomes for members. We've identified three key member outcomes:

- Net benefit to members through delivery of returns that meet or exceed investment objectives;
- 'Below median' fees that remain aligned with cost recovery and appropriate levels of reserves; and
- Specialised, cost-effective and reliable insurance that meets the needs of WA public sector employees and doesn't inappropriately erode retirement balances.

A key objective during the financial year was to improve accountability and member outcomes reporting. In delivering this, we revised our business performance review and portfolio holdings disclosure processes, and worked towards implementing our very first annual member meeting, which will be held in first half of the 2021/22 financial year.

We also developed our first member outcomes assessment report to align with Commonwealth legislation. This was published on our website in an accessible format.

Member focus and advocacy philosophy

GESB's purpose is to look after members' superannuation with excellence, acting in the best interests of members while meeting our statutory and regulatory obligations. In everything we do, we endeavour to see things 'through our member's eyes' and make the complexities, rules and requirements of superannuation as easy to navigate as we can. This includes initiatives to better assist members in accessing information about their super.

Evolution to our 'Innovate' RAP

Our member focus includes a commitment to helping address the unique needs and barriers experienced by our Aboriginal and Torres Strait Islander members and employees. Our 'Reflect' Reconciliation Action Plan (RAP), launched in 2019, enabled us to form valuable connections with Indigenous peoples and communities in the first step in our reconciliation journey.

This year we moved to the next phase of our journey, with our 'Innovate' RAP commencing in November 2020. This RAP outlines our efforts to continue developing and strengthening relationships, influencing stakeholders and meeting the needs of Aboriginal and Torres Strait Islander peoples with superannuation programs, work experience and employment opportunities.

In 2020/21, we participated in a number of initiatives aimed at improving outcomes for Aboriginal and Torres Strait Islander peoples. We partnered with Wunan Foundation to deliver resources to regional Aboriginal and Torres Strait Islander students. We also participated in the Financial Counsellors' Association of WA (FCAWA) Kimberley Forum in Broome, to provide financial counsellors with relevant information to support our Aboriginal and Torres Strait Islander members who live in the regions.

Multicultural and diversity framework

One of our key strategic themes in 2020/21 was the continued investment in our people, organisational culture and staff capability. To progress this, we developed our Multicultural Access Plan (MAP), which provides a framework to support our commitment to multicultural access and inclusion in the way we work and in the outcomes we deliver.

The MAP is guided by our obligations under the Australian Government's Multicultural Access and Equity Policy. It is also aligned to the outcomes of the WA Multicultural Policy Framework, which provides a blueprint for Western Australian public sector agencies to follow in nurturing an inclusive workplace.

2021/22 outlook

GESB has a proud 80-year history and we're honoured to manage more than \$34 billion in superannuation and retirement savings on behalf of our 240,000 members.

The coming year will see substantial reforms implemented for Commonwealth-regulated superannuation funds. As a State-regulated fund, we will work with the State Government and key stakeholders to inform the State's response to these significant Commonwealth reforms.

The challenges of the past few years have demonstrated that our leadership team and staff are highly adaptable and committed to meeting our members' needs. As we enter 2021/22, I am confident that GESB will continue to steadfastly deliver on its key outcomes for members and continue to provide high quality superannuation products and services to members and State Government employers.

Superannuation update

During the year, we continued to work with the Treasurer's Office, Department of Treasury and the State Solicitor's Office to implement State and Commonwealth Government reforms. We also introduced several initiatives to ensure members have a positive experience when they engage with us.

State reform

Binding death nominations

A change to the *State Superannuation Regulations 2001* was enacted to allow members to nominate a beneficiary or beneficiaries who they would like their superannuation benefit paid to on their death. Systems work is currently being undertaken and it is anticipated that members will be able to submit a binding death nomination by the end of 2021.

The main objective of introducing binding death nominations is to provide members with greater certainty about who will receive their death benefit.

Binding death nominations also allow for benefits to be paid without the need for Grant of Probate or Letters of Administration, providing quicker access for nominated beneficiaries and reducing their legal costs.

Where a member does not have a nomination or an invalid nomination in place at the time of death, the death benefit will be paid to the member's estate as the default position.

Commonwealth reform

Your Future Your Super

In October 2020 the Commonwealth Government announced *Your Future Your Super* (YFYS), a package of measures which implement key recommendations from the Productivity Commission review into superannuation and the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

The YFYS package has four key elements:

1. **Stapled accounts** – employers will no longer enrol employees who don't exercise choice of fund into their default fund, unless the employee does not have a superannuation account elsewhere. Instead employers will be required to contribute to the superannuation account that the employee has been 'stapled' to. The intention of this measure is to reduce the creation of unintended multiple accounts as people change jobs.
2. **Your Super comparison tool** – a tool administered by the ATO utilising APRA data which ranks MySuper products by fees and investment returns and is updated quarterly.
3. **Holding funds accountable for underperformance** – MySuper products will be subject to an annual performance test with under-performing funds required to inform their members of the underperformance. Funds that fail two consecutive annual performance tests will be prevented from accepting new members until such time as their performance improves.
4. **Increasing transparency and accountability** – The Government intends legislating to compel superannuation trustees to act in the best financial interests of their members. The objective of this measure is to ensure trustees only use members' money to maximise members' retirement savings.

Although the reforms do not apply directly to Exempt Public Sector Super Schemes (EPSSS) or State Government employers, they will have an impact on GESB. The Heads of Government Agreement (HoGA) between the State and the Commonwealth, commits the State to conform with the principles of Commonwealth superannuation policy to the best of its endeavours where practicable. We are currently reviewing our position on the YFYS reforms to determine the extent with which we are able to comply.

COVID-19 early release of super

Members were able to access up to \$10,000 of their super tax free during the second tranche of the COVID-19 early release of super scheme. During the period 1 July 2020 to 31 December 2020 more than 10,140 members made application for an early release payment, with approximately \$86.5 million in benefits paid out.

On average, benefits were paid within 3.5 business days, with 94% of all payments being made within five business days.

Member outcomes assessment

During the year we aligned with Commonwealth legislation and delivered our first Member Outcomes assessment report. To satisfy the requirements, we were required to consider the design of our products, based on analysis using cohorts and objective benchmarks, and determine whether GESB is being operated in a way that supports delivery of appropriate member outcomes and to compare how our MySuper products compare with other MySuper products.

Overall, the GESB Board has determined that GESB is promoting the financial interests of the members of the fund.

Our member initiatives

Financial literacy program for indigenous members

During the year we partnered with First Nations Foundation to provide members with access to My Money Dream at no charge to them.

My Money Dream is an online programme designed by First Nations peoples for First Nations peoples. The programme is designed to help members learn about budgeting, banking, insurance and superannuation, so they can take control of their finances and feel more confident about managing money.

Portfolio holdings disclosure

Increasingly our members have expressed their interest in being provided with more information in relation to the investments held by GESB. In order to provide members with greater transparency into the assets their superannuation is invested in, we now disclose all of our investment holdings on the GESB website. Members can view the listing online or they can download the files should they wish.

Enhancing insurance

GESB has negotiated with our Insurer, AIA Australia, to implement a number of enhancements to the insurance we provide to our GESB Super and West State Super members. One of the enhancements extends the age that members can be insured for Salary Continuance and Total and Permanent Disability insurance to age 67 years, aligning with Age Pension age. A range of other improvements have been made to policy terms to ensure consistency. These changes are fully explained in the Insurance section of the GESB website.

Member complaints

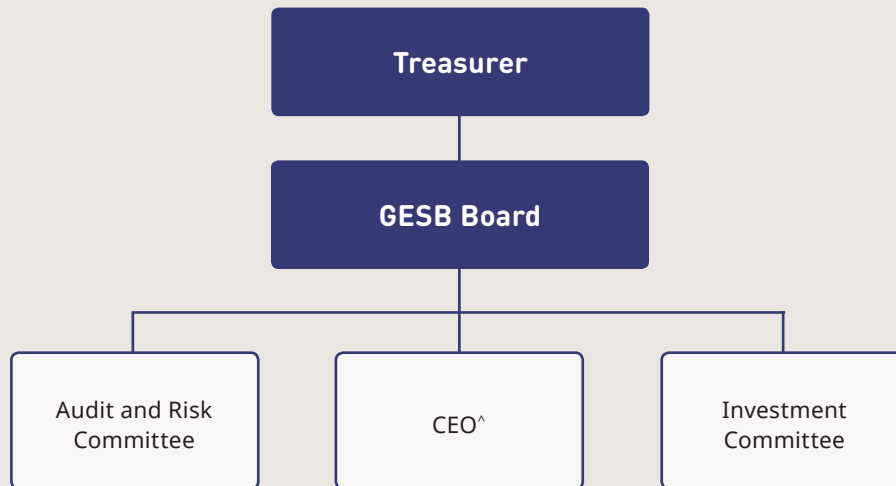
At GESB, we're committed to providing members with quality super and retirement products and services. We recognise that despite our best intentions, sometimes a member might want to make an enquiry or raise a complaint. We consider a complaint as 'any expression of dissatisfaction with our products or services where a response is expected'. Members can make a complaint verbally or in writing. In most cases, we're able to resolve member concerns over the phone, or promptly if it's a written complaint. If that's not possible, then we will follow our internal complaints process. We will call the member or send them a letter or email to acknowledge their complaint within two working days.

We will provide them with a contact name and telephone number for one of our staff should they wish to talk about any issues related to their complaint. We aim to resolve member complaints within 30 days. Once resolved, we will send the member a letter confirming our findings and intended actions. If not resolved within 30 days, we'll contact the member to explain the delay. Members who are not satisfied with the outcome can request a review of their complaint by an independent staff member at GESB. This review is separate from the initial investigation, and we will aim to complete it within 90 days of receiving the member's initial complaint. We advise members of the outcome of this review in writing, and if they are still not satisfied with the outcome, they have the right to appeal directly to the relevant external dispute resolution body. It does not cost members anything to access our complaints process. During 2020/21 we received a total of 303 complaints. All complaints were acknowledged within two working days and a full response to the complaint provided within agreed timeframes. Eight members were dissatisfied with the response to their complaint and requested an independent review. 34 members escalated their complaint to an external complaints body.

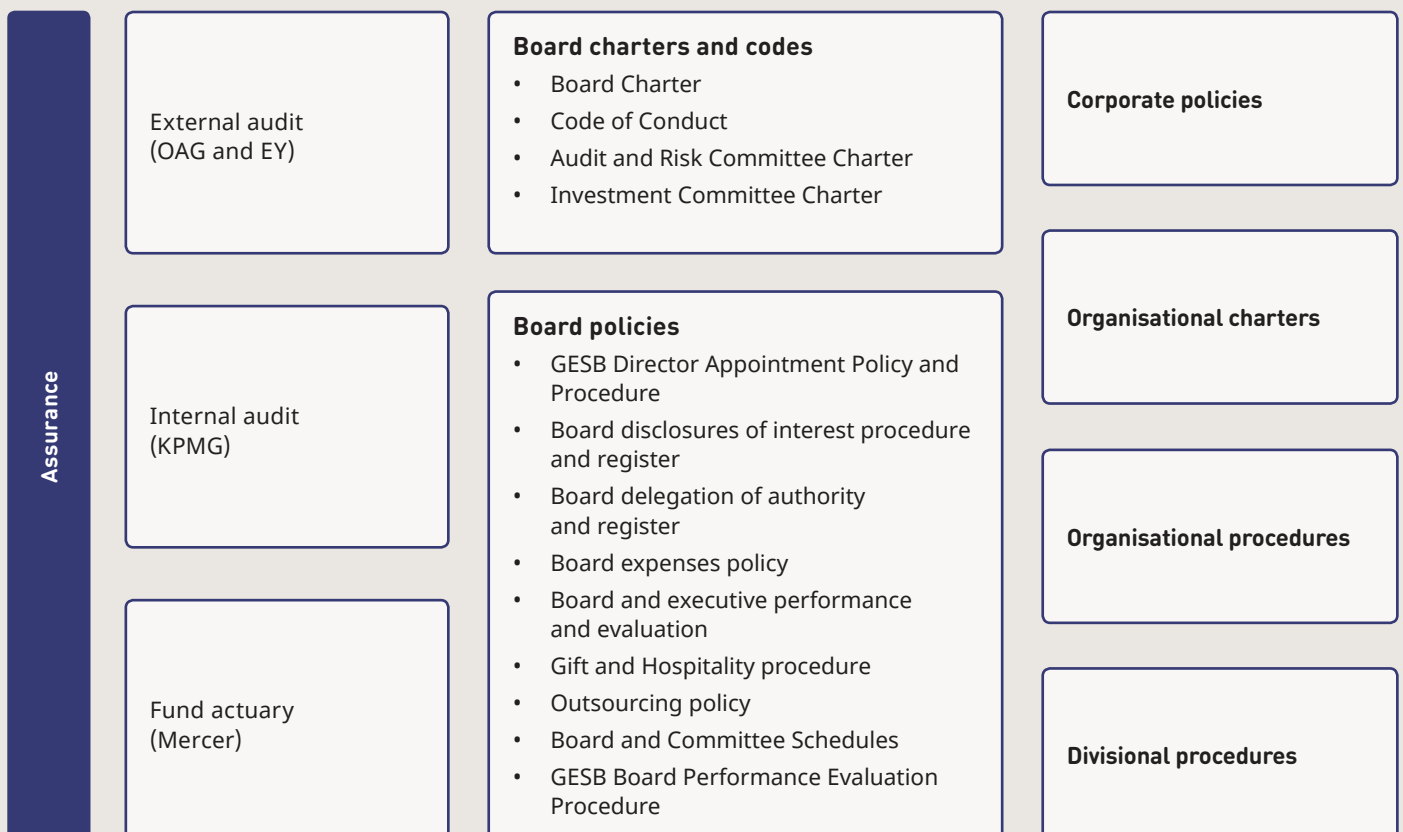
As a result of a number of complaints being received in relation to the processing requirements to submit a Compassionate Grounds application for early release of super, we have reviewed all documentation and processes, streamlining members' access to this.

Corporate overview

GESB governance structure



GESB internal governance policies and procedures



^ The Public Sector Commissioner is the CEO's Employing Authority under Section 5 of the *Public Sector Management Act 1994*.

The Board

The Board

As a statutory authority, the GESB Board has powers and functions under the *State Superannuation Act 2000* (SSA) and is ultimately accountable to the Treasurer.

The Board is responsible for administering the schemes and managing the fund and the overall governance and performance of GESB in accordance with the SSA and has responsibility for all matters relating to the operation of GESB.

In governing GESB, the Board sets the values and standards and ensures that GESB's obligations to its members and other stakeholders are understood and met.

In the course of carrying out its responsibilities, the Board must act honestly, fairly, diligently and, as far as practicable, in the best interests of members.

GESB is a State regulated public sector fund rather than Commonwealth regulated like most other superannuation providers. GESB is a statutory authority, subject to the Heads of Government Agreement (HoGA) between the Commonwealth and the State, and administers exempt public sector superannuation schemes (see page 21).

As a matter of good practice, GESB's operations are aligned where practicable with industry standards and Commonwealth Prudential Standards.

The role of the Minister

The Treasurer of Western Australia is the Minister responsible for administering the SSA and regulations.

The Board is accountable to the Treasurer for performance of its obligations under the SSA in the best interests of members, as far as practicable.

The Treasurer has a role in GESB matters that affect the financial rights and obligations of the State along with the general operation of GESB. Specific responsibilities of the Treasurer under the SSA include (but are not restricted to):

- Issuing Prudential Guidelines for Investments which cover investment strategies and the categories of investments permitted
- Approving the appointment of Investment Managers
- Issuing reserving guidelines
- Guarantor of payment of benefits under any GESB administered scheme
- Approving GESB's annual Statement of Corporate Intent (SCI) and rolling five year Strategic Development Plan (SDP), and
- Directing employers around superannuation practice and procedures

Board appointments and elections

The Board comprises a Chair, three Employer Directors and three Member Directors.

Directors are appointed or elected under Schedule 1 of the SSA as follows:

- The Chair is appointed by the Governor of the State of Western Australia on the nomination of the Minister after consultation with representative unions;
- Three Directors are appointed by the Governor of the State of Western Australia as Employer Directors;
- Three Directors are elected as Member Directors via elections conducted by UnionsWA in accordance with the *State Superannuation Regulations 2001*, and
- The Chair and Employer Directors are appointed for a term not exceeding five years. Member Directors are elected for a term not exceeding three years.

All GESB Board Directors are eligible for re-appointment or re-election. If a casual vacancy occurs in the office of a Member Director, the Minister may appoint a member to fill the vacancy after consultation with representative unions, until the new Member Director is elected. The Minister may also remove a Director in accordance with Section 6(2) of Schedule 1 to the SSA under certain circumstances.

Members of the Board



John Langoulant
Chair

Mr Langoulant was appointed to the GESB Board on 2 November 2010 and appointed as Chair of the Board in March 2011 for a term of five years. Mr Langoulant's appointment was renewed for a second five-year term, effective 7 March 2016. He was re-appointed effective 7 March 2021 for a further one-year term.

Mr Langoulant has extensive experience in government and the private sector, including as Under Treasurer of Western Australia.

Mr Langoulant's previous Chief Executive positions were at Oakajee Port & Rail Pty Ltd, Australian Capital Equity and the Chamber of Commerce and Industry of Western Australia.

Mr Langoulant holds several other Board Chair positions, including at Amana Living Incorporated, the Northern Territory's Power and Water Corporation, the Rottnest Island Authority, the Pawsey Supercomputing Centre, Infrastructure WA, The Lester Inc (formerly Artrinsic Inc) and the Dampier to Bunbury Gas Pipeline.

In addition Mr Langoulant is a Director of the National Disability Insurance Agency (NDIA) and Multinet Gas Limited. He is the Chair of Finance and Investment Committee for the Department of Communities, Chair of the Audit and Risk Committee for the Department of Education and Chair of the Fundraising Committee for WA Parks Foundation.



Virginia Christie
Employer Director

Ms Christie was appointed to the Board as Employer Director on 12 November 2019, for a term of five years. This is her first term serving on the Board.

Ms Christie's qualifications include an Australian Institute of Company Directors (AICD) Foundations of Directorship, a Bachelor of Economics (Honours) from the University of WA, and a Graduate Diploma in Applied Finance and Investment from the Securities Institute.

Ms Christie has a wealth of experience, including 20 years with the Reserve Bank of Australia (RBA) and four years with the Australian Commonwealth Treasury. She was previously on the RBA Officers Superannuation Fund Board of Trustees and was head of the RBA's WA office.

She is currently a non-executive Director of Keystart Loans Ltd, the Chamber of Commerce and Industry WA and a member of the Foundation Board of Management at St Mary's Anglican Girls' School. She is also a member of the Insolvency Practitioner Registration and Disciplinary Committee (Cth).



Anne Gisborne
Member Director

Ms Gisborne was appointed to the Board as a Member Director on 8 February 2017, for a period of three years and has been re-appointed on 8 February 2020 for her second three-year term.

For more than 15 years, Ms Gisborne was an executive member of the State School Teachers' Union (SSTUWA), which looks after the interests of WA teachers in the workplace and promotes public education to the wider community.

Ms Gisborne was President of SSTUWA from 2008 to 2013, and was appointed trustee of the organisation as part of this role. While at SSTUWA, her responsibilities included executive board compliance, financial management, appointments and management of staff, policy development and strategic planning. During this time, she was also an executive member of the Australian Education Union. Between 2005 and 2013, Ms Gisborne completed two one-year terms as President of UnionsWA. Ms Gisborne is currently a member of the SSTUWA State Council.

Ms Gisborne is currently employed as a teacher at the Education Department of Western Australia, and holds a Bachelor of Arts and Diploma of Education from the University of Western Australia.



Bruce Hawkins
Member Director

Mr Hawkins was appointed to the Board on 4 July 2018, as Member Director for period of three years.

Mr Hawkins graduated from TAFE with a Diploma of Management (Business).

His professional experience includes working in the public sector in a number of different roles. He was previously Treasurer of the Community and Public Sector Union – Civil Service Association (CPSU/CSA) and is a member of UnionsWA. Mr Hawkins is currently the proprietor of a consultancy business and is the CSA Representative on the Public Service Appeal Board.

Previously, Mr Hawkins worked as a Principal Compliance Officer for the Department of Health. He is also President of the North Suburban Community Cricket Umpires Association, in a voluntary capacity.



Naomi McCrae
Member Director

Ms McCrae was appointed to the Board as a Member Director on 31 August 2018, for a period of three years. This is her first term serving the Board.

Ms McCrae is Secretary of the Health Services Union of Western Australia, representing thousands of health workers across public health services as well as in the private sector. Prior to this she was the Director of Legal and Industrial at the WA Branch of United Voice – a large union of workers across a diverse range of industries (now the United Workers Union).

Previously, Ms McCrae worked at the law firm Squire Patton Boggs, where she provided legal advice and representation on employment matters for a number of corporate and government clients. She also performed a range of advisory and management roles over nine years at the Media, Entertainment and Arts Alliance, including for the Walkley Foundation..

Her qualifications include a Bachelor of Arts (History), LLB, Master of Art Administration and GAICD.



Catherine Nance
Employer Director

Ms Nance was appointed to the Board on 7 March 2011 for a period of five years, and was re-appointed on 7 March 2016 for her second five-year term as Employer Director. She was re-appointed effective 7 March 2021 for a further one-year term.

Ms Nance is a Partner and Actuary at PricewaterhouseCoopers (PWC), where she heads the national Retirement Incomes and Asset Actuarial Consulting Group.

Ms Nance has more than 20 years' professional experience advising governments, companies and superannuation funds in superannuation, employee benefits, investment consulting, aged care, finance and investment-related work.

Ms Nance has a BSc in Pure and Applied Mathematics and Physics and a BA in Statistics from the University of Queensland. She is an Affiliate of the Institute of Actuaries (London), a Fellow of the Financial Services Institute of Australasia and a Fellow of the Actuaries Institute of Australia.



Frank Sciarrone
Employer Director

Mr Sciarrone was appointed to the Board on 21 February 2016 as Employer Director for a term of five years. He was re-appointed effective 21 February 2021 for a further one-year term.

Mr Sciarrone holds a Bachelor of Business Degree (Economics and Finance) from Curtin University.

He holds a number of memberships including the Australian Institute of Company Directors, the Financial Planning Association, and the Association of Superannuation Funds of Australia (ASFA).

Mr Sciarrone has extensive experience in the investment and wealth management industries, and as a trustee director of private and public sector superannuation funds.

Mr Sciarrone is currently the Executive Chair of Vantage Wealth Management, the Chair of the Fire and Emergency Services Superannuation Fund and 12 Buckets Inc. (a charitable organisation) as well as a Director of a private company operating in the waste recycling sector and a listed public company operating in the technology sector.

Meetings

The Board meets monthly other than in October and January. The number of meetings attended by each Director during 2020/21 is indicated below.

| Director | Meetings held whilst a Director | Meetings attended |
|--------------------------------------|---------------------------------|-------------------|
| John Langoulant, Chair | 10 | 9 |
| Virginia Christie, Employer Director | 10 | 10 |
| Anne Gisborne, Member Director | 10 | 10 |
| Bruce Hawkins, Member Director | 10 | 10 |
| Naomi McCrae, Member Director | 10 | 10 |
| Catherine Nance, Employer Director | 10 | 10 |
| Frank Sciarrone, Employer Director | 10 | 10 |

Board member attendance during the period complied with the requirements of the *State Superannuation Act 2000 (SSA)* and the GESB Board Charter. All meetings held met quorum requirements.

Board committees

The Board has a number of committees to assist in the discharge of its functions under the SSA. The Chief Executive Officer supports the operation of the following committees and attends to assist their deliberations.

Audit and Risk Committee

The Audit and Risk Committee assists GESB to fulfil its statutory, regulatory and fiduciary responsibilities by overseeing GESB's activities in relation to risk management, compliance, financial management and reporting and the internal and external audit functions.

GESB's Audit and Risk Committee provides the Board with assurances that adequate controls and risk management practices are in place across the organisation and are effective in promoting a risk-aware culture.

The number of meetings attended by each committee member during the 12-month reporting period is indicated in the table below.

| Member | Meetings held whilst a committee member | Meetings attended |
|----------------------------|---|-------------------|
| Frank Sciarrone (Chair) | 4 | 4 |
| Virginia Christie | 4 | 4 |
| Anne Gisborne | 4 | 4 |
| Bruce Hawkins | 4 | 4 |

Investment Committee

The Investment Committee assists the Board in carrying out its responsibility to discharge its statutory, regulatory and fiduciary responsibilities in relation to the prudent management and investment of the assets of the GES Fund.

Given the technical nature of GESB's investment function, the Investment Committee is selected for its high levels of financial and investment expertise.

The Investment Committee comprises GESB Board Directors and external appointees.

The members of the Investment Committee have sufficient investment expertise to enable the committee to discharge its duties in line with obligations under its Charter.

The number of meetings attended by each committee member during the 12-month reporting period is indicated in the table below.

| Member | Meetings held whilst a committee member | Meetings attended |
|----------------------------------|---|-------------------|
| John Langoulant (<i>Chair</i>) | 4 | 3 |
| Warren Bird | 4 | 4 |
| Anne Gisborne | 4 | 4 |
| Naomi McCrae | 4 | 4 |
| Catherine Nance | 4 | 4 |
| Frank Sciarrone | 4 | 4 |
| John Stroud | 4 | 4 |

Corporate Governance and External Relations Committee

The Corporate Governance and External Relations Committee was suspended from 1 July 2016, with all the committee's duties and obligations being transferred to the GESB Board.

Executive Performance Committee

The Executive Performance Committee ceased from 1 July 2016, with all the committee's duties and obligations being transferred to the GESB Board.

Corporate governance

Corporate governance policy framework

Effective corporate governance supports compliance with regulatory and legal requirements. It also provides support to an organisation to do what is right for its stakeholders. This incorporates elements of internal controls, ethics, risk functions, policies and procedures and internal and external audit. It is underpinned by transparent disclosure, effective communication and proper planning, measurement and accountability across the organisation.

The Board operates within a corporate governance policy framework that incorporates legislative and regulatory requirements aligned to industry best practice and the Australian Securities Exchange governance principles. The framework reflects GESB's operating environment as a State authority within the financial services market. GESB operates within the State's Integrity Framework.

In order to be sustainable in this environment, high standards of corporate governance are essential to ensure GESB fulfills relevant State, Commonwealth, industry and regulatory compliance obligations, whilst acting in the best interests of members.

In pursuing the Board's purpose to look after members' superannuation with excellence, GESB is committed to transparent, high quality and accountable governance. To facilitate this, the Board:

- Established specialist Audit and Risk and Investment committees to assist in discharging its legal and statutory obligations,
- Granted appropriate delegations to the CEO and relevant business units to enable the day-to-day operation of the organisation, and
- Embedded internal and external accountability measures, including organisational key performance indicators (KPIs) and internal and external audit practices

The Board and its committees have individual charters and are subject to a Code of Conduct that outlines the practices and processes the Board, individual Directors and committee members adopt to discharge their responsibilities. The Board's focus on good governance is integrated across the operations of the organisation.

Other governance matters

Directors' duties

In carrying out its responsibilities, the Board must act honestly, fairly, diligently and, as far as practicable, in the best interests of members.

Under Section 5(1) of the *Statutory Corporations (Liability of Directors) Act 1996 WA* a Board Director of GESB has the same fiduciary relationship to GESB and the same duties to act with loyalty and in good faith as a Director of a company that is incorporated under the *Corporations Act 2001 (Cth)*.

Other duties under the *Statutory Corporations (Liability of Directors) Act 1996* include their duty to:

- Act honestly in the performance of the functions of their office,
- Exercise reasonable care and diligence in the performance of their functions,
- Not make improper use of information acquired by virtue of their position, to gain, directly or indirectly, an advantage for themselves or for any other person or to cause detriment to GESB, and
- Not make improper use of their position to gain, directly or indirectly, an advantage for themselves or for any other person or to cause detriment to GESB

These duties are also incorporated in the Board's Code of Conduct.

Fit and proper standards

The Board understands the need to have the range of skills, knowledge and experience on the Board to effectively govern GESB. Members of the Board have to demonstrate competencies in a number of areas.

Operating standards have been developed by the Australian Prudential Regulation Authority (APRA) to cover the fitness and propriety of superannuation trustees.

To achieve best practice, the Board decided GESB operates under a similar fit, and proper standard for its Board Directors. The GESB Director Appointment Policy and Procedure requires that each Board Director meets certain standards of fitness and propriety on an ongoing basis.

The Board's education program ensures all Directors meet and maintain educational and technical competencies, enabling them to effectively discharge their duties in a knowledgeable and prudent manner and in accordance with the requirements of the GESB Director Appointment Policy and Procedure. The program is agreed annually with each Director, and is tailored to meet their individual needs.

Ethical standards

The Board acknowledges the need for, and the continued maintenance of, high standards of ethical conduct for Directors, management and staff. The Board Directors are required to comply with the GESB Board Charter, and all staff and Board Directors are required to comply with the GESB Code of Conduct.

The organisational values of GESB are promoted via a strong communication and training program, which includes information on its intranet and the incorporation of those values into role descriptions and performance management processes.

GESB reviewed its annual staff satisfaction process, resulting in developing a new process and seeking staff feedback on key areas that they would like to respond to in relation these organisational values.

The survey included running staff focus groups to identify areas they felt were important to their ongoing employment with GESB. The process resulted in over 92% of staff completing the survey, with a staff satisfaction rate of 81%.

With the information gathered through the results and the focus groups, GESB will be designing a new pulse survey which will provide an accurate snapshot of staff satisfaction, and to what extent they perceive these values are upheld. This pulse survey will be done bi-annually, with the first one going out to staff in October 2021.

Material interests

The Board has policies and procedures in place that set out the requirements for each Director with regard to the disclosure of interests, including Related Party Interests as required under AASB 124, in order to avoid actual, potential or perceived conflicts of interest or duty and to provide guidance for dealing with any conflicts in an open and transparent way.

Directors are required to disclose any material or personal interests relevant to the Board or GESB and to abstain from discussions or voting on any issues where their judgement may be influenced by any material or personal interests in, or duty to, another organisation.

The Board manages and monitors any conflicts or potential conflicts. It relies on the honesty and integrity of each of the Directors to ensure individual Directors discharged their duties to the Board.

Compensation and remuneration

Directors and committee members are entitled to the remuneration and allowances determined by the responsible Minister on the recommendation of the Public Sector Commissioner and endorsed by Cabinet. Superannuation is 9.50%.

Name of board/committee – GESB Board

| Position | Name | Type of remuneration | Period of membership | Gross / actual remuneration including Superannuation |
|-------------------|-------------------|----------------------|----------------------|--|
| Chair | John Langoulant | Annual | 12 months | \$118,256 |
| Employer Director | Virginia Christie | Annual | 12 months | \$59,128 |
| Employer Director | Catherine Nance | Annual | 12 months | \$59,128 |
| Employer Director | Frank Sciarrone | Annual | 12 months | \$59,128 |
| Member Director | Anne Gisborne | Annual | 12 months | No Payment |
| Member Director | Bruce Hawkins | Annual | 12 months | \$59,317 |
| Member Director | Naomi McCrae | Annual | 12 months | \$59,128* |
| Total | | | | \$414,085 |

Name of board/committee – Audit and Risk Committee

| Position | Name | Type of remuneration | Period of membership | Gross / actual remuneration including Superannuation |
|--------------|-------------------|----------------------|----------------------|--|
| Chair | Frank Sciarrone | Annual | 12 months | \$5,557 |
| Member | Virginia Christie | Annual | 12 months | No Payment |
| Member | Anne Gisborne | Annual | 12 months | No Payment |
| Member | Bruce Hawkins | Annual | 12 months | No Payment |
| Total | | | | \$5,557 |

Name of board/committee – Investment Committee

| Position | Name | Type of remuneration | Period of membership | Gross / actual remuneration including Superannuation |
|--------------|-----------------|----------------------|----------------------|--|
| Chair | John Langoulant | Annual | 12 months | \$8,891 |
| Member | Warren Bird | Annual | 12 months | \$13,337 |
| Member | Catherine Nance | Annual | 12 months | \$8,891 |
| Member | Frank Sciarrone | Annual | 12 months | \$8,891 |
| Member | Naomi McCrae | Annual | 12 months | \$8,891* |
| Member | John Stroud | Annual | 12 months | \$13,337 |
| Member | Anne Gisborne | Annual | 12 months | No Payment |
| Total | | | | \$62,238 |

In accordance with government policy, Directors who are public sector employees were not paid additional remuneration for sitting on the Board. Ms Gisborne received no payment as she is a public sector employee.

*Paid to Board member's employer.

Risk management

GESB has a considered approach to risk management and its risk management framework sets out GESB's approach to the identification and management of material risks.

Material operational and strategic risks are managed in accordance with GESB's risk environment which reflects its internal environment and developments in the wider superannuation industry.

GESB's risk environment is influenced by State Government policy, the Heads of Government Agreement (HoGA) between the Commonwealth and the State and the requirements of both State and Commonwealth legislation and Regulators.

GESB continues with a program of operational risk reviews focused on the areas within the organisation with the greatest exposure to risk. This schedule of work assists with the identification of improved controls and assurance activities. This exercise also further embeds GESB's risk-aware culture throughout all areas of the business.

GESB's Information Security Steering Committee is responsible for ensuring the security of GESB's information assets. The Committee meets as required to assess, amongst other things, security threats and adequacy of GESB's control environment. This ensures that GESB remains vigilant to the threat of fraudulent access to members' benefits and/or identity theft.

GESB also continues to refine and update its Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) program to comply with the requirements for Reporting Entities.

Heads of Government Agreement

As with the other States and Territories, Western Australia is a signatory to the '*National Superannuation Standards*' Heads of Government Agreement (HoGA) with the Commonwealth. The HoGA applies the principle of national standards to State superannuation arrangements.

The HoGA impacts broadly on all the State's superannuation arrangements and public sector superannuation funds. Most of the specific terms within the HoGA are applicable to the State's Exempt Public Sector Superannuation Schemes¹ (EPSSSs), which include all the schemes administered by the GESB, the Parliamentary Pension Scheme and Judges' Pension Scheme.

Under the HoGA, the State Government is committed to conform to the principles of the Commonwealth's Retirement Incomes Policy to the best of its endeavours. Broadly, this means that governance and superannuation benefits provided under the GESB administered schemes meets is consistent with national standards. These standards include rules around preservation and protection of benefits, vesting of benefits, member disclosures and adequate prudential and supervisory arrangements. Additionally, the HoGA requires GESB to provide Commonwealth bodies with regular information on a similar basis as Commonwealth regulated funds.

In exchange for this undertaking, the Commonwealth has agreed to exempt the EPSSSs, or deem them compliant with, certain provisions within the *Income Tax Assessment Acts 1936 and 1997*, the *Superannuation Industry (Supervision) Act 1993* and parts of the *Superannuation Guarantee (Administration) Act 1992*, thereby providing concessional tax treatment of the GES Fund.

GESB and the schemes it administers continues to comply fully with the HoGA.

Compliance

GESB's compliance program was established in accordance with the Australian Standard on Compliance Program AS 3806-2006 and is consistent with Commonwealth regulatory standards and industry good practice.

The compliance framework incorporates specific operating obligations on GESB to ensure compliance with the SSA and Regulations, the HoGA, other legislation relevant to State public sector agencies and the unique tax arrangements for the untaxed schemes operating within the Government Employees Superannuation Fund.

The framework provides mechanisms to ensure that incidents are detected and managed appropriately. Ongoing monitoring and reporting in accordance with the compliance program provides assurance to the Board, executives and other stakeholders that adequate systems and processes are in place and working effectively to ensure GESB and its employees are meeting their legislative obligations and operating in accordance with corporate policies and procedures.

The Compliance Program assists in informing GESB's risk profile to ensure it adequately reflects the operational environment. GESB monitors its risk and compliance performance against established key performance indicators.

GESB continues to work with its stakeholders including the Department of Treasury and the State Solicitor's Office to assess the impact of Commonwealth superannuation reforms, to ensure GESB continues to meet its obligations under the HoGA.

¹The EPSSSs are superannuation schemes recognised in Commonwealth legislation as being regulated under State legislation.

Investment risk

Risk management is an integral component of GESB's investment process. GESB manages investment risk by:

- A structured approach to diversification across the major asset classes via a strategic asset allocation framework,
- Diversification of Investment Managers and investment style within each of the major asset classes, and
- A rigorous Investment Manager review process encompassing due diligence, selection and ongoing review

In some asset classes, GESB appoints both lower risk and higher risk managers. Regardless of a manager's investment style, GESB ensures that no single manager contributes a disproportionate amount of risk within an asset class or across the GESB portfolio as a whole.

GESB does not manage derivatives directly. Our Investment Managers are permitted to use derivatives within the restrictions of their mandates and the Treasurer's Prudential Guidelines for Investments.

Relationship with stakeholders

State Department of Treasury

GESB continues to work with Treasury to ensure the Government employees superannuation is effectively managed, and complies with State and Commonwealth standards, as far as practicable. In addition, Treasury and GESB work collaboratively on State and Commonwealth superannuation reform initiatives (see page 9).

Employers

GESB's Key Account Management (KAM) team meet regularly with senior executives in the public sector to:

- Discuss legislative or industry changes that may impact superannuation,
- Explain the superannuation obligations of employers under the *State Superannuation Regulations 2001*,
- Provide support for ad hoc operational issues arising,
- Encourage employers to partner with GESB as part of their wellness or employee benefit program to deliver superannuation education services, and
- Ensure there is an efficient and effective exchange of information between employers and GESB on all superannuation related matters through our regular employer communications program

GESB also provides assistance to employers' payroll staff, to ensure timely and efficient contribution data transmission and payment.

A key focus of the KAM team is to engage with regional members through:

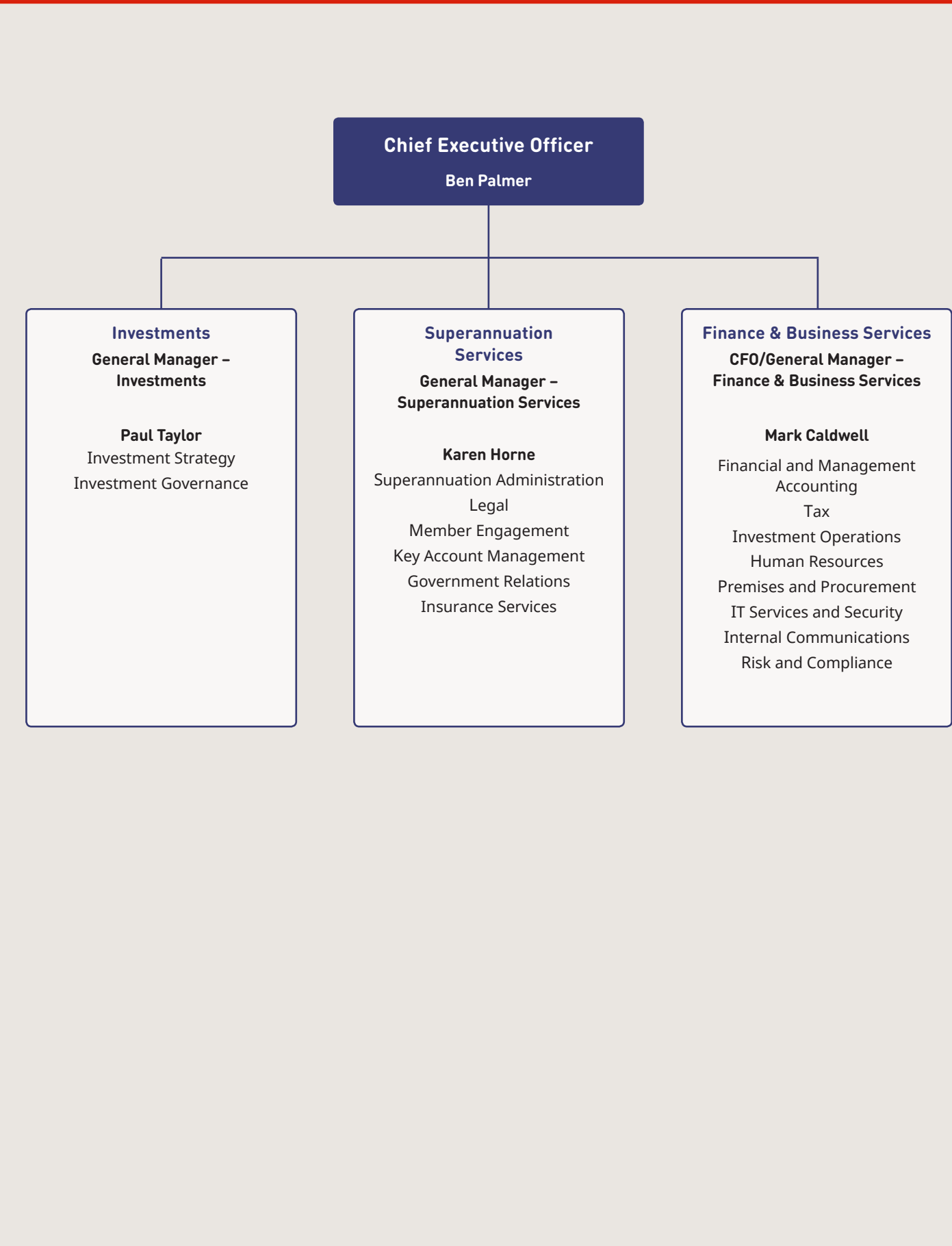
- Development and implementation of a webinar program providing regional and remote members access to GESB's information and education seminars,
- Member seminars held in various regional centres

Unions

The Board comprises seven Directors, including three Member Directors. UnionsWA is responsible for the nomination, election and appointment of the Member Director positions on the Board. These three Board positions are currently held by nominees from the CPSU/CSA, Health Services Union of WA and the State School Teachers' Union of WA.

GESB works with all key public sector unions including those unions that nominate Member Director candidates.

Organisational structure



Other compliance requirements

Freedom of information

GESB provided members with access to all of their personal and account information. An information statement that provides background on the operations of GESB, a description of the documents held and the way in which the public can access the information was made available on the website and via our Member Services Centre.

GESB's designated freedom of information officer during the period was:

Ms Vesna Odak, GESB, Level 30, DMJC, 28 Barrack Street, Perth.

Disability Services Act 1993

GESB's Disability Access and Inclusion Plan 2016-21 (DAIP) meets the requirements of the *Disability Services Act 1993, and Regulations 2004*, and outlines our disability access and inclusion priorities and plans, and builds upon achievements. Work towards the creation of the 2022 DAIP has commenced. Progress on our outcomes is reported annually to the Department of Communities, Disability Services. GESB is committed to providing its members with access to information about superannuation options and entitlements, regardless of impairment. GESB continues to improve our information and communication area of its DAIP both for members and staff. Our Communications and Digital teams have participated in accessibility training and are now able to undertake some of the simpler accessibility reviews internally and have developed comprehensive guidelines for our website's content management system. This includes making accessibility part of any new contractual requirements for new contracts.

GESB is now fully compliant with the Web Content Accessibility Guidelines (WCAG 2.0.). Our comprehensive website includes a Retirement Planning calculator, accessible fact sheets, forms and brochures, and feedback forms in alternate formats such as audio and large text. GESB offers webinars and member education seminars to members, the latter held in venues suitable for those with disability to attend. Usage of GESB's online webinars and other services, including 'Click to Chat' options, have increased throughout the year offering a safe option to access information with ongoing COVID-19 lockdown period restrictions continuing to impact.

GESB provides staff experiencing accessibility issues extra support through its evacuation planning and processes to ensure their safety should an emergency occur.

GESB continues its collaboration with Good Samaritan Industries (GSI) and has widened this option to include Edge Employment by offering work experience and short-term employment opportunities to young people with Disability.

Public interest disclosure

GESB's Public Interest Disclosure Policy and Procedures continued to be maintained in compliance with the *Public Interest Disclosure Act 2003*. GESB Directors and staff have been provided with a confidential means of disclosing public interest information. No public interest disclosures were made in 2020/21.

Compliance with public sector standards

GESB's Code of Conduct and related policies are compliant with the Public Sector Standards in Human Resource Management and WA Public Sector Code of Ethics. All policies and procedures are available to staff online through the Intranet and form part of the GESB Induction program for new employees.

GESB continued to monitor and ensure compliance with standards of ethical conduct by:

- Conducting compulsory online staff compliance training (SAFETRAC) within a rolling 12-month cycle, which encompasses all applicable items specified in the Accountability and Ethical Decision Making Framework. The courses are reviewed and updated regularly
- Having a Code of Conduct in place, to incorporate the official conduct requirements specified under the Public Sector Commissioners Instruction No.8
- During 2020/21, GESB received no breach claims in relation to the Public Sector Standards of Human Resource Management. Human Resources officers provide advice, support and guidance to managers and employees in relation to the Standards

| Number of full time equivalent employees (FTE) as at | 30 June 2020 | 30 June 2021 |
|--|--------------|--------------|
| Permanent public service officers | 42.83 | 48.1 |
| Fixed term public service officers | 6.80 | 9.40 |
| State Superannuation Act (SSA) employees | 1.0 | 1.0 |
| Total | 50.63 | 58.50 |

GESB Occupational Health and safety management governance arrangements

The Occupational Health and Safety (OHS) Management Framework comprises of the Health Safety and Well Being Policy issued at Board level. GESB demonstrates its commitment to OSH at all levels of the business. GESB generally assesses its performance in accordance with the Public Sector Commissioner's Circular 2018-03. However, in 2020 this was revoked. This year reporting is in line with the 'Annual reporting of public sector health, safety and injury management performance' Annual reporting guidelines 2020/21. Reporting requirements for this year acknowledges the impact of COVID-19 on agencies.

Occupational Safety, Health and injury management indicators

| Measures | 2018/19 | 2019/20 | 2020/21 | Targets |
|--|---------|---------|---------|------------------------------------|
| Number of fatalities | 0 | 0 | 0 | Achieved |
| Lost Time Injury and/or disease incident rate | 0 | 0 | 0 | 0 or 10% reduction achieved |
| Lost Time Injury and severity rate | 0 | 0 | 0 | Achieved |
| Percentage of injured workers returned to work (i) within 13 weeks | N/A | N/A | N/A | N/A |
| Percentage of injured workers returned to work (ii) within 26 weeks | N/A | N/A | N/A | N/A |
| Percentage of Managers trained in OHS responsibilities including refresher training within 3 years | 100% | 100% | 100% | Achieved |

Occupational Safety, Health and injury management

GESB is committed to continuous review and improvement of workplace safety and health, and actively promotes a safe and healthy working environment with a focus on prevention consistent with the principal objective of the *Occupational Safety and Health Act 1984*.

GESB's Occupational Safety and Health Committee

The committee actively works in conjunction and consultation with executive, staff and management to provide a range of initiatives and safety features. Its role is to provide safety and health leadership and to review policy and procedures related to health and safety. Members of the committee also investigate all incidents, hazards and near misses and organises hazard inspections. This year it continued to assist with ongoing COVID-19 safety requirements and related staff and visitor safety needs. The committee consists of employee and employer representatives, First Aid officers, Fire Wardens, and a union representation. The Senior Manager People and Business services attends committee meetings to ensure any issues of concern get a direct and immediate response. Minutes are placed on GESB's Intranet and a monthly report is provided to the CEO. Items related to OHS are included as part of the minutes for the Joint Consultative Committee (JCC).

The JCC, which meets monthly, is made up of GESB's elected union delegates, the Senior Manager People and Business services and other senior representatives from the business. All safety matters related to the premises and residents are included in the agenda for DMJC fortnightly Tenant meetings which are attended by a GESB representative.

GESB's business continuity procedures specifically provide for employee safety and well being through an Emergency Response Plan, along with supporting procedures.

Well-being

Staff have access to a range of initiatives including free flu vaccinations, healthy heart checks, skin checks and paid time off to donate blood. Other benefits include subsidised eye testing and eyewear and the opportunity to participate in community events. Staff are encouraged to use public transport, walk, or bike to work, and enjoy end of trip facilities. This advice was put on hold during March and April because of COVID-19 restrictions but has since recommenced. All staff have sit/stand workstations and access to regular workstation assessments. All staff are fully equipped to work from home, have their work areas assessed for suitability and functionality and have access to flexible working arrangements. A Lunch and Learn session on flexibility at work to embed the available options for staff is available on our Intranet and is included in our Induction.

Staff are actively encouraged to take regular breaks to prevent stress and to avoid manual handling issues. They are also encouraged to use leave entitlements and not attend work when showing signs of flu. Lunch and Learn sessions on a range of topics are provided to staff on a regular basis. Staff are kept informed of GESB OHS matters at monthly All of Staff briefings. Online information sessions are regularly provided to staff; these included Working from home safety and workstation set up, returning to the workplace during COVID-19, and an updated session on Racial harassment which includes unconscious bias.

Workers' compensation and injury management

In accordance with the injury management requirements of the *Workers' Compensation and Injury Management Act 1981*, and the Workplace Rehabilitation Providers Principles and Standards, GESB provides support for staff affected by illness or injury in the workplace. The aim is for early return to meaningful work for its employees. There are documented procedures for looking after staff involved in workplace accidents and incidents involving lost time injuries and Worker Compensation claims. GESB has trained First Aid Officers available as a first line of assistance and provides return to work programs for staff injured within the workplace. Risk Cover, a division of the Insurance Commission of WA, currently manages GESB's insurance obligations for OHS risk events. GESB has had no lost time injuries over the past 4 years.

Education and training

Induction

All new staff and contractors received a comprehensive induction that includes coverage of GESB's Code of Conduct, OHS policies, grievance resolution processes, DAIP, RAP, SAFETRAC and the Employee Assistance program. This year, in line with our Diversity strategies, some of the modules are now available online as a video presentation which can be viewed by new and current employees at any time, including from home.

SAFETRAC

All staff are required to complete online annual refresher-training modules as part of GESB's compliance framework. The modules cover a range of topics including Workplace Ethics, IT Security Awareness, Occupational Health and Safety and Resilience and Mental Health. New modules are introduced as required ongoing.

Safe Spaces - Family and Domestic Violence

GESB continues to support staff and their families by providing positive action through formal support for staff subjected to domestic violence. In line with the Premier's Circular 2017/07 (Family and Domestic Violence) and 'Safe Spaces - Guide for public sector agencies and employees', GESB introduced a Family and Domestic Violence – Paid Leave and Workplace Support Policy for staff. This includes a range of resources for employees which are readily available on our Intranet. This demonstrates how GESB provides a supportive environment for employees if they experience domestic or family violence.

Employee diversity profile

GESB strives to be an employer of choice and supports equal employment opportunities and workplace diversity. Our employment practices align with the Public Sector Commission's Employment Standards and are designed to be transparent and based on the principles of merit and equity. GESB continues to support, promote and encourage diversity within our workforce through its recruitment, development and retention of staff. GESB has this year introduced our Workforce and Diversity Plan 2021 which is based on the Workforce Diversification and Inclusion Strategy for WA Public Sector Employment 2020/25. Our plan complements and overlaps the target areas for our DAIP and RAP plans and includes increased employment targets for Youth, Aboriginal and Torres Strait Islanders and people with disability. GESB has introduced the following initiatives to create pathways for the future workforce of WA by:

- Implementing new recruitment strategies to target a diverse candidate pool – including targeting universities, Indigenous Employment Australia's website, disability websites as well as Jobs WA, Seek and offering internal opportunities
- We participated in the Public Sector Commissions School Based Traineeship Program in 2020 with the candidate successfully completing the traineeship in May 2021
- We are currently supporting two recent graduates through the AIST SuperGrads program which commenced in February 2021

Substantive equality and diversity

GESB recognises the diversity of our employees and our stakeholders and continues to offer a range of support to its employees to balance work and family responsibilities. These include flexible working hours, availability of Purchased leave, ongoing working from home opportunities, part-time work and paid Parental Leave. A Lunch and Learn session on 'Benefits of flexibility in the workplace' is available to staff on our Intranet for reference.

In 2021, GESB developed and had our Multicultural Access Plan (MAP) endorsed. The MAP is guided by and fulfils our obligations under the Australian Government's Multicultural Access and Equity Policy. It also aligns with the outcomes of the WA Multicultural Policy Framework which is the blueprint for WA public sector agencies to plan for and provide an inclusive workplace. Our next phase will be to work on implementing the plan's short and long term initiatives.

GESB's Diversity profile is summarised below:

| Diversity group | 2019/20 % | 2020/21 % |
|---|--------------|--------------|
| Women | 51.7 | 50.8 |
| Employees from culturally diverse backgrounds | 15.5 | 16.9 |
| Indigenous Australians | 1.7 | 1.5 |
| Employees with Disability | 3.4 | 4.6 |
| Youth (under 25 years) | 5.2 | 9.2 |
| Mature workers | 48.3 | 63.1 |
| Women in Tier 2 roles | 25.0 | 33.3 |
| Women in Tier 3 roles | 30.0 | 27.3 |

Figures derived from the 2020/21 Equity Index figures gathered from the Public Sector Commission Diversity Questionnaire completed by all GESB employees.

Electoral Act 1907

GESB incurred \$149,312 total expenditure for 2020/21 to undertake member and employer satisfaction surveys and research into members' investment behaviour.

| | 2019/20 | 2020/21 |
|--|----------|-----------|
| Advertising agencies | Nil | Nil |
| Market research organisations Research Solutions | \$82,175 | \$149,312 |

Record keeping plan

GESB recognises information as a valuable corporate asset and is committed to ensuring practices and systems are compliant. During this period a number of improvement actions were undertaken to better support GESB's business. Highlights include:

- The responsibility for records management services and systems transitioned from the Department of Finance under a shared service arrangement, to a managed service specialist (Information Proficiency). As a result of this transition all processes were revised and updated to reflect the changed processes, and some systems were updated
- Responsibility for processing records under archiving and disposal processes transitioned from the Department of Finance under a shared service arrangement, to a GESB employee
- Scanning of valuable information resources was carried out to ensure high value, ageing content, is more accessible, searchable, and better preserved for future reference. Items included Board minutes, old active member documents, and selected collections across the business
- Content from share drives and email was migrated to Content Manager to improve information governance

In accordance with State Records Standards, Standard 2, Principle 6 the following compliance information is provided:

Evaluation of recordkeeping systems

- The Information Management Policy was updated to reflect modern practices. This was endorsed by the Executive Management Group
- The Information Classification and Handling Policy was updated to align with the Western Australian Government Information classification policy updates and ISO 27001 requirements. This was also endorsed by the Executive Management Group
- The Recordkeeping plan was updated to reflect current practices. This was endorsed by the Executive Management Group and submitted to the State Records Commission in March 2020
- Various Records and Information Management procedures were updated to reflect current practices and align with ISO standards
- Systems used to capture, manage, and store records were updated to the latest stable releases. Supporting guides, help and training material were updated accordingly
- Digital obsolescence monitoring was introduced to ensure records remain accessible for their entire life
- A sensitive data register was introduced to track what sensitive data is being collected by GESB processes, where it is stored, and what restrictions should be applied
- The use of the recordkeeping system is actively monitored to ensure its effectiveness and efficiency in meeting compliance and operational requirements
- Performance indicators are reported monthly

Recordkeeping training program

- All staff and contractors are provided with Records and Information Management obligation training during their induction, which includes knowledge check multiple choice questions. Knowledge check results are emailed to the recipient and evaluated by IM staff
- All staff and contractors are required to complete an annual Records and Information Management obligation training
- All staff and contractors are required to complete Content Manager training during their induction, appropriate to their role

- Additional training sessions are scheduled with teams every six months, focused on improving information management practices
- 30-minute lunchtime training sessions are scheduled each month, available to all staff, to reinforce specific processes, functions, or practices
- On demand recordkeeping advice to ensure timely support and guidance is available to all staff and contractors
- All staff have received training specific to the Content Manager upgrade and new functionality
- Information Management staff attended Freedom of Information training provided by the Office of the Information Commissioner
- A range of self-help 'How To' guides and videos have been created and published on the intranet 'The Hive'
- Communications on records and information management are emailed to all staff monthly, including statistics on team usage, volumes, process changes and other matters to highlight

Evaluation of the recordkeeping training program

- An evaluation of the records and information management training program was undertaken via an online survey in late 2020. The survey results influenced the design of the Content Manager upgrade training for all staff and the new Information Management page on the intranet 'The Hive'
- Ongoing monitoring of the training effectiveness is conducted via monthly statistics, which highlights behaviours and practices across GESB

Recordkeeping induction program

- The Records and Information Management induction covering obligations and responsibilities is mandatory for all staff and contractors at the commencement of employment. The training is repeated annually to ensure staff are updated with any changes
- Separate face to face system training is provided to all staff
- The induction content was updated in 2021 to include policy and process changes

Unauthorised use of credit cards

Officers of GESB hold corporate credit cards where their functions warrant usage of this facility. GESB's Purchasing Card Policy specifies the use of, eligibility, responsibilities and restrictions for these cards.

During 2020/21, no GESB card holders inadvertently utilised corporate credit cards for personal purchases.

| | 2020/21 |
|---|---------|
| Aggregate amount of personal use expenditure for the reporting period | Nil |
| Aggregate amount of personal use expenditure settled within 5 working days | Nil |
| Aggregate amount of personal use expenditure settled outside 5 working days | Nil |
| Aggregate amount of personal use expenditure outstanding at balance date | Nil |

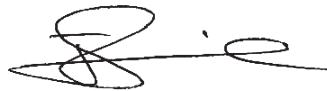
Certification of the financial statements

The accompanying Financial Statements of the Government Employees Superannuation Board ('the Fund' or 'GESB'), have been prepared in compliance with the provisions of the *Financial Management Act 2006* from proper accounts and records, to present fairly the financial transactions for the financial year ended 30 June 2021, and the financial position as at 30 June 2021.

At the date of signing, we are not aware of any circumstances which would render any particulars included in the financial statements misleading or inaccurate.



M Caldwell
Chief Financial Officer
1 September 2021



F Sciarrone
Director
1 September 2021



JL Langoulant
Chair
1 September 2021

Statement of financial position as at 30 June 2021

| | Note | 2021 \$'000 | 2020 \$'000 |
|--|------|---------------------|---------------------|
| Assets | | | |
| Cash and cash equivalents | 25 | 87,831 | 100,273 |
| Receivables | 9 | 231,903 | 268,534 |
| Employer-sponsor receivables | 10 | 3,266,070 | 3,833,092 |
| Investments | | | |
| Cash and term deposits | 8 | 4,155,897 | 3,643,895 |
| Australian equities | 8 | 6,087,493 | 4,845,357 |
| International equities | 8 | 11,983,021 | 8,889,838 |
| Units in unit trusts | 8 | 4,428,985 | 3,868,680 |
| Other interest-bearing securities | 8 | 8,233,195 | 7,770,982 |
| Derivative assets | 8 | 142,850 | 487,567 |
| Plant and equipment | | 49 | 75 |
| Intangible assets | | 11 | 29 |
| Deferred tax assets | 16 | 2,407 | 8,085 |
| Total assets | | 38,619,712 | 33,716,407 |
| Liabilities | | | |
| Derivative liabilities | 8 | (398,463) | (136,466) |
| Payables | 11 | (291,440) | (284,294) |
| Provision for employee benefits | 12 | (2,020) | (1,800) |
| Provision for post-employment benefits | 13 | (1,049) | (1,173) |
| Interest-bearing loans | 14 | - | (58,107) |
| Income tax payable | 16 | (12,052) | (11,915) |
| Deferred tax liabilities | 16 | (121,519) | (49,532) |
| Total liabilities excluding member benefits | | (826,543) | (543,287) |
| Net assets available for member benefits | | 37,793,169 | 33,173,120 |
| Member benefits | | | |
| Defined contribution member liabilities | 3 | (31,131,147) | (26,380,622) |
| Defined benefit member liabilities | 4 | (5,492,613) | (6,086,024) |
| Total member benefits | | (36,623,760) | (32,466,646) |
| Net assets | | 1,169,409 | 706,474 |
| Reserves | | | |
| Other reserves | 15 | (174,168) | (167,813) |
| Operational risk reserve | 15 | (76,408) | (76,187) |
| Defined benefits that are over funded | 5 | (918,833) | (462,474) |
| Total reserves | | (1,169,409) | (706,474) |

This statement should be read in conjunction with the accompanying notes.

Income Statement for the year ended 30 June 2021

| | Note | 2021 \$'000 | 2020 \$'000 |
|--|------|------------------|------------------|
| Income | | | |
| Interest | 17 | 197,286 | 265,762 |
| Dividends | 17 | 378,873 | 400,464 |
| Distributions | 17 | 79,557 | 92,880 |
| Changes in assets measured at fair value | 17 | 4,397,721 | (1,178,524) |
| Other investment income | 17 | 3,582 | 416 |
| Changes in loans measured at fair value | 14 | 1,437 | 3,778 |
| Other income | 18 | 7,096 | 7,321 |
| Total income | | 5,065,552 | (407,903) |
| Expenses | | | |
| Administration expenses | 19 | (42,102) | (37,834) |
| Investment expenses | 17 | (87,045) | (66,584) |
| Depreciation and amortisation | 20 | (271) | (176) |
| Loan interest expenses | 14 | (1,697) | (5,651) |
| Total expenses | | (131,115) | (110,245) |
| Net result from operating activities | | | |
| | | 4,934,437 | (518,148) |
| Net benefits allocated to defined contribution member accounts | | (4,472,012) | 175,175 |
| Net change in defined benefit member liabilities | | 711,965 | (247,927) |
| Net result before income tax | | 1,174,390 | (590,900) |
| Income tax benefit/(expense) | 16 | (92,195) | 35,584 |
| Net result after income tax | | 1,082,195 | (555,316) |

This statement should be read in conjunction with the accompanying notes.

Statement of changes in member benefits for the year ended 30 June 2021

| | DC members \$'000 | DB members \$'000 | Total \$'000 |
|--|----------------------|----------------------|-------------------|
| Opening balance as at 1 July 2020 | 26,380,622 | 6,086,024 | 32,466,646 |
| Contributions: | | | |
| Employer | 1,518,178 | 394,708 | 1,912,886 |
| Member | 227,615 | 7,207 | 234,822 |
| Transfers from other superannuation plans | 355,544 | – | 355,544 |
| Government co-contributions | 735 | – | 735 |
| Income tax on contributions | (164,068) | – | (164,068) |
| Net after tax contributions | 1,938,004 | 401,915 | 2,339,919 |
| Benefits to members/beneficiaries | (1,593,247) | (285,541) | (1,878,788) |
| Insurance premiums charged to member accounts | (111,145) | – | (111,145) |
| Death and disability insurance benefits credited to member accounts | 52,950 | – | 52,950 |
| Reserves allocated to/(from) members: | | | |
| General reserve | (8,049) | – | (8,049) |
| WSS government guaranteed payment reserve | – | 2,180 | 2,180 |
| Net benefits allocated to/(from) defined contribution member accounts, comprising: | | | |
| Net investment income | 4,532,253 | – | 4,532,253 |
| Administration fees | (60,241) | – | (60,241) |
| Net change in defined benefit member accrued benefits | – | (711,965) | (711,965) |
| Closing balance as at 30 June 2021 | 31,131,147 | 5,492,613 | 36,623,760 |
| | DC members \$'000 | DB members \$'000 | Total \$'000 |
| Opening balance as at 1 July 2019 | 26,343,992 | 5,678,867 | 32,022,859 |
| Contributions: | | | |
| Employer | 1,477,140 | 467,322 | 1,944,462 |
| Member | 191,014 | 8,107 | 199,121 |
| Transfers from other superannuation plans | 445,786 | – | 445,786 |
| Government co-contributions | 722 | – | 722 |
| Income tax on contributions | (164,234) | – | (164,234) |
| Net after tax contributions | 1,950,428 | 475,429 | 2,425,857 |
| Benefits to members/beneficiaries | (1,681,710) | (317,192) | (1,998,902) |
| Insurance premiums charged to member accounts | (103,370) | – | (103,370) |
| Death and disability insurance benefits credited to member accounts | 51,730 | – | 51,730 |
| Reserves allocated to/(from) members: | | | |
| General reserve | (5,273) | – | (5,273) |
| WSS government guaranteed payment reserve | – | 993 | 993 |
| Net benefits allocated to/(from) defined contribution member accounts, comprising: | | | |
| Net investment losses | (139,891) | – | (139,891) |
| Administration fees | (35,284) | – | (35,284) |
| Net change in defined benefit member accrued benefits | – | 247,927 | 247,927 |
| Closing balance as at 30 June 2020 | 26,380,622 | 6,086,024 | 32,466,646 |

This statement should be read in conjunction with the accompanying notes.

Statement of changes in reserves for the year ended 30 June 2021

| | Defined benefits that are over funded \$'000 | Other reserves \$'000 | Operational risk reserve \$'000 | Total reserves \$'000 |
|---|--|-----------------------------|---------------------------------------|-----------------------------|
| Opening balance as at 1 July 2020 | 462,474 | 167,813 | 76,187 | 706,474 |
| Transfers from defined contribution member accounts | - | 5,869 | - | 5,869 |
| Movement in WATC loan recoverable from State | (58,107) | - | - | (58,107) |
| Movement in employer-sponsor receivables | (567,022) | - | - | (567,022) |
| Net result | 1,081,488 | 486 | 221 | 1,082,195 |
| Closing balance as at 30 June 2021 | 918,833 | 174,168 | 76,408 | 1,169,409 |

| | Defined benefits that are over funded \$'000 | Other reserves \$'000 | Operational risk reserve \$'000 | Total reserves \$'000 |
|---|--|-----------------------------|---------------------------------------|-----------------------------|
| Opening balance as at 1 July 2019 | 722,829 | 103,000 | 133,731 | 959,560 |
| Transfers from defined contribution member accounts | - | 4,280 | - | 4,280 |
| Transfers between reserves | - | 59,125 | (59,125) | - |
| Movement in WATC loan recoverable from State | (56,763) | - | - | (56,763) |
| Movement in employer-sponsor receivables | 354,713 | - | - | 354,713 |
| Net result | (558,305) | 1,408 | 1,581 | (555,316) |
| Closing balance as at 30 June 2020 | 462,474 | 167,813 | 76,187 | 706,474 |

This statement should be read in conjunction with the accompanying notes.

Statement of cash flows for the year ended 30 June 2021

| | Note | 2021 \$'000 | 2020 \$'000 |
|---|------|------------------|----------------|
| Cash flows from operating activities | | | |
| Interest received | | 202,503 | 283,088 |
| Dividends received | | 368,108 | 414,142 |
| Distributions received | | 86,953 | 89,606 |
| Insurance recoveries | | 52,768 | 51,808 |
| Administration expenses paid | | (40,437) | (36,276) |
| Investment expenses paid | | (74,736) | (72,362) |
| Insurance premiums paid | | (109,536) | (103,367) |
| Other investment income received | | 3,582 | 416 |
| Other income received | | 7,108 | 7,414 |
| Income tax refund | | 178 | 6,541 |
| Net cash inflows from operating activities | 25 | 496,491 | 641,010 |
| Cash flows from investing activities | | | |
| Purchase of investments | | (29,686,026) | (41,070,159) |
| Proceeds from sale of investments | | 28,790,037 | 40,058,747 |
| Purchase of plant and equipment | | (226) | (35) |
| Net cash outflows from investing activities | | (896,215) | (1,011,447) |
| Cash flows from financing activities | | | |
| Employer contributions received | | 1,906,330 | 1,942,189 |
| Member contributions received | | 235,114 | 199,627 |
| Transfers from other superannuation plans received | | 355,544 | 445,786 |
| Government co-contributions received | | 735 | 722 |
| Benefits paid to members/beneficiaries | | (1,873,293) | (2,002,503) |
| Income tax paid on contributions received | | (178,781) | (172,167) |
| Repayment of loans and borrowings | | (58,367) | (58,636) |
| Net cash inflows from financing activities | | 387,282 | 355,018 |
| Net decrease in cash and cash equivalents | | (12,442) | (15,419) |
| Cash and cash equivalents at beginning of financial year | | 100,273 | 115,692 |
| Cash and cash equivalents at the end of financial year | 25 | 87,831 | 100,273 |

This statement should be read in conjunction with the accompanying notes.

Index of notes to the financial statements for the year ended 30 June 2021

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Notes to the financial statements for the year ended 30 June 2021

Note 1: Statement of significant accounting policies

a) Basis of preparation

The Government Employees Superannuation Board ('the Fund' or 'GESB') is a not-for-profit entity for the purpose of preparing financial statements.

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 ('AASB'), the *Financial Management Act 2006* ('FMA'), *Treasurer's Instructions* ('TI') and the *State Superannuation Act 2000* ('SSA').

The FMA and the TI are legislative provisions governing the preparation of financial statements and take precedence over Australian Accounting Standards and other authoritative pronouncements of the AASB. Several of these accounting standards are modified by the TI to vary application, disclosure, format and wording. If any such modification has a material or significant financial effect upon the reported results, details of that modification and the resulting financial effect are disclosed in individual notes to these financial statements.

The financial statements have been prepared on the basis required by *AASB 1056 Superannuation Entities*, which provides specific measurement requirements for assets and liabilities. The estimates, associated assumptions, and results are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The financial statements have been prepared on the accrual basis of accounting. The accounting policies adopted in the preparation of the financial statements have been consistently applied throughout all periods presented, unless otherwise stated. Where necessary, comparative information has been re-presented to be consistent with current period disclosures.

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000), unless otherwise stated.

The financial statements were approved by the Board of GESB on 1 September 2021.

b) New Accounting Standards and Interpretations

The Fund applied for the first time certain standards and amendments which are effective for annual periods beginning on or after 1 July 2020.

The new and revised standards and amendments thereof and interpretations effective for the current financial year that are relevant to the Fund included:

AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material ('AASB 2018-7')

This Standard amends *AASB 101 Presentation of Financial Statements* and *AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition.

The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no material impact to the Fund.

There were no other new or amended standards and interpretations that became effective for the first time for the reporting period that were relevant to the Fund.

Accounting Standards and Interpretations issued, but not yet effective

The Fund cannot early adopt an Australian Accounting Standard unless specifically permitted by *TI1101 Application of Australian Accounting Standards and Other Pronouncements*. Therefore, the Fund will adopt any Standards which have been issued and are applicable from their operative date.

The impact of these Standards and Interpretations has been or is in the process of being assessed and to the extent applicable to the Fund are outlined in the table below. Standards that are not expected to have a significant impact on the Fund have not been included.

| Accounting Standard | Application date periods beginning on/after | Application date to GESB |
|--|---|--------------------------|
| <p><i>AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current and AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date</i></p> <p>A liability is classified as current if the entity has no right at the end of the reporting period to defer settlement for at least 12 months after the reporting period.</p> <p>This Standard makes amendments to the <i>AASB 101 Presentation of Financial Statements</i> to clarify the requirements for classifying liabilities as current or non-current. Specifically:</p> <ul style="list-style-type: none"> • Clarifying that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period; • Stating that management intention or expectation does not affect classification of liabilities; • Explaining that rights are in existence if covenants are complied with at the end of the reporting period; and • Introduces a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. <p>These amendments are applied retrospectively in accordance with the normal requirements in <i>AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors</i>.</p> <p>AASB 2020-6 amends the effective date to be applied for annual reporting periods on or after 1 January 2023 instead of 1 January 2022.</p> | 1 January 2023 | 1 July 2023 |

c) Financial instruments

(i) Classification

The Fund classifies all its financial assets and liabilities, with the exception of member liabilities and tax assets and liabilities, at fair value through profit or loss in accordance with AASB 1056.

(ii) Recognition

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

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

(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:

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

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

(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 Income Statement.

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

(v) Subsequent measurement

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

d) 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/by the Fund.

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

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data is 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, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - valuation techniques for which lowest level input that is significant to the fair value measurement of the asset or liability is directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement of the asset or liability is unobservable.

Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability.

e) Cash and cash equivalents

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

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

f) Receivables and payables

Receivables are carried at nominal amounts which approximate fair value. Receivables, excluding investments, normally have a term of 7 to 14 days.

Investment receivables are comprised of investment income receivables, withholding tax reclaims and unsettled sales proceeds on the investment portfolio at the reporting date.

Payables are carried at nominal amounts which approximate fair value. Payables, excluding investments, represent liabilities for goods and services provided to the Fund prior to the end of the financial year that are unpaid when the Fund becomes obliged to make future payments in respect of the purchase of these goods or services. Payables under \$1 million are normally settled within 14 days and payables over \$1 million are normally settled within 30 days.

Investment payables are comprised of unsettled buy orders on the investment portfolio at the reporting date.

g) Benefits payable

Benefits payable are valued at fair value which comprise the entitlements of members who ceased employment prior to the year-end but had not been paid at that time. Benefits payable are settled within the industry standard of 30 days.

h) Provisions

Provisions are liabilities of uncertain timing and amount. The Fund only recognises a provision where there is a present legal or constructive obligation as a result of a past event and when the outflow of resources embodying economic benefits is probable and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Provision – employee benefits

Annual leave and long service leave

All annual leave and long service leave provisions are in respect of employee services up to the end of the reporting period.

Annual leave is not expected to be settled wholly within 12 months after the end of the reporting period and is therefore considered to be 'other long-term employee benefits'. The annual leave liability is recognised and measured at the present value of amounts expected to be paid when the liabilities are settled using the remuneration rate expected to apply at the time of settlement.

Long service leave is not expected to be settled wholly within 12 months after the end of the reporting period and is therefore recognised and measured at the present value of amounts expected to be paid when the liabilities are settled using the remuneration rate expected to apply at the time of settlement.

When assessing expected future payments, consideration is given to expected future wage and salary levels including non-salary components such as employer superannuation contributions, as well as the experience of employee departures and periods of service. The expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The provision for annual leave is classified as a current liability as the Fund does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Unconditional long service leave provisions are classified as current liabilities as the Fund does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Pre-conditional and conditional long service leave provisions are classified as non-current liabilities because the Fund has an unconditional right to defer the settlement of the liability until the employee has completed the requisite years of service.

Superannuation

The Fund's employees are eligible to receive superannuation under one of the schemes established under the *State Superannuation Act 2000*.

Eligible employees contribute to the Pension Scheme ('PS'), a defined benefit pension scheme closed to new members since 1987, or Gold State Super ('GSS'), a defined benefit lump sum scheme closed to new members since 1995.

Employees commencing employment prior to 16 April 2007 who were not members of either the PS or GSS became non-contributory members of West State Super ('WSS'). Employees commencing employment on or after 16 April 2007 became members of the GESB Super Scheme ('GESB Super'). From 30 March 2012, existing members of WSS or GESB Super and new employees have been able to choose their preferred superannuation fund provider. The Fund contributes to the schemes or other fund providers on behalf of employees in compliance with the *Commonwealth Government's Superannuation Guarantee (Administration) Act 1992*. Contributions to these accumulation schemes extinguish the Fund's liability for superannuation charges in respect of employees who are not members of the PS or GSS.

PS and the pre-transfer benefit for employees who transferred to GSS are defined benefit schemes. These benefits are wholly unfunded and the liabilities for future payments are provided at the end of the reporting period. The liabilities under these schemes have been calculated separately for each scheme annually by the Fund's actuary using the projected unit credit method.

The expected future payments are discounted to present value using market yields at the end of the reporting period on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The current service superannuation charge is paid by the Fund to GSS, WSS and GESB Super. The liabilities for current service superannuation charges under GSS, WSS, and GESB Super are extinguished by the concurrent payment of employer contributions to these schemes.

WSS and GESB Super are defined contribution schemes. GSS is a defined benefit scheme for the purposes of employees and whole-of-government reporting. However, from the Fund's perspective, apart from the transfer benefits, it is a defined contribution plan under AASB 119.

Provisions – other

Employment on-costs

Employment on-costs, including workers' compensation insurance, fringe benefits tax and payroll tax, are not employee benefits and are recognised as liabilities and expenses when the employment to which they relate has occurred.

i) Accrued salaries

Accrued salaries represent the amount due to staff but unpaid at the end of the financial year, as the end of the last pay period for that financial year does not coincide with the end of the financial year. Accrued salaries are settled within a fortnight after the reporting period. The Fund considers the carrying amount of accrued salaries to be equivalent to the fair value.

j) Income recognition

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

Changes in assets measured at fair value

Changes in assets measured at fair value are changes in the fair value of financial assets and liabilities as at fair value through profit or loss ('FVTPL') and exclude interest and dividend income. Changes in the fair value are calculated as the difference between the fair value at sale (realised gains or losses), or at reporting date (unrealised gains or losses), and the fair value at the previous valuation point. All changes are recognised in the Income Statement.

Interest

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

Dividends and distributions

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

k) Income tax

The *Commonwealth Income Tax Assessment Regulations 1997* confirm that schemes established by section 29 of the *State Superannuation Act 2000* are to be constitutionally protected. The following schemes administered by the Fund are constitutionally protected and therefore exempt from income tax:

- Pension Scheme (including Provident Account)
- Gold State Super
- West State Super

Retirement products, which consist of Retirement Income Pension (Allocated Pension and Transition to Retirement Pension) and Retirement Income Term Allocated Pension, were introduced for members as taxed schemes within the Fund and are subject to income tax. The Retirement Income schemes are complying superannuation funds under the *Superannuation Industry (Supervision) Act 1993* and accordingly are concessional tax.

GESB Super and GESB Super - Retirement Access are complying superannuation funds under the *Superannuation Industry (Supervision) Act 1993* and accordingly are concessional tax. All further references in the financial statements to GESB Super include both schemes.

The Fund apportions investment income and expenses to the taxed and non-taxed schemes of the Fund on the basis of the proportion of funds under management. Other expenses are apportioned on the basis of actual or allocated cost.

Income tax in the Income Statement for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using the concessional tax rate of 15% for the Fund income and any adjustment to tax payable in respect of previous years.

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

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

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

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

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

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

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

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable surplus will allow the deferred tax assets to be recovered.

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 tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

l) Superannuation expense

The superannuation expense of the defined benefit plans is made up of the following elements:

- Current service cost;
- Interest cost (unwinding of the discount);
- Actuarial gains and losses; and
- Past service cost.

Actuarial gains and losses of the defined benefit plans are recognised immediately as income or expenses in the Income Statement. The superannuation expense of the defined contribution plans is recognised as and when the contributions fall due.

m) Goods and services tax ('GST')

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

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

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

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

n) Leases

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

Right-of-use assets

The Fund recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). The right-of-use assets are initially measured at cost, which 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.

The right-of-use assets are subsequently depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. The right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liabilities.

Lease Liabilities

The lease liabilities are initially measured at the present value of lease payments to be made over the lease term at the commencement date of the lease. The lease payments include:

- Fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- Variable lease payments that depend on an index or a rate;
- Amounts expected to be paid under residual value guarantees;
- The exercise price of a purchase option reasonably certain to be exercised by the Fund; and
- Payments of penalties for terminating the lease, if the lease term reflects the Fund exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Fund uses either the interest rate implicit in the lease or the Fund's incremental borrowing rate (if interest rate implicit in the lease is not readily determinable) at the lease commencement date. 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 (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments); or
- A change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Fund applies recognition exemption to its short-term leases and the lease of low-value assets. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are assets that are individually valued less than \$5,000 at cost. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

o) Investments in controlled entities

The Fund is the sole unit-holder of the Global Private Equity Fund ('GPEF') with registered address of Level 1, 575 Bourke Street, Melbourne VIC 3000. The investment is held at fair value.

GPEF via Equity Trustees Limited as Trustee provides exposure to companies that are not publicly traded on a stock exchange. These may be start-up companies, but are often more established firms. Common strategies in private equity include leveraged buyouts, venture capital and growth capital. Private equity strategies are typically illiquid, meaning the investment may not be exited as quickly as investments that trade on public stock exchanges. GPEF or Equity Trustees Limited do not control any subsidiaries. The Fund receives income in the form of distributions from the unconsolidated subsidiary, and there are no significant restrictions on the transfer of funds from this entity to the Fund. The Fund did not provide support to GPEF in the current year (2020: Nil). The Fund has no contractual commitments or current intentions to provide any financial or other support to its unconsolidated subsidiary (2020: Nil).

The Fund is an investment entity and, as such, does not consolidate the entity it controls. Instead, interests in subsidiaries are classified as fair value through profit or loss and measured at fair value.

p) Superannuation contributions surcharge

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

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

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

q) Foreign currency

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

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

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

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

r) Member liabilities

Member liabilities are measured at the amount of accrued benefits.

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

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

Liability for accrued benefits

Accrued benefits are the benefits that the Fund is committed to provide in the future in respect of the membership at reporting date.

The liability represents the Fund's present obligation to pay benefits to members and other beneficiaries and has been calculated on the present value of expected future payments arising from membership of the Fund up to reporting date. For the defined benefit schemes the liability is 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 meet accrued benefits when they are expected to fall due. For defined contribution schemes, the liability has been calculated as the difference between the carrying amount of the assets and the carrying amount of non-interest bearing liabilities at reporting date.

The liability for accrued benefits is measured annually at the reporting date by the Fund's actuary, Mercer (Australia) Pty Ltd, as part of a comprehensive actuarial review of the Fund.

Vested benefits

Vested benefits are the benefits that are not conditional upon continued membership of the Fund and include benefits which members are entitled to receive had they terminated membership at the reporting date.

Under the provisions of the *State Superannuation Act 2000*, member entitlements are vested as follows:

- i) **Pension Scheme** – no vesting rights until retirement at age 55 years or over or earlier death or disablement, although on redundancy members have an option to elect for either:
 - An actuarial deferred pension payable upon attainment of age 55 years; or
 - An immediate cash payment including a State subsidy equal to 2.5 times the member's primary unit contributions; or
 - A transfer of membership to Gold State Super and retention of their transferred service entitlements.
- ii) **Provident Scheme** – same vesting rights as the Pension Scheme except for redundancy:
 - Subsidised Provident members made redundant do not have the right to a deferred pension; and
 - Non-subsidised Provident members made redundant do not have the right to a deferred pension or State subsidy.
- iii) **Gold State Super, West State Super, Retirement Income Pension (Allocated Pension and Transition to Retirement Pension), Retirement Income Term Allocated Pension and GESB Super** – full vesting from inception.

s) Reserves

The Fund maintains an Operational Risk, Accumulation General and WSS Government Guaranteed Payment Reserve in accordance with the Fund's Reserving Strategy and are held at a Fund level. The purpose of these reserves is set out in Note 15.

t) Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions about the application of accounting policies that have a significant effect on 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.

Fair value of investments

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

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

Expenditure commitments

The Fund has entered into an outsourcing arrangement for the provision of administration services. This arrangement is a services agreement as all the significant risks and rewards of ownership of related assets are retained by the Link Group.

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

The Fund's objective is to provide services to members which include investing in equities, fixed income securities and private equity for the purposes of returns in the form of investment income and capital appreciation.

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

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

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

Valuation of defined benefits member liabilities

The amount of member liabilities in relation to defined benefits has been determined using actuarial valuation techniques and assumptions. An actuarial valuation involves making various assumptions about the future. Actual developments in the future may differ from these assumptions. The assumptions include member turnover, future investment returns, pension indexation rates, mortality rates and future salary increases. 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.

In determining the appropriate discount rate, the Fund's actuary considers an investment portfolio that reflects the opportunities reasonably available to the Fund in the investment markets, and also reflects the Fund's actual investments and investment strategy in respect of defined benefit member liabilities.

The mortality assumption is based on publicly available mortality tables. Future salary increases are based on the Wage Price Index produced by the Australian Bureau of Statistics and in consultation with the employer-sponsors.

u) Coronavirus ('COVID-19') impact

COVID-19 was declared a world-wide pandemic by the World Health Organisation in March 2020. In the previous financial year, COVID-19, as well as measures to slow the spread of the virus, had a significant impact on the equity, debt and commodity markets. For the current financial year, COVID-19 continues to be the biggest factor steering the domestic and global economies.

GESB has considered the impact of COVID-19 and other market volatility in preparing its financial statements as follows:

Financial instruments at fair value through profit and loss

The Fund's financial investments are measured at FVTPL in accordance with the Fund's accounting policies. The determination of the fair value of the Fund's financial investments included a consideration of the impact of COVID-19. The Fund continues to work with its fund managers to ensure the impact of COVID-19 has been appropriately reflected in the fund managers' valuation, especially those managing its unlisted asset portfolio (unlisted property, infrastructure trusts and private equity).

Defined benefit member liabilities

GESB continues to monitor the impact of COVID-19 on the financial position and liquidity of the Fund as well as the key assumptions adopted in the member liabilities valuation (refer to Note 4 and Note 5).

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 2021, GESB paid \$86.5 million (2020: \$77.6 million) in member benefits under the ERS.

Note 2: Scheme information

The Fund's activities are governed by the *State Superannuation Act 2000* and under this Act, it manages the following superannuation schemes:

Pension Scheme – was the Government's original superannuation scheme and has been closed to new members since August 1986. It provides a salary-linked unit-based pension for retiring members. This scheme is an untaxed scheme.

Provident Account – is a lump sum scheme for persons who were not eligible to join the Pension Scheme. This scheme was also closed to new members in August 1986. For scheme reporting purposes the Provident Account is included with the Pension Scheme. This scheme is an untaxed scheme.

Gold State Super – is a defined benefit, lump sum superannuation scheme that has been closed to new members since December 1995. This scheme is an untaxed scheme.

West State Super – is a market-linked, accumulation superannuation scheme established to comply with the provisions of the *Commonwealth Superannuation Guarantee (Administration) Act 1992*. Within the scheme there are certain members entitled to a Minimum Benefit Guarantee amount. These members are classified as having a defined benefit interest. It has been closed to new members since April 2007. This scheme is an untaxed scheme.

GESB Super – is a market-linked, taxed, accumulation superannuation scheme which also includes GESB Super (Retirement Access). GESB Super has been open to new employees of the State Government since April 2007.

Retirement Income Pension has been open to new members since April 2003 and can be categorised as:

- (i) **Retirement Income Allocated Pension** – is an allocated pension that enables retiring members to keep their funds with GESB in a concessional tax environment, while receiving flexible periodic payments. Members are able to make lump sum withdrawals and no maximum amount applies; and
- (ii) **Transition to Retirement Pension** – is a 'transition to retirement income stream' that enables those members who want to access their superannuation as an income stream whilst still working. Effective from 1 July 2017, members cannot make lump sum withdrawals and the amount of withdrawals is limited to 10% of the members' account balance per annum. To be eligible to open a Transition to Retirement Pension account, the members must have reached the Commonwealth preservation age.

Retirement Income Term Allocated Pension – is a market-linked income stream similar to an allocated pension but with restricted redemption options and qualifies as a complying pension for tax and social security purposes. It has been closed to new members since September 2007.

Note 3: Defined contribution member liabilities

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

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

At 30 June 2021, all net assets attributable to defined contribution members have been allocated to those members (2020: nil unallocated).

Refer to Note 26 for the Fund's management of the investment market risks.

Defined contribution member liabilities are fully vested as at 30 June 2021 and 30 June 2020.

Liability for accrued benefits

The liability for accrued benefits is the Fund's present obligation to pay benefits to members and beneficiaries arising from membership of the Fund up to the reporting date. For the defined contribution schemes, the liability has been calculated as the difference between the carrying amounts of the assets and the carrying amounts of the non-interest-bearing liabilities as at reporting date.

Details of this liability are set out below:

| | 2021 \$'000 | 2020 \$'000 |
|------------------------|-------------------|-------------------|
| West State Super | 18,885,878 | 16,190,465 |
| GESB Super | 6,212,432 | 4,878,946 |
| Retirement Income | 6,016,053 | 5,295,196 |
| Term Allocated Pension | 16,784 | 16,015 |
| Total | 31,131,147 | 26,380,622 |

Vested benefits

Vested benefits are benefits which are not conditional upon continued membership of the Fund (or any factor other than resignation from the Fund) and include benefits which members were entitled to receive had they terminated their Fund membership as at the reporting date.

The following is the value of vested benefits:

| | 2021 \$'000 | 2020 \$'000 |
|------------------------|-------------------|-------------------|
| West State Super | 18,885,878 | 16,190,465 |
| GESB Super | 6,212,432 | 4,878,946 |
| Retirement Income | 6,016,053 | 5,295,196 |
| Term Allocated Pension | 16,784 | 16,015 |
| Total | 31,131,147 | 26,380,622 |

Note 4: Defined benefit member liabilities

The Fund engages a qualified actuary on an annual basis to measure the defined benefit 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.

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

| | 2021 | 2020 |
|---|--|---|
| Future investment return (net of investment fees and taxes) | 5.0% pa | 5.0% pa |
| Future salary increase* | 2.5% pa for the first 3 years, 3.0% pa thereafter | 2.0% pa for the first 3 years, 3.0% pa thereafter |
| Future Perth CPI increase | 2.0% pa | 1.75% pa for the first 3 years, 2.0% pa thereafter |

* The salary increase assumption is based on the actuary's long-term economic forecasts for future increases in salaries as well as taking into account the experience of Gold State Super members. In view of the most recent experience and the current short-term outlook, the actuary has increased the "short-term" assumption to 2.5% per annum. The long-term salary increase assumption for Gold State Super members has been maintained at 3.0% per annum.

The defined benefit member liabilities have changed in the current financial year as a result of additional benefit accrual, benefit payments, interest cost, and gains and losses relative to the actuarial assumptions adopted (e.g. salary and pension increases, type and timing of benefit payments).

The Fund has a number of steps in place to manage the risks associated with the defined benefit schemes. The Fund has appointed an external consulting actuary to advise on the risks, including establishing suitable funding objectives. These funding objectives and the defined benefit scheme's circumstances are taken into account by the actuary when recommending the required employer contribution levels.

The Fund's actuary also uses sensitivity analysis to monitor the potential impact of changes to key variables about which assumptions need to be made. The Fund's actuary has identified three assumptions (being the discount rate, the rate of salary adjustment and general price inflation) for which changes are reasonably possible that would have a significant impact on the amount of the defined benefit member liabilities:

- (i) The assumed discount rate has been determined by reference to investment returns expected on an investment portfolio that reflects the opportunities reasonably available to the Fund in the investment markets, and also reflects the Fund's actual investments and investment strategy in respect of defined benefit member liabilities;
- (ii) The assumed annual salary adjustment has been determined based on general economic forecasts and the experience of defined benefit members and allows for any promotional increases; and
- (iii) The assumed general price inflation has been determined based on general economic forecasts and implied underlying rates of inflation.

The other variables about which assumptions have been made in measuring defined benefit member liabilities and for which changes are not considered reasonably possible, or for which reasonably possible changes would not be expected to have a significant effect, include pension indexation rates, mortality rates and resignations.

The following are sensitivity calculations on a univariate basis for the investment return, rate of salary and Consumer Price Index ('CPI') adjustment assumptions for the defined benefit schemes in aggregate:

| Assumption | | Assumed at reporting date | Reasonably possible change | Increase/(Decrease) in member benefit liabilities \$'000 |
|--------------------|--------------------|--|------------------------------------|--|
| Investment return | 2021: 2020: | 5.0% pa 5.0% pa | +1.0% / -1.0% +1.0% / -1.0% | (348,059) / 391,454 (368,882) / 416,134 |
| Salary increase | 2021: 2020: | 2.5% pa for the first 3 years, 3.0% pa thereafter 2.0% pa for the first 3 years, 3.0% pa thereafter | +1.0% / -1.0% +1.0% / -1.0% | 142,999 / (131,729) 155,859 / (143,189) |
| Perth CPI increase | 2021: 2020: | 2.0% pa 1.75% pa for the first 3 years, 2.0% pa thereafter | +1.0% / -1.0% +1.0% / -1.0% | 230,429 / (206,258) 243,273 / (216,797) |

Liability for accrued benefits

For the defined benefit schemes, the liability is measured as the present value amount based on a portfolio of investments that would be needed as at the reporting date to yield future net cash inflows that would meet accrued benefits when they are expected to fall due.

The gross accrued benefits amount stated below has been determined by adding the liability for accrued benefits related to funded liabilities and unfunded liabilities in respect of completed membership.

| | Gross accrued benefits | | Accrued benefits related to funded liabilities | | Accrued benefits related to unfunded liabilities | |
|------------------|------------------------|------------------|--|------------------|--|------------------|
| | 2021 \$'000 | 2020 \$'000 | 2021 \$'000 | 2020 \$'000 | 2021 \$'000 | 2020 \$'000 |
| Pension Scheme | 1,404,825 | 1,532,774 | 76,060 | 80,475 | 1,328,765 | 1,452,299 |
| Gold State Super | 4,087,788 | 4,553,250 | 2,150,483 | 2,172,457 | 1,937,305 | 2,380,793 |
| Total | 5,492,613 | 6,086,024 | 2,226,543 | 2,252,932 | 3,266,070 | 3,833,092 |

The Fund had no unfunded liability in respect of West State Super ('WSS') at 30 June 2021 (2020: \$58 million) as the agreement with the State Government for the unfunded amount has been fully repaid and discharged in April 2021.

The unfunded liabilities relating to WSS for the previous years have been adjusted to reflect the market value of the Western Australian Treasury Corporation ('WATC') loan. Refer to Note 14 for details of the loan.

Vested benefits

Vested benefits are benefits which are not conditional upon continued membership of the Fund (or any factor other than resignation from the Fund) and include benefits which members were entitled to receive had they terminated their Fund membership as at the reporting date.

The levels of vested benefits, as calculated by the Fund's actuary are as follows. The gross vested benefits amount stated below has been determined by adding the liability for vested benefits related to funded liabilities and unfunded liabilities.

| | Gross vested benefits | | Vested benefits related to funded liabilities | | Vested benefits related to unfunded liabilities | |
|------------------|-----------------------|------------------|---|------------------|---|------------------|
| | 2021 \$'000 | 2020 \$'000 | 2021 \$'000 | 2020 \$'000 | 2021 \$'000 | 2020 \$'000 |
| Pension Scheme | 1,436,213 | 1,549,293 | 76,060 | 80,475 | 1,360,153 | 1,468,818 |
| Gold State Super | 5,472,844 | 5,573,026 | 2,370,930 | 2,425,436 | 3,101,914 | 3,147,590 |
| Total | 6,909,057 | 7,122,319 | 2,446,990 | 2,505,911 | 4,462,067 | 4,616,408 |

Note 5: Defined benefit schemes that are over funded

| | Note | 2021 \$'000 | 2020 \$'000 |
|--|----------|--------------------|----------------|
| Pension Scheme | A | | |
| Accrued benefits related to funded liabilities | | 76,060 | 80,475 |
| Net assets available for member benefits | | (107,448) | (96,994) |
| Over funded amount for Pension Scheme | | (31,388) | (16,519) |
| Gold State Super | B | | |
| Accrued benefits related to funded liabilities | | 2,150,483 | 2,172,457 |
| Net assets available for member benefits | | (3,037,928) | (2,618,412) |
| Over funded amount for Gold State Super | | (887,445) | (445,955) |
| Total over funded amount | | (918,833) | (462,474) |

In the opinion of the Fund's actuary, the overall financial position of the Fund has improved significantly since the previous actuarial investigation as at 30 June 2020 primarily due to investment returns for the defined benefit schemes of 20.7% for the year being higher than the previously assumed returns of 5.0% per annum.

The combined funding percentage in respect of the funded liabilities for Gold State Super ('GSS') and the Pension Scheme ('PS') has increased from 120.5% at 30 June 2020 to 141.3% of funded liabilities at 30 June 2021. However, the net position for GSS may also be expressed as 116.3% (2020: 108.4%) of all defined benefit liabilities, which highlights the overall position for this scheme. Under this approach, the net financial position expressed as a percentage of both past and future service benefits is considerably lower than when expressed as a percentage of accrued funded benefits.

Note A – Pension Scheme

Pensions are indexed half-yearly by the Perth CPI and all indexation costs are met by appropriations from the Consolidated Account. The surplus of assets for the funded component in the PS must be made available to help meet pension indexation costs.

The Fund's actuary noted that the PS rules suggest that surplus assets should be used to finance future indexation of the pensions. The Fund's actuary also noted that the Board may wish to explore this option.

However, the Fund's actuary is not recommending any immediate change to the employer contributions in respect of the PS. The reason is that the PS is primarily a pay-as-you-go scheme and the assets represent a small proportion of the total projected liabilities.

The expenses incurred by the Fund in administering the PS are appropriated from the Consolidated Account.

Note B – Gold State Super

For funded employers, the cost of the employer-financed benefit is met at the time the member leaves service. Where the member has a deferred benefit, this means that an amount equal to the State Share cost of the benefit is paid into the Fund. This deferred benefit is then increased at the rate of Perth CPI plus 1% per annum until age 55, after which it increases by Perth CPI plus 2% per annum. As these increases are expected to be lower than the expected investment return, this arrangement is a potential source of surplus to GSS.

In the Fund's actuary's opinion, GSS remains in a strong financial position and it would therefore be feasible to consider reducing the employer contribution rate and the recoupment percentage.

However, given the ongoing uncertainty created by the pandemic and recognising that share markets are at historically high levels, there is a distinct possibility of lower investment returns in the short-term. Understanding the Board's preference for stable long-term costs for employers, the Fund's actuary believes a cautious approach is prudent. Therefore, the Fund's actuary recommended that:

- (i) The employer contribution rate and recoupment percentage for GSS be maintained at the current levels of 15% of salaries and 73.6% of unfunded benefits respectively; and
- (ii) The Board, in conjunction with the Treasurer, to continue its regular review of the current prudential guidelines for investments over the medium term as the term of the liabilities will continue to shorten.

The expenses incurred by the Fund in administering GSS are appropriated from the Consolidated Account.

GSS is contributing at the rate recommended by the Fund's actuary.

Note 6: Guaranteed benefits

The payment of benefits to members or their beneficiaries of the Pension Scheme ('PS'), Gold State Super, West State Super, GESB Super, Retirement Income Pension (Allocated Pension and Transition to Retirement Pension) and Retirement Income Term Allocated Pension is guaranteed by the State under Section 31 of the *State Superannuation Act 2000*.

Benefits paid to members and beneficiaries of the PS are guaranteed to the extent that Sections 30, 46, 62 and 83AA of the *Superannuation and Family Benefits Act 1938* (continued under section 26 (Transitional and Consequential Provisions) of the *State Superannuation Act 2000*) provide for the State to pay the required employer share of benefits. The Consolidated Account is permanently appropriated for the purpose of meeting the State's obligations.

Note 7: Employer funding arrangement

The funding policy adopted by the government in respect of the Fund is directed at ensuring that benefits accruing to members and beneficiaries are fully funded at the time benefits become payable. As such, the Fund's actuary has considered long-term trends in such factors as scheme membership, salary growth and average market value of Fund assets when advising the government on employer and employee contribution rates. The employer funding arrangements under the *State Superannuation Act 2000* (Gold State Super ('GSS'), West State Super ('WSS') and GESB Super) and the *Superannuation and Family Benefits Act 1938* (Pension Scheme) are summarised below.

(a) Pension Scheme

The level of pension payable is determined by the number of units purchased, the length of service and the final salary of the member. The employer liability is funded only on the emergence of a member's pension benefit entitlement and is recouped fortnightly following the payment of each pension.

(b) Gold State Super

Those employers listed in Division 2 of Schedule 1 of the *State Superannuation Regulations 2001* are required under Regulations 29 and 30 to make concurrent employer contributions direct to the Fund in respect of contributory members who are their employees.

The remaining employers, as listed under Division 1 of Schedule 1 of the *State Superannuation Regulations 2001*, are not required to make concurrent contributions. It is Government policy that these employer liabilities be met from the Consolidated Account at the time that the benefits become payable to members. In this case, contributions are unfunded but notional contributions are placed in departmental budgets so that the superannuation component is accurately reflected in an agency's financial statements. The agency forwards the notional GSS contribution to the Government Employees Superannuation Board ('GESB') and these are credited directly to a Department of Treasury bank account.

During the reporting period, the employer contribution rate for contributory members was 15% (2020: 15%) of a member's salary, based on a 5.0% member contribution. The employer contribution rate is proportionately less or more where members elect for a contribution rate of 3%, 4%, 6% or 7% of salary. The Consolidated Account liability for the reporting period was assessed at 73.6% (2020: 73.6%), net of administration fee, of the contributory service benefit and is payable at the time payment is made to the member.

In respect of those members who transferred their membership from the PS, the employer liability in relation to service or period of employment constituted as service for the purposes of the *Superannuation and Family Benefits Act 1938*, is calculated at a rate of 12% of final average salary for each year of such service, based upon a 5% member's average contribution rate to the scheme (this rate is proportionately less where a member's average contribution rate is less than 5%). This employer liability becomes payable on payment (Division 1, Schedule 1 Employers) or the emergence (Division 2, Schedule 1 Employers) of the benefit to the member.

(c) West State Super

The employer contribution rate payable is determined under State legislation and is currently 9.5% (2020: 9.5%). The rate will increase to 10% on 1 July 2021.

(d) GESB Super

The employer contribution rate payable is determined under State legislation and is currently 9.5% (2020: 9.5%). The rate will increase to 10% on 1 July 2021.

Note 8: Investments and derivatives

(a) Fair value hierarchy

The table below set outs the level of fair value hierarchy as outlined in Note 1(d) within which the fair value measurements of the Fund's investments and derivatives are categorised:

| 30 June 2021 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|---|-------------------|-------------------|-------------------|-------------------|
| Investment assets | | | | |
| Cash and term deposits | 4,155,897 | - | - | 4,155,897 |
| Australian equities: | | | | |
| Listed equity securities | 6,059,536 | - | 27,957 | 6,087,493 |
| International equities: | | | | |
| Listed international equity securities | 11,951,425 | 1,693 | 9,792 | 11,962,910 |
| Listed international preferred securities | 20,111 | - | - | 20,111 |
| Units in unit trusts: | | | | |
| Listed unit trusts | 637,469 | - | - | 637,469 |
| Unlisted unit trusts | - | 2,042,042 | 1,732,448 | 3,774,490 |
| Limited partnerships | - | - | 17,026 | 17,026 |
| Other interest-bearing securities: | | | | |
| Asset-backed securities | - | 318,651 | 708 | 319,359 |
| Bank loans | - | 249,453 | 4,210 | 253,663 |
| Commercial paper | - | 31,226 | - | 31,226 |
| Fixed interest bonds | - | 6,947,340 | 631 | 6,947,971 |
| Indexed bonds | - | 72,464 | - | 72,464 |
| Mortgage-backed securities | - | 608,512 | - | 608,512 |
| Derivative assets | | | | |
| Futures | - | 24,100 | - | 24,100 |
| Options | 377 | 2,062 | - | 2,439 |
| Swaps | - | 37,293 | - | 37,293 |
| Forwards | - | 78,996 | - | 78,996 |
| Warrants | 22 | - | - | 22 |
| Derivative liabilities | | | | |
| Futures | - | (11,460) | - | (11,460) |
| Options | (14) | (4,176) | - | (4,190) |
| Swaps | - | (32,366) | - | (32,366) |
| Forwards | - | (350,447) | - | (350,447) |
| Total investments and derivatives | 22,824,823 | 10,015,383 | 1,792,772 | 34,632,978 |

| 30 June 2020 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|---|-------------------|-------------------|-------------------|-------------------|
| Investment assets | | | | |
| Cash and term deposits | 3,643,895 | - | - | 3,643,895 |
| Australian equities: | | | | |
| Listed equity securities | 4,843,756 | - | 1,601 | 4,845,357 |
| International equities: | | | | |
| Listed international equity securities | 8,832,340 | 687 | 239 | 8,833,266 |
| Listed international preferred securities | 56,572 | - | - | 56,572 |
| Units in unit trusts: | | | | |
| Listed unit trusts | 544,996 | - | - | 544,996 |
| Unlisted unit trusts | - | 2,909,992 | 389,350 | 3,299,342 |
| Limited partnerships | - | 24,342 | - | 24,342 |
| Other interest-bearing securities: | | | | |
| Asset-backed securities | - | 222,326 | - | 222,326 |
| Bank loans | - | 183,763 | - | 183,763 |
| Commercial paper | - | 120,711 | - | 120,711 |
| Fixed interest bonds | - | 6,379,864 | - | 6,379,864 |
| Indexed bonds | - | 74,823 | - | 74,823 |
| Mortgage-backed securities | - | 789,495 | - | 789,495 |
| Derivative assets | | | | |
| Futures | - | 8,901 | - | 8,901 |
| Options | 109 | 1,365 | - | 1,474 |
| Swaps | - | 34,222 | - | 34,222 |
| Forwards | - | 442,590 | - | 442,590 |
| Warrants | 380 | - | - | 380 |
| Derivative liabilities | | | | |
| Futures | - | (4,489) | - | (4,489) |
| Options | (70) | (2,189) | - | (2,259) |
| Swaps | - | (46,818) | - | (46,818) |
| Forwards | - | (82,900) | - | (82,900) |
| Total investments and derivatives | 17,921,978 | 11,056,685 | 391,190 | 29,369,853 |

Valuation technique

The pricing for the majority of the Fund's investments is generally sourced from independent pricing sources, the relevant investment managers or reliable brokers' quotes.

Investments whose values are based on quoted market prices in active markets (e.g. recognised stock exchanges) and therefore classified within level 1, include active listed equities and exchange-traded derivatives.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. The level 2 instruments include unlisted managed investment schemes, investment-grade corporate bonds and over-the-counter derivatives.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. Level 3 instruments include certain unlisted unit trusts, limited partnership and equities securities that are suspended, delisted or stale. As observable prices are not available for these securities, the Fund has used valuation techniques to derive fair value.

Level 2 investments could include those that are not traded in active markets and/or are subject to transfer restrictions (e.g. redemption restrictions). Valuations for these investments may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information. Typically, prices of units in unlisted managed investment schemes that are either published on the investment manager's website and/or circulated among market participants as executable quotes are categorised as level 2.

There were no changes in valuation techniques during the year.

Valuation process for Level 3 valuations

Level 3 instruments include units in unit trusts and equities securities that are suspended, delisted or stale that are not based on market inputs or in an inactive/illiquid market and which are valued using models and internal data. Level 3 investments may be adjusted to reflect illiquidity and/or restrictions, however, the adjustments are not based on available market information. Level 3 instruments also include those that have a stale price, that is, where the pricing for a particular security has remained static for an extended period of time. Level 3 valuations are reviewed by the relevant investment managers. The investment manager considers the appropriateness of the valuation inputs, methods and techniques used in the valuations. The valuation inputs are generally sourced from independent third party pricing sources without adjustment, such as stock exchanges, pricing agencies and/or fund managers. Where the inputs are considered stale, unobservable, proprietary or from an inactive market, they are categorised as level 3.

There were no changes in valuation techniques during the year.

Quantitative information of significant unobservable inputs – Level 3:

| Description | | \$'000* | Valuation technique | Significant unobservable inputs | Range (weighted average) |
|-----------------------------------|-------|-----------|----------------------------|---------------------------------|--------------------------|
| Australian equities** | 2021: | 27,957 | Adjusted last traded price | Listed price | 2021 : 0% - 100% (50%) |
| | 2020: | 1,601 | | | 2020 : 0% - 100% (50%) |
| International equities** | 2021: | 9,792 | Adjusted last traded price | Listed price | 2021 : 0% - 100% (50%) |
| | 2020: | 239 | | | 2020 : 0% - 100% (50%) |
| Units in unit trusts | 2021: | 1,749,474 | Net asset value | Net asset value | 2021 : 0% - 10% (5%) |
| | 2020: | 389,350 | | | 2020 : 0% - 10% (5%) |
| Other interest-bearing securities | 2021: | 5,549 | Adjusted last traded price | Listed price | 2021 : 0% - 100% (50%) |
| | 2020: | - | | | 2020 : 0% - 100% (50%) |

* The fair value would increase/decrease if significant unobservable inputs increase/decrease.

** Listed equities are included due to the equities having been suspended from trading on their relative stock markets. The price used is the last available price, prior to suspension. Due to the time that has elapsed since suspension, these prices are considered stale.

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

| Description | Input | Sensitivity used* | Effect on fair value \$'000 \$'000 |
|-----------------------------------|--------------------------------------|-------------------|--|
| Australian equities | Last traded price and the adjustment | 100% 100% | 2021 : 27,957 / (27,957) 2020 : 1,601 / (1,601) |
| International equities | Last traded price and the adjustment | 100% 100% | 2021 : 9,792 / (9,792) 2020 : 239 / (239) |
| Units in unit trusts | Net asset value | 5% 5% | 2021 : 87,474 / (87,474) 2020 : 19,468 / (19,468) |
| Other interest-bearing securities | Last traded price and the adjustment | 100% 100% | 2021 : 5,549 / (5,549) 2020 : - / - |

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

(b) Level 3 reconciliation

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

| 30 June 2021 | Australian equities \$'000 | International equities \$'000 | Units in unit trusts \$'000 | Other Interest-bearing securities \$'000 | Total \$'000 |
|--|-------------------------------|----------------------------------|--------------------------------|---|-----------------|
| Opening balance | 1,601 | 239 | 389,350 | - | 391,190 |
| Total realised/unrealised gains and losses | (1,499) | (50) | 107,010 | - | 105,461 |
| Purchases | - | 138 | - | - | 138 |
| Sales | - | 83 | (112,242) | - | (112,159) |
| Transfers into Level 3 | 27,957 | 9,737 | 1,365,356 | 5,549 | 1,408,599 |
| Transfers out of Level 3 | (102) | (355) | - | - | (457) |
| Closing balance | 27,957 | 9,792 | 1,749,474 | 5,549 | 1,792,772 |

| 30 June 2020 | Australian equities \$'000 | International equities \$'000 | Units in unit trusts \$'000 | Other Interest-bearing securities \$'000 | Total \$'000 |
|--|-------------------------------|----------------------------------|--------------------------------|---|-----------------|
| Opening balance | 17,994 | 210 | 469,166 | - | 487,370 |
| Total realised/unrealised gains and losses | (4,029) | (31) | 377 | - | (3,683) |
| Purchases | - | 182 | - | - | 182 |
| Sales | (12,467) | (206) | (80,193) | - | (92,866) |
| Transfers into Level 3 | 103 | 84 | - | - | 187 |
| Transfers out of Level 3 | - | - | - | - | - |
| Closing balance | 1,601 | 239 | 389,350 | - | 391,190 |

Gains or losses are presented in the change in assets measured at fair value through the Income Statement as follows:

| 30 June 2021 | Australian equities \$'000 | International equities \$'000 | Units in unit trusts \$'000 | Total \$'000 |
|---|----------------------------------|-------------------------------------|-----------------------------------|-----------------|
| Total gains/(losses) recognised in the Income Statement for the period | (1,499) | (50) | 107,010 | 105,461 |
| Total gains/(losses) recognised in the Income Statement for the period for assets held at the end of the reporting period | (1,499) | (48) | 107,010 | 105,463 |

| 30 June 2020 | Australian equities \$'000 | International equities \$'000 | Units in unit trusts \$'000 | Total \$'000 |
|---|----------------------------------|-------------------------------------|-----------------------------------|-----------------|
| Total gains/(losses) recognised in the Income Statement for the period | (4,029) | (31) | 377 | (3,683) |
| Total gains/(losses) recognised in the Income Statement for the period for assets held at the end of the reporting period | - | (17) | 377 | 360 |

(c) Transfer between hierarchy levels

The Fund recognises transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. The transfers between levels at 30 June 2021 are shown in the table below:

| 30 June 2021 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 |
|---|-------------------|-------------------|-------------------|
| Transfers between Level 1 and Level 3: | | | |
| Equity securities: | | | |
| Australian listed securities | (27,855) | - | 27,855 |
| International listed securities | (9,367) | - | 9,367 |
| Transfers between Level 2 and Level 3: | | | |
| Equity securities: | | | |
| International listed securities | - | (15) | 15 |
| Units in unit trusts: | | | |
| Unlisted equity unit trusts | - | (1,033,912) | 1,033,912 |
| Unlisted real estate unit trusts | - | (314,418) | 314,418 |
| Unlisted limited partnerships unit trusts | - | (17,026) | 17,026 |
| Other interest-bearing securities: | | | |
| Asset-backed securities | - | (708) | 708 |
| Bank loans | - | (4,210) | 4,210 |
| Corporate bonds | - | (631) | 631 |

The reclassification of unlisted equity unit trust investments from Level 2 to Level 3 in the fair value hierarchy is due to the limited extent of recent available information to validate their valuation at the balance date.

There were no significant transfers between Level 1, Level 2 and Level 3 at 30 June 2020.

Note 9: Receivables

| | 2021 \$'000 | 2020 \$'000 |
|---|----------------|----------------|
| Recoverable within 12 months | | |
| Investment | | |
| Interest receivable | 42,674 | 47,891 |
| Investment income receivable | 40,480 | 37,109 |
| Other investment receivable | 133,233 | 116,118 |
| Pension Scheme | | |
| Recoup State's share of pensions | 1,941 | 1,629 |
| Gold State Super | | |
| Employer contributions receivable | 10,255 | 4,011 |
| Contributions in arrears | 2,290 | 2,826 |
| West State Super | | |
| Insurance benefits recoverable | 124 | - |
| WATC loan recoverable from State | - | 58,107 |
| Others | | |
| Administration fees recoverable from Treasury | 250 | 265 |
| GST receivable | 191 | 232 |
| Prepayments | 394 | 296 |
| Other debtors | 71 | 50 |
| Total | 231,903 | 268,534 |

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value. The amount of the Western Australian Treasury Corporation ('WATC') loan recoverable from State for previous year is the amount of the loan from WATC, which has been fully repaid in April 2021. Refer to Note 14 for further details of the WATC loan.

The maximum exposure to credit risk is the fair value of receivables. Information regarding credit risk exposure is set out in Note 26.

Note 10: Employer-sponsor receivables

Section 31 of the *State Superannuation Act 2000* provides a statutory guarantee for any shortfall of the defined benefit member liabilities that are administered by the Fund. The State Government is the employer sponsor for any unfunded member benefits and has a statutory obligation to pay the benefits when they fall due. The guarantee set out in section 31 is unconditional and unlimited in its terms.

The amount due and receivable from the employer sponsor as at the reporting date is as below:

| | 2021 \$'000 | 2020 \$'000 |
|--------------------|------------------|------------------|
| Current | | |
| Pension Scheme | 148,906 | 159,918 |
| Gold State Super | 398,013 | 371,994 |
| | 546,919 | 531,912 |
| Non-Current | | |
| Pension Scheme | 1,179,859 | 1,292,381 |
| Gold State Super | 1,539,292 | 2,008,799 |
| | 2,719,151 | 3,301,180 |
| Total | 3,266,070 | 3,833,092 |

Note 11: Payables

| | 2021 \$'000 | 2020 \$'000 |
|--|----------------|----------------|
| Due within 12 months | | |
| Investment | | |
| Investments payable | 223,135 | 236,605 |
| Management fees payable | 31,744 | 19,435 |
| GESB Super | | |
| Benefits due and payable | 1,960 | 1,062 |
| Insurance premiums payable | 6,251 | 4,800 |
| Gold State Super | | |
| Contributions in advance | 1,159 | 1,403 |
| West State Super | | |
| Benefits due and payable | 6,773 | 2,534 |
| Insurance benefits payable | - | 58 |
| Insurance premiums payable | 9,198 | 9,040 |
| Pension and Retirement Scheme | | |
| Pension benefits due and payable | 2,021 | 1,696 |
| Retirement income benefits due and payable | 600 | 769 |
| Others | | |
| PAYG withholding tax | 874 | 671 |
| Superannuation surcharge liability | 748 | 890 |
| Other payables and accruals | 6,977 | 5,331 |
| Total | 291,440 | 284,294 |

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 26.

Note 12: Provision for employee benefits

The provision for employee benefits for long service leave and annual leave has been calculated in accordance with the provisions of the Accounting Standard *AASB 119 Employee Benefits*.

The value of leave benefits has been estimated as described in the table below.

| | 2021 \$'000 | 2020 \$'000 |
|---|----------------|----------------|
| Current | | |
| Long-service leave | 827 | 716 |
| Annual leave | 599 | 514 |
| | 1,426 | 1,230 |
| Non-Current | | |
| Long-service leave | 594 | 570 |
| | 594 | 570 |
| Total employee benefits | 2,020 | 1,800 |
| Number of employees (head count) | 64 | 56 |

The split between current and non-current liabilities has been determined in accordance with the Accounting Standard *AASB 101 Presentation of Financial Statements*. All unconditional leave entitlements as at reporting date plus any entitlement becoming unconditional within 12 months of that date have been classified as a current liability.

Note 13: Provision for post-employment benefits

The present value of defined benefit obligations at the end of the year is shown below.

| | 2021 \$'000 | 2020 \$'000 |
|------------------|----------------|----------------|
| Pension Scheme | 979 | 1,104 |
| Gold State Super | 70 | 69 |
| Total | 1,049 | 1,173 |

Pension Scheme

Nature of the benefits provided by the Scheme

The employer-financed benefit is a pension benefit payable on retirement, death or invalidity, or a lump sum benefit on resignation.

Description of the regulatory framework

The Scheme operates under the *State Superannuation Act 2000* (Western Australia) and the *State Superannuation Regulations 2001* (Western Australia).

Although the Scheme is not formally subject to the *Superannuation Industry (Supervision)* ('SIS') legislation, the Western Australian government has undertaken (in a Heads of Government Agreement) to operate the Scheme in accordance with the spirit of the SIS legislation.

As an exempt public sector superannuation scheme (as defined in the SIS legislation), the Scheme is not subject to any minimum funding requirements.

As a constitutionally protected superannuation fund (as defined in the Income Tax Assessment legislation), the Scheme is not required to pay tax.

Description of other entities' responsibilities for the governance of the Scheme

The Government Employees Superannuation Board ('GESB') is responsible for the governance of the Scheme. GESB has a legal obligation to act solely in the best interests of Scheme beneficiaries. GESB has the following roles:

- Administration of the Scheme and payment to the beneficiaries when required in accordance with the Scheme rules;
- Management and investment of the Scheme assets (although the liabilities in this note are not supported by assets); and
- Compliance with the Heads of Government Agreement referred to above.

Description of risks

There are a number of risks to which the Scheme exposes GESB. The more significant risks relating to the defined benefits are:

- **Legislative risk** – The risk is that legislative changes could be made which increase the cost of providing the defined benefits;
- **Pensioner mortality risk** – The risk is that pensioner mortality will be lower than expected, resulting in pensions being paid for a longer period; and
- **Inflation risk** – The risk that inflation is higher than anticipated thereby increasing pension payments, and the associated employer contributions.

Description of significant events

There were no Scheme amendments affecting the defined benefits payable, curtailments or settlements during the year.

Reconciliation of the net defined benefit liability

| Pension Scheme | 2021 \$'000 | 2020 \$'000 |
|--|------------------------|------------------------|
| Defined Benefit Obligation | 979 | 1,104 |
| (-) Fair value of Scheme assets | - | - |
| Deficit | 979 | 1,104 |
| (+) Adjustment for effect of asset ceiling | - | - |
| Net defined benefit liability | 979 | 1,104 |

Reconciliation of the fair value of Scheme assets

| Pension Scheme | 2021 \$'000 | 2020 \$'000 |
|---|------------------------|------------------------|
| Fair value of Scheme assets at beginning of the year | - | - |
| (+) Employer contributions | 98 | 93 |
| (-) Benefits paid | (98) | (93) |
| Fair value of Scheme assets at end of the year | - | - |

Reconciliation of the defined benefit obligation

| Pension Scheme | 2021 \$'000 | 2020 \$'000 |
|--|------------------------|------------------------|
| Present value of defined benefit obligations at beginning of the year | 1,104 | 1,073 |
| (+) Interest cost | 9 | 14 |
| (+) Actuarial losses arising from changes in demographic assumptions | - | 77 |
| (+) Actuarial (gains) / losses arising from changes in financial assumptions | (55) | 8 |
| (+) Actuarial losses arising from liability experience | 19 | 25 |
| (-) Benefits paid | (98) | (93) |
| Present value of defined benefit obligations at end of the year | 979 | 1,104 |

Reconciliation of the effect of the asset ceiling

The asset ceiling has no impact on the net defined benefit liability.

Fair value of Scheme assets

There are no assets in the Pension Scheme ('PS') to support the State Share of the benefit. Hence, there are:

- No fair value of Scheme assets;
- No asset allocation of Scheme assets;
- No financial instruments issued by the employer;
- No assets used by the employer; and
- No asset-liability matching strategies.

Significant actuarial assumptions at the reporting date

Assumptions to determine start of year defined benefit obligations and defined benefit cost for the current year.

| Pension Scheme | 2021 | 2020 |
|-----------------------|--|--|
| Discount rate | 0.85% pa | 1.40% pa |
| Salary increase rate* | 2.0% pa for 2020/21 2.0% pa for 2021/22 and then 3.5% pa | 1.5% pa for 2019/20 1.5% pa for 2020/21 and then 4.2% pa |
| Pension increase rate | 2.0% pa | 2.5% pa |

* The salary increase assumptions are consistent with those adopted by the Western Australian government for the preparation of AASB119 reporting, and also various assumptions based on historical data.

Assumptions to determine defined benefit obligations at the valuation date.

| Pension Scheme | 2021 | 2020 |
|-----------------------|--|--|
| Discount rate | 1.50% pa | 0.85% pa |
| Salary increase rate | 2.0% pa for 2021/22 2.0% pa for 2022/23 and then 3.0% pa | 2.0% pa for 2020/21 2.0% pa for 2021/22 and then 3.5% pa |
| Pension increase rate | 1.75% pa for 2021/22 1.75% pa for 2022/23 and then 2.0% pa | 2.0% pa |

The discount rate is based on the Commonwealth Government bond maturing in May 2030 which has a similar duration to that of the Scheme's liabilities. Other assumptions (i.e. retirement, death, disablement and resignation rates) are based on those used for the actuarial review of the Scheme as at 30 June 2020.

Sensitivity analysis

The defined benefit obligation as at 30 June 2021 under several scenarios is presented below.

Scenario A and B relate to discount rate sensitivity. Scenario C and D relate to pension increase rate sensitivity.

| Pension Scheme | Base Case | Scenario A | Scenario B | Scenario C | Scenario D |
|---------------------------------------|-----------|---------------------------|---------------------------|--------------------------------------|--------------------------------------|
| | | -0.5% pa discount rate | +0.5% pa discount rate | -0.5% pa pension increase rate | +0.5% pa pension increase rate |
| Discount rate | 1.50% pa | 1.00% pa | 2.00% pa | 1.50% pa | 1.50% pa |
| Pension increase rate | 2.00% pa | 2.00% pa | 2.00% pa | 1.50% pa | 2.50% pa |
| Defined benefit obligation (A\$'000s) | 979 | 1,017 | 944 | 946 | 1,015 |

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

The pension assumptions in the above table are long-term pension assumptions. The short-term assumptions have also been adjusted as described in Scenario C and D.

Funding arrangements

The employer contributes, as required, to meet the benefits paid.

Expected contributions

| | 2022 \$'000 |
|--|----------------|
| Pension Scheme | |
| Expected annual employer contributions | 95 |

Maturity profile of defined benefit obligation

The weighted average duration of GESB's defined benefit obligation is 7.6 years.

Gold State Super (Transferred Benefits)

Nature of the benefits provided by the Scheme

Some former PS members have transferred to Gold State Super ('GSS'). In respect of their transferred benefit the members receive a lump sum benefit at retirement, death or invalidity which is related to their salary during their employment and indexed during any deferral period after leaving public sector employment.

Description of the regulatory framework

The Scheme operates under the *State Superannuation Act 2000* (Western Australia) and the *State Superannuation Regulations 2001* (Western Australia).

Although the Scheme is not formally subject to the *Superannuation Industry (Supervision)* ('SIS') legislation, the Western Australian government has undertaken (in a Heads of Government Agreement) to operate the Scheme in accordance with the spirit of the SIS legislation.

As an exempt public sector superannuation scheme (as defined in the SIS legislation), the Scheme is not subject to any minimum funding requirements.

As a constitutionally protected superannuation fund (as defined in the Income Tax Assessment legislation), the Scheme is not required to pay tax.

Description of other entities' responsibilities for the governance of the Scheme

GESB is responsible for the governance of the Scheme. GESB has a legal obligation to act solely in the best interests of Scheme beneficiaries. GESB has the following roles:

- Administration of the Scheme and payment to the beneficiaries when required in accordance with the Scheme rules;
- Management and investment of the Scheme assets (although the liabilities in this note are not supported by assets); and
- Compliance with the Heads of Government Agreement referred to above.

Description of risks

There are a number of risks to which the Scheme exposes GESB. The more significant risks relating to the defined benefits are:

- **Salary risk** – The risk that wages or salaries (on which future benefits amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and the associated employer contributions;
- **Inflation risk** – The risk that inflation (which affects the indexation of deferred benefits) will be higher than assumed, increasing defined benefit amounts and the associated employer contributions; and
- **Legislative risk** – The risk is that legislative changes could be made which thereby increase the cost of providing the defined benefits.

Description of significant events

There were no Scheme amendments affecting the defined benefits payable, curtailments or settlements during the year.

Reconciliation of the net defined benefit liability

| Gold State Super | 2021 \$'000 | 2020 \$'000 |
|--|------------------------|------------------------|
| Defined Benefit Obligation | 70 | 69 |
| (-) Fair value of Scheme assets | - | - |
| Deficit | 70 | 69 |
| (+) Adjustment for effect of asset ceiling | - | - |
| Net defined benefit liability | 70 | 69 |

Reconciliation of the fair value of Scheme assets

| Gold State Super | 2021 \$'000 | 2020 \$'000 |
|---|------------------------|------------------------|
| Fair value of Scheme assets at beginning of the year | - | - |
| (+) Employer contributions | - | - |
| (-) Benefits paid | - | - |
| Fair value of Scheme assets at end of the year | - | - |

Reconciliation of the defined benefit obligation

| Gold State Super | 2021 \$'000 | 2020 \$'000 |
|--|------------------------|------------------------|
| Present value of defined benefit obligations at beginning of the year | 69 | 68 |
| (+) Interest cost | 1 | 1 |
| (-) Actuarial gains arising from changes in financial assumptions | (1) | - |
| (+) Actuarial losses arising from liability experience | 1 | - |
| (-) Benefits paid | - | - |
| Present value of defined benefit obligations at end of the year | 70 | 69 |

Reconciliation of the effect of the asset ceiling

The asset ceiling has no impact on net defined benefit liability.

Fair value of Scheme assets

There are no assets in GSS for current employees to support the transferred benefits. Hence, there are:

- No fair value of Scheme assets;
- No asset allocation of Scheme assets;
- No financial instruments issued by the employer;
- No assets used by the employer; and
- No asset-liability matching strategies.

Significant actuarial assumptions at the reporting date

Assumptions to determine start of year defined benefit obligations and defined benefit cost for the current year.

| Gold State Super | 2021 | 2020 |
|-------------------------|--|--|
| Discount rate | 0.85% pa | 1.40% pa |
| Salary increase rate* | 2.0% pa for 2020/21 2.0% pa for 2021/22 and then 3.5% pa | 1.5% pa for 2019/20 1.5% pa for 2020/21 and then 4.2% pa |
| CPI | 2.0% pa | 2.5% pa |

* The salary increase assumptions are consistent with those adopted by the Western Australian government for the preparation of AASB119 reporting, and also various assumptions based on historical data.

Assumptions to determine defined benefit obligations at the valuation date.

| Gold State Super | 2021 | 2020 |
|-------------------------|---|--|
| Discount rate | 1.50% pa | 0.85% pa |
| Salary increase rate | 2.0% pa for 2021/22 2.0% pa for 2022/23 and then 3.0% pa | 2.0% pa for 2020/21 2.0% pa for 2021/22 and then 3.5% pa |
| CPI | 1.75% pa for 2021/22 1.75% pa for 2022/23 and then 2.0% pa | 2.0% pa |

The discount rate is based on the Commonwealth Government bond maturing in May 2030 which has a similar duration to that of the Scheme's liabilities. Other assumptions (i.e. retirement, death, disablement and resignation rates) are based on those used for the actuarial review of the Scheme as at 30 June 2020.

Sensitivity analysis

The defined benefit obligation as at 30 June 2021 under several scenarios is presented below.

Scenario A and B relate to discount rate sensitivity. Scenario C and D relate to salary and indexation rate sensitivity.

| Gold State Super | Base Case | Scenario A | Scenario B | Scenario C | Scenario D |
|---------------------------------------|------------------|---------------------------|---------------------------|--|--|
| | | -0.5% pa discount rate | +0.5% pa discount rate | -0.5% pa salary increase and indexation rate | +0.5% pa salary increase and indexation rate |
| Discount rate | 1.50% pa | 1.00% pa | 2.00% pa | 1.50% pa | 1.50% pa |
| Salary increase rate | 3.00% pa | 3.00% pa | 3.00% pa | 2.50% pa | 3.50% pa |
| Defined benefit obligation (A\$'000s) | 70 | 71 | 69 | 69 | 71 |

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

The salary assumptions in the above table are long term salary assumptions. The short term assumptions have also been adjusted as described in Scenario C and D.

Funding arrangements

The employer contributes, as required, to meet the benefits paid.

Expected contributions

| Gold State Super | 2021 \$'000 |
|--|------------------------|
| Expected annual employer contributions | 10 |

Maturity profile of defined benefit obligation

The weighted average duration of GESB's defined benefit obligation is 3.8 years.

Note 14: Interest-bearing loans

The term loan from the Western Australian Treasury Corporation ('WATC') commenced on 30 May 2001 and was entered into following successful negotiations with the State Government in regard to an agreed payment schedule to discharge the unfunded West State Super ('WSS') liability. The loan is unsecured and is repayable in quarterly instalments over 20 years.

The loan enabled the balances on WSS members' accounts at 1 July 2001 to be fully funded from an investment perspective. This funding was a prerequisite for Member Investment Choice, as all monies had to be available to be invested in accordance with the plans chosen by members of WSS.

The loan from WATC has been fully repaid and discharged in April 2021.

Fair value

The carrying amount of the Fund's interest-bearing loans approximates its fair value (Level 2 in the fair value hierarchy as outlined in Note 1(d)). The change in fair value is attributable to changes in the discount rate resulting from market-related movements in interest rates together with principal and interest repayments.

The amount owing to WATC has been fully repaid during the reporting period. The table below summarises the fair value of the WATC loan and premium included in the fair value as at 30 June 2020:

| | 2021 \$'000 | 2020 \$'000 |
|---------------------------------------|----------------|----------------|
| Within one year | - | 58,107 |
| Total fair value | - | 58,107 |
| Premium included in fair value | - | 1,437 |

The premium included in the fair value of WATC loan represents the difference in present value between the interest rate the loan was fixed at (6.5699% per annum quarterly compounding) and the interest rates applicable at year-end.

Loan interest expenses

The WATC loan bears interest at a fixed rate of 6.5699% per annum, plus a government guarantee fee of 0.7% per annum. The interest and government guarantee fee are recognised in the Income Statement in the period in which they are incurred.

The table below is the loan interest expenses recognised for the current and prior reporting period:

| | 2021 \$'000 | 2020 \$'000 |
|---------------------------------------|----------------|----------------|
| Interest and government guarantee fee | 1,697 | 5,651 |

Interest rate and liquidity risk

Details regarding interest rate and liquidity risk are disclosed in Note 26.

Defaults and breaches

During the current and prior years, there were no defaults or breaches on the interest-bearing loans.

Reconciliation of liabilities arising from financing activities

| | 2021 \$'000 | 2020 \$'000 |
|---------------------------------------|----------------|----------------|
| Opening balance at start of year | 58,107 | 114,870 |
| Cash flows | (58,367) | (58,636) |
| Changes in fair value | (1,437) | (3,778) |
| Loan interest charges | 1,697 | 5,651 |
| Closing balance at end of year | - | 58,107 |

Note 15: Reserves

| | 2021 \$'000 | 2020 \$'000 |
|--|----------------|----------------|
| Accumulation General Reserve | | |
| Opening balance | 123,630 | 58,381 |
| Utilisation of reserve ² | - | (4,019) |
| Contribution to reserve | 8,049 | 9,292 |
| Transfer between reserve ³ | - | 59,125 |
| Investment performance | 360 | 851 |
| Closing balance | 132,039 | 123,630 |
| WSS¹ Government Guaranteed Payment Reserve | | |
| Opening balance | 44,183 | 44,619 |
| Utilisation of reserve | (2,180) | (993) |
| Investment performance | 126 | 557 |
| Closing balance | 42,129 | 44,183 |
| Total Other Reserves | 174,168 | 167,813 |
| Operational Risk Reserve | | |
| Opening balance | 76,187 | 133,731 |
| Transfer between reserve ³ | - | (59,125) |
| Investment performance | 221 | 1,581 |
| Closing balance | 76,408 | 76,187 |

¹ West State Super ('WSS').

² Utilisation of reserve relates to spend on specific strategic initiatives and operational directives.

³ During the 2019/20 financial year, the GESB Board approved an updated Reserving Strategy for the Fund, the updated strategy includes an Operational Risk Reserve ('ORR') of 26bps (the strategy includes a +/- tolerance of 5bps for the target ORR) of accumulation schemes funds under management. To facilitate this update, a transfer of \$59.125m from the ORR to the Accumulation General Reserve was approved by the GESB Board and actioned within the 2019/20 financial year.

Accumulation General Reserve

This reserve was established in the 2014 financial year to support the costs of strategic, system and operational development and ongoing Commonwealth superannuation reform that are relevant for the Accumulation and Retirement Product schemes. The current Accumulation General Reserve represents approximately 0.42% (2020: 0.47%) of the net assets available for the accumulation schemes' member benefits (WSS, GESB Super and Retirement products).

WSS Government Guaranteed Payment Reserve

As of 31 January 2017, the Treasurer approved guidelines which merged the 'Minimum Benefit Guarantee Reserve' and 'Insurance Reserve', creating the 'WSS Government Guaranteed Payment Reserve'.

The Minimum Benefit Guarantee Reserve arose from the guarantee provided to WSS members in respect of their balance as at 30 June 2001 indexed by CPI plus 2%.

The Insurance Reserve had been established for eligible WSS members prior to 1 July 2008. The reserve covered the self-insured Permanent Partial Disability insurance claims and the run-off in respect of pre-existing conditions for WSS members that are continuing to be provided by the Government Employees Superannuation Board (GESB).

In the Fund's actuary's opinion, the WSS Government Guaranteed Payment Reserve is expected to be sufficient to meet all future payments in respect of the minimum benefit guarantee and the death and disability claims that are not covered by external insurance. However, the Fund's actuary recommended that the Fund continue to monitor the emerging self-insured claims experience, particularly in relation to 'top up' payments, and investigate the possibility of maintaining additional data to assist in the quantification of this risk.

Operational Risk Reserve

The Operational Risk Reserve provides the Fund with access to funds to protect members' interests and mitigate the impact of an adverse event. Transfers in and out of the reserve are made in accordance with GESB's Reserving Strategy for GES Fund Reserves.

The current level of this reserve represents the contributions made to this reserve from the accumulation schemes since 30 June 2009. It also includes all relevant investment returns.

The current Operational Risk Reserve represents approximately 0.25% (2020: 0.29%) of the net assets available for the accumulation schemes' member benefits (WSS, GESB Super and Retirement products).

Note 16: Income tax

(a) Major components of income tax expenses

| | 2021 \$'000 | 2020 \$'000 |
|--|----------------|----------------|
| Income statement | | |
| Current tax expense | 14,120 | (22,812) |
| Adjustment to the current tax for prior periods | 410 | 1,098 |
| Deferred tax | | |
| Deferred tax expense relating to the origination and reversal of temporary differences | 79,775 | (13,870) |
| Adjustment to the deferred tax for prior periods | (2,110) | - |
| Total income tax expense/(benefit) as reported in the Income Statement | 92,195 | (35,584) |

(b) Reconciliation between income tax expenses and the net result before income tax

| | 2021 \$'000 | 2020 \$'000 |
|---|------------------|----------------|
| Net result before income tax | 1,174,390 | (590,900) |
| Adjustments: | | |
| Related to constitutionally protected schemes | 550,241 | 368,975 |
| Related to WATC loan | 260 | 1,873 |
| Related to reserves | (8,756) | (8,262) |
| Total net result related to GESB Super and Retirement schemes | 1,716,135 | (228,314) |
| Income tax calculated at 15% | 257,420 | (34,247) |
| Tax effect of expenses that are not deductible in determining taxable income: | | |
| Non-deductible expenses | 2,143 | 1,008 |
| Tax effect of income that is not assessable in determining taxable income: | | |
| Income from managed portfolio | (100,259) | 41,933 |
| Tax credit and offsets | (23,899) | (25,988) |
| Exempt current pension income | (34,946) | (14,189) |
| Other items | (14) | (13) |
| Tax effect of other adjustments: | | |
| Other deductions | (6,550) | (5,186) |
| Current tax for prior year | 410 | 1,098 |
| Deferred tax for prior year | (2,110) | - |
| Income tax expense / (benefit) | 92,195 | (35,584) |

(c) Recognised tax assets and liabilities

| | 2021 \$'000 | | 2020 \$'000 | |
|---|-----------------|------------------|----------------|--------------|
| | Current Tax | Deferred Tax | Current Tax | Deferred Tax |
| Opening balance | (11,915) | (41,447) | (35,134) | (55,317) |
| Charged to income | (14,530) | (77,665) | 21,714 | 13,870 |
| Charged to changes in member benefits | (164,068) | - | (164,234) | - |
| Other payments | (178) | - | (6,542) | - |
| Income tax paid on contributions received | 178,639 | - | 172,281 | - |
| Closing balance | (12,052) | (119,112) | (11,915) | (41,447) |

Deferred tax asset at 30 June related to the following:

| | | |
|-------------------------|--------------|--------------|
| Realised capital losses | 2,407 | 8,085 |
| Closing balance | 2,407 | 8,085 |

Deferred tax liability at 30 June related to the following:

| | | |
|-------------------------|------------------|-----------------|
| Unreleased capital gain | (128,403) | (37,845) |
| Accrued income | 6,884 | (11,687) |
| Closing balance | (121,519) | (49,532) |

| | | |
|--|------------------|-----------------|
| Net deferred tax liability at 30 June | (119,112) | (41,447) |
|--|------------------|-----------------|

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

Note 17: Investment income and expenses

| 30 June 2021 | Interest income \$'000 | Dividend income \$'000 | Distribution income \$'000 | Other investment income \$'000 | Changes in fair value \$'000 | Total \$'000 |
|--|------------------------------|------------------------------|----------------------------------|---|------------------------------------|------------------|
| Investment income | | | | | | |
| Cash and term deposits | 11,890 | - | - | 3,582 | 9,958 | 25,430 |
| Australian equities | - | 157,646 | - | - | 1,333,735 | 1,491,381 |
| International equities | - | 221,078 | - | - | 2,484,438 | 2,705,516 |
| Units in unit trusts: | | | | | | |
| Listed unit trusts | - | 58 | 19,268 | - | 77,525 | 96,851 |
| Unlisted unit trusts | - | - | 59,833 | - | 201,928 | 261,761 |
| Limited partnerships | - | (1) | 456 | - | (3,763) | (3,308) |
| Other interest-bearing securities: | | | | | | |
| Asset-backed securities | 9,561 | - | - | - | 7,052 | 16,613 |
| Bank loans | 10,890 | - | - | - | 10,073 | 20,963 |
| Commercial paper | 173 | - | - | - | (5,026) | (4,853) |
| Fixed interest bonds | 151,293 | 92 | - | - | (284,595) | (133,210) |
| Indexed bonds | 775 | - | - | - | (1,281) | (506) |
| Mortgage-backed securities | 12,704 | - | - | - | (96,400) | (83,696) |
| Derivatives | - | - | - | - | 664,077 | 664,077 |
| Total investment income* | 197,286 | 378,873 | 79,557 | 3,582 | 4,397,721 | 5,057,019 |
| Investment expenses | | | | | | |
| External fund management base fees | | | | | | 55,435 |
| Reversal of external fund management performance fees | | | | | | 21,267 |
| Custodial fees | | | | | | 5,985 |
| Investment administration costs | | | | | | 4,358 |
| Total investment expenses | | | | | | 87,045 |
| Net investment income | | | | | | 4,969,974 |

| 30 June 2020 | Interest income \$'000 | Dividend income \$'000 | Distribution income \$'000 | Other investment income \$'000 | Changes in fair value \$'000 | Total \$'000 |
|---|------------------------------|------------------------------|----------------------------------|---|------------------------------------|------------------|
| Investment income | | | | | | |
| Cash and term deposits | 32,240 | - | - | 416 | (49,910) | (17,254) |
| Australian equities | - | 181,676 | - | - | (612,646) | (430,970) |
| International equities | - | 218,948 | - | - | (199,827) | 19,121 |
| Units in unit trusts: | | | | | | |
| Listed unit trusts | - | (112) | 18,509 | - | (79,564) | (61,167) |
| Unlisted unit trusts | - | 1 | 73,471 | - | (34,568) | 38,904 |
| Limited partnerships | - | - | 900 | - | (4,653) | (3,753) |
| Other interest-bearing securities: | | | | | | |
| Asset-backed securities | 16,645 | - | - | - | (23,925) | (7,280) |
| Bank loans | 15,828 | - | - | - | (19,232) | (3,404) |
| Commercial paper | 470 | - | - | - | (5,170) | (4,700) |
| Fixed interest bonds | 179,193 | (5) | - | - | 161,839 | 341,027 |
| Indexed bonds | 1,460 | - | - | - | 6,585 | 8,045 |
| Mortgage-backed securities | 19,926 | - | - | - | 67,916 | 87,842 |
| Derivatives | - | (44) | - | - | (385,369) | (385,413) |
| Total investment income/(losses)* | 265,762 | 400,464 | 92,880 | 416 | (1,178,524) | (419,002) |
| Investment expenses | | | | | | |
| External fund management base fees | | | | | | 56,336 |
| External fund management performance fees | | | | | | (977) |
| Custodial fees | | | | | | 6,404 |
| Investment administration costs | | | | | | 4,821 |
| Total investment expenses | | | | | | 66,584 |
| Net investment losses | | | | | | (485,586) |

*Refer to note 31(i) for explanation of variance between 2021 and 2020.

Note 18: Other income

| | 2021 \$'000 | 2020 \$'000 |
|-----------------------------------|----------------|----------------|
| Administration expenses recovered | 7,015 | 7,173 |
| Other | 81 | 148 |
| Total other income | 7,096 | 7,321 |

Note 19: Administration expenses

Details of administration expenses incurred by the Fund during the reporting period are set out below:

| | Note | 2021 Actual \$'000 | 2021 Budget \$'000 | Variance Actual to Budget \$'000 | % | 2020 Actual \$'000 | Variance Actual to prior year Actual \$'000 | % |
|---|-------|--------------------------|--------------------------|--|-----------|--------------------------|---|-------------|
| Outsourced administration costs | (i) | 27,511 | 32,595 | 5,084 | 16 | 27,187 | (324) | (1) |
| Employment expenses | | 8,312 | 8,082 | (230) | (3) | 7,869 | (443) | (6) |
| Information technology costs | (ii) | 1,393 | 1,678 | 285 | 17 | 1,070 | (323) | (30) |
| Consultants | (iii) | - | 427 | 427 | 100 | 97 | 97 | 100 |
| Accommodation costs ¹ | | 645 | 631 | (14) | (2) | 610 | (35) | (6) |
| Professional fees: | | | | | | | | |
| Actuarial fees | | 222 | 373 | 151 | 40 | 177 | (45) | (25) |
| Audit fees - external | | 380 | 364 | (16) | (4) | 339 | (41) | (12) |
| Audit fees - internal | | 451 | 473 | 22 | 5 | 335 | (116) | (35) |
| Legal and other fees | | 278 | 205 | (73) | (36) | 206 | (72) | (35) |
| Postage, printing and record management | | 72 | 118 | 46 | 39 | 98 | 26 | 27 |
| Product information and engagement | | 38 | 94 | 56 | 60 | 51 | 13 | 25 |
| Other administration costs | (iv) | 5,055 | 4,840 | (215) | (4) | 1,860 | (3,195) | (172) |
| | | 44,357 | 49,880 | 5,523 | 11 | 39,899 | (4,458) | (11) |
| Less: | | | | | | | | |
| Investment administration costs | | 2,255 | 2,304 | 49 | 2 | 2,065 | (190) | (9) |
| Total administration costs excluding depreciation and amortisation | | 42,102 | 47,576 | 5,474 | 12 | 37,834 | (4,268) | (11) |
| Add: | | | | | | | | |
| Depreciation and amortisation | | 271 | 288 | 17 | 6 | 176 | (95) | (54) |
| Total administration costs | | 42,373 | 47,864 | 5,491 | 11 | 38,010 | (4,363) | (11) |

¹ 2021 actuals include other accommodation costs (parking) of \$64k (2020: \$66k).

Notes on significant variances in administration expenses

In accordance with *Treasurer's Instruction 945P*, the following notes are provided where there is 'significant variation' between actual expenditure and budget or the prior year's actual.

'Significant variation' is defined as a variance of greater than 10% of total administrative expenditure or \$250,000, whichever is smaller.

(i) Outsourced Administration Costs

2020/21 Actual to Budget (decreased expenditure \$5,084k)

The decreased expenditure compared to budget in 2020/21 is primarily due to less than planned projects commencing, as a result of resources for projects being allocated to issues relating to the COVID-19 pandemic.

(ii) Information technology costs

2020/21 Actual to Budget (decreased expenditure \$285k) and Actual to Prior Year's Actual (increased expenditure \$323k).

The decreased expenditure compared to budget in 2020/21 is due to the requirement for licences being less than originally anticipated.

The increased expenditure compared to prior year is due to an increase in the requirement for software licences in 2020/21 due to the addition of new software products across the business.

(iii) Consultants

2020/21 Actual to Budget (decreased expenditure \$427k)

The decreased expenditure to budget in 2020/21 is due to no consultants being required across the business in the financial year. This is predominantly due to the COVID-19 pandemic with resources being focused around business as usual.

(iv) Other administration costs

Actual to Prior Year's Actual (Increased expenditure \$3,195k)

The increased expenditure compared to prior year is primarily due to a decision to pay insurance claims (\$2 million) to AIA to cover certain claims resulting from TPD definition changes. Further to this is a large credit (\$1.1 million) that was received in 2019/20 for reduced input tax credits ('RITC'), that was not recurring in 2020/21.

Note 20: Depreciation and amortisation

| | 2021 \$'000 | 2020 \$'000 |
|--|----------------|----------------|
| Depreciation | | |
| Computer hardware | 246 | 17 |
| Office furniture and equipment | 6 | 14 |
| Total depreciation | 252 | 31 |
| Amortisation | | |
| Computer software | 19 | 145 |
| Total amortisation | 19 | 145 |
| Total depreciation and amortisation | 271 | 176 |

The straight-line method is used to calculate the depreciation and amortisation. Assets costing less than \$5,000 each are written off in the year of acquisition.

Note 21: Employee benefits expense

| | 2021 \$'000 | 2020 \$'000 |
|---|----------------|----------------|
| Salaries | 6,074 | 5,624 |
| Superannuation – defined contribution plans | 679 | 631 |
| Superannuation – defined benefit plans | 10 | 165 |
| Long service leave ¹ | 244 | 237 |
| Annual leave ¹ | 600 | 530 |
| Other related expenses | 705 | 682 |
| Total employee benefits expense | 8,312 | 7,869 |

¹ Includes an accrued payroll tax and superannuation contribution component.

Employment on-costs such as workers' compensation insurance and payroll tax are included within 'other administration costs' in Note 19.

Note 22: Auditor's remuneration

The total fee paid or due and payable to the Auditor General for the financial years was as follows:

| | 2021 \$'000 | 2020 \$'000 |
|---|----------------|----------------|
| Fees for auditing the financial statements and key performance indicators | 273 | 268 |

Note 23: Remuneration of senior officers

| Position | Name | Period of Employment | Remuneration | |
|---|------------------------------|-----------------------|------------------|------------------|
| | | | 2021 \$ | 2020 \$ |
| Chief Executive Officer | Benjamin Palmer ¹ | 04 Jul 2018 – Current | 346,955 | 363,762 |
| General Manager Investments | Paul Taylor ³ | 21 Jan 2019 – Current | 309,706 | 311,813 |
| General Manager Superannuation Services | Karen Horne ² | 03 Nov 2014 – Current | 210,184 | 205,321 |
| CFO/General Manager Finance & Business Services | Mark Caldwell ² | 03 Nov 2014 – Current | 210,591 | 203,406 |
| Total | | | 1,077,436 | 1,084,302 |
| Short-term employee benefits | | | 954,357 | 963,551 |
| Post-employment benefits | | | 89,601 | 87,905 |
| Other long-term benefits | | | 33,478 | 32,846 |
| Total remuneration of senior officers | | | 1,077,436 | 1,084,302 |

¹ Benjamin Palmer was appointed as Chief Executive Officer of GESB under a contract of employment with the Public Sector Commissioner which applies in conjunction with, and subject to, the relevant provisions of the *Public Sector Management Act 1994* and the *Minimum Conditions of Employment Act 1993*. This contract is for the period 4 July 2018 to 3 July 2021, which has since been renewed for a further period of 04 July 2021 to 03 July 2026. The remuneration of the Chief Executive Officer of GESB is set by the Salaries and Allowances Tribunal.

² Remuneration of these senior officers adheres to Public Sector Commission executive salary classifications.

³ This officer was appointed under section 11(2) of the *State Superannuation Act (2000)*.

'Senior Officer' represents a person, by whatever name called, who is concerned with or takes part in the management of the Fund, but excludes any person acting in such a position for a limited period.

Representation of remuneration adheres to the *Superannuation Industry (Supervision) Act 1993*.

The number of senior officers whose total fees, salaries, superannuation, non-monetary benefits and other benefits for the financial year fall within the following bands are:

| Remuneration band (\$) | 2021 | 2020 |
|------------------------|----------|----------|
| \$200,001 - 210,000 | - | 2 |
| \$210,001 - 220,000 | 2 | - |
| \$300,001 - 310,000 | 1 | - |
| \$310,001 - 320,000 | - | 1 |
| \$340,001 - 350,000 | 1 | - |
| \$360,001 - 370,000 | - | 1 |
| Total | 4 | 4 |

Note 24: Remuneration of members of the Board and Investment Committee

The Government Employees Superannuation Board ('GESB') has determined the key management personnel include the Treasurer, Board members and senior officers of GESB. GESB is not obligated to compensate the Treasurer and therefore disclosures in relation to the Treasurer's compensation may be found in the Annual Report on State Finances.

Remuneration of members of the Board

| Position | Name | Period of Membership | Remuneration | |
|---|---|---------------------------|----------------|------------|
| | | | 2021 \$ | 2020 \$ |
| Chair | John Langoulant ¹ | 02 Nov 2010 - Current | 127,147 | 127,147 |
| Employer Director | Scott Ellis ⁶ | 02 Nov 2010 - 31 Oct 2019 | - | 20,467 |
| Employer Director | Catherine Nance ¹ | 07 Mar 2011 - Current | 68,019 | 68,019 |
| Employer Director | Francesco Sciarrone ^{1,2} | 21 Feb 2016 - Current | 73,576 | 73,576 |
| Employer Director | Virginia Christie ³ | 12 Nov 2019 - Current | 59,128 | 38,661 |
| Member Director | Anne Gisborne ^{1,3,4} | 08 Feb 2017 - Current | - | - |
| Member Director | Bruce Hawkins ³ | 04 Jul 2018 - Current | 59,317 | 58,939 |
| Member Director | Naomi McCrae ^{1,5} | 31 Aug 2018 - Current | 68,019 | 68,019 |
| Total | | | 455,206 | 454,828 |
| Short-term employee benefits | | | 415,713 | 415,368 |
| Post-employment benefits | | | 39,493 | 39,460 |
| Total remuneration of members of the Board | | | 455,206 | 454,828 |

¹ These officers are also members of the Investment Committee and the remuneration included in this table reflects this.

² The remuneration for this officer also incorporates a fee paid as Chair of the Audit and Risk Committee.

³ These officers are also members of the Audit and Risk Committee but do not receive any further remuneration for their role.

⁴ According to public sector guidelines, as a public sector employee this officer receives no remuneration while sitting on a government Board.

⁵ The salary portion of the remuneration paid to these officers is paid directly to their employer.

⁶ This officer was a member of the Audit and Risk Committee but did not receive any further remuneration for his role.

The number of Board members whose total fees, salaries and superannuation for the financial year fall within the following bands are:

| Remuneration band (\$) | 2021 | 2020 |
|------------------------|----------|----------|
| \$0 - 10,000 | 1 | 1 |
| \$20,001 - 30,000 | - | 1 |
| \$30,001 - 40,000 | - | 1 |
| \$50,001 - 60,000 | 2 | 1 |
| \$60,001 - 70,000 | 2 | 2 |
| \$70,001 - 80,000 | 1 | 1 |
| \$120,001 - 130,000 | 1 | 1 |
| Total | 7 | 8 |

Remuneration of members of the Investment Committee

| Position | Name | Period of membership | Remuneration | |
|---|-------------|-----------------------|---------------|------------|
| | | | 2021 \$ | 2020 \$ |
| Member | John Stroud | 01 Oct 2018 - Current | 13,337 | 13,337 |
| Member | Warren Bird | 10 Jun 2013 - Current | 13,337 | 13,337 |
| Total | | | 26,674 | 26,674 |
| | | | | |
| Short-term employee benefits | | | 24,360 | 24,360 |
| Post-employment benefits | | | 2,314 | 2,314 |
| Total remuneration of external members of the Investment Committee | | | 26,674 | 26,674 |

The number of Investment Committee members whose total fees, salaries and superannuation for the financial year fall within the following bands are:

| Remuneration band (\$) | 2021 | 2020 |
|------------------------|----------|----------|
| \$10,001 – 20,000 | 2 | 2 |
| Total | 2 | 2 |

Note 25: Cash flow statement reconciliation

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

| | 2021 \$'000 | 2020 \$'000 |
|----------------------------------|----------------|----------------|
| Cash and cash equivalents | 87,831 | 100,273 |

Reconciliation of net cash from operating activities to net result after income tax

| | 2021 \$'000 | 2020 \$'000 |
|---|----------------|----------------|
| Net result after income tax | 1,082,195 | (555,316) |
| Adjustments for: | | |
| (Increase)/Decrease in assets measured at fair value | (4,397,721) | 1,178,524 |
| (Increase)/Decrease in insurance | (58,195) | (51,640) |
| (Increase)/Decrease in receivables | 1,678 | 27,901 |
| Depreciation and amortisation | 271 | 176 |
| Increase/(Decrease) in payables | 15,583 | (4,217) |
| Increase/(Decrease) income tax payable | 92,373 | (29,043) |
| Changes in loans measured at fair value and interest expenses | 260 | 1,873 |
| Allocation to members' accounts | 3,760,047 | 72,752 |
| Net cash inflows from operating activities | 496,491 | 641,010 |

Note 26: Financial risk management objectives and policies

The Fund's principal financial instruments comprise units in unit trusts, listed and unlisted equities, property assets and securities, fixed interest securities, cash and short-term deposits. The main purpose of these financial instruments is to generate a return on investment.

The Fund also enters into derivative transactions, principally in forward foreign exchange contracts, swaps, futures, options and warrants. The main purpose is to manage financial risks associated with the Fund's investment transactions, to hedge particular investment exposures or to generate returns. Investments in derivatives are not used to gear the Fund's investment portfolio, and are limited to the asset allocation limits for the underlying investment class.

The Fund also has various other financial instruments such as sundry receivables and payables, which arise directly from its operations; these are mainly current in nature.

Risks arising from holding financial instruments are inherent in the Fund's activities, and are managed using a process of ongoing identification, measurement and monitoring. The main risks arising from the Fund's financial instruments are credit risk, market risk (other price risk, foreign currency risk, interest rate risk) and liquidity risk. The Fund establishes and reviews policies and investment parameters for managing these risks, which are summarised below.

(a) Risk management structure

The Government Employees Superannuation Board ('GESB') is responsible for the prudent management and investment of the assets of the Fund. To fulfil this statutory responsibility and meet its legal and fiduciary obligations, the Board has an integrated investment governance framework to govern its processes for formulating investment objectives, setting strategic asset allocations and developing appropriate investment strategies.

The Treasurer issues Prudential Guidelines for Investments to the Board incorporating the roles and responsibilities of both parties, investment objectives, asset allocation parameters, permitted investments and reporting obligations. These guidelines are subject to review annually.

An Investment Committee reports to and advises the Board about investment matters. The Committee draws on expertise outside the Board, and meets regularly to consider, recommend and/or approve as appropriate, and monitor the Fund's investment activities. The Committee is comprised of Board Directors and external appointees, who have been appointed for their specialist professional expertise and who discharge their duties as specified in the Committee's Charter.

The internal GESB Investments team provides strategic advice to the Board and Investment Committee in setting investment objectives, asset allocation, investment strategy and investment manager selection. Professional, specialist consultant(s) are appointed to conduct market and investment manager research and provide asset allocation, investment manager selection and other investment advice and recommendations to the Fund.

The assets of the portfolio are managed by specialist external investment managers, who are approved by the Treasurer prior to being appointed. Each manager is required to invest the assets it manages in accordance with the Treasurer's Prudential Guidelines for Investments and report regularly on compliance with their mandate. Some cash investments are managed internally by GESB, as authorised by the Treasurer.

The Board monitors investment manager performance as well as compliance with investment management agreements and the Treasurer's Prudential Guidelines for Investments. Derivative exposure and asset allocation are managed in accordance with Board approved policies.

(b) Use of derivative financial instruments

The Treasurer's Prudential Guidelines for Investments allow the Fund to transact derivative financial instruments.

Under the investment strategy of the Fund, derivatives are principally used to hedge foreign currency or other investment risks, as an effective alternative to physical assets or to gain access to, or allow flexibility in, financial markets. This enables the Fund to manage and structure its investment portfolio to achieve a desired level of total exposure to various asset classes. Derivatives are not used to leverage the investment portfolio.

The Fund only uses derivative financial instruments via its external investment manager mandates. The derivatives held by the Fund as at the reporting date are as follows:

| 2021 | Gross derivative amounts \$'000 | Derivative amounts set off \$'000 | Net amounts presented in statement of financial position \$'000 |
|-------------------------------------|---------------------------------|-----------------------------------|---|
| Derivative assets: | | | |
| Futures | 24,100 | - | 24,100 |
| Options | 2,439 | - | 2,439 |
| Swaps | 201,495 | (164,202) | 37,293 |
| Forwards | 78,996 | - | 78,996 |
| Warrants | 22 | - | 22 |
| Total derivative assets | 307,052 | (164,202) | 142,850 |
| Derivative liabilities: | | | |
| Futures | 11,460 | - | 11,460 |
| Options | 4,190 | - | 4,190 |
| Swaps | 196,568 | (164,202) | 32,366 |
| Forwards* | 350,447 | - | 350,447 |
| Total derivative liabilities | 562,665 | (164,202) | 398,463 |
| Net derivative liability | (255,613) | - | (255,613) |
| 2020 | | | |
| Derivative assets: | | | |
| Futures | 8,901 | - | 8,901 |
| Options | 1,474 | - | 1,474 |
| Swaps | 102,748 | (68,526) | 34,222 |
| Forwards | 442,590 | - | 442,590 |
| Warrants | 380 | - | 380 |
| Total derivative assets | 556,093 | (68,526) | 487,567 |
| Derivative liabilities: | | | |
| Futures | 4,489 | - | 4,489 |
| Options | 2,259 | - | 2,259 |
| Swaps | 115,344 | (68,526) | 46,818 |
| Forwards* | 82,900 | - | 82,900 |
| Total derivative liabilities | 204,992 | (68,526) | 136,466 |
| Net derivative asset | 351,101 | - | 351,101 |

* Included in the forwards are To-Be-Announced ('TBA') Agency Securities. At 30 June 2021, TBA Agency Investments are accounted as derivative instruments as it is likely that the Fund will not take or make physical delivery of the Agency Security upon settlement of the contracts. TBA Agency Investments are essentially forward contracts for the purchase ("long position") or sale ("short position") of an Agency pool of mortgages at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date. These mortgage pools are guaranteed by the issuing Agency and backed by the US Government. The fair value of TBA investments is based on similar methods used to value our mortgage-backed securities. At 30 June 2021, the notional value of long and short positions in TBA Agency Investments was \$775,171,000 (2020: \$1,445,270,000) and \$416,139,000 (2020: \$812,660,000).

All derivative financial assets and liabilities are classified as Level 2 in the fair value hierarchy, except for certain options and warrants which belong to Level 1. The net derivative liability position at the reporting date is primarily a result of the decrease in the value of the Australian dollar against major global currencies from the time the reported positions were initiated. This currency movement will have increased the Australian dollar value of the corresponding underlying foreign currency denominated assets included in the investments.

The main reason for the reduction in the asset value of Forwards from 2019/20 to 2020/21 and the increase in the liability value of Forwards from 2019/20 to 2020/21 relates to currency movements. In particular, there was a meaningful rise in the value of the Australian dollar against the US dollar in the months leading up to 30 June 2020, which resulted in a relatively high value of unrealised currency profits (i.e. an asset as at 30 June 2020). Conversely, there was a meaningful fall in the Australian dollar against the US dollar in the months leading up to 30 June 2021, which resulted in a relatively high value of unrealised currency losses (i.e. a liability as at 30 June 2021).

(c) Credit risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to meet a financial obligation and cause the Fund to incur a financial loss. It arises from the financial assets of the Fund, which comprise cash and cash equivalents, receivables, investments and derivative financial instruments. The carrying amounts of financial assets best represent the maximum credit risk exposure of the Fund at the reporting date.

The Fund is exposed to the risk of credit related losses that arises from default by the counterparty on a financial obligation to pay the Fund.

Credit risk arising from derivative financial instruments is, at any time, generally limited to those with positive fair values (i.e. derivative assets, where a counterparty has an obligation to pay the Fund).

The Fund manages credit risk by undertaking transactions with a large number of creditworthy counterparties in various countries. The Fund does not have any significant exposure to any individual counterparty or industry other than the State of Western Australia in respect of GESB's unfunded superannuation liability and term deposits held with the big four Australian banks.

The operational bank account is held with Commonwealth Bank. The Fund monitors its credit risk by monitoring the credit quality and financial positions of the bank through regular analysis of its financial reports.

For investments in listed Australian equities, credit risk arising on these investments is mitigated by monitoring that managers transact predominantly with reputable brokers on recognised exchanges.

Credit risk arising from other collective investments is mitigated by extensive due diligence prior to the appointment of investment managers.

Credit risk associated with employer-sponsor receivables and other receivables is considered low as there is usually a short settlement period as the receivable relates to timing differences in respect of the receipt of contributions from the employer-sponsors.

All investment and cash assets of the Fund, other than operational cash and bank loans are held via a Custodian, Northern Trust. Bank loans are held in GESB's name, with underlying documentation being stored electronically by the Custodian. The Fund monitors the credit risk of the Custodian through regular analysis of its financial accounts and reports.

Credit quality per class of financial instrument

Credit ratings are a key indicator in assessing the credit quality of financial assets. The Fund uses the Standard and Poor's rating (or equivalent) categories. Exposure in each grade is monitored on a periodic basis, which assists in assessing the potential loss as a result of the risks and any corrective actions necessary.

The Fund's interest-bearing financial instruments portfolio is managed in a manner that is consistent with investment restrictions and credit rating limits contained within each fund manager's mandate and individual investment management agreements.

The table below shows the credit quality by class of asset for financial instruments:

| | AAA to AA- \$'000 | A+ to A- \$'000 | BBB+ to BBB- \$'000 | BB+ to D \$'000 | Not Rated ¹ \$'000 | Total \$'000 |
|----------------------------|----------------------|--------------------|------------------------|--------------------|----------------------------------|-------------------|
| 2021 | | | | | | |
| Cash and term deposits | 3,561,849 | 428,492 | 155,121 | 868 | 9,567 | 4,155,897 |
| Asset-backed securities | 220,270 | 9,541 | 14,229 | 42,210 | 33,109 | 319,359 |
| Bank loans | - | - | 4,285 | 175,732 | 73,646 | 253,663 |
| Commercial paper | - | - | - | - | 31,226 | 31,226 |
| Fixed interest bonds | 3,000,902 | 1,532,735 | 1,971,985 | 407,137 | 35,212 | 6,947,971 |
| Indexed bonds | 65,137 | 7,327 | - | - | - | 72,464 |
| Mortgage-backed securities | 578,964 | 4,661 | 1,168 | 160 | 23,559 | 608,512 |
| Total | 7,427,122 | 1,982,756 | 2,146,788 | 626,107 | 206,319 | 12,389,092 |

| | AAA to AA- \$'000 | A+ to A- \$'000 | BBB+ to BBB- \$'000 | BB+ to D \$'000 | Not Rated ¹ \$'000 | Total \$'000 |
|----------------------------------|----------------------|--------------------|------------------------|--------------------|----------------------------------|-------------------|
| 2020 | | | | | | |
| Cash and term deposits | 2,722,565 | 549,576 | 80,322 | - | 291,432 | 3,643,895 |
| Asset-backed securities | 121,104 | 28,233 | 22,618 | 15,711 | 34,660 | 222,326 |
| Bank loans | - | - | 5,195 | 116,837 | 61,731 | 183,763 |
| Commercial paper | - | 8,844 | - | - | 111,867 | 120,711 |
| Fixed interest bonds | 2,775,137 | 1,464,300 | 1,828,290 | 299,039 | 13,098 | 6,379,864 |
| Indexed bonds | 66,828 | 7,995 | - | - | - | 74,823 |
| Mortgage-backed securities | 730,176 | 9,487 | 23,671 | - | 26,161 | 789,495 |
| WATC loan recoverable from State | 58,107 | - | - | - | - | 58,107 |
| Total | 6,473,917 | 2,068,435 | 1,960,096 | 431,587 | 538,949 | 11,472,984 |

¹ The Fund's Custodian uses the Standard and Poor's ('S&P') rating category to determine credit quality for each financial asset. Not all financial assets are rated by S&P. Although some financial assets are unrated this does not imply that they are non-investment grade. The investment quality of the portfolio is managed through compliance with each manager's investment management agreement.

The Fund restricts the exposure to credit losses on derivative instruments it holds by entering into master netting arrangements with major counterparties with whom a significant volume of transactions are undertaken. Such an arrangement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on any one contract. Master-netting arrangements do not result in an offset of balance-sheet assets and liabilities unless certain conditions for offsetting under AASB 132 apply.

Although master-netting arrangements may significantly reduce credit risk, it should be noted that:

- Credit risk is eliminated only to the extent that amounts due to the same counterparty will be settled after the assets are realised; and
- The extent to which overall credit risk is reduced may change substantially within a short period because the exposure is affected by each transaction subject to the arrangement.

As at the reporting date, master-netting arrangements reduced the credit risk on contracts that have a fair value of \$116,289k (2020: \$476,812k).

(d) Market risk

Market risk represents the risk that the fair value or 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: currency risk, interest rate risk and other price risk. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while appropriately balancing the return for risk.

The Fund's investment managers may invest, where permitted under their mandate, in Australian and overseas equities, fixed interest securities, property and other financial securities and therefore are exposed to market risk on all of their investment assets. The Fund manages this risk by ensuring that all investment activities are undertaken in accordance with the Treasurer's Prudential Guidelines for Investments, approved investment strategies and mandated exposure limits.

Market risk may be further mitigated by the Fund entering into derivative transactions, including fixed interest rate swaps and foreign exchange contracts, via its investment managers.

The market risk disclosures are prepared on the basis of the Fund's direct investments and not on a look through basis for indirect investments held in the Fund.

Currency risk

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

As a result of investments held that are denominated in foreign currencies, the Fund's Statement of Financial Position and Income Statement can be affected significantly by movements in foreign currencies when translated to Australian dollars. The Fund manages its exposure to foreign currency risk and mitigates effects of its foreign currency translation exposure by adhering to the Fund's Foreign Exchange ('FX') Hedging Policy which establishes the nature and extent of the Fund's exposure to foreign currency. This foreign exchange policy is monitored against actual holdings on an ongoing basis throughout the year.

The Fund uses instruments such as currency forward contracts and swaps to manage currency exposure via investment manager mandates. The terms of such contracts typically do not exceed one year, during which time the contract commitment is typically covered by cash, debt securities or equities denominated in the foreign currency or one highly correlated with the currency sold forward.

The Fund's exposure to currency risk was as follows:

| | 2021 \$'000 | 2020 \$'000 |
|---|-------------------|-------------------|
| Financial assets held at fair value | | |
| British Pound | 1,077,142 | 943,813 |
| Canadian Dollar | 489,599 | 345,609 |
| Euro | 3,823,632 | 3,538,406 |
| Hong Kong Dollar | 522,986 | 386,238 |
| Japanese Yen | 1,710,313 | 1,653,473 |
| Swiss Franc | 409,370 | 399,439 |
| US Dollar | 19,049,650 | 17,014,995 |
| Other Currencies | 1,746,166 | 1,303,793 |
| Total financial assets | 28,828,858 | 25,585,766 |
| Financial liabilities held at fair value | | |
| British Pound | 876,355 | 745,879 |
| Canadian Dollar | 412,818 | 300,600 |
| Euro | 3,235,352 | 2,912,789 |
| Hong Kong Dollar | 134,640 | 100,270 |
| Japanese Yen | 1,424,855 | 1,322,978 |
| Swiss Franc | 183,812 | 179,261 |
| US Dollar | 16,566,533 | 14,699,827 |
| Other Currencies | 1,378,747 | 1,047,478 |
| Total financial liabilities | 24,213,112 | 21,309,082 |
| Net exposure | 4,615,746 | 4,276,684 |

The following table details the Fund's sensitivity to a 10% (2020: 10%) reasonably possible increase or decrease in the value of major foreign currencies against the Australian dollar. A positive number indicates an increase in the net results after income tax and net assets where the respective foreign currency strengthens against the Australian dollar. For a weakening of the respective foreign currency against the Australian dollar there would be an equal and opposite impact on the net result after income tax and on the net assets available to pay benefits.

| | Movement in exchange rate | | Effect on net assets/net result | |
|----------------------|--------------------------------------|-----------|--|---------------------|
| | 2021 % | 2020 % | 2021 \$'000 | 2020 \$'000 |
| British Pound/AUD | +/- 10 | +/-10 | 19,537 / (19,537) | 19,299 / (19,299) |
| Canadian Dollar/AUD | +/- 10 | +/-10 | 7,471 / (7,471) | 4,388 / (4,388) |
| EUR/AUD | +/- 10 | +/-10 | 57,240 / (57,240) | 60,998 / (60,998) |
| Hong Kong Dollar/AUD | +/- 10 | +/-10 | 37,787 / (37,787) | 27,882 / (27,882) |
| Japanese Yen/AUD | +/- 10 | +/-10 | 27,775 / (27,775) | 32,223 / (32,223) |
| Swiss Franc/AUD | +/- 10 | +/-10 | 21,947 / (21,947) | 21,468 / (21,468) |
| USD/AUD | +/- 10 | +/-10 | 241,610 / (241,610) | 225,730 / (225,730) |
| Other/AUD | +/- 10 | +/-10 | 35,750 / (35,750) | 24,991 / (24,991) |

The sensitivity is based on reasonably possible changes over the following financial year using management's internal analysis and market available information and reflects plausible movements in key market variables to which the Fund has exposure. The analysis for current financial year was performed on the same basis as prior financial year.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

Interest rate risk is managed by a combination of duration and geographical parameters, in accordance with the Fund's investment strategy and mandated exposure limits. This risk is measured using sensitivity analysis.

Financial assets and financial liabilities of the Fund exposed to interest rate risk are cash and cash equivalents and other interest-bearing securities.

The table below summarises the Fund's exposure to interest rate risks. It includes the Fund's assets and liabilities at fair value, categorised by maturity dates:

| 2021 | Floating interest rate \$'000 | Fixed rate 3 months or less \$'000 | Fixed rate 3 to 12 months \$'000 | Fixed rate 1 to 5 years \$'000 | Fixed rate over 5 years \$'000 | Non-interest bearing \$'000 | Total \$'000 |
|------------------------------------|-------------------------------------|--|--|--------------------------------------|--------------------------------------|-----------------------------------|-------------------|
| Financial assets | | | | | | | |
| Cash and term deposits | 1,529,097 | 635,000 | 660,000 | - | - | 1,371,711 | 4,195,808 |
| Asset-backed securities | 275,311 | - | - | 11,388 | 32,660 | - | 319,359 |
| Bank loans | 253,663 | - | - | - | - | - | 253,663 |
| Commercial paper | - | - | - | - | - | 31,226 | 31,226 |
| Fixed interest bonds | 943,780 | 43,784 | 167,280 | 1,838,824 | 3,531,914 | 422,389 | 6,947,971 |
| Indexed bonds | - | - | - | 21,218 | 51,246 | - | 72,464 |
| Mortgage-backed securities | 463,857 | - | - | 7,229 | 137,426 | - | 608,512 |
| Total financial assets | 3,465,708 | 678,784 | 827,280 | 1,878,659 | 3,753,246 | 1,825,326 | 12,429,003 |
| Financial liabilities | | | | | | | |
| Cash and term deposits | 34,671 | 5,240 | - | - | - | - | 39,911 |
| Total financial liabilities | 34,671 | 5,240 | - | - | - | - | 39,911 |

| 2020 | Floating interest rate \$'000 | Fixed rate 3 months or less \$'000 | Fixed rate 3 to 12 months \$'000 | Fixed rate 1 to 5 years \$'000 | Fixed rate over 5 years \$'000 | Non-interest bearing \$'000 | Total \$'000 |
|------------------------------------|-------------------------------------|--|--|--------------------------------------|--------------------------------------|-----------------------------------|-------------------|
| Financial assets | | | | | | | |
| Cash and term deposits | 837,796 | 1,113,800 | 497,000 | - | - | 1,317,732 | 3,766,328 |
| Asset-backed securities | 174,416 | - | - | 20,913 | 26,997 | - | 222,326 |
| Bank loans | 183,763 | - | - | - | - | - | 183,763 |
| Commercial paper | - | - | - | - | - | 120,711 | 120,711 |
| Fixed interest bonds | 928,375 | 43,696 | 177,747 | 1,731,092 | 2,860,294 | 638,660 | 6,379,864 |
| Indexed bonds | - | - | 1,348 | - | 73,475 | - | 74,823 |
| Mortgage-backed securities | 556,954 | - | - | - | 232,541 | - | 789,495 |
| Total financial assets | 2,681,304 | 1,157,496 | 676,095 | 1,752,005 | 3,193,307 | 2,077,103 | 11,537,310 |
| Financial liabilities | | | | | | | |
| Interest-bearing loans | - | 14,617 | 43,490 | - | - | - | 58,107 |
| Cash and term deposits | 122,433 | - | - | - | - | - | 122,433 |
| Total financial liabilities | 122,433 | 14,617 | 43,490 | - | - | - | 180,540 |

The table below analyses the sensitivity of the Fund's Statement of Financial Position and Income Statement to the movement of interest rates to which the Fund had significant exposure at the reporting date. The analysis calculates the effect of reasonably possible interest rate movements on net assets and interest income, with all other variables held constant.

| Currency | 2021 | | 2020 | |
|----------|--|---|--|---|
| | Reasonably possible change in basis points increase/(decrease) | Sensitivity of interest income and changes on net assets \$'000 increase/(decrease) | Reasonably possible change in basis points increase/(decrease) | Sensitivity of interest income and changes on net assets \$'000 increase/(decrease) |
| AUD | + 50 / (50) | 37,842 / (37,842) | + 50 / (50) | 35,936 / (35,936) |
| USD | + 50 / (50) | 16,124 / (16,124) | + 50 / (50) | 17,243 / (17,243) |
| EUR | + 25 / (25) | 2,261 / (2,261) | + 20 / (20) | 1,380 / (1,380) |
| GBP | + 50 / (50) | 1,359 / (1,359) | + 50 / (50) | 906 / (906) |
| Others | + 50 / (50) | 4,223 / (4,223) | + 50 / (50) | 2,829 / (2,829) |

The sensitivity is based on reasonably possible changes over the following financial year using management's internal analysis and available market information and reflects plausible movements in key market variables to which the Fund has exposure. The analysis for current financial year was performed on the same basis as prior financial year.

Other price risk

Other price risk is the risk that the fair value of 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 its issuer, or factors affecting all similar financial instruments traded in the market.

To mitigate other price risk, the Fund diversifies its investment portfolio in line with its investment strategy. Additionally, the Fund invests in a range of asset classes that tend to have differing degrees of price risk (volatility) and be imperfectly correlated to each other. The Fund monitors its exposure to various asset classes and markets on an ongoing basis throughout the year to ensure appropriate diversification, and compliance with the Treasurer's Prudential Guidelines for Investments and GESB's Liquidity Policy.

As all of the Fund's financial instruments are carried at fair value with changes recognised in the Income Statement, changes in market conditions affecting fair value will be recognised in the Income Statement.

The Fund's exposure at year end to other market price risk is detailed below:

| | Reasonably possible market price change | | Effect on net assets / net results | |
|------------------------------------|---|--------|------------------------------------|-------------------------|
| | 2021 % | 2020 % | 2021 \$'000 | 2020 \$'000 |
| Cash and term deposits | +/-0.2 | +/-0.5 | 8,312 / (8,312) | 18,219 / (18,219) |
| Australian equities | +/-20 | +/-20 | 1,217,499 / (1,217,499) | 969,071 / (969,071) |
| International equities | +/-20 | +/-20 | 2,396,604 / (2,396,604) | 1,777,968 / (1,777,968) |
| Units in unit trusts: | | | | |
| Listed unit trusts | +/-20 | +/-20 | 127,494 / (127,494) | 108,999 / (108,999) |
| Unlisted unit trusts | +/-15 | +/-15 | 566,174 / (566,174) | 494,901 / (494,901) |
| Limited partnerships | +/-10 | +/-10 | 1,703 / (1,703) | 2,434 / (2,434) |
| Other interest-bearing securities: | | | | |
| Asset-backed securities | +/-5 | +/-10 | 15,968 / (15,968) | 22,233 / (22,233) |
| Bank loans | +/-10 | +/-10 | 25,366 / (25,366) | 18,376 / (18,376) |
| Commercial paper | +/-10 | +/-10 | 1,561 / (1,561) | 12,071 / (12,071) |
| Fixed interest bonds | +/-5 | +/-10 | 347,399 / (347,399) | 637,986 / (637,986) |
| Indexed bonds | +/-5 | +/-10 | 3,623 / (3,623) | 7,482 / (7,482) |
| Mortgage-backed securities | +/-5 | +/-10 | 30,426 / (30,426) | 78,950 / (78,950) |
| Derivatives | +/-10 | +/-10 | (25,561) / 25,561 | 35,110 / (35,110) |

(e) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in having sufficient liquid assets to meet obligations associated with financial liabilities. This risk is controlled through the Fund's investment in financial instruments, which is managed to ensure that an appropriate proportion of the Fund is readily convertible to cash. In addition, the Fund maintains prudent levels of cash and cash equivalents to meet normal operating requirements.

The Fund's significant financial liabilities are benefits payable to members, payables and current tax liabilities. The contractual maturity of vested superannuation benefits means that these can be considered payable on demand. On-demand payments comprise the entire defined contribution component and the vested portion of the defined benefit component (refer to Note 3 and Note 4).

The Fund manages its obligation to pay the defined contribution component on an expected maturity basis based on management's estimates of when such funds will be drawn down by members. The Fund considers it is highly unlikely that all defined contribution members will request payment in full of their superannuation fund account at the same time. Furthermore, in relation to the vested defined benefit component, the Fund has adequate resources readily convertible to cash to satisfactorily meet these obligations when called upon under normal conditions. In addition, the Crown guarantees payment of every benefit payable under a GESB scheme.

One other significant financial liability of the Fund was an interest-bearing loan which was entered into with the State Government. Loan repayments were made on an agreed schedule to discharge the unfunded West State Super liability over 20 years. The loan agreement expired in April 2021 and the amount owing has been fully repaid. Refer to Note 14 for details of the loan.

Other financial liabilities of the Fund comprise payables which are contractually due within 30 days and derivative liabilities comprising foreign exchange contracts payable within 12 months.

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements for the Fund. Member benefits have been included in the 'Less than 3 months' column below as this is the amount that members could call upon as at year end.

| 30 June 2021 | Carrying amount \$'000 | Contractual cash flows \$'000 | Less than 3 months \$'000 | 3 months to 1 year \$'000 | > 1 year \$'000 |
|------------------------|------------------------------|-------------------------------------|---------------------------------|---------------------------------|--------------------|
| Derivative liabilities | 398,463 | 398,463 | 363,533 | 1,882 | 33,048 |
| Payables | 291,440 | 291,440 | 291,440 | - | - |
| Member benefits | 36,623,760 | 36,623,760 | 36,623,760 | - | - |
| Total | 37,313,663 | 37,313,663 | 37,278,733 | 1,882 | 33,048 |
| 30 June 2020 | Carrying amount \$'000 | Contractual cash flows \$'000 | Less than 3 months \$'000 | 3 months to 1 year \$'000 | > 1 year \$'000 |
| Derivative liabilities | 136,466 | 136,466 | 87,837 | 2,101 | 46,528 |
| Payables | 284,294 | 284,294 | 284,294 | - | - |
| Interest-bearing loans | 58,107 | 58,207 | - | 58,207 | - |
| Member benefits | 32,466,646 | 32,466,646 | 32,466,646 | - | - |
| Total | 32,945,513 | 32,945,613 | 32,838,777 | 60,308 | 46,528 |

(f) Concentrations of risk

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

In order to avoid excessive concentrations of risk, the Fund monitors its exposure to ensure concentrations of risk remain within acceptable levels, and imposes mandated limits on the use of derivative instruments by investment managers and on maximum exposures to specific issuers or market segments, as appropriate.

The following table classifies the Fund's listed equity portfolio by industry sector as at the reporting date:

| | 2021 | | 2020 | |
|------------------------|-------------------|---------------|-------------------|---------------|
| | \$'000 | % | \$'000 | % |
| Consumer discretionary | 1,756,134 | 9.38 | 1,302,668 | 9.12 |
| Consumer staples | 1,012,958 | 5.41 | 969,783 | 6.79 |
| Energy | 689,749 | 3.69 | 517,404 | 3.62 |
| Financials | 3,243,620 | 17.33 | 2,412,133 | 16.90 |
| Health care | 1,789,116 | 9.56 | 1,568,139 | 10.98 |
| Industrials | 1,804,208 | 9.64 | 1,374,542 | 9.63 |
| Information technology | 2,675,530 | 14.30 | 1,962,705 | 13.75 |
| Materials | 1,945,873 | 10.40 | 1,550,872 | 10.86 |
| Real estate | 1,767,822 | 9.45 | 1,118,964 | 7.85 |
| Communication services | 1,320,075 | 7.05 | 988,243 | 6.92 |
| Utilities | 708,496 | 3.79 | 510,665 | 3.58 |
| Total | 18,713,581 | 100.00 | 14,276,118 | 100.00 |

The following table analyses the Fund's net investment portfolio by geographic regions (excluding the effect of foreign currency exposure) as at the reporting date.

| | 2021 | | 2020 | |
|----------------|-------------------|---------------|-------------------|---------------|
| | \$'000 | % | \$'000 | % |
| Australia | 16,704,138 | 48.24 | 14,510,772 | 49.47 |
| Canada | 568,564 | 1.64 | 364,010 | 1.24 |
| France | 584,715 | 1.69 | 418,092 | 1.43 |
| Germany | 602,590 | 1.74 | 565,240 | 1.93 |
| Hong Kong | 215,494 | 0.62 | 157,827 | 0.54 |
| Japan | 1,458,876 | 4.21 | 1,167,815 | 3.98 |
| Netherlands | 216,321 | 0.62 | 278,019 | 0.95 |
| Singapore | 81,389 | 0.24 | 70,571 | 0.24 |
| Switzerland | 445,689 | 1.29 | 378,356 | 1.29 |
| United Kingdom | 961,207 | 2.78 | 809,368 | 2.76 |
| United States | 9,476,252 | 27.37 | 7,168,299 | 24.43 |
| Other | 3,310,904 | 9.56 | 3,445,853 | 11.74 |
| Total | 34,626,139 | 100.00 | 29,334,222 | 100.00 |

(g) Environmental, social and governance ('ESG') risks including climate change

ESG risk is the risk that any environmental, social, governance or other sustainability related factors have a significant impact on the financial performance of an investment. ESG factors may arise in relation to all investments including, but not limited to, listed and unlisted equities, fixed interest and property.

The Fund considers climate change as a subset of environmental factors. Risks arising from climate change typically relate to risks relating to the physical impact of climate change or risks relating to the transition to a lower-carbon economy which may involve changes to technology, market, legal and government policies to address mitigation and adaption requirements. The Board considers ESG and climate-related risks when investing on behalf of members in accordance with its ESG Policy.

The Fund considers ESG factors in the following ways:

- Through understanding the impact that climate could have on investment performance by carrying out scenario analysis on an annual basis;
- Through understanding exposure to various ESG related risk, focusing on measuring carbon exposure in listed equities;
- Through understanding how external investment managers integrate ESG factors into their investment decisions and monitoring whether they act in a manner consistent with their stated approach;
- Through requesting its investment manager undertake proxy voting on behalf of the Fund; and
- Through engaging with appointed asset consultant(s) to integrate ESG into their process when researching and monitoring investment managers and carrying out investment due diligence on the Fund's behalf.

The Fund's approach to incorporating ESG factors into investment decisions is detailed in its ESG Policy. The ESG Policy is reviewed annually by the Investment Committee and Board.

(h) Unitised investments

Unitised investment vehicles hold investments in a variety of investment instruments, including derivatives that expose the Fund's investments to a variety of investment risks, including credit risk, market risk (currency risk, interest rate risk and other price risk) and liquidity risk. Refer to Note 26(c) to 26(e) on how the Fund manages these risks.

Note 27: Scheme financial reporting

| 2021 | Pension Scheme \$'000 | Gold State Super \$'000 | West State Super \$'000 | GESB Super \$'000 | Retirement Income Pension \$'000 | Term Allocated Pension \$'000 | WATC Loan \$'000 | Reserves \$'000 | Scheme Elimination \$'000 | Total \$'000 |
|--|-----------------------|-------------------------|-------------------------|-------------------|----------------------------------|-------------------------------|------------------|-----------------|---------------------------|--------------|
| Net assets available for member benefits at the beginning of the year | 96,994 | 2,618,412 | 16,190,465 | 4,878,946 | 5,295,196 | 16,015 | (58,107) | 244,000 | - | 29,281,921 |
| Investment income | | | | | | | | | | |
| Investment income/(losses) (net of investment expenses) | 19,662 | 530,776 | 2,692,241 | 1,045,071 | 701,942 | 2,301 | - | (22,019) | - | 4,969,974 |
| Superannuation income | | | | | | | | | | |
| Employer contributions | 157,444 | 237,264 | 896,434 | 563,377 | - | - | 58,367 | - | - | 1,912,886 |
| Member contributions | (56) | 7,262 | 166,957 | 60,659 | - | - | - | - | - | 234,822 |
| Government co-contributions | - | - | 497 | 238 | - | - | - | - | - | 735 |
| Transfer from other superannuation plans | - | - | 298,319 | 263,173 | 791,178 | - | - | - | (997,126) | 355,544 |
| Income tax on contributions | - | - | - | (88,309) | (75,759) | - | - | - | - | (164,068) |
| Lag gain/(loss) | - | - | (513) | (222) | (220) | (1) | - | 956 | - | - |
| Other income | | | | | | | | | | |
| Death and disability insurance received | - | - | 34,270 | 18,680 | - | - | - | - | - | 52,950 |
| Other income | 1 | 173 | (165) | 10 | 54 | - | - | 7,023 | - | 7,096 |
| Total income | 177,051 | 775,475 | 4,088,040 | 1,862,677 | 1,417,195 | 2,300 | 58,367 | (14,040) | (997,126) | 7,369,939 |
| Expenses | | | | | | | | | | |
| Benefits to members/beneficiaries | (165,614) | (352,014) | (1,297,704) | (369,776) | (687,114) | (1,512) | - | (2,180) | 997,126 | (1,878,788) |
| Insurance premiums charged | - | - | (67,481) | (43,664) | - | - | - | - | - | (111,145) |
| Administration expenses | - | (4,928) | (27,442) | (22,132) | (10,610) | (57) | - | 22,796 | - | (42,373) |
| Changes in fair value of loan | - | - | - | - | - | - | 1,437 | - | - | 1,437 |
| Loan interest expenses | - | - | - | - | - | - | (1,697) | - | - | (1,697) |
| Total expenses | (165,614) | (356,942) | (1,392,627) | (435,572) | (697,724) | (1,569) | (260) | 20,616 | 997,126 | (2,032,566) |
| Change in net assets before income tax | 11,437 | 418,533 | 2,695,413 | 1,427,105 | 719,471 | 731 | 58,107 | 6,576 | - | 5,337,373 |
| Income tax (expense)/benefit | - | - | - | (93,619) | 1,386 | 38 | - | - | - | (92,195) |
| Change in net assets after income tax | 11,437 | 418,533 | 2,695,413 | 1,333,486 | 720,857 | 769 | 58,107 | 6,576 | - | 5,245,178 |
| Reclassification of defined benefit assets | (983) | 983 | - | - | - | - | - | - | - | - |
| Net assets available for member benefits at the end of the year | 107,448 | 3,037,928 | 18,885,878 | 6,212,432 | 6,016,053 | 16,784 | - | 250,576 | - | 34,527,099 |

| 2020 | Pension Scheme \$'000 | Gold State Super \$'000 | West State Super \$'000 | GESB Super \$'000 | Retirement Income Pension \$'000 | Term Allocated Pension \$'000 | WATC Loan \$'000 | Reserves \$'000 | Scheme Elimination \$'000 | Total \$'000 |
|---|--------------------------|----------------------------|----------------------------|----------------------|-------------------------------------|----------------------------------|---------------------|--------------------|------------------------------|-----------------|
| Net assets available for member benefits at the beginning of the year | | | | | | | | | | |
| Investment income | | | | | | | | | | |
| Investment (losses)/income (net of investment expenses) | (2,384) | (68,937) | (212,111) | (131,584) | (73,697) | (247) | - | 3,374 | - | (485,586) |
| Superannuation income | | | | | | | | | | |
| Employer contributions | 166,625 | 300,697 | 896,760 | 521,744 | - | - | 58,636 | - | - | 1,944,462 |
| Member contributions | 233 | 7,874 | 148,509 | 42,505 | - | - | - | - | - | 199,121 |
| Government co-contributions | - | - | 512 | 210 | - | - | - | - | - | 722 |
| Transfer from other superannuation plans | - | - | 356,393 | 321,712 | 855,819 | - | - | - | (1,088,138) | 445,786 |
| Income tax on contributions | - | - | - | (81,686) | (82,548) | - | - | - | - | (164,234) |
| Lag gain/(loss) | - | - | 435 | 45 | (895) | (2) | - | 417 | - | - |
| Other income | | | | | | | | | | |
| Death and disability insurance received | - | - | 33,130 | 18,600 | - | - | - | - | - | 51,730 |
| Other income | 1 | 186 | (120) | 11 | 46 | - | - | 7,197 | - | 7,321 |
| Total income | 164,475 | 239,820 | 1,223,508 | 691,557 | 698,725 | (249) | 58,636 | 10,988 | (1,088,138) | 1,999,322 |
| Expenses | | | | | | | | | | |
| Benefits to members/beneficiaries | (174,809) | (437,397) | (1,344,306) | (390,338) | (737,201) | (1,996) | - | (993) | 1,088,138 | (1,998,902) |
| Insurance premiums charged | - | - | (68,296) | (35,074) | - | - | - | - | - | (103,370) |
| Administration expenses | - | - | (13,292) | (15,422) | (6,521) | (49) | - | (2,726) | - | (38,010) |
| Changes in fair value of loan | - | - | - | - | - | - | 3,778 | - | - | 3,778 |
| Loan interest expenses | - | - | - | - | - | - | (5,651) | - | - | (5,651) |
| Total expenses | (174,809) | (437,397) | (1,425,894) | (440,834) | (743,722) | (2,045) | (1,873) | (3,719) | 1,088,138 | (2,142,155) |
| Change in net assets before income tax | (10,334) | (197,577) | (202,386) | 250,723 | (44,997) | (2,294) | 56,763 | 7,269 | - | (142,833) |
| Income tax benefit | - | - | - | 22,394 | 13,138 | 52 | - | - | - | 35,584 |
| Change in net assets after income tax | (10,334) | (197,577) | (202,386) | 273,117 | (31,859) | (2,242) | 56,763 | 7,269 | - | (107,249) |
| Reclassification of defined benefit assets | 9,622 | (9,622) | - | - | - | - | - | - | - | - |
| Net assets available for member benefits at the end of the year | | | | | | | | | | |
| | 96,994 | 2,618,412 | 16,190,465 | 4,878,946 | 5,295,196 | 16,015 | (58,107) | 244,000 | - | 29,281,921 |

Apportionment of net assets

Section 16 of the *State Superannuation Act 2000* requires the Government Employees Superannuation Board ('GESB') to maintain such accounts within the Fund that are considered necessary for the management of the Fund and its separate elements and provides guidelines for the apportionment of investment income and expenses between those elements of the Fund.

Contribution receipts and benefit payments have been directly allocated to the relevant Scheme.

Apportionment of investment income

Section 22 of the *State Superannuation Act 2000* provides that GESB is to allocate earnings derived from the investment of the Fund between the schemes in accordance with the Treasurer's Guidelines and otherwise as it considers appropriate.

Commencing 1 July 2001, as a result of the introduction of Member Investment Choice, the income attributable to the accumulation schemes has been allocated in accordance with income credited to the members' account. Income is allocated based on actual investment income received in accordance with the Treasurer's Guidelines for Reserves.

Reconciliation between scheme financial reporting and Statement of Financial Position

The table set out below is a reconciliation of net assets available for member benefits between scheme financial reporting and Statement of Financial Position:

| | 2021 \$'000 | 2020 \$'000 |
|---|-------------------|-------------------|
| Defined benefit schemes | | |
| Pension Scheme | 107,448 | 96,994 |
| Gold State Super | 3,037,928 | 2,618,412 |
| Total defined benefit schemes | 3,145,376 | 2,715,406 |
| Defined contribution schemes | | |
| West State Super | 18,885,878 | 16,190,465 |
| GESB Super | 6,212,432 | 4,878,946 |
| Retirement Income - Allocated Pension and Transition to Retirement | 6,016,053 | 5,295,196 |
| Retirement Income - Term Allocated Pension | 16,784 | 16,015 |
| Total defined contribution schemes | 31,131,147 | 26,380,622 |
| Reserves | 250,576 | 244,000 |
| WATC loan | - | (58,107) |
| Total net assets available for member benefits as per Scheme Financial Reporting | 34,527,099 | 29,281,921 |
| Adjustments | | |
| Employer-sponsor receivables: | | |
| Pension Scheme | 1,328,765 | 1,452,299 |
| Gold State Super | 1,937,305 | 2,380,793 |
| WATC loan recoverable from State | - | 58,107 |
| Net assets available for member benefits as per Statement of Financial Position | 37,793,169 | 33,173,120 |

Reconciliation between scheme financial reporting and Income Statement

The following table shows a reconciliation of change in net assets after income tax and net result after income tax between scheme financial reporting and Income Statement:

| | 2021 \$'000 | 2020 \$'000 |
|--|--------------------|------------------|
| Change in net assets after income tax as per Scheme Financial Reporting | 5,245,178 | (107,249) |
| Adjustments | | |
| Superannuation contributions income | (2,503,987) | (2,590,091) |
| Income tax on contributions | 164,068 | 164,234 |
| Death and disability insurance received | (52,950) | (51,730) |
| Benefits to members/beneficiaries | 1,878,788 | 1,998,902 |
| Insurance premiums charged | 111,145 | 103,370 |
| Allocation to members' accounts | (3,760,047) | (72,752) |
| Net result after income tax as per Income Statement | 1,082,195 | (555,316) |

Note 28: Insurance

GESB Super and West State Super (From 1 July 2008)

Both GESB Super and West State Super ('WSS') provide death and disability benefits to eligible members. These benefits are greater than the members' vested benefit and as such both schemes have a group policy in place with a third party to insure death and disability benefits in excess of vested benefits. Both schemes act as an agent for these arrangements.

West State Super (Prior to 1 July 2008)

The third party insurance policy for WSS does not cover Partial and Permanent Disability ('PPD') claims on an ongoing basis and the run-off in respect of pre-existing conditions prior to 1 July 2008. Consequently, eligible members of WSS (to 30 June 2008) have the right to make their claims with WSS. The PPD claims are currently funded by an insurance reserve and the funding was provided by the State.

In the event that the insurance reserve is exhausted, Sections 31 and 32 of the *State Superannuation Act 2000* provide a statutory guarantee of all benefits payable under WSS, which includes PPD claims on an ongoing basis and the run-off in respect of pre-existing conditions. As such, WSS is not liable for any PPD claims. WSS only acts as an agent for these arrangements.

Gold State Super

Gold State Super ('GSS') provides its members with lump sum defined benefits on retirement, death or disablement with automatic death and disability insurance cover at no additional cost, in which Section 31 and 32 of the *State Superannuation Act 2000* provide a statutory guarantee of all benefits payable under GSS.

Pension Scheme

Members do not pay a separate insurance fee and there is no reference to separate 'insured' benefits under the *Superannuation and Family Benefits Act 1938*.

Retirement Income Pension (Allocated Pension and Transition to Retirement Pension)

Retirement Income Pension can be taken as either Allocated Pension or Transition to Retirement Pension. Both pensions do not provide insurance cover to members.

Retirement Income Term Allocated Pension

Retirement Income Term Allocation Pension does not provide insurance cover to members.

Note 29: Commitments and contingent liabilities

Operating lease commitments

The Fund is committed to operating leases on seven motor vehicles. These leases are non-cancellable and have a term ranging between 36 and 72 months, with no renewable options included in the contract. There are no restrictions imposed by these leasing arrangements on other financing transactions. The Premises total in 2021 includes six car bays payable to a different lessor than the accommodation provider, at \$60,908 'Within 1 year' and \$125,650 'Later than 1 year and not later than 5 years' (following a contract extension). In 2020 six car bays were included from a separate lessor at \$62,293 'Within 1 year'.

The Fund is committed to a memorandum of understanding ('MoU') on its premises for a period of 10 years with the Department of Finance, ending June 2026.

Following consultation with Treasury, it was decided the accommodation MoU does not fit the definition of a lease per AASB16, therefore these costs are still expensed. The vehicles are not considered material for the Government Employees Superannuation Board and as such are also not treated as prescribed by AASB16.

| Commitments payable | 2021 \$'000 | | 2020 \$'000 | |
|--|----------------|------------|----------------|-----------|
| | Premises | Vehicles | Premises | Vehicles |
| Within 1 year | 506 | 25 | 490 | 19 |
| Later than 1 year and not later than 5 years | 2,089 | 117 | 1,888 | 29 |
| Later than 5 years | - | 18 | 520 | - |
| Total | 2,595 | 160 | 2,898 | 48 |

Other expenditure commitments

Other expenditure commitments relate to contracted expenditure for outsourced superannuation administration services.

| Administration services | 2021 \$'000 | 2020 \$'000 |
|--|----------------|----------------|
| | | |
| Within 1 year | 482 | 593 |
| Later than 1 year and not later than 5 years | 990 | 1,882 |
| Total | 1,472 | 2,475 |

The Fund exercised a five-year extension for the Outsourced Administration arrangement with the Link Group in 2019, ending in financial year 2024. The amount included above under 'Administration Services' is the minimum amount payable under the outsourcing contract. The amount payable in respect of the outsourced services as outlined in the Fund's 2021/22 Statement of Corporate Intent is projected to be \$25.6 million annually, increasing each year in line with Consumer Price Index / Wage Price Index and volume projections.

Contingent liabilities

There are no contingent liabilities that have been incurred by the Fund in relation to 2021 and 2020.

Note 30: Related party transactions

The Fund had no significant related party transactions other than those disclosed in the table below, which mainly relates to recoupments made to the Fund by the State Government, and leases and shared services payments made by the Fund to Department of Finance:

| 30 June 2021 | Pension Scheme \$'000 | Gold State Super \$'000 | West State Super \$'000 | Parliamentary and Judges Pension \$'000 | Corporate \$'000 | Total \$'000 |
|-------------------------------------|--------------------------|----------------------------|----------------------------|--|---------------------|-----------------|
| WATC loan recoup ¹ | - | - | 58,367 | - | - | 58,367 |
| Employer contributions recoup | 157,444 | 191,395 | - | - | - | 348,839 |
| Administration expense recoup | 1,509 | 4,709 | - | 494 | 303 | 7,015 |
| Leases and shared services expenses | - | - | - | - | (819) | (819) |
| Total | 158,953 | 196,104 | 58,367 | 494 | (516) | 413,402 |

| 30 June 2020 | Pension Scheme \$'000 | Gold State Super \$'000 | West State Super \$'000 | Parliamentary and Judges Pension \$'000 | Corporate \$'000 | Total \$'000 |
|-------------------------------------|--------------------------|----------------------------|----------------------------|--|---------------------|-----------------|
| WATC loan recoup ¹ | - | - | 58,636 | - | - | 58,636 |
| Employer contributions recoup | 166,625 | 250,039 | - | - | - | 416,664 |
| Administration expense recoup | 1,506 | 4,864 | - | 430 | 373 | 7,173 |
| Leases and shared services expenses | - | - | - | - | (832) | (832) |
| Total | 168,131 | 254,903 | 58,636 | 430 | (459) | 481,641 |

¹ The amount recouped from the State Government is the same amount of loan repaid to the Western Australian Treasury Corporation ('WATC') during the reporting period. Refer to Note 14 for details of the WATC loan.

Certain directors and key management personnel are members of the Fund. Their membership terms and conditions are the same as those available to other members of the Fund.

Information for employer-sponsor receivables from the State Government in relation to unfunded member benefits is set out in Note 10.

The Fund also receives superannuation contributions and related payments from employers in the WA Public Sector.

Note 31: Explanatory statement

In accordance with *Treasurer's Instruction 945*, significant variances between budget and actual for 2021 and between the actual results for 2021 and 2020 are shown below. Significant variances are considered to be those greater than 10% and/or deemed significant in the context of the operations of the Fund.

| | Note | 2021 Actual \$'000 | 2021 Budget \$'000 | Variance actual to budget \$'000 | % | 2020 Actual \$'000 | Variance actual to prior year actual \$'000 | % |
|---|--------|--------------------------|--------------------------|--|-------------|--------------------------|---|----------------|
| INCOME | | | | | | | | |
| Investment income | | | | | | | | |
| Investment income/(losses) | (i) | 5,057,019 | 2,156,477 | 2,900,542 | 135 | (419,002) | 5,476,021 | (1,307) |
| Less: investment expenses | (ii) | (87,045) | (85,041) | (2,004) | 2 | (66,584) | (20,461) | 31 |
| Net Investment income/(losses) | | 4,969,974 | 2,071,436 | 2,898,538 | 140 | (485,586) | 5,455,560 | (1,124) |
| Superannuation income | | | | | | | | |
| Contribution income: | | | | | | | | |
| Member (includes government co-contributions) | (iii) | 235,557 | 185,898 | 49,659 | 27 | 199,843 | 35,714 | 18 |
| Employer | | 1,912,886 | 1,943,739 | (30,853) | (2) | 1,944,462 | (31,576) | (2) |
| Rollover into retirement products | (iv) | 573,897 | 1,135,472 | (561,575) | (49) | 597,704 | (23,807) | (4) |
| Inward transfer from other funds | (v) | 778,773 | 876,229 | (97,456) | (11) | 936,220 | (157,447) | (17) |
| Group life insurance proceeds | | 52,950 | 51,819 | 1,131 | 2 | 51,730 | 1,220 | 2 |
| Other income | (vi) | 7,096 | 8,510 | (1,414) | (17) | 7,321 | (225) | (3) |
| Total superannuation income | | 3,561,159 | 4,201,667 | (640,508) | (15) | 3,737,280 | (176,121) | (5) |
| Total Income | | 8,531,133 | 6,273,103 | 2,258,030 | 36 | 3,251,694 | 5,279,439 | 162 |
| EXPENSES | | | | | | | | |
| Benefits to members/beneficiaries | (vii) | 2,875,914 | 3,800,058 | 924,144 | 24 | 3,087,040 | 211,126 | 7 |
| Administration expenses | (viii) | 42,102 | 47,576 | 5,474 | 12 | 37,834 | (4,268) | (11) |
| Insurance premiums charged to member accounts | | 111,145 | 106,220 | (4,925) | (5) | 103,370 | (7,775) | (8) |
| Depreciation and amortisation | (ix) | 271 | 288 | 17 | 6 | 176 | (95) | (54) |
| Changes in loans measured at fair value | (x) | (1,437) | - | 1,437 | 100 | (3,778) | (2,341) | 62 |
| Loan interest expenses | (xi) | 1,697 | 58,106 | 56,409 | 97 | 5,651 | 3,954 | 70 |
| Total Expenses | | 3,029,692 | 4,012,248 | 982,556 | 24 | 3,230,293 | 200,601 | 6 |
| NET RESULT BEFORE TAX FOR THE YEAR | | 5,501,441 | 2,260,855 | 3,240,586 | 143 | 21,401 | 5,480,040 | 25,606 |

Notes to the Explanatory Statement

(i) Investment income/(losses)

Investment income is \$2.9 billion higher than budget and \$5.5 billion higher than the prior year.

The full year investment performance of the Fund for 2020/21 was 17.19% compared to a budget of 6.5%. The higher than expected investment performance in the 2020/21 financial year and increase from prior year's performance was largely due to high market performance for the year.

Details of investment income are included in Note 17.

(ii) Investment expenses

Investment expenses were \$20.5 million higher than the prior year.

Certain investment managers can earn a performance fee if they outperform an agreed benchmark. As the difference between the investment manager's performance and the benchmark increases, so does the amount of their performance fee. With this investment expenses were higher in the 2020/21 financial year than 2019/20 due to strong investment performance for the year.

(iii) Member contributions

Member contributions were \$49.7 million higher than budget and \$35.7 million higher than the prior year.

Both variances are due to higher than anticipated member contributions into West State Super ('WSS') in the 2020/21 financial year compared to 2019/20.

(iv) Rollover into retirement products

Total rollover into retirement products were \$561.6 million lower than budget.

The decrease to budget is due to the reduced tax benefits of rolling into retirement products with members continuing to choose other options.

(v) Inward transfer from other funds

Inward transfers from other funds were \$97.5 million lower than budget and \$157.4 million lower than the prior year.

Both of these decreases are driven by previous years campaigns by the ATO for members to combine their superannuation accounts. The bulk of these consolidations took place in the last 2 years, with normal levels expected going forward.

(vi) Other income

Other income is \$1.4 million lower than budget.

This reduction is predominantly due to the demand for Retirement Options Service ('ROS') appointments being lower than anticipated.

(vii) Benefits to members/beneficiaries

Total superannuation benefits were \$924.1 million lower than budget.

This variance is created by less than anticipated members rolling into retirement income pensions, resulting in lower benefit payments out of retirement products. Also attributable is lower than anticipated benefit payments from WSS.

(viii) Administration expenses

Refer to Note 19.

(ix) Depreciation and amortisation

Refer to Note 20.

(x) Changes in loans measured at fair value

Refer to Note 14.

(xi) Loan interest expenses

Refer to Note 14.

Note 32: Summary of actuarial report

The following information is provided in the Actuarial Report on the latest investigation of defined benefit schemes as to the state and sufficiency of the Fund.

The valuation was undertaken in accordance with Section 17 of the *State Superannuation Act 2000*.

Effective date of the latest actuarial investigation

The effective date of the latest valuation was 30 June 2021.

Name and qualification of actuary

The valuation was undertaken by the Fund's actuary, Mercer (Australia) Pty Ltd.

Fund Summary

The overall financial position of the Fund as at 30 June 2021 was as stated in the table below:

| | 2021 \$'000 |
|---|-------------------|
| Total net assets | 34,527,099 |
| <i>Less: Net assets for defined contribution schemes</i> | |
| West State Super | 18,885,878 |
| GESB Super | 6,212,432 |
| Retirement Income | 6,016,053 |
| Term Allocated Pension | 16,784 |
| <i>Less: Reserves</i> | 250,576 |
| Net assets for defined benefit schemes | 3,145,376 |
| <i>Less: Accrued actuarial funded liabilities for defined benefit schemes</i> | |
| Pension Scheme | 76,060 |
| Gold State Super | 2,150,483 |
| Net position | 918,833 |

Financial condition of each scheme as at reporting date

The Fund's actuary reported that in respect of funded liabilities for the defined benefit schemes:

(i) Pension Scheme

The Actuary reported that the financial position of the Pension Scheme has improved over the year since the last actuarial investigation due primarily to the higher than assumed investment return for the year.

(ii) Gold State Super

The Actuary reported that the financial position of Gold State Super has improved over the year since the last actuarial investigation due primarily to a higher than expected investment return of 20.7% during the reporting period.

Note 33: Write-offs

The write-offs approved by the Board during the current financial year were \$160,096 (2020: \$2,575).

Note 34: Significant events after balance date

Subsequent to the balance date, there have been no matters or circumstances which have arisen that have significantly affected or may significantly affect the financial position or operating results of the Fund.

Independent audit opinion



Auditor General

INDEPENDENT AUDITOR'S OPINION

2021

Government Employees Superannuation Board

To the Parliament of Western Australia

Report on the audit of the financial statements

Opinion

I have audited the financial statements of the Government Employees Superannuation Board (GESB) which comprise:

- the Statement of Financial Position at 30 June 2021, and the Income Statement, Statement of Changes in Member Benefits, Statement of Changes in Reserves and Statement of Cash Flows for the year then ended
- Notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements are:

- based on proper accounts and present fairly, in all material respects, the operating results and cash flows of the Government Employees Superannuation Board for the year ended 30 June 2021 and the financial position at the end of that period
- in accordance with Australian Accounting Standards, the *Financial Management Act 2006* and the Treasurer's Instructions.

Basis for opinion

I conducted my audit in accordance with the Australian Auditing Standards. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report.

I am independent of GESB in accordance with the *Auditor General Act 2006* and the relevant ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to my audit of the financial statements. I have also fulfilled my other ethical responsibilities in accordance with the Code.

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

Responsibilities of the Board for the financial statements

The Board is responsible for:

- keeping proper accounts
- preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, the *Financial Management Act 2006* and the Treasurer's Instructions
- such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for:

- assessing the entity's ability to continue as a going concern
- disclosing, as applicable, matters related to going concern
- using the going concern basis of accounting unless the Western Australian Government has made policy or funding decisions affecting the continued existence of GESB.

Auditor's responsibilities for the audit of the financial statements

As required by the *Auditor General Act 2006*, my responsibility is to express an opinion on the financial statements. The objectives of my audit 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 auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 the financial statements. 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.

A further description of my responsibilities for the audit of the financial statements is located on the Auditing and Assurance Standards Board website. This description forms part of my auditor's report and can be found at https://www.auasb.gov.au/auditors_responsibilities/ar4.pdf.

Report on the audit of controls

Opinion

I have undertaken a reasonable assurance engagement on the design and implementation of controls exercised by the Government Employees Superannuation Board (GESB). The controls exercised by GESB are those policies and procedures established by the Board to ensure that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions (the overall control objectives).

My opinion has been formed on the basis of the matters outlined in this report.

In my opinion, in all material respects, the controls exercised by the Government Employees Superannuation Board are sufficiently adequate to provide reasonable assurance that the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities have been in accordance with legislative provisions during the year ended 30 June 2021.

The Board's responsibilities

The Board is responsible for designing, implementing and maintaining controls to ensure that the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are in accordance with the *Financial Management Act 2006*, the Treasurer's Instructions and other relevant written law.

Auditor General's responsibilities

As required by the *Auditor General Act 2006*, my responsibility as an assurance practitioner is to express an opinion on the suitability of the design of the controls to achieve the overall control objectives and the implementation of the controls as designed. I conducted my engagement in accordance with Standard on Assurance Engagements ASAE 3150 *Assurance Engagements on Controls* issued by the Australian Auditing and Assurance Standards Board. That standard requires that I comply with relevant ethical requirements and plan and perform my procedures to obtain reasonable assurance about whether, in all material respects, the controls are suitably designed to achieve the overall control objectives and were implemented as designed.

An assurance engagement involves performing procedures to obtain evidence about the suitability of the controls design to achieve the overall control objectives and the implementation of those controls. The procedures selected depend on my judgement, including an assessment of the risks that controls are not suitably designed or implemented as designed. My procedures included testing the implementation of those controls that I consider necessary to achieve the overall control objectives.

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

Limitations of controls

Because of the inherent limitations of any internal control structure, it is possible that, even if the controls are suitably designed and implemented as designed, once in operation, the overall control objectives may not be achieved so that fraud, error or non-compliance with laws and regulations may occur and not be detected. Any projection of the outcome of the evaluation of the suitability of the design of controls to future periods is subject to the risk that the controls may become unsuitable because of changes in conditions.

Report on the audit of the key performance indicators

Opinion

I have undertaken a reasonable assurance engagement on the key performance indicators of the Government Employees Superannuation Board (GESB) for the year ended 30 June 2021. The key performance indicators are the Under Treasurer-approved key effectiveness indicators and key efficiency indicators that provide performance information about achieving outcomes and delivering services.

In my opinion, in all material respects, the key performance indicators of the Government Employees Superannuation Board are relevant and appropriate to assist users to assess GESB's performance and fairly represent indicated performance for the year ended 30 June 2021.

The Board's responsibilities for the key performance indicators

The Board is responsible for the preparation and fair presentation of the key performance indicators in accordance with the *Financial Management Act 2006* and the Treasurer's Instructions and for such internal control it determines necessary to enable the preparation of key performance indicators that are free from material misstatement, whether due to fraud or error.

In preparing the key performance indicators, the Board is responsible for identifying key performance indicators that are relevant and appropriate, having regard to their purpose in accordance with Treasurer's Instruction 904 *Key Performance Indicators*.

Auditor General's responsibilities

As required by the *Auditor General Act 2006*, my responsibility as an assurance practitioner is to express an opinion on the key performance indicators. The objectives of my engagement are to obtain reasonable assurance about whether the key performance indicators are relevant and appropriate to assist users to assess the entity's performance and whether the key performance indicators are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. I conducted my engagement in accordance with Standard on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* issued by the Australian Auditing and Assurance Standards Board. That standard requires that I comply with relevant ethical requirements relating to assurance engagements.

An assurance engagement involves performing procedures to obtain evidence about the amounts and disclosures in the key performance indicators. It also involves evaluating the relevance and appropriateness of the key performance indicators against the criteria and guidance in Treasurer's Instruction 904 for measuring the extent of outcome achievement and the efficiency of service delivery. The procedures selected depend on my judgement, including the assessment of the risks of material misstatement of the key performance indicators. In making these risk assessments I obtain an understanding of internal control relevant to the engagement in order to design procedures that are appropriate in the circumstances.

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

My independence and quality control relating to the reports on controls and key performance indicators

I have complied with the independence requirements of the *Auditor General Act 2006* and the relevant ethical requirements relating to assurance engagements. In accordance with ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*, the Office of the Auditor General maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Other information

The Board is responsible for the other information. The other information is the information in the entity's annual report for the year ended 30 June 2021, but not the financial statements, key performance indicators and my auditor's report.

My opinions do not cover the other information and, accordingly, I do not express any form of assurance conclusion thereon.

Matters relating to the electronic publication of the audited financial statements and key performance indicators

This auditor's report relates to the financial statements, controls and key performance indicators of the Government Employees Superannuation Board (GESB) for the year ended 30 June 2021 included on GESB's website. GESB's management is responsible for the integrity of GESB's website. This audit does not provide assurance on the integrity of GESB's website. The auditor's report refers only to the financial statements, controls and key performance indicators described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements, controls or key performance indicators. If users of the financial statements, controls and key performance indicators are concerned with the inherent risks arising from publication on a website, they are advised to contact the entity to confirm the information contained in the website version of the financial statements, controls and key performance indicators.



Caroline Spencer
Auditor General for Western Australia
Perth, Western Australia
3 September 2021

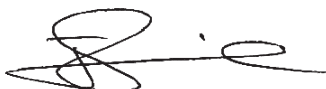
Certification of key performance indicators

In the opinion of the Board, the key performance indicators are based on proper records, are relevant and appropriate for assisting users to assess the performance of the Government Employees Superannuation Board ('GESB'), and fairly represent the performance of GESB for the financial year ended 30 June 2021.



JL Langoulant
Chair

1 September 2021



F Sciarrone
Director

1 September 2021

Key performance indicators

The key performance indicators in this report are produced in order to evaluate GESB's performance in achieving its outcome and delivering its services. Included are key effectiveness and efficiency performance indicators required by the *Financial Management Act 2006 and Treasurer's Instruction 904*. The key effectiveness indicators provide information on the extent to which the agency level government desired outcome has been achieved through the production of the agreed service. The key efficiency indicators link the service GESB provides to the level of resource inputs required to produce them.

The performance highlights section of the Annual Report includes other relevant measures that provide an overview of performance during 2020/2021.

GESB's outcome

GESB has statutory obligations under its enabling legislation to administer superannuation schemes and provide products and services to our members. In doing this, we are obligated to act in the best interests of our members. GESB's outcome, 'improved long term superannuation benefits of our members', contributes to the State Government goal of sustainable finances.

Key effectiveness indicators

1. Members' satisfaction with GESB's services

Member satisfaction with services is an important measure for evaluating GESB's performance in achieving its outcome, which is the 'improved long term superannuation benefits of our members'. The provision of quality member services enhances member engagement in their superannuation which, along with the provision of value for money products and services, supports the achievement of improved superannuation benefits.

Members' satisfaction with the services provided by GESB was 90% (6-10 out of 10 ratings) for the 2020/21 financial year, against a target of 80%, with 82% of members rating the service as 8-10 out of 10. The main contributor to exceeding target was having service representatives who demonstrated trustworthiness, expertise and knowledge and were able to satisfy member queries at the first point of contact.

GESB uses an external market research company to conduct its member surveys.

A quarterly sample of at least 3,000 members, who have contacted GESB, ensures a minimum sample of n=300 respondents is achieved per quarter, assuming a response rate of 10%. This generates a margin of error of $\pm 2.50\%$ on an annual sample of n=2,188 at the 95% confidence level. In order to improve the accuracy of the results they are post weighted by scheme, age and gender against members who have contacted the Member Services Centre during the 2020/21 financial year to ensure they are representative. After weighting, the effective sample size for the year is 1,499.

| | Actual 18/19 | Actual 19/20 | Target 20/21 | Actual 20/21 |
|---|-----------------|-----------------|-----------------|-----------------|
| Percentage who are fairly satisfied, satisfied or extremely satisfied | 87% | 90% | 80% | 90% |

2. Investment performance against objectives

Changes to objectives since last year

There were no changes to investment return objectives or strategic asset allocations in 2020/21.

Summary of performance against objectives

Primary objectives

For Cash plans, the primary objective is to meet or exceed the performance of the Bloomberg AusBond Bank Bill Index over rolling 12-month periods. Returns are measured after investment fees and before tax.

For defined benefit schemes (Gold State Super, Pension and Provident Account Schemes) the primary objective is to deliver investment performance in excess of the Average Weekly Earnings ('AWE') + 2.5% pa over rolling five-year periods.

For all other plans, the primary objective is to deliver investment performance in excess of Consumer Price Index ('CPI') targets over a specified rolling multi-year period. Returns are measured after investment fees and tax.

Over their respective periods to 30 June 2021, the performance of all plans exceeded their primary investment objectives reflecting strong returns from growth assets over each time horizon.

Secondary objectives

The secondary objective of each plan (other than Cash plans) is to achieve a return in excess of the asset weighted benchmark return over a rolling three-year period. The asset weighted benchmark return is the weighted average of a plan's Strategic Asset Allocation ('SAA') and the benchmark return for each asset class. The SAA is approved by the Treasurer and asset class benchmarks are determined by the Board. Cash plans do not have a secondary objective. Returns are measured after investment fees.

The underlying asset classes of each plan are invested in the same manner across plans. Similarly, any asset allocation deviations from SAA are implemented in a consistent manner across plans. Therefore, reasons for out-performance or under-performance of secondary objectives are expected to be consistent across plans.

Each of the plans lagged their secondary objectives for the three-year period to 30 June 2021, though within tolerance levels expected by the Board. Plan returns were negatively impacted by below benchmark returns from the underlying Defensive Alternatives, Medium Risk Alternatives and Australian Equities asset classes. On the positive side, plan returns benefitted from above benchmark returns from the International Equities and Investment Grade Bonds asset classes.

The tables below show actual investment performance compared to performance targets for each plan.

Performance of West State Super plans

| Investment plan | Objective | Net plan return % pa ¹ | Target % pa ¹ | Relative performance % pa |
|--------------------------|---|--------------------------------------|-----------------------------|---------------------------------|
| Cash plan | <ul style="list-style-type: none"> Achieve a return after investment fees of at least the Bloomberg AusBond Bank Bill Index over rolling 12 month periods | 0.29 | 0.06 | 0.23 |
| Conservative plan | <ul style="list-style-type: none"> Achieve a return after investment fees of CPI +2.0% pa over rolling five year periods | 4.96 | 3.81 | 1.15 |
| | <ul style="list-style-type: none"> Achieve a return after investment fees in excess of the asset weighted benchmark return over rolling three year periods | 4.86 | 4.89 | (0.03) |
| My West State Super plan | <ul style="list-style-type: none"> Achieve a return after investment fees of CPI +3.0% pa over rolling seven year periods | 7.44 | 4.66 | 2.78 |
| | <ul style="list-style-type: none"> Achieve a return after investment fees in excess of the asset weighted benchmark return over rolling three year periods | 7.76 | 8.19 | (0.43) |
| Growth plan | <ul style="list-style-type: none"> Achieve a return after investment fees of CPI +4.0% pa over rolling ten year periods | 9.09 | 5.82 | 3.27 |
| | <ul style="list-style-type: none"> Achieve a return after investment fees in excess of the asset weighted benchmark return over rolling three year periods | 8.52 | 9.06 | (0.54) |

¹ All plan returns are reported net of Indirect Cost Ratio ('ICR') when compared against a net investment return target for CPI plus objectives and net of fees when compared against a gross investment return target for secondary objectives and the Cash plan primary objective. The ICR includes all of the investment costs and any additional underlying costs relating to the investment. Net returns are the returns that members receive and are based on final audited numbers.

Performance of GESB Super plans

| Investment plan | Objective | Net plan return % pa ² | Target % pa ² | Relative performance % pa |
|--------------------|---|--------------------------------------|-----------------------------|---------------------------------|
| Cash plan | <ul style="list-style-type: none"> Achieve a return after investment fees and before tax of at least the Bloomberg AusBond Bank Bill Index over rolling 12 month periods | 0.29 | 0.06 | 0.23 |
| Conservative plan | <ul style="list-style-type: none"> Achieve a return after investment fees and tax of CPI +2.0% pa over rolling five year periods | 5.03 | 3.81 | 1.22 |
| | <ul style="list-style-type: none"> Achieve a return after investment fees in excess of the asset weighted benchmark return over rolling three year periods | 5.29 | 5.38 | (0.09) |
| Balanced plan | <ul style="list-style-type: none"> Achieve a return after investment fees and tax of CPI +2.5% pa over rolling six year periods | 6.15 | 4.18 | 1.97 |
| | <ul style="list-style-type: none"> Achieve a return after investment fees in excess of the asset weighted benchmark return over rolling three year periods | 6.89 | 7.34 | (0.45) |
| My GESB Super plan | <ul style="list-style-type: none"> Achieve a return after investment fees and tax of CPI +3.0% pa over rolling seven year periods | 7.22 | 4.66 | 2.56 |
| | <ul style="list-style-type: none"> Achieve a return after investment fees in excess of the asset weighted benchmark return over rolling three year periods | 8.08 | 8.58 | (0.50) |
| Growth plan | <ul style="list-style-type: none"> Achieve a return after investment fees and tax of CPI +4.0% pa over rolling ten year periods | 8.67 | 5.82 | 2.85 |
| | <ul style="list-style-type: none"> Achieve a return after investment fees in excess of the asset weighted benchmark return over rolling three year periods | 9.04 | 9.65 | (0.61) |

² All plan returns are reported net of Indirect Cost Ratio ('ICR') and applicable taxes when compared against a net investment return target for CPI plus objectives and net of ICR only when compared against a gross investment return target for secondary objectives and the Cash plan primary objective. The ICR includes all of the investment costs and any additional underlying costs relating to the investment. Net returns are the returns that members receive and are based on final audited numbers.

Performance of Retirement Products

Allocated Pension

| Investment plan | Objective | Net plan return % pa ³ | Target % pa ³ | Relative performance % pa |
|-------------------|---|--------------------------------------|-----------------------------|---------------------------------|
| Cash plan | <ul style="list-style-type: none"> Achieve a return after investment fees and before tax of at least the Bloomberg AusBond Bank Bill Index over rolling 12 month periods | 0.29 | 0.06 | 0.23 |
| Conservative plan | <ul style="list-style-type: none"> Achieve a return after investment fees and tax of CPI +2.0% pa over rolling five year periods. | 4.99 | 3.81 | 1.18 |
| | <ul style="list-style-type: none"> Achieve a return after investment fees in excess of the asset weighted benchmark return over rolling three year periods | 4.74 | 4.78 | (0.04) |
| Balanced plan | <ul style="list-style-type: none"> Achieve a return after investment fees and tax of CPI +3.0% pa over rolling seven year periods. | 7.48 | 4.66 | 2.82 |
| | <ul style="list-style-type: none"> Achieve a return after investment fees in excess of the asset weighted benchmark return over rolling three year periods | 7.44 | 7.91 | (0.47) |
| Growth plan | <ul style="list-style-type: none"> Achieve a return after investment fees and tax of CPI +4.0% pa over rolling ten year periods. | 9.22 | 5.82 | 3.40 |
| | <ul style="list-style-type: none"> Achieve a return after investment fees in excess of the asset weighted benchmark return over rolling three year periods | 8.20 | 8.71 | (0.51) |

³ All plan returns are reported net of Indirect Cost Ratio ('ICR') and inclusive of franking credits when compared against a net investment return target for CPI plus objectives and net of ICR and excluding franking credits when compared against a gross investment return target for secondary objectives and the Cash plan primary objective. The ICR includes all of the investment costs and any additional underlying costs relating to the investment. Where applicable, net plan returns will include administration fees prior to May 2015. Retirement products do not pay tax on investment earnings and are eligible for the benefit of franking credits. Net returns are the returns that members receive and are based on final audited numbers.

Transition to Retirement Pension

| Investment plan | Objective | Net plan return % pa ⁴ | Target % pa ⁴ | Relative performance % pa |
|-------------------|---|--------------------------------------|-----------------------------|---------------------------------|
| Cash plan | <ul style="list-style-type: none"> Achieve a return after investment fees and before tax of at least the Bloomberg AusBond Bank Bill Index over rolling 12 month periods | 0.29 | 0.06 | 0.23 |
| Conservative plan | <ul style="list-style-type: none"> Achieve a return after investment fees and tax of CPI +2.0% pa over rolling five year periods | N/A | 3.81 | N/A |
| | <ul style="list-style-type: none"> Achieve a return after investment fees in excess of the asset weighted benchmark return over rolling three year periods | 4.73 | 4.78 | (0.05) |
| Balanced plan | <ul style="list-style-type: none"> Achieve a return after investment fees and tax of CPI +3.0% pa over rolling seven year periods | N/A | 4.66 | N/A |
| | <ul style="list-style-type: none"> Achieve a return after investment fees in excess of the asset weighted benchmark return over rolling three year periods | 7.43 | 7.91 | (0.48) |
| Growth plan | <ul style="list-style-type: none"> Achieve a return after investment fees and tax of CPI +4.0% pa over rolling ten year periods | N/A | 5.82 | N/A |
| | <ul style="list-style-type: none"> Achieve a return after investment fees in excess of the asset weighted benchmark return over rolling three year periods | 8.22 | 8.71 | (0.49) |

⁴ All plan returns are reported net of Indirect Cost Ratio ('ICR') and applicable taxes when compared against a net investment return target for CPI plus objectives and net of ICR only when compared against a gross investment return target for secondary objectives and the Cash plan primary objective. The ICR includes all of the investment costs and any additional underlying costs relating to the investment. Net returns are the returns that members receive and are based on final audited numbers. Transition to Retirement commenced on 15 June 2017 therefore some multi-year returns are not available and reported as N/A.

Retirement Income – Term Allocated Pension

| Investment plan | Objective | Net plan return % pa ⁵ | Target % pa ⁵ | Relative performance % pa |
|-------------------|---|--------------------------------------|-----------------------------|---------------------------------|
| Cash plan | <ul style="list-style-type: none"> Achieve a return after investment fees and before tax of at least the Bloomberg AusBond Bank Bill Index over rolling 12 month periods | 0.29 | 0.06 | 0.23 |
| Conservative plan | <ul style="list-style-type: none"> Achieve a return after investment fees and tax of CPI +2.0% pa over rolling five year periods | 5.00 | 3.81 | 1.19 |
| | <ul style="list-style-type: none"> Achieve a return after investment fees in excess of the asset weighted benchmark return over rolling three year periods | 4.75 | 4.78 | (0.03) |
| Balanced plan | <ul style="list-style-type: none"> Achieve a return after investment fees and tax of CPI +3.0% pa over rolling seven year periods | 7.45 | 4.66 | 2.79 |
| | <ul style="list-style-type: none"> Achieve a return after investment fees in excess of the asset weighted benchmark return over rolling three year periods | 7.44 | 7.91 | (0.47) |
| Growth plan | <ul style="list-style-type: none"> Achieve a return after investment fees and tax of CPI +4.0% pa over rolling ten year periods | 9.04 | 5.82 | 3.22 |
| | <ul style="list-style-type: none"> Achieve a return after investment fees in excess of the asset weighted benchmark return over rolling three year periods | 8.18 | 8.71 | (0.53) |

⁵ All plan returns are reported net of Indirect Cost Ratio ('ICR') and inclusive of franking credits when compared against a net investment return target for CPI plus objectives and net of ICR and excluding franking credits when compared against a gross investment return target for secondary objectives and the Cash plan primary objective. The ICR includes all of the investment costs and any additional underlying costs relating to the investment. Where applicable, net plan returns will include administration fees prior to May 2015. Retirement products do not pay tax on investment earnings and are eligible for the benefit of franking credits. Net returns are the returns that members receive and are based on final audited numbers.

Gold State Super, Pension and Provident Account Schemes

| Investment plan | Objective | Net plan return % pa ⁶ | Target % pa ⁶ | Relative performance % pa |
|---|--|--------------------------------------|-----------------------------|---------------------------------|
| Gold State, Pension and Provident Account | <ul style="list-style-type: none"> Achieve a return after fees of AWE +2.5% pa over rolling five year periods | 8.83 | 4.75 | 4.08 |
| | <ul style="list-style-type: none"> Achieve a return after fees in excess of the asset weighted benchmark return over rolling three year periods | 8.25 | 8.75 | (0.50) |

⁶ All scheme returns are reported net of Indirect Cost Ratio ('ICR') when compared against a net investment return target for AWE plus objectives and a gross investment return target for secondary objectives. The ICR includes all of the investment costs and any additional underlying costs relating to the investment. Net returns are the returns received by the schemes and are based on final audited numbers.

Key efficiency indicators

GESB provides access to superannuation and retirement products, insurance cover through superannuation and a wide range of information, education services and resources for members. Value is delivered to members by providing efficient and cost effective superannuation and retirement products and services with above market-average, risk controlled net returns and highly rated member services including member education and information services.

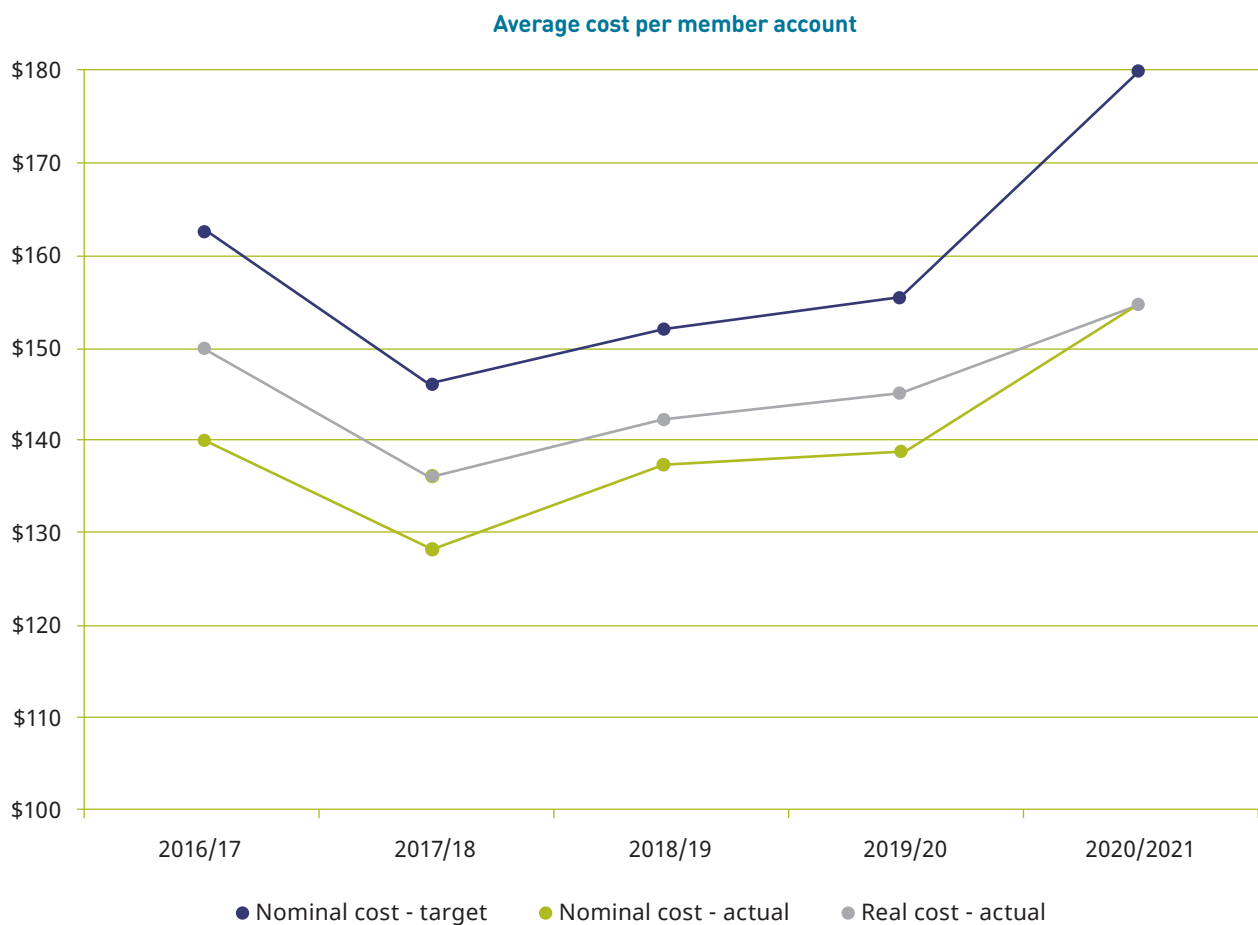
1. Average administration cost per member account

The average cost per member of administering the schemes has increased by 7.7% in real terms and 12.3% in nominal terms compared to the previous year and was 16.1% below target. Cost per member has increased in 2020/21 compared to 2019/20 due in part to a decision to pay an insurance premium of \$2 million to AIA to cover claims resulting from Total and Permanent Disablement ('TPD') definition changes. Another factor is a large Reduced Input Tax Credit ('RITC') that was received in the 2019/20 financial year but not in 2020/21. Refer to Note 19 within the Financial Statements for more details on Administration Expenses.

Cost per member account is lower than budgeted for both Accumulation and Defined Benefit Schemes predominantly due to lower than budget administration expenses in the year. This was primarily driven by lower than anticipated spend on the outsourced contract and lower than anticipated spend on consultants. Again, please refer to Note 19 of the Financial Statements for more detail.

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------|
| Nominal cost – target | \$163.12 | \$145.79 | \$151.87 | \$155.24 | \$180.96 |
| Nominal cost – actual | \$140.03 | \$127.82 | \$136.37 | \$138.84 | \$155.87 |
| Real cost – actual | \$150.02 ⁷ | \$135.46 ⁷ | \$142.24 ⁷ | \$144.67 ⁷ | \$155.87 |

⁷ Previous year Real Cost – Actual dollar figures will vary each year due to indexation. Indexation is based on the current June to June CPI.



2. Investment Management Expense Ratio (investment management costs as a percentage of portfolio mean value invested)

The cost of managing GESB's investments is monitored closely. In addition to direct investment management costs incurred by GESB, external specialist investment managers are appointed to invest funds in specific asset classes. Both internal and external management costs have been included in determining this indicator, in order to illustrate the full investment management costs incurred by GESB. The indicator reflects investment management costs as a percentage of portfolio mean value invested for the year.

The Investment Management Expense Ratio ('IMER') for 2020/2021 was 0.34%, compared to the target IMER of 0.35%.

Although the IMER was calculated using information received from investment managers in line with Regulatory Guide 97 ('RG97'), transaction costs have been excluded. The IMER reflects the costs of managing the investments but excludes the costs of transacting on those investments. This approach allows GESB to report the costs of managing the Fund's investments more clearly. In member communications, such as member statements and Product Information Booklets, transaction costs and investment costs are included in the Indirect Cost Ratio for all investment plans, in line with RG97 requirements.

| Investment management expense ratio | Actual 2016/17 | Actual 2017/18 | Actual 2018/19 | Actual 2019/20 | Target 2020/21 | Actual 2020/21 |
|--|-------------------|----------------|----------------|----------------|----------------|----------------|
| Investment management expense ratio – investment management costs as a percentage of portfolio mean value invested | 0.37 ⁸ | 0.48 | 0.32 | 0.33 | 0.35 | 0.34 |

⁸ Previous year ratios do not include the impact of the RG97 disclosure requirements. These cannot be re-stated for comparative purposes, as the historical data is not available.

Appendix 1

Government goals

GESB's contribution to the achievement of government goals is indirect as its priority is to act in the best interest of members, as far as practicable. GESB provides superannuation services to current and former public sector employees and their partners, while other government agencies provide services to all Western Australians.

Sustainable finances

GESB manages finances responsibly so as to support the efficient and effective delivery of services to members.

Appendix 2

Governing Legislation

During 2020/21, GESB operated under the following State governing legislation:

- *State Superannuation Act 2000*;
- *State Superannuation Regulations 2001*; and
- *Superannuation and Family Benefits Act 1938*¹.

State legislation impacting on activities

As a State public sector entity and employer, GESB was responsible for complying with a wide range of State legislation. This included:

- | | | |
|---|--|--|
| • <i>Corruption and Crime Commission Act 2003</i> | • <i>Industrial Relations Act 1979</i> | • <i>Public Sector Management Act 1994</i> |
| • <i>Disability Services Act 1993</i> | • <i>Judges' Salaries and Pensions Act 1950</i> | • <i>Salaries and Allowances Act 1975</i> |
| • <i>Electoral Act 1907</i> | • <i>Minimum Conditions of Employment Act 1993</i> | • <i>Stamp Act 1921</i> |
| • <i>Equal Opportunity Act 1984</i> | • <i>Occupational Safety and Health Act 1984</i> | • <i>State Records Act 2000</i> |
| • <i>Fair Trading Act 2010</i> | • <i>Parliamentary Commissioner Act 1971</i> | • <i>State Supply Commission Act 1991</i> |
| • <i>Family Court Act 1997</i> | • <i>Parliamentary Superannuation Act 1970</i> | • <i>Statutory Corporations (Liability of Directors) Act 1996</i> |
| • <i>Financial Management Act 2006</i> | • <i>Pay-roll Tax Assessment Act 2002</i> | • <i>Government Employees Superannuation Board (Policy Instruments) Regulations 2009</i> |
| • <i>Freedom of Information Act 1992</i> | • <i>Public Interest Disclosure Act 2003</i> | |

Significant Commonwealth legislation that directly or indirectly impact GESB

- | | | |
|---|---|---|
| • <i>Age Discrimination Act 2004</i> | • <i>Financial Sector (Collection of Data) Act 2001</i> | • <i>Superannuation Guarantee (Administration) Act 1992</i> |
| • <i>Anti-Money Laundering and Counter-Terrorism Financing Act 2006</i> | • <i>Financial Transaction Reports Act 1988</i> | • <i>Superannuation Industry (Supervision) Act 1993</i> |
| • <i>Competition and Consumer Act 2010</i> | • <i>Income Tax Assessment Act 1936 and 1997</i> | • <i>Superannuation (Resolution of Complaints) Act 1993</i> |
| • <i>Corporations Act 2001</i> | • <i>Privacy Act 1988</i> ² | |
| • <i>Disability Discrimination Act of 1992</i> | • <i>Sex Discrimination Act 1984</i> | |
| • <i>Family Law Act 1975</i> | | |

¹ The provisions of the *Superannuation and Family Benefits Act 1938* are deemed to continue under Section 26 of the *State Superannuation (Transitional and Consequential Provisions) Act 2000*.

² While not required to comply with this legislation, as a matter of best practice GESB has implemented a Privacy Policy and procedures that adopt the guiding principles of the *Privacy Act 1988*, and reports lost members in accordance with the *Superannuation (Unclaimed Money and Lost members) Act 1988*.

Appendix 3

The Budget estimate 2021/22 reflects the Statement of changes in net assets and the Statement of net assets set out in GESB's 2020/21 Statement of Corporate Intent. Budget estimates conform with AASB 1056.

Budget estimate 2021/22

Statement of changes in net assets

| | Budget 2022 |
|--|-------------------|
| For the financial year ending 30th June | \$'000 |
| Net assets available to pay benefits at the beginning of the financial year | 32,699,435 |
| Revenue | |
| Investment revenue | |
| Realised income | 568,543 |
| Realised changes in net market value of investment assets | 568,543 |
| Unrealised changes in net market value of investment assets | 758,057 |
| Income from investment | 1,895,143 |
| Superannuation revenue | |
| Contributions | |
| Member | 177,189 |
| Employer | 1,910,303 |
| Rollover into retirement products | 988,721 |
| Inward transfers | 950,098 |
| Member insurance benefits received | 51,065 |
| Other income | 7,594 |
| Total revenue | 5,980,114 |
| Expenses | |
| Superannuation benefit payments | 3,446,628 |
| Administration expenses | 46,818 |
| Group life insurance premiums | 110,483 |
| Investment expenses | 90,820 |
| Changes in net market value of financial liabilities | - |
| Changes in net market value of other assets | 288 |
| Loan interest | - |
| Total expenses | 3,695,037 |
| Changes in net assets before income tax | 2,285,077 |
| Income tax expense | 220,319 |
| Changes in net assets after income tax | 2,064,759 |
| Net assets available to pay benefits at the end of the financial year | 34,764,193 |

Statement of net assets

| For the financial year ending 30th June | Budget 2022 \$'000 |
|---|-----------------------|
| Assets | |
| Cash and cash equivalents | 14,685 |
| Investments | 34,807,197 |
| Plant and equipment | 169 |
| Intangible assets | 560 |
| Receivables | 17,541 |
| Prepayments | 819 |
| Deferred tax assets | 5,582 |
| Total assets | 34,846,553 |
| Liabilities | |
| Contributions paid in advance | 1,947 |
| Unpaid and accrued liabilities | 230 |
| Payables | 26,770 |
| Provision for employee entitlements | 1,228 |
| Provision for post employment liabilities | 546 |
| Interest bearing loans and borrowings | - |
| Current tax liabilities | 51,638 |
| Total liabilities | 82,360 |
| Net assets available to pay benefits | 34,764,193 |

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