



Hostplus superannuation fund financial statements.

For the financial year ended 30 June 2018

Registered Address of the trustee is
Host-Plus Pty. Limited
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Contents.

| | |
|--|-----------|
| Statement of Financial Position | 04 |
| Income Statement | 05 |
| Statement of Changes in Member Benefits | 06 |
| Statement of Changes in Equity | 07 |
| Statement of Cash Flows | 08 |
| Notes to the Financial Statements | 09 |
| Trustee Declaration | 40 |
| Independent Report by the Approved Auditor to the Trustee | 41 |

Statement of Financial Position as at 30 June 2018

| | Notes | 2018 \$ | 2017 \$ |
|--|-------|-------------------------|-------------------------|
| Assets | | | |
| Cash at bank | 9 | 41,588,098 | 17,536,986 |
| Receivables | | 35,649,157 | 3,991,180 |
| Prepayments | | 1,267,325 | 1,136,420 |
| Investments | | | |
| Cash and cash equivalents | | 59,973,187 | 38,015,803 |
| Fixed interest securities | | 19,309,706 | 9,519,512 |
| Equities | | 140,832,831 | 69,459,691 |
| Pooled superannuation trust and managed funds | | 33,751,925,111 | 24,839,961,763 |
| Property, plant and equipment | | 8,626,406 | 10,967,025 |
| Deferred tax assets | 6 (d) | 4,485,742 | 5,523,436 |
| Total assets | | 34,063,657,563 | 24,996,111,816 |
| Liabilities | | | |
| Employee entitlements | | 4,496,334 | 3,984,571 |
| Payables | | 37,006,904 | 33,738,255 |
| Current tax liabilities | 6 (e) | 313,425,493 | 247,124,864 |
| Total liabilities excluding member benefits | | 354,928,731 | 284,847,690 |
| Net assets available for member benefits | | 33,708,728,832 | 24,711,264,126 |
| Member benefits | | | |
| Allocated to members | | (33,424,163,303) | (24,472,597,664) |
| Unallocated to members | | (7,877,505) | (8,908,553) |
| Total member liabilities | 3 | (33,432,040,808) | (24,481,506,217) |
| Net assets | | 276,688,024 | 229,757,909 |
| Equity | | | |
| Residual reserve | | 6,542,311 | 10,900,901 |
| Administration reserve | | 174,426,929 | 162,791,979 |
| Operational Risk Financial Requirement reserve | | 75,443,268 | 56,065,029 |
| Insurance reserve | | 20,275,516 | – |
| Total equity | | 276,688,024 | 229,757,909 |

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Income Statement for the year ended 30 June 2018

| | Notes | 2018 \$ | 2017 \$ |
|--|-------|----------------------|----------------------|
| Revenue from superannuation activities | | | |
| Interest | | 2,321,784 | 1,515,470 |
| Dividends and distributions | | 5,151,972 | 2,949,039 |
| Changes in assets measured at fair value | 4 | 3,250,453,927 | 2,615,323,223 |
| Other income | | 1,457,355 | 179,615 |
| Total revenue | | 3,259,385,038 | 2,619,967,347 |
| Expenses from superannuation activities | | | |
| Investment expenses | | 5,240,775 | 4,076,728 |
| Administration expenses | 7 | 104,047,476 | 103,509,956 |
| Total expenses | | 109,288,251 | 107,586,684 |
| Profit/(loss) from operating activities before income tax | | 3,150,096,787 | 2,512,380,663 |
| Income tax (expense)/benefit | 6(a) | 47,066,104 | 47,556,449 |
| Profit/(loss) from operating activities after income tax | | 3,197,162,891 | 2,559,937,112 |
| Less: Net benefits allocated to members' accounts | | (3,165,408,292) | (2,502,756,004) |
| Profit/(loss) after income tax | | 31,754,599 | 57,181,108 |

The above Income Statement should be read in conjunction with the accompanying notes.

Statement of Changes in Member Benefits for the year ended 30 June 2018

| | Notes | 2018 \$ | 2017 \$ |
|--|----------|-----------------------|-----------------------|
| Opening balance of member benefits | | 24,481,506,217 | 19,697,789,141 |
| Contributions received from: | | | |
| Employers' | | 2,369,095,587 | 1,977,238,412 |
| Members' | | 329,489,778 | 278,082,688 |
| Government | | 59,974,484 | 58,909,757 |
| Transfer from other superannuation plans | | 4,789,568,095 | 1,473,860,050 |
| Income tax on contributions | 6(c) | (362,897,176) | (292,433,775) |
| Net after tax contributions | | 7,185,230,768 | 3,495,657,132 |
| Other transactions applied to / (deducted from) members' accounts | | | |
| Net investment income | | 3,249,244,362 | 2,581,104,529 |
| Insurance proceeds | | 153,781,834 | 130,442,878 |
| Benefits paid | | (1,328,457,852) | (1,124,321,903) |
| Administration and other fees | | (83,836,070) | (78,348,525) |
| Insurance premiums | | (225,425,325) | (220,818,931) |
| Superannuation contributions surcharge | | (3,126) | 1,896 |
| Closing balance of member benefits | 3 | 33,432,040,808 | 24,481,506,217 |

The above Statement of Changes in Member Benefits should be read in conjunction with the accompanying notes.

Statement of Changes in Equity for the year ended 30 June 2018

| 2018 | Residual reserve \$ | Administration reserve \$ | Operational Risk Financial Requirement reserve \$ | Insurance reserve \$ | Total equity \$ |
|---|------------------------|---------------------------------|--|----------------------------|--------------------|
| Opening balance | 10,900,901 | 162,791,979 | 56,065,029 | – | 229,757,909 |
| Net transfers to/from reserves | – | (17,300,000) | 12,200,000 | 20,275,516 | 15,175,516 |
| Net allocations to/from Members' Benefits | (3,249,244,362) | 83,836,070 | – | – | (3,165,408,292) |
| Net allocations to/from Income Statement | 3,244,885,772 | (54,901,120) | 7,178,239 | – | 3,197,162,891 |
| Closing balance | 6,542,311 | 174,426,929 | 75,443,268 | 20,275,516 | 276,688,024 |

| 2017 | Residual reserve \$ | Administration reserve \$ | Operational Risk Financial Requirement reserve \$ | RSE reserve \$ | Total equity \$ |
|---|------------------------|---------------------------------|--|-------------------|--------------------|
| Opening balance | 853,885 | 121,954,959 | 46,967,957 | 100,000 | 169,876,801 |
| Net transfers to/from reserves | (18,614,233) | 18,614,233 | 2,800,000 | (100,000) | 2,700,000 |
| Net allocations to/from Members' Benefits | (2,581,104,529) | 78,348,525 | – | – | (2,502,756,004) |
| Net allocations to/from Income Statement | 2,609,765,778 | (56,125,738) | 6,297,072 | – | 2,559,937,112 |
| Closing balance | 10,900,901 | 162,791,979 | 56,065,029 | – | 229,757,909 |

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows for the year ended 30 June 2018

| | Notes | 2018 \$ | 2017 \$ |
|--|----------|------------------------|------------------------|
| Cash flows from operating activities | | | |
| Interest received | | 803,050 | 702,399 |
| Insurance proceeds | | 153,781,834 | 130,442,878 |
| Other income | | 1,177,943 | 2,879,615 |
| Administration expenses | | (110,720,187) | (100,308,449) |
| Insurance premiums | | (223,116,611) | (214,075,685) |
| Investment expenses | | (536,839) | 147,732 |
| Income tax refund/(paid) | | 46,405,437 | 50,481,295 |
| Net cash inflows from operating activities | 9 | (132,205,373) | (129,730,215) |
| Cash flows from investing activities | | | |
| Purchase of investments | | (6,015,976,707) | (2,426,518,921) |
| Proceeds from sale of investment | | 248,492,750 | 221,745,546 |
| Sale/(Purchase) of fixed assets | | (1,028,338) | (1,821,549) |
| Net assets available for member benefits | | (5,768,512,295) | (2,206,594,924) |
| Cash flows from financing activities | | | |
| Contributions received from: | | | |
| Employers' | | 2,369,095,587 | 1,977,238,412 |
| Members' | | 329,489,778 | 278,082,688 |
| Government | | 59,974,484 | 58,909,757 |
| Transfers from other superannuation plans | | 4,789,568,095 | 1,473,860,050 |
| Benefits paid to members | | (1,328,457,852) | (1,171,940,825) |
| Superannuation contributions surcharge | | (3,126) | 1,896 |
| Income tax paid on contributions | | (294,898,186) | (272,197,719) |
| Net cash inflows from financing activities | | 5,924,768,780 | 2,343,954,259 |
| Net increase/(decrease) in cash | | 24,051,112 | 7,629,120 |
| Cash at the beginning of the financial period | | 17,536,986 | 9,907,866 |
| Cash at the end of the financial period | 9 | 41,588,098 | 17,536,986 |

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTE 1. Operation of the fund

Hostplus Superannuation Fund ('the Fund') (ABN: 68 657 495 890) is an APRA regulated (Licence no. R1000054), defined contribution fund established by a Trust Deed on 1 October 1987. The Fund provides retirement benefits to its members and is divided into three divisions (Industry, Personal and Pension). The Fund accepts contributions from employers and members in accordance with its Trust Deed. Members may also transfer money from other superannuation funds. Hostplus is the industry superannuation fund for the hospitality, tourism, recreation and sport industries.

The Trustee of the Fund is Host-Plus Pty. Limited (ABN: 79 008 634 704) and it is the holder of a public offer class of Registrable Superannuation Entity Licence (Licence no. L0000093).

NOTE 2. Summary of significant accounting policies

(a) Basis of preparation

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

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

The financial statements were approved by the Board of Directors of the trustee, Host-Plus Pty. Limited on 21 September 2018.

The financial statements are presented in Australian Dollars which is the functional currency of the Fund.

(b) New accounting standards and interpretations

AASB 9 Financial Instruments (and applicable amendments), (effective from 1 January 2018) AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities.

It has now also introduced revised rules around hedge accounting and impairment. The standard is effective for annual reporting periods beginning on or after 1 January 2018. The Fund has decided to adopt AASB 9. The standard is not expected to have a significant impact on the recognition and measurement of the Fund's financial instruments as they are carried at fair value through profit or loss. The derecognition rules have not been changed from the previous requirements, and the Fund does not apply hedge accounting. AASB 9 introduces a new impairment model. However, as the Fund's investments are all held at fair value through profit or loss, the change in impairment rules will not impact the Fund.

(c) Financial assets and liabilities

(a) Classification

The Fund classifies its financial assets and financial liabilities into the following categories:

Financial instruments designated at fair value through profit or loss upon initial recognition.

These financial assets are designated on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis in accordance with the financial risk management and investment strategies of the Fund. Refer to note 10 for further details.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Fund includes in this category short term receivables.

Other financial liabilities

This category includes all financial liabilities, other than those classified at fair value through profit or loss. Other financial liabilities are measured at their nominal amounts. Amounts are generally settled within 30 days of being recognised as other financial liabilities. Given the short-term nature of other financial liabilities, the nominal amount approximates fair value.

NOTE 2. Summary of significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

(b) Recognition

The purchase or sale of a financial asset that requires delivery of the asset within a time frame that is generally established by regulation or convention in the marketplace is recognised on the trade date, being the date that the Fund commits to purchase or sell the asset.

The Fund recognises all other financial assets and financial liabilities when it becomes a party to the contractual provisions of the instrument.

(c) Derecognition

A financial asset (or part of) 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 contract is discharged, cancelled or expires.

(d) Initial measurement

Financial assets and financial liabilities designated at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. 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. All transaction costs for such instruments are recognised directly in the Income Statement.

Financial assets and financial liabilities not classified at fair value through profit or loss are measured initially at fair value, plus any directly attributable incremental costs of acquisition or issue.

(e) Subsequent measurement

After initial measurement, the Fund measures financial assets and liabilities at fair value through profit or loss. This means subsequent changes in fair value are recorded as 'changes in assets measured at fair value' through 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 by the Fund.

In the absence of quoted market prices, 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. This can include using valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value. Where possible, the Fund will seek to maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

All assets and liabilities that are measured and disclosed at fair value in the financial statements are categorised within the fair value hierarchy. Refer to Note 10(e) for further details.

NOTE 2. Summary of significant accounting policies (continued)

(e) Cash at bank

Cash at bank in the Statement of Financial Position includes cash held with banking institutions which is subject to an insignificant risk of change in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash at bank as defined above.

(f) Property, plant and equipment

(i) Recognition and measurement

Plant and equipment (P&E) is measured initially at cost and subsequently revalued at fair value less accumulated depreciation and impairment losses. If significant parts of an item have different useful lives, then they are accounted for as separate items.

The cost of leasehold improvements is capitalised as an asset and depreciated over the assets useful life.

Any gain or loss on disposal of an item is recognised in the Income Statement.

(ii) Depreciation

Depreciation is calculated as the cost of the item less its estimated residual value, multiplied by their annual depreciation rate.

(g) Revenue recognition

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

Changes in fair value

Changes in the fair value of financial assets and liabilities is calculated as the difference between the fair value at sale, or at balance date, and the fair value at the previous valuation point. All changes are recognised in the Income Statement.

Interest

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

Dividends and distributions

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

Group Life Insurance Proceeds

Insurance claim proceeds received on behalf of beneficiaries are bought to account when received from the Fund's insurer.

| Asset | Useful Life | Depreciation Rate | Depreciation Method |
|----------------------|-------------|-------------------|---------------------|
| Office Equipment | 10 years | 20% | Diminishing value |
| Furniture & Fittings | 5 years | 40% | Diminishing value |
| Computer Hardware | 3-4 years | 67-50% | Diminishing value |
| Intangibles | 4-5 years | 50-40% | Diminishing value |

NOTE 2. Summary of significant accounting policies (continued)

(h) Income tax

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

Section 295-260 of the Income Tax Assessment Act 1997 enables a complying superannuation fund which has an investment in a pooled superannuation trust to transfer the liability for tax on assessable contributions to the pooled superannuation trust provided certain conditions are met. The Fund intends to enter an agreement to transfer a portion of its assessable contributions earned during the year ended 30 June 2018 to the Hostplus Pooled Superannuation Trust.

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

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or recoverable).

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities which affects neither taxable income or accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Fund expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

(i) Insurance arrangements

The Fund provides death, disability and salary continuance benefits to its members. The Trustee facilitates the provision of these benefits via a group life policy with MetLife Insurance Limited. The Trustee acts as an agent for these arrangements.

(j) Goods and services tax (GST)

Where applicable, GST incurred by the Fund that is not recoverable from the Australian Taxation Office, has been recognised as part of the asset, revenue or expense to which it applies.

Receivables and payables disclosed in the Statement of Financial Position are stated as GST inclusive.

(k) Member liabilities

Member liabilities is the Fund's present obligation to pay benefits to members and beneficiaries and has been measured as the amount of member account balances as at reporting date.

NOTE 2. Summary of significant accounting policies (continued)

(l) Reserves

The Trustee maintains the following reserves for the purposes described below:

Residual reserve - is separately maintained to manage the receipt of investment income, the payment of investment related expenses and tax and the allocation of investment earnings to members via the process of declaring unit prices.

Administration reserve - is separately maintained to manage the receipt of administration levies and the payment of Fund administration expenses.

Operational Risk Financial Requirement ('ORFR') reserve - is separately maintained to ensure the Fund has access to adequate financial resources in the event of losses arising from an operational risk event. The Fund has an approved ORFR reserve policy detailing what constitutes an operational risk event and how the ORFR reserve is accessed (if an operational risk event occurs). The policy also provides that the target balance of the ORFR reserve is 25 basis points of the Fund's Net Assets.

Insurance reserve - is separately maintained to manage the insurance premiums to Metlife Insurance Limited under the Premium Adjustment Mechanism (PAM) agreement. The PAM agreement reduces the risk of the insurer and facilitates lower insurance premiums for members.

(m) Significant accounting judgements and estimates and assumptions

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

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

(n) Employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in the Statement of Financial Position and are measured at the amounts expected to be paid when the liabilities are settled.

The liability for long service leave is recognised in the provision for employee entitlements and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

NOTE 3. Member benefits and funding arrangements

(a) Member entitlements

Obligations relating to member entitlements are recognised as member benefits and are measured as the amount of the member account balances as at reporting date.

Members bear the investment risk relating to the underlying investments of the Fund. Net investment income is allocated to members' accounts through the release of daily unit prices.

The Fund has received contributions and other related member inflows that have not been allocated to members' accounts by the reporting date. These amounts are reported as unallocated member benefits.

| | 2018 \$ | 2017 \$ |
|---|-----------------------|-----------------------|
| Member benefits | | |
| Allocated to members | 33,424,163,303 | 24,472,597,664 |
| Unallocated to members | 7,877,505 | 8,908,553 |
| Net assets available for member benefits | 33,432,040,808 | 24,481,506,217 |

(b) Funding arrangements

Employers contribute to the Fund on behalf of members in accordance with the Fund's Trust Deed, relevant industry Award agreements and the mandated minimum Superannuation Guarantee Charge rate of 9.50% (2017: 9.50%) of the gross salaries of the employees. In addition, Members and Employers can elect to contribute further amounts to the Fund at their own discretion.

NOTE 4. Changes in fair value of investments

| | 2018 \$ | 2017 \$ |
|---|----------------------|----------------------|
| Investments held at balance date | | |
| Equities | 4,712,641 | 1,709,557 |
| Pooled superannuation trust and managed funds | 3,227,842,250 | 2,591,327,485 |
| Total unrealised gains/(losses) | 3,232,554,891 | 2,593,037,042 |
| Investments realised during the year | | |
| Equities | 3,181,342 | 1,208,369 |
| Pooled superannuation trust and managed funds | 14,717,694 | 21,077.81 |
| Total realised gains/(losses) | 17,899,036 | 22,286,181 |
| Change in fair value of investments | 3,250,453,927 | 2,615,323,223 |

NOTE 5. Collective investments

Host-Plus Pty. Limited is the Trustee for both the Hostplus Superannuation Fund ('Fund') and the Hostplus Pooled Superannuation Trust ('Trust'), collectively known as 'Hostplus'. The Fund uses the Trust as its primary investment vehicle. Hostplus invests in a number of entities, known as 'collective entities' that provide the Fund and the Trust with administration or investment services. The other investors in these collective entities include a number of other industry superannuation funds. All transactions with collective entities are based on normal commercial terms and arrangements.

During the year, Hostplus transacted with the following collective entities.

Industry Super Holdings Pty Ltd and subsidiaries

Hostplus has a 10.53% (2017: 9.47%) shareholding in Industry Super Holdings Pty Ltd ('ISH'). ISH and its subsidiaries provide a range of services and investment products to Hostplus and other institutional clients.

As at 30 June 2018, Hostplus' investment in ISH was valued at \$95.1m (2017: \$66.3m). Total income earned by Hostplus from this Investment for the year ended 30 June 2018 was \$22.1m (2017: \$11.0m). All transactions were made on normal commercial terms, under normal conditions and at market rates.

During the year, Hostplus engaged several ISH subsidiaries to provide a range of services and investment products, as follows:

- IFM Investors Pty Ltd ('IFM') manages a selection of infrastructure, listed equity, private equity, fixed interest and cash portfolios on behalf of Hostplus totalling \$6,739.0m as at 30 June 2018 (2017: \$4,832.3m). Total income earned on the portfolios managed by IFM was \$573.1m (2017: \$347.5m). Direct and indirect fees of \$11.4m (2017: \$12.6m) were charged for the investment management of these portfolios. IFM received fees of \$10.6m (2017: \$10.3m) with the remaining \$0.9m (2017: \$2.3m) being indirectly charged by managers in underlying investment structures. All transactions were made on normal commercial terms, under normal conditions and at market rates.
- Industry Fund Services Ltd ('IFS') provides the Fund financial planning and debt collection services. Total fees paid to IFS for the year ended 30 June 2018 were \$0.9m (2017: \$0.7m). All transactions were made on normal commercial terms, under normal conditions and at market rates.
- IFS Insurance Solutions Pty Ltd ('IFS Insurance') provides the Fund with insurance brokerage services. Total fees paid to IFS Insurance for the year ended 30 June 2018 were \$0.03m (2017: \$0.03m). All transactions were made on normal commercial terms, under normal conditions and at market rates.

- Industry Super Australia Pty Ltd ('ISA') provides the Fund with marketing and lobbying services. Total fees paid to ISA for the year ended 30 June 2018 were \$4.4m (2017: \$3.7m). All transactions were made on normal commercial terms, under normal conditions and at market rates.

Industry Super Property Trust

Industry Super Property Trust ('ISPT') manages unlisted property trusts on behalf of Hostplus and other institutional clients. Hostplus' investments include property trusts totalling \$1,786.1m (2017: \$1,435.9m). ISPT received \$4.8m (2017: \$3.8m) in fees for the management of these trusts. The income earned on this portfolio was \$214.0m (2017: \$154.1m). All transactions were made on normal commercial terms, under normal conditions and at market rates.

ME Bank

Hostplus' investments include a 14.81% (2017: 12.68%) shareholding in ME Bank. ME Bank offer and provide banking products to the members of the Fund at the members' discretion. As at 30 June 2018, Hostplus' investment in ME Bank was valued at \$190.9m (2017: \$139.4m). Total income earned by Hostplus from this investment for the year ended 30 June 2018 was a gain of \$28.1m (2017: loss of \$2.1m). All transactions were made on normal commercial terms, under normal conditions and at market rates. As at 30 June 2018, Hostplus had \$9.6m (2017: \$9.6m) outstanding commitments.

NOTE 5. Collective investments (continued)

Hostplus also invests in the Super Loans Trust ('SLT'), a fixed interest vehicle managed by ME Bank. As at 30 June 2018, Hostplus' investment in the SLT was valued at \$18.0m (2017: \$31.3m). Total income earned by Hostplus from this Investment for the year ended 30 June 2018 was \$1.5m (2017: \$3.7m). ME Bank received \$0.04m (2017: \$0.04m) in fees from the management of Hostplus' investment. All transactions were made on normal commercial terms, under normal conditions and at market rates.

Term deposits held with ME Bank on behalf of ChoicePlus members within the Fund as at 30 June 2018 were \$19.3m (2017: \$9.4m). Term deposit income earned on behalf of Fund members for the year ended 30 June 2018 was \$0.31m (2017: \$0.23m). The ChoicePlus product also operates a cash account with ME Bank, which as at 30 June 2018 had a balance of \$56.3m (2017: \$34.3m). The cash account earned \$1.1m (2017: \$0.5m) of interest in the year ended 30 June 2018.

Hostplus also holds negotiable certificates of deposits with ME Bank. As at 30 June 2018, the value of the negotiable certificates of deposits were \$177.3m (2017: \$173.0m). Total income earned by Hostplus from this investment for the year ended 30 June 2018 was \$4.2m (2017: \$3.1m). All transactions were made on normal commercial terms, under normal conditions and at market rates.

During the year ME Bank exercised its call option and redeemed the \$3.0m Subordinated Notes held by Hostplus.

Total income earned by Hostplus from this investment for the year ended 30 June 2018 was \$0.06m (2017: \$0.2m). All transactions were made on normal commercial terms, under normal conditions and at market rates.

NOTE 6. Income tax

(a) Recognised in the Income Statement

| | 2018 \$ | 2017 \$ |
|--|---------------------|---------------------|
| Current tax expense | | |
| Current year | (48,667,117) | (46,972,262) |
| Adjustments in respect of current income tax of previous years | 563,319 | 696,101 |
| | (48,103,798) | (46,276,161) |
| Deferred tax expense | | |
| Movement in temporary differences | 1,037,694 | (1,280,288) |
| Total income tax expense/(benefit) reported in Income Statement | (47,066,104) | (47,556,449) |

(b) Reconciliation between income tax expenses and the accounting profit before income tax

| | 2018 \$ | 2017 \$ |
|--|----------------------|----------------------|
| Profit/(loss) from operating activities | 3,150,096,787 | 2,512,380,663 |
| Tax at the complying superannuation fund tax rate of 15% | 472,514,518 | 376,857,099 |
| Non-assessable investment income | (486,110,212) | (389,446,237) |
| Net imputation and foreign tax credits | (1,187,292) | (664,420) |
| Deductible insurance premiums | (30,440,046) | (32,111,352) |
| Anti-detriment deductions | (2,406,391) | (2,887,640) |
| Under/(over) provision in previous year | 563,319 | 696,101 |
| Total income tax expense / (benefit) | (47,066,104) | (47,556,449) |

NOTE 6. Income tax (continued)

(c) Recognised in the Statement of Changes in Member Benefits

| | 2018 \$ | 2017 \$ |
|--|--------------------|--------------------|
| Contributions and transfers-in | 7,548,127,944 | 3,788,090,907 |
| Tax at the complying superannuation fund tax rate of 15% | 1,132,219,192 | 568,213,636 |
| Non-assessable contributions | (52,210,707) | (48,132,470) |
| Non-assessable transfers-in | (718,232,718) | (223,427,248) |
| No TFN Tax | 316,842 | (2,560,299) |
| Under/(over) provision in previous year | 804,567 | (1,659,844) |
| | 362,897,176 | 292,433,775 |

(d) Deferred tax assets and liabilities

| | 2018 \$ | 2017 \$ |
|---|------------------|------------------|
| Unrealised (gains) losses in investments subject to CGT | (191,154) | 1,323,221 |
| Insurance premiums | 4,002,446 | 3,602,529 |
| Employee entitlements and other accruals | 674,450 | 597,686 |
| | 4,485,742 | 5,523,436 |

(e) Current tax asset and liability

The current tax liability for the Fund of \$313,425,493 (2017: \$247,124,864) represents the amount of income tax payable in respect of current and prior periods.

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

NOTE 7. Administration expenses

| | 2018 \$ | 2017 \$ |
|--|--------------------|--------------------|
| Fund administration | 47,049,649 | 49,312,847 |
| Staff expenditure | 26,803,217 | 24,922,897 |
| Marketing, advertising and sponsorship | 21,580,438 | 21,440,832 |
| Office expenditure | 4,465,761 | 4,298,618 |
| Depreciation and amortisation | 3,368,957 | 2,886,779 |
| Trustee services fees | 779,454 | 647,983 |
| | 104,047,476 | 103,509,956 |

NOTE 8. Auditors' remuneration

| | 2018 \$ | 2017 \$ |
|---|----------------|----------------|
| Remuneration paid or payable for services provided by the auditor, PricewaterhouseCoopers: | | |
| – Audit of Financial Statements | 55,158 | 90,742 |
| – Other Assurance Services | 72,964 | 71,595 |
| | 128,122 | 162,337 |

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

NOTE 9. 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:

| | 2018 \$ | 2017 \$ |
|--|----------------------|----------------------|
| Cash at Bank | 41,588,098 | 17,536,986 |
| Reconciliation of net cash from operating activities to net profit after income tax | | |
| Profit / (loss) after income tax | 31,754,599 | 57,181,108 |
| Adjustments for: | | |
| Net investment income (non cash) | (3,232,424,593) | (2,612,160,873) |
| Depreciation and impairment | 3,368,957 | 2,886,779 |
| Net insurance activities | (71,643,491) | (90,376,053) |
| (Increase) / decrease in receivables and prepayments | (31,788,882) | (2,913,128) |
| (Increase) / decrease in deferred tax | 1,037,694 | (1,280,287) |
| Increase / (decrease) in payables and employee entitlements | 3,780,412 | 9,971,102 |
| Increase / (decrease) in income tax payable | (1,698,361) | 4,205,133 |
| Allocation to members' accounts | 3,165,408,292 | 2,502,756,004 |
| Net cash inflows from operating activities | (132,205,373) | (129,730,215) |

NOTE 10. Financial risk management

The Fund predominately invests its assets through the Hostplus Pooled Superannuation Trust ('Trust'), a related entity with the same Trustee as the Fund. The Trust's assets predominantly consist of a range of financial instruments in various asset classes including cash, diversified fixed interest, Australian equities, international equities, property, infrastructure, private equity and alternative assets as per the strategic allocation set by the Board. The type of financial instruments held by the Trust within each asset class are either held directly in the form of equity or debt type instruments or indirectly through collective investment vehicles.

Risk is inherent in the Trust's activities and is actively managed through the Trustee's Risk Management Framework as further described below. Depending on the type of financial instrument held (directly or indirectly) the Trust is exposed to a variety of financial risks such as market risk (including currency, interest rate and price risk), credit risk and liquidity risk.

The Trustee is responsible for setting, monitoring and revising the investment strategy of the Fund including its exposure amongst the various asset classes. The Trustee has determined the Trust's investment strategy is consistent with the investment strategy of the Fund and has therefore selected it as the predominant investment vehicle.

The Trustee maintains the responsibility for the appointment of various investment managers for each asset class via an investment manager mandate or through holding a collective investment vehicle. Investment manager mandates reflect the target asset allocation determined by the Trustee as well as the level of financial risk which the Trustee is willing to accept. Where an investment manager of a collective investment vehicle is appointed, the Trustee will have regard to the investment manager's investment strategy and the associated risks of the collective investment vehicle.

The Trustee has overall responsibility for the establishment and oversight of its Risk Management Framework. The Trustee's risk management policies are established to:

- Identify and analyse the risks faced by the Fund, including those risks arising from holding financial instruments;
- Set appropriate risk limits and controls; and
- Monitor risks and adherence to limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities. These are also documented in the Trustee's Risk Management Framework which is subject to regular review both by management and the Board, including an annual audit of compliance.

The Trustee receives regular reports concerning the performance and activities of the Trust, as well as the Trust's underlying investments from the Trustee's investment advisor and custodian. Divergence from target asset allocations and the composition of the portfolio is also monitored by the Trustee. Reports received by the Trustee include:

- Current asset allocations against target positions;
- Performance against benchmarks; and
- Investment manager compliance reporting against the investment manager mandate.

While the Fund doesn't directly trade in derivatives, the Trust does use derivative financial instruments, such as futures, options, swaps and forward foreign exchange contracts to manage market movement, currency risk and also effect a change in the asset mix of the portfolio. The use of derivatives is subject to specified limits and gearing is not permitted.

The Trustee actively monitors the activities of the Fund and the Trust to ensure fund managers have appropriate skills and expertise to manage the funds allocated prior to their appointment. The Trustee has appointed JANA Investment Advisers to provide expert advice regarding asset allocation, and the management of the investment portfolio in accordance with the Trustee's Investment Strategy.

NOTE 10. Financial risk management (continued)

The Trustee's Audit, Risk and Compliance Committee oversees how management monitors compliance with the Trustee's risk management policies and procedures and reviews the adequacy of the Risk Management Framework in relation to the risks faced by the Fund, including investment related risks. The Committee reports directly to the Board.

Concentrations of risk arise when the number of financial instruments or contracts entered into are 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. Such risks are managed through the regular review and reporting of exposures and concentrations for both the Fund and the Trust, to ensure risk remains within acceptable levels.

(a) Market Risk

Market risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

To mitigate market risk, the Trustee undertakes extensive due diligence to ensure fund managers have appropriate skills and expertise to manage the allocated investment prior to their appointment.

Further, the Hostplus Investment Department tracks investment valuations on a daily basis through appropriate monitoring of the market conditions and benchmark analysis.

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.

With the Fund's assets invested in the Trust (an Australian dollar denominated investment) the Fund does not have any direct foreign currency exposure as at 30 June 2018.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's investments in fixed interest and cash instruments which are interest bearing securities are subject to interest rate risk.

The Fund's exposure to interest rate risk is considered low and is isolated to the interest it earns on:

- Surplus cash in operating bank accounts held with the NAB
- Uninvested cash in custodian accounts held with Citi
- Surplus cash and term deposits held by members with ME Bank through the Fund's ChoicePlus platform.

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

NOTE 10. Financial risk management (continued)

(a) Market Risk

Sensitivity analysis

In considering what may be an appropriate volatility factor for interest rate exposure, the Trustee's investment advisor examined the average absolute movement in the yields of the RBA Cash Rate. The average annual absolute movement in the yields of the RBA Cash Rate over the past 10 years is 100 bps. Therefore, the Fund has adopted a volatility factor for interest rate risk of 100 bps (2017: 100 bps). This represents management's best estimate of a reasonably possible shift in interest rates having regard to historical data and is not guaranteed as actual results may vary from management's reasonably possible estimate.

| | 2018 | 2017 |
|---------------------------|--------|---------|
| Fixed Interest | 90 bps | 100 bps |
| Cash and cash equivalents | 90 bps | 100 bps |

An increase or decrease in interest rates would have impacted the Fund's profit and loss after income tax and net assets by the amounts shown below. This analysis assumes that all other variables remain constant.

| 2018 | Carrying Amount | Profit and loss | | Net assets | |
|---------------------------|-------------------|-----------------|------------------|----------------|------------------|
| | | Increase \$ | Decrease \$ | Increase \$ | Decrease \$ |
| | \$ | | | | |
| Fixed Interest | 19,309,706 | (147,719) | 147,719 | (147,719) | 147,719 |
| Cash and cash equivalents | 59,973,187 | 458,795 | (458,795) | 458,795 | (458,795) |
| | 79,282,893 | 311,076 | (311,076) | 311,076 | (311,076) |

| 2017 | Carrying Amount | Profit and loss | | Net assets | |
|---------------------------|-------------------|-----------------|------------------|----------------|------------------|
| | | Increase \$ | Decrease \$ | Increase \$ | Decrease \$ |
| | \$ | | | | |
| Fixed Interest | 9,519,512 | (80,916) | 80,916 | (80,916) | 80,916 |
| Cash and cash equivalents | 38,015,803 | 323,134 | (323,134) | 323,134 | (323,134) |
| | 47,535,315 | 242,218 | (242,218) | 242,218 | (242,218) |

NOTE 10. Financial risk management (continued)

(a) Market Risk (continued)

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.

The Fund is exposed to other price risk through its investment in the Trust, and the equities and managed funds held by members through the Fund's ChoicePlus platform. The Fund's exposure to other price risk is therefore limited to the market price movement of these investments. The Trustee has determined that these investments are appropriate for the Fund and are in accordance with the Trustee's published investment strategy.

Other price risk is mitigated by investing through the Trust, which has constructed a diversified portfolio of instruments that are traded in various markets. The actual asset allocation of the Trust is continually monitored and reported to the Board, and is adjusted if necessary having regard to the Trustee's strategic asset allocation. Price risk is further mitigated through the investment due diligence process and careful selection and monitoring of investments and managers by the Trust.

Sensitivity analysis

Following analysis of the deviation in relevant indices over the past 10 years the following movements in other price risk are considered reasonably possible for the 2018 reporting period. This represents management's best estimate of a reasonably possible shift in market prices having regard to historical data and is not guaranteed as actual results may vary from management's reasonably possible estimate.

| | 2018 | 2017 |
|---|------|------|
| Equities | 16% | 17% |
| Pooled superannuation trust and managed funds | 11% | 11% |

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

NOTE 10. Financial risk management (continued)

An increase or decrease in the market price of investments of the Fund at 30 June would have impacted the Fund's profit and loss after income tax and net assets by the amounts shown below. This analysis assumes that all other variables remain constant.

| 2018 | Carrying Amount | Profit and loss | | Net assets | |
|---|-----------------------|----------------------|------------------------|----------------------|------------------------|
| | | \$ | Increase \$ | Decrease \$ | Increase \$ |
| Equities | 140,832,831 | 19,153,265 | (19,153,265) | 19,153,265 | (19,153,265) |
| Pooled superannuation trust and managed funds | 33,751,925,111 | 3,155,804,998 | (3,155,804,998) | 3,155,804,998 | (3,155,804,998) |
| | 33,892,757,942 | 3,174,958,263 | (3,174,958,263) | 3,174,958,263 | (3,174,958,263) |

| 2017 | Carrying Amount | Profit and loss | | Net assets | |
|---|-----------------------|----------------------|------------------------|----------------------|------------------------|
| | | \$ | Increase \$ | Decrease \$ | Increase \$ |
| Equities | 69,459,691 | 10,036,925 | (10,036,925) | 10,036,925 | (10,036,925) |
| Pooled superannuation trust and managed funds | 24,839,961,763 | 2,322,536,425 | (2,322,536,425) | 2,322,536,425 | (2,322,536,425) |
| | 24,909,421,454 | 2,332,573,350 | (2,332,573,350) | 2,332,573,350 | (2,332,573,350) |

NOTE 10. Financial risk management (continued)

(b) Credit risk

Credit risk represents the risk that the counterparty to a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. Credit risk also reflects uncertain asset values due to adverse movements in the credit quality of an asset.

Credit risk primarily arises from investments in debt securities and from trading derivative products. Other credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions and amounts due from brokers. None of these assets are impaired nor past due.

Credit risk arising from investments is mitigated by extensive due diligence undertaken by the Trustee prior to the appointment of investment managers to ensure they have the appropriate skills and expertise to manage the Fund's allocated investments. The Trustee further mitigates credit risk by dealing with highly rated counterparties and where appropriate, ensuring collateral is maintained. Exposure to credit risk is monitored on an ongoing basis by counterparty, geographical region and by industry sector.

The carrying amount of assets as at reporting date subject to credit risk is as follows:

| | 2018 \$ | 2017 \$ |
|--------------------------------------|--------------------|-------------------|
| Cash at bank | 41,588,098 | 17,536,986 |
| Receivables | 35,649,157 | 3,991,180 |
| Investment cash and cash equivalents | 59,973,187 | 38,015,803 |
| Fixed interest securities | 19,309,706 | 9,519,512 |
| | 156,520,148 | 69,063,481 |

NOTE 10. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk of failing to meet financial obligations as and when they fall due. A key consideration is the saleability of assets. The Trustee's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Trustee's reputation.

The Trustee's Trust Deed and Product Disclosure Statement provide for the daily withdrawal of benefits and the Trustee is therefore exposed to the liquidity risk of meeting members' withdrawals at any time.

The Fund's investments include unlisted investments that are not traded in organised public markets and may be illiquid. As a result the Trustee may not be able to liquidate quickly some of its investments at an amount close to fair value in order to meet its liquidity requirements. As the value of these investments is monitored to comply with the asset allocation stipulated in the Trustee's Investment Strategy this risk is considered minimal.

The Fund's listed securities are considered to be readily realisable as they are all listed on recognised stock exchanges around the world.

Liquidity risk is managed on a daily basis in accordance with policies and procedures in place and the Trustee's Investment Strategy. Stress testing and scenario analysis are completed on a regular basis.

The contractual maturity of financial liabilities is set out below.

| 2018 | Carrying Amount \$ | Less than 1 month \$ | 1 to 3 months \$ | Greater than 3 months \$ |
|-----------------------|-----------------------|-------------------------|---------------------|-----------------------------|
| Member liabilities | 33,432,040,808 | 33,432,040,808 | – | – |
| Employee entitlements | 4,496,334 | 4,496,334 | – | – |
| Accounts payable | 37,006,904 | 37,006,904 | – | – |
| | 33,473,544,046 | 33,473,544,046 | – | – |

| 2017 | Carrying Amount \$ | Less than 1 month \$ | 1 to 3 months \$ | Greater than 3 months \$ |
|-----------------------|-----------------------|-------------------------|---------------------|-----------------------------|
| Member liabilities | 24,481,506,217 | 24,481,506,217 | – | – |
| Employee entitlements | 3,984,571 | 3,984,571 | – | – |
| Accounts payable | 33,738,255 | 33,738,255 | – | – |
| | 24,519,229,043 | 24,519,229,043 | – | – |

NOTE 10. Financial risk management (continued)

(c) Liquidity risk (continued)

Member benefits that are allocated have been included in the "Less than 1 month" column above as this is the amount that members could call upon as at 30 June, however the Fund considers it is highly unlikely that all members will request to rollover their superannuation fund accounts at the same time.

(d) Estimation of fair values

The Fund's financial assets and liabilities included in the Statement of Financial Position are carried at fair value. The major methods and assumptions used in determining fair value of financial instruments have been disclosed at Note 2 Summary of Significant Accounting Policies.

(e) Fair value hierarchy

The table below analyses financial instruments by using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability; and
- level 3 - inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The level in the fair value hierarchy within which a financial instrument is categorised is determined on the basis of the lowest level input that is significant to its fair value measurement. If fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, the financial instrument will be categorised as a level 3. Assessing the significance of a particular input to the fair value measurement requires judgement, considering factors specific to the instrument.

The determination of what constitutes 'observable' requires significant judgement by the Trustee. The Trustee considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

(i) Fair value in an active market (level 1)

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period.

The quoted market price used for financial assets held by the Fund is the current mid price; the quoted market price used for financial liabilities is the current application price.

A financial instrument is regarded as quoted in an active market if the price is readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and the price represents an actual and regularly occurring market transaction on an arm's length basis.

(ii) Fair value in an inactive market (level 2 and level 3)

The majority of the Fund's investments categorised under level 2 and 3 are held in a pooled superannuation trust and managed funds and are recorded at the redemption value per unit, as reported by the external investment manager. Some of the inputs used by the external investment managers in their pricing models may not be market observable and are therefore subject to a level of estimation uncertainty.

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

NOTE 10. Financial risk management (continued)

(e) Fair value hierarchy (continued)

The table below sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2018.

| 2018 | Level 1 \$ | Level 2 \$ | Level 3 \$ |
|---|--------------------|-----------------------|---------------|
| Financial Assets | | | |
| Financial Assets designated at fair value through profit or loss: | | | |
| Cash and cash equivalents | 59,973,187 | – | – |
| Fixed interest securities | 19,309,706 | – | – |
| Equities | 140,832,831 | – | – |
| Pooled superannuation trust and managed funds | – | 33,751,925,111 | – |
| | 220,115,724 | 33,751,925,111 | – |

| 2017 | Level 1 \$ | Level 2 \$ | Level 3 \$ |
|---|--------------------|-----------------------|------------------|
| Financial Assets | | | |
| Financial Assets designated at fair value through profit or loss: | | | |
| Cash and cash equivalents | 38,015,803 | – | – |
| Fixed interest securities | 9,519,512 | – | – |
| Equities | 69,459,691 | – | – |
| Pooled superannuation trust and managed funds | – | 24,836,461,763 | 3,500,000 |
| | 116,995,006 | 24,836,461,763 | 3,500,000 |

There were no transfers between levels for the year ended 30 June 2018 or 30 June 2017.

NOTE 10. Financial risk management (continued)

(e) fair value hierarchy (continued)

Level 3 investments

The investments held by the Fund includes one unlisted financial instrument that is not traded in an active market. Hence, the fair value is based on the price advised by the investment manager, as well as valuations determined by appropriately skilled independent third parties. The following table presents the movement in level 3 instruments for the year ended 30 June 2018.

| | 2018 \$ | 2017 \$ |
|---|-------------|------------|
| Opening Balance | 3,500,000 | 3,500,000 |
| Purchases | – | – |
| Sales | (3,500,000) | – |
| Transfers into/(out) of level 3 | – | – |
| Gains and losses recognised in profit or loss | – | – |
| Closing Balance | – | 3,500,000 |

NOTE 11. Related parties

(a) Trustee

Host-Plus Pty. Limited is the Trustee for both the Hostplus Superannuation Fund ('Fund') and the Hostplus Pooled Superannuation Trust ('Trust'), collectively known as 'Hostplus'. The Trust is the Fund's primary investment vehicle.

The shareholders of the Trustee are United Voice and Australian Hotels Association ('AHA').

(b) Board of Directors and remuneration

Directors and Alternate Directors of the Trustee during the financial year were as follows:

| Independent | Member nominated by United Voice | Employer nominated by AHA |
|-------------------|----------------------------------|----------------------------|
| D Elmslie (Chair) | T Lyons (Deputy Chair) | M Robertson (Deputy Chair) |
| P Collins | B Myers | D Gibson |
| A Grayson | J Hill | M Vaile |
| | R Buckler ^(a) | N Randall ^(a) |

(a) Alternate Director

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

NOTE 11. Related parties (continued)

(b) Board of Directors and remuneration (continued)

Under the terms of the Trust Deed, the Trustee is entitled to be paid or reimbursed out of Fund assets for all expenses and liabilities which it may incur in connection with the Fund or in performing its obligations. Trustee Fees Services paid and payable by the Fund are set out in Note 7. Embedded in the Trustee Services Fee is the Fund's share of remuneration paid/payable to Directors for services rendered to the Board and Committees of the Board as set out in the following tables:

Year ended 30 June 2018

| Name | Director Fee (Salary) \$ | Parking benefits \$ | Superannuation \$ | Termination benefits \$ | Total \$ |
|----------------------------|--------------------------------|---------------------------|----------------------|-------------------------------|------------------|
| Independent | | | | | |
| D Elmslie | 139,939 | 8,604 | 20,991 | – | 169,534 |
| P Collins | 109,950 | – | 16,493 | – | 126,443 |
| A Grayson | 94,950 | – | 14,243 | – | 109,193 |
| Employer nominated | | | | | |
| M Robertson ^(a) | 103,789 | – | 15,568 | – | 119,357 |
| D Gibson | 103,513 | – | 15,527 | – | 119,040 |
| M Vaile | 84,400 | – | 12,660 | – | 97,060 |
| N Randall | 28,696 | – | 4,304 | – | 33,000 |
| Member nominated | | | | | |
| T Lyons | 115,409 | – | 17,311 | – | 132,720 |
| B Myers ^(a) | 84,400 | – | 12,660 | – | 97,060 |
| J Hill | 84,400 | – | 12,660 | – | 97,060 |
| R Buckler ^(a) | 35,000 | – | 5,250 | – | 40,250 |
| Total | 984,446 | 8,604 | 147,667 | – | 1,140,717 |

(a) Director fee's for these individuals are paid to their nominating association United Voice or AHA.

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

NOTE 11. Related parties (continued)

(b) Board of Directors and remuneration (continued)

Year ended 30 June 2017

| Name | Director Fee (Salary) \$ | Parking benefits \$ | Superannuation \$ | Termination benefits \$ | Total \$ |
|---------------------------|--------------------------------|---------------------------|----------------------|-------------------------------|------------------|
| Independent | | | | | |
| D Elmslie | 135,826 | 9,495 | 20,374 | – | 165,695 |
| P Collins | 109,950 | – | 16,493 | – | 126,443 |
| A Grayson | 94,950 | – | 14,243 | – | 109,193 |
| Employer nominated | | | | | |
| M Robertson | 99,676 | – | 14,951 | – | 114,627 |
| D Gibson | 99,400 | – | 14,910 | – | 114,310 |
| M Vaile | 84,400 | – | 12,660 | – | 97,060 |
| N Randall | 33,000 | – | – | – | 33,000 |
| Member nominated | | | | | |
| T Lyons | 109,675 | – | 16,451 | – | 126,126 |
| B Myers ^(a) | 39,251 | – | 5,888 | – | 45,139 |
| J Hill | 35,167 | – | 5,275 | – | 40,442 |
| D McElrea ^(a) | 45,149 | – | 6,772 | – | 51,921 |
| R Stark ^(a) | 49,233 | – | 7,385 | – | 56,618 |
| R Buckler ^(a) | 40,000 | – | 5,250 | – | 45,250 |
| Total | 975,677 | 9,495 | 140,652 | – | 1,125,824 |

(a) Director fee's for these individuals are paid to their nominating association United Voice or AHA.

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

NOTE 11. Related parties (continued)

(c) Group Executive management and remuneration

Key management personnel of Hostplus as at 30 June 2018 included the following Group Executives:

| Name of Executive | Role |
|-------------------|---|
| D Elia | Chief Executive Officer |
| N Brouwer | Group Executive – Risk & Compliance |
| K Cantwell | Group Executive – Service Operations |
| U Mecchi | Chief Marketing Officer |
| S Sicilia | Chief Investment Officer |
| N Strickland | Group Executive – People, Performance & Culture |
| P Watson | Group Executive – Retirement Solutions & Advice |

Remuneration of Group Executive management paid/payable by Hostplus is set out in the following tables:

Year ended 30 June 2018

| Name | Date commenced | Date change in position | Salary \$ | Short-term incentives \$ | Parking benefits \$ | Superannuation \$ | Termination benefits \$ | Total \$ |
|--------------|----------------|-------------------------|------------------|--------------------------|---------------------|-------------------|-------------------------|------------------|
| D Elia | 15/03/1999 | | 717,452 | 241,391 | 8,604 | 25,000 | – | 992,447 |
| N Brouwer | 23/11/2014 | | 201,408 | 16,361 | 8,604 | 25,000 | – | 251,373 |
| K Cantwell | 10/10/2016 | | 267,259 | 32,701 | 8,604 | 25,000 | – | 333,564 |
| U Mecchi | 28/11/2011 | | 345,496 | 52,164 | 8,604 | 25,000 | – | 431,264 |
| S Sicilia | 31/03/2008 | | 571,968 | 326,830 | 8,604 | 25,000 | – | 932,402 |
| N Strickland | 17/02/2014 | | 180,696 | 9,941 | 8,604 | 25,000 | – | 224,241 |
| P Watson | 21/03/2011 | | 297,421 | 30,265 | 8,604 | 25,000 | – | 361,290 |
| Total | | | 2,581,700 | 709,653 | 60,228 | 175,000 | – | 3,526,581 |

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

NOTE 11. Related parties (continued)

(c) Group Executive management and remuneration (continued)

Year ended 30 June 2017

| Name | Date commenced | Date change in position | Salary \$ | Short-term incentives \$ | Parking benefits \$ | Superannuation \$ | Termination benefits \$ | Total \$ |
|--------------|---------------------------|---------------------------|------------------|--------------------------|---------------------|-------------------|-------------------------|------------------|
| D Elia | 15/03/1999 | | 689,890 | 197,076 | 9,495 | 30,000 | – | 926,461 |
| N Brouwer | 23/11/2014 | 21/11/2016 ^(c) | 174,297 | – | 5,803 | 26,144 | – | 206,244 |
| K Cantwell | 10/10/2016 ^(d) | | 180,730 | – | 6,892 | 21,346 | – | 208,968 |
| T Kenny | 07/11/2013 | 22/12/2016 ^(a) | 265,697 | 41,231 | 4,518 | 21,990 | 133,869 | 467,305 |
| U Mecchi | 28/11/2011 | | 320,722 | 48,573 | 9,495 | 30,000 | – | 408,790 |
| S Sicilia | 31/03/2008 | | 538,949 | 151,741 | 9,495 | 30,000 | – | 730,185 |
| B Smethurst | 25/07/2016 ^(e) | 06/03/2017 ^(e) | 127,644 | – | 5,871 | 17,779 | – | 151,294 |
| N Strickland | 17/02/2014 | | 154,812 | 29,909 | 9,495 | 27,708 | – | 221,924 |
| P Watson | 21/03/2011 | | 283,137 | 24,399 | 9,495 | 30,000 | – | 347,031 |
| A Wong | 12/01/2004 | 30/09/2016 ^(b) | 230,244 | 24,506 | 2,374 | 9,423 | – | 266,547 |
| Total | | | 2,966,122 | 517,435 | 72,933 | 244,390 | 133,869 | 3,934,749 |

(a) Resigned as Group Executive – Finance & Investment Operations.

(b) Resigned as Group Executive – Legal & Compliance.

(c) Appointed as Group Executive – Risk & Compliance.

(d) Appointed as Group Executive – Service Operations.

(e) B Smethurst temporarily occupied the position of Group Executive – People, Performance & Culture.

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

NOTE 11. Related parties (continued)

(d) Directors' attendance at Board and Committee meetings

Year ended 30 June 2018

| Director/ Alternate Director | Meeting of Committees | | | | | | | | | |
|------------------------------------|---------------------------------|---|--------------------------|---|---------------|----|-----------------------|---|---------------------------|---|
| | Full Board Meeting of Directors | | Audit, Risk & Compliance | | Claims Review | | People & Remuneration | | Special Investments Group | |
| | A | B | A | B | A | B | A | B | A | B |
| Directors | | | | | | | | | | |
| D Elmslie | 7 | 7 | – | – | – | – | 2 | 2 | 2 | 2 |
| P Collins | 7 | 7 | 3 | 3 | – | – | – | – | – | – |
| A Grayson | 7 | 7 | – | – | – | – | – | – | – | – |
| D Gibson | 6 | 7 | – | – | – | – | 2 | 2 | 1 | 2 |
| M Robertson | 7 | 7 | 3 | 3 | – | – | – | – | 1 | 2 |
| M Vaile | 7 | 7 | – | – | – | – | – | – | – | – |
| T Lyons | 7 | 7 | 3 | 3 | – | – | 2 | 2 | 2 | 2 |
| B Myers | 7(+) | 7 | – | – | – | – | – | – | – | – |
| J Hill | 6 | 7 | – | – | – | – | – | – | – | – |
| Alternate Directors | | | | | | | | | | |
| R Buckler | – | – | – | – | 16 | 17 | – | – | – | – |
| N Randall | 1 | – | – | – | – | – | – | – | – | – |
| Observers | | | | | | | | | | |
| D Elmslie | – | – | 2(*) | – | – | – | – | – | – | – |
| A Grayson | – | – | – | – | – | – | 1(*) | – | – | – |
| R Buckler | 2(#) | – | – | – | – | – | – | – | – | – |
| N Randall | 3(#) | – | – | – | – | – | – | – | – | – |

A Number of meetings attended including where an alternate may have attended on behalf of the appointed Director.

B Number of meetings held during the time the Director held office or was a member of the Committee during the year.

(#) Alternate Directors are invited to attend Board Meetings as an Observer.

(*) All Directors and alternates are invited to attend Committee meetings and receive full Committee papers.

(+) B Myers was appointed the Alternate Director for J Hill in the Board Meeting held on the 15 September 2017. Consequently, B Myers was assigned two voting rights.

Where a Non-Committee member has attended a Committee, attendance has been noted.

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

NOTE 11. Related parties (continued)

(d) Directors' attendance at Board and Committee meetings (continued)

Year ended 30 June 2017

| Director/ Alternate Director | Meeting of Committees | | | | | | | | | |
|------------------------------------|---------------------------------|---|--------------------------|---|---------------|----|-----------------------|---|----------------------------|---|
| | Full Board Meeting of Directors | | Audit, Risk & Compliance | | Claims Review | | People & Remuneration | | Hostplus Investments Trust | |
| | A | B | A | B | A | B | A | B | A | B |
| Directors | | | | | | | | | | |
| D Elmslie | 7 | 8 | – | – | – | – | 3 | 3 | – | – |
| R Buckler | – | – | – | – | 15 | 15 | – | – | – | – |
| P Collins | 7 | 7 | 3 | 3 | – | – | – | – | – | – |
| D Gibson | 7 | 7 | – | – | – | – | 3 | 3 | – | – |
| A Grayson | 7 | 7 | – | – | – | – | – | – | – | – |
| R Stark | 1 | 3 | – | – | – | – | – | – | – | – |
| M Robertson | 7 | 7 | 2 | 3 | – | – | – | – | – | – |
| M Vaile | 5 | 7 | – | – | – | – | – | – | – | – |
| D McElrea | 4 | 4 | – | – | – | – | – | – | – | – |
| T Lyons | 6 | 7 | 2 | 3 | – | – | 3 | 3 | – | – |
| B Myers | 2 | 3 | – | – | – | – | – | – | – | – |
| J A Hill | 3 | 3 | – | – | – | – | – | – | – | – |
| Alternate Directors | | | | | | | | | | |
| R Buckler | 3 | – | – | – | – | – | – | – | – | – |
| N Randall | 3 | – | 1 | – | – | – | – | – | – | – |
| Observers | | | | | | | | | | |
| D Elmslie | – | – | 3 ^(*) | – | – | – | – | – | – | – |
| R Buckler | 1 ^(#) | – | – | – | – | – | – | – | – | – |
| N Randall | 1 ^(#) | – | – | – | – | – | – | – | – | – |

A Number of meetings attended including where an alternate may have attended on behalf of the appointed Director.

B Number of meetings held during the time the Director held office or was a member of the Committee during the year.

(#) Alternate Directors are invited to attend Board Meetings as an Observer.

(*) All Directors and alternates are invited to attend Committee meetings and receive full Committee papers.

Where a Non-Committee member has attended a Committee, attendance has been noted.

NOTE 11. Related parties (continued)

(e) Transactions with Directors, Management Personnel and Shareholders

The following Directors and Management Personnel were also members of the Fund during the year:

| Trustee Directors | Executive members |
|-------------------|--------------------|
| Robyn Buckler | David Elia |
| Peter Collins | Norlena Brouwer |
| Judith Hill | Kelly Cantwell |
| Mark Robertson | Umberto Mecchi |
| Mark Vaile | Sam Sicilia |
| | Natalie Strickland |
| | Paul Watson |

Their membership terms and conditions were the same as those applied to other members of the Fund.

The shareholders of the Trustee, Host-Plus Pty Limited, are United Voice and Australian Hotels Association ('AHA'). As part of the Fund's ongoing marketing initiatives, the Fund has agreements in place with both shareholders to support the marketing, advocacy and promotion of the Fund. The agreements include specific obligations of each party and provide for attendance and speaking opportunities at various industry events and forums, name and logo exposure opportunities at industry events or through industry publications and use of other stipulated mediums to promote and advertise the Fund.

The Fund measures and monitors the benefits derived against the benefits stipulated in the above agreements which are subject to annual testing by the Fund's internal auditor, KPMG. The objectives of the internal audit includes considering whether the delivery of stipulated benefits have been received. Based on the procedures they have undertaken, the internal auditor has not reported any significant control weaknesses in the processes, procedures and controls in respect of the arrangements.

The agreements with the AHA include the National body of the AHA and the following State based affiliates (Australian Capital Territory, New South Wales, Northern Territory, South Australia, Tasmania and Victoria). The agreement with the United Voice is with the National body of the United Voice which incorporates the following State based affiliates (Australian Capital Territory, New South Wales, Northern Territory, South Australia, Tasmania, Victoria and Western Australia). During the year, the Trustee paid the Australian Hotels Association \$660,000 (2017: \$660,000) and United Voice \$400,000 (2017: \$400,000), excluding GST.

From time to time, the Fund will partner with its shareholders and related industry partners for the purposes of engaging with members and employers. These are further marketing opportunities that fall outside the agreements noted above. During the year, the Trustee paid the Australian Hotels Association \$95,661 (2017: \$48,980) and United Voice \$12,000 (2017: \$12,000) excluding GST in relation to these activities.

NOTE 11. Related parties (continued)

(f) Investment in the Hostplus Pooled Superannuation Trust

The Fund predominately invests its assets through the Hostplus Pooled Superannuation Trust ('Trust'), a related entity with the same Trustee as the Fund. The Trust's assets predominantly consist of a range of financial instruments in various asset classes including cash, diversified fixed interest, Australian equities, international equities, property, infrastructure, private equity and alternative assets as per the strategic allocation set by the Board. As at 30 June 2018, the Fund holds 99.99% of investments in the Trust and the remaining portion is held by other investors.

NOTE 12. Matters subsequent to the end of the financial year

No significant events have occurred since the end of the reporting period which would impact on the Statement of Financial Position, Income Statement, Statement of Changes in Member Benefits or Statement of Cash Flows of the Fund for the year ended on that date.

NOTE 13. Segment information

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

Trustee Declaration

In the opinion of the Trustee of the Hostplus Superannuation Fund:

- (a) the accompanying financial statements and notes set out on pages 1 to 26 are in accordance with:
 - (i) Australian Accounting Standards and other mandatory professional reporting requirements, and
 - (ii) presents fairly the Fund's financial position as at 30 June 2018 and of its performance for the financial year ended on that date, and
- (b) the Fund has been conducted in accordance with its constituent Trust Deed and the requirements of the Superannuation Industry (Supervision) Act 1993 and its accompanying Regulations; the relevant requirements of the Corporations Act 2001 and Regulations; the requirements under section 13 of the Financial Sector (Collection of Data) Act 2001, during the year ended 30 June 2018, and
- (c) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors of Host-Plus Pty. Limited as Trustee for the Hostplus Superannuation Fund.

DIRECTOR



DIRECTOR



Sydney
21 September 2018



Independent Auditor's report on financial statements

Report by the RSE Auditor¹ to the trustee of Hostplus Superannuation Fund (ABN: 68 657 495 890)

Opinion

I have audited the financial statements of Hostplus Superannuation Fund for the year ended 30 June 2018 comprising the Income Statement, Statement of Changes in Member Benefits, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, summary of significant accounting policies and other explanatory notes.

In my opinion, the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards the financial position of Hostplus Superannuation Fund as at 30 June 2018 and the results of its operations, cash flows, changes in equity/reserves and changes in members' benefits for the year ended 30 June 2018.

Basis for Opinion

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

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

Trustee's responsibility for the financial statements

The RSE's trustee is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards² and the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee is also responsible for such internal control as the trustee determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material

¹ RSE Auditor as defined in Section 10 of the SIS Act.

² The Australian Accounting Standards issued by the Australian Accounting Standards Board.



if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

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

George Sagonas
Partner

Melbourne
21 September 2018



Independent Auditor's report on APRA reporting forms¹ and Limited Assurance report on compliance

(A) APRA reporting forms required under reporting standards (SPS 310, Attachment A)

Independent auditor's report to the trustee of Hostplus Superannuation Fund (ABN: 68 657 495 890) on forms required under APRA reporting standards:

| | |
|------------------|--|
| <i>SRF 330.2</i> | <i>Statement of Financial Performance;</i> |
| <i>SRF 533.0</i> | <i>Asset Allocation;</i> |
| <i>SRF 540.0</i> | <i>Fees;</i> |
| <i>SRF 702.0</i> | <i>Investment Performance; and</i> |
| <i>SRF 703.0</i> | <i>Fee Disclosed</i> |

Conclusion

Based on my limited assurance engagement, which is not a reasonable assurance engagement, nothing has come to my attention that causes me to believe that the APRA reporting forms of Hostplus Superannuation Fund for the period ended 30 June 2018 are not prepared, in all material respects, in accordance with the APRA reporting standards.

Basis for Conclusion

I have conducted a limited assurance engagement, in accordance with ASRE 2405 *Review of Historical Financial Information Other than a Financial Report* (ASRE 2405) issued by AUASB, in order to state whether, on the basis of the procedures described, anything has come to my attention that causes me to believe that the relevant forms are not prepared, in all material respects, in accordance with the APRA reporting standards.

ASRE 2405 requires me to comply with the relevant professional and ethical requirements of the Standards issued by the Accounting Professional and Ethical Standards Board.

Emphasis of matter - restriction on use and distribution

I draw to the readers' attention that the APRA reporting forms have been prepared for the purpose of fulfilling the trustee's reporting responsibilities of the APRA reporting standards. As a result, they may not be suitable for another purpose. This report is intended solely for the trustee and APRA, and should not be distributed to or used by parties other than the trustee and APRA. I disclaim any assumption of responsibility for any reliance on this report, or the APRA reporting forms to which it relates, to any party other than the trustee and APRA, or for any purpose other than that for which it was prepared.

¹ Forms required by reporting standards made under the Financial Sector (Collection of Data) Act 2001, as listed in Attachment A to Prudential Standard SPS 310 Audit and Related Matters.



Trustee's responsibility for forms required by APRA reporting standards

The RSE's trustee is responsible for the preparation and lodgement of the forms (APRA reporting forms) required by reporting standards, made under the *Financial Sector (Collection of Data) Act 2001*, as listed in Attachment A to *Prudential Standard SPS 310 Audit and Related Matters* (APRA reporting standards) and for such internal controls as the trustee determines to be necessary to enable the preparation of the APRA forms free from material misstatement, whether due to fraud or error. The APRA reporting forms have been prepared for the purposes of fulfilling the trustee's reporting requirements under the APRA reporting standards.

Auditor's responsibilities for forms required by APRA reporting standards

My responsibility is to express a conclusion, based on my limited assurance engagement, on the APRA reporting forms:

| | |
|------------------|--|
| <i>SRF 330.2</i> | <i>Statement of Financial Performance;</i> |
| <i>SRF 533.0</i> | <i>Asset Allocation</i> |
| <i>SRF 540.0</i> | <i>Fees;</i> |
| <i>SRF 702.0</i> | <i>Investment Performance; and</i> |
| <i>SRF703.0</i> | <i>Fee Disclosed</i> |

of Hostplus Superannuation Fund, which comprise part of the information required by the APRA reporting standards for the year ended 30 June 2018.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for the relevant forms, and applying analytical and other review procedures. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with Australian Auditing Standards and consequently does not enable me to obtain assurance that I would become aware of all material matters that might be identified in a reasonable assurance engagement. Accordingly, I do not express a reasonable assurance opinion.



(B) Compliance

Independent Assurance Practitioner's Limited Assurance report to the trustee of Hostplus Superannuation Fund (ABN: 68 657 495 890)

Conclusion

I have performed a limited assurance engagement under the reporting requirements specified in Australian Prudential Regulation Authority (APRA) Prudential Standard SPS 310 *Audit and Related Matters* (SPS 310), as described in the *Scope* section, paragraphs *Part A* to *Part C*, of this report.

Part A – the trustee's systems, procedures and internal controls are designed to ensure that the trustee has complied with all applicable prudential requirements

Based on the procedures I performed and evidence I obtained, nothing has come to my attention that causes me to believe that, in all material respects, the trustee did not have in place suitably designed systems, procedures and controls that operated effectively throughout the year of income to address compliance with all applicable Prudential Requirements.

Part B – the trustee's systems, procedures and internal controls provided reliable data to APRA as required under the APRA reporting standards

Based on the procedures I performed and evidence I obtained, nothing has come to my attention that causes me to believe that, in all material respects, the trustee did not have in place suitably designed systems, procedures and controls that operated effectively throughout the year of income and provided reliable data to APRA as required under the APRA reporting standards.

Part C – compliance with the RMF

Based on the procedures I performed and evidence I obtained, nothing has come to my attention that causes me to believe that, for the period 1 July 2017 to 30 June 2018, the trustee did not comply, in all material respects, with its RMF.

Basis for Conclusion

I conducted the engagement in accordance with the Standard on Assurance Engagements ASAE 3100 *Compliance Engagements* and 3150 *Assurance Engagements on Controls* issued by the Auditing and Assurance Standards Board.

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

Emphasis of matter - restriction on use and distribution

This report has been prepared solely for the trustee in order to meet the APRA reporting requirements of the trustee. This report is intended solely for the trustee and APRA, and should not be distributed to or used by parties other than the trustee and APRA. I disclaim any assumption of responsibility for any reliance on this report to any party other than the trustee and APRA, or for any purpose other than that for which it was prepared.

Our conclusion is not modified in respect of this matter.



Trustee's responsibility for compliance

The trustee of Hostplus Superannuation Fund are responsible for:

- a) The trustee's systems, procedures and internal controls that are designed to ensure that the trustee has complied with all applicable prudential requirements, has provided reliable data to APRA as required by the APRA reporting standards , and has operated effectively throughout the year of income;
- b) the trustee's compliance with its risk management framework; and
- c) the trustee's compliance with its operational risk financial requirement (ORFR) strategy.

Independence and Quality Control

I have complied with the independence and other relevant ethical requirements relating to assurance engagements, and apply Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements* in undertaking this assurance engagement.

Independent Assurance Practitioner's responsibilities

My responsibility is to perform a limited assurance engagement as required by SPS 310, described in *Scope* paragraphs *Part A* to *Part C* of this report, and to express a limited assurance conclusion based on the procedures I have performed and the evidence I have obtained.

My limited assurance engagement has been conducted in accordance with applicable AUASB Standards on Assurance Engagements² including ASAE 3100 *Compliance Engagements* and ASAE 3150 *Assurance Engagements on Controls*, in order to express a limited assurance conclusion as described in *Scope* paragraphs *Part A* to *Part C* of this report. I have complied with the independence and other relevant ethical requirements relating to a limited assurance engagements.

The procedures I performed were based on my professional judgment and included enquiries of the trustee personnel and observation of material control procedures performed; inspection of documents; walk-throughs of material control procedures and evaluating the effectiveness of material control procedures throughout the year.

My reasonable and limited assurance engagements on the APRA reporting forms required under SPS 310 are directed towards obtaining sufficient appropriate evidence to form an opinion and conclusion under the appropriate prudential requirements. These procedures were not designed to enable me to conclude on other matters required by the APRA Prudential Standards. I have therefore performed assurance procedures in order to meet my responsibilities in relation to the design and operating effectiveness of material controls and compliance with specific requirements under the prudential requirements.

² Prudential Requirements' is defined under footnote 12 of *Prudential Standard SPS 220 Risk management*.



Inherent Limitations

A limited assurance engagement³ is substantially less in scope as the procedures performed vary in nature and timing from a reasonable assurance engagement conducted in accordance with AUASB Standards on Assurance Engagements. Consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Due to the inherent limitations of any internal control structure, it is possible that, even if the controls are suitably designed and operating effectively, the control objectives may not be achieved and so fraud, error, or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure, within which the controls that we have assured operate, has not been assured and no opinion is expressed as to its design or operating effectiveness.

Furthermore, projections of any evaluation of internal control procedures or compliance measures to future periods are subject to the risk that control procedures may become inadequate because of changes in conditions, or that the degree of compliance may deteriorate. Consequently, there are inherent limitations on the level of assurance that can be provided.

Accounting records and data relied on for prudential reporting and compliance are not continuously audited and do not necessarily reflect accounting adjustments necessary for end of reporting period financial report preparation, or events occurring after the end of the reporting period.

The conclusions in this report expressed above are to be read in the context of the foregoing comments.

Scope

Part A - the trustee's systems, procedures and internal controls are designed and operate effectively to ensure that the trustee has complied with all applicable prudential requirements

The procedures I performed during the period 1 July 2017 to 30 June 2018 as listed below were considered necessary in relation to the trustee's systems, procedures and controls that address compliance with all applicable Prudential Requirements. Prudential Requirements include requirements imposed by:

- a) APRA Prudential Standards;
- b) APRA reporting standards;
- c) SIS Act and SIS Regulation;
- d) APRA conditions on the trustee's licence or authorisation;

³ For detail see ASAE 3150 Controls Standard para 89 (m) (i) and (ii).



- e) Directions issued by APRA under the *SIS Act 1993*; and
- f) Other requirements imposed by APRA in writing (if applicable).

Through enquiries, observation and walk-throughs of material control procedures, the evidence I obtained is sufficient and appropriate to provide a basis for my conclusion.

Part B - the trustee's systems, procedures and internal controls provided reliable data to APRA as required under the APRA reporting standards

The procedures I have performed as listed below were considered necessary in relation to the trustee's systems, procedures and controls, for the period 1 July 2017 to 30 June 2018, to ensure that, in all material respects, reliable data is provided, as required by the APRA reporting standards.

Through enquiries, observation and walk-throughs of material control procedures, the evidence I obtained is sufficient and appropriate to provide a basis for my conclusion.

Part C – compliance with the Risk Management Framework (RMF)

The procedures I have performed as listed below were considered necessary in relation to the trustee's compliance, in all material respects, with its RMF, as defined in *Prudential Standard SPS 220 Risk Management (SPS 220)* for the period 1 July 2017 to 30 June 2018.

Through enquiry, observation and inspection of documents, the evidence I obtained is sufficient and appropriate to provide a basis for my conclusion.



PricewaterhouseCoopers
George Sagonas
Partner

Melbourne
21 September 2018



Independent Auditor's report on APRA reporting forms¹ and Reasonable Assurance report on compliance

(A) APRA reporting forms required under reporting standards (SPS 310, Attachment A)

Independent auditor's report to the trustee of Hostplus Superannuation Fund (ABN: 68 657 495 890) on forms required under APRA reporting standards:

| | |
|------------------|--|
| <i>SRF 114.1</i> | <i>Operational Risk Financial Requirement;</i> |
| <i>SRF 320.0</i> | <i>Statement of Financial Position;</i> |
| <i>SRF 330.0</i> | <i>Statement of Financial Performance;</i> |
| <i>SRF 530.0</i> | <i>Investments;</i> |
| <i>SRF 531.0</i> | <i>Investment Flows;</i> |

Opinion

In my opinion:

- a) the relevant forms are prepared in all material respects in accordance with the requirements of the APRA reporting standards, the financial position of Hostplus Superannuation Fund as at 30 June 2018 and its performance for the year then ended, as reflected in the RSE's financial statements signed on 21 September 2018 or accounting records with regard to other information that was not directly derived from the financial statements; and
- b) the trustee of Hostplus Superannuation Fund has complied in all material respects with the reporting requirements of the APRA reporting standards pertaining to the preparation of the APRA reporting forms.

Basis for Opinion

My reasonable assurance engagement has been conducted in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the Auditor's responsibilities for forms required by APRA reporting standards section of my report. I am independent of the entity in accordance with the auditor independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to my reasonable assurance engagement on the APRA reporting forms in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code.

¹ Forms required by reporting standards made under the Financial Sector (Collection of Data) Act 2001, as listed in Attachment A to Prudential Standard SPS 310 Audit and Related Matters.



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

Responsibility of the trustee's for forms required by APRA reporting standards

The RSE's trustee is responsible for the preparation and lodgement of the forms (APRA reporting forms) required by reporting standards made under the *Financial Sector (Collection of Data) Act 2001*, as listed in Attachment B to *Prudential Standard SPS 310 Audit and Related Matters* (APRA reporting standards) and for such internal controls as the trustee determines to be necessary to enable the preparation of the APRA reporting forms free from material misstatement, whether due to fraud or error.

In preparing the APRA reporting forms, the trustee is responsible for assessing the ability of the RSE to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustee either intend to liquidate the RSE or to cease operations, or has no realistic alternative but to do so².

The APRA reporting forms have been prepared for the purposes of fulfilling the trustee's reporting requirements under the APRA reporting standards.

Auditor's Responsibilities for forms required by APRA reporting standards

My objectives are to obtain reasonable assurance on whether the APRA reporting forms required by the APRA reporting standards are free from material misstatement, whether due to fraud or error, and to issue a report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that a reasonable assurance engagement conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists³. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these APRA reporting forms.

I have conducted a reasonable assurance engagement on the following APRA reporting forms:

| | |
|------------------|--|
| <i>SRF 114.1</i> | <i>Operational Risk Financial Requirement;</i> |
| <i>SRF 320.0</i> | <i>Statement of Financial Position;</i> |
| <i>SRF 330.0</i> | <i>Statement of Financial Performance;</i> |
| <i>SRF 530.0</i> | <i>Investments;</i> |
| <i>SRF 531.0</i> | <i>Investment Flows;</i> |

of Hostplus Superannuation Fund, which comprise part of the information required by the APRA reporting standards for the year ended 30 June 2018.

I have conducted a reasonable assurance engagement on the APRA reporting forms in order to express an opinion on them to the trustee of Hostplus Superannuation Fund.

² Auditing Standard ASA 570 *Going Concern*, paragraph 2.

³ The terms reasonable assurance and material misstatement are defined in the Auditing and Assurance Standards Board Glossary.



I have also performed a reasonable assurance engagement on the financial statements of Hostplus Superannuation Fund for the year ended 30 June 2018. My auditor's opinion on the financial statements was signed on 21 September 2018, and was not modified.

As part of a reasonable assurance engagement in accordance with the Australian Auditing Standards, I exercised professional judgment and maintained professional scepticism throughout the reasonable assurance engagement. I also:

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

Emphasis of Matter – Bases of preparation of APRA reporting forms and restriction on use and distribution

I draw to the readers' attention that the APRA reporting forms have been prepared for the purpose of fulfilling the trustee's reporting responsibilities under the APRA reporting standards. As a result, they may not be suitable for another purpose. This report is intended solely for the trustee and APRA (and ASIC where applicable), and should not be distributed to or used by parties other than the trustee and APRA (and ASIC where applicable). I disclaim any assumption of responsibility for any reliance on this report, or the APRA reporting forms to which it relates, to any party other than the trustee and APRA (and ASIC where applicable), or for any purpose other than that for which it was prepared.

Our opinion is not modified in respect of this matter.



(B) Compliance

Independent Assurance Practitioner's report⁴ to the trustee of Hostplus Superannuation Fund (ABN: 68 657 495 890)

I have performed a reasonable assurance engagement to provide an opinion in relation to the trustee's compliance with applicable provisions under the *Superannuation Industry (Supervision) Act 1993* (SIS Act), *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations), APRA reporting standards, *Corporations Act 2001* (Corporations Act) and *Corporations Regulations 2001* (Corporations Regulations).

In my opinion, the trustee of Hostplus Superannuation Fund has complied, in all material respects with:

- a) The requirements of the applicable SIS Act and SIS Regulations, APRA reporting standards, Corporations Act and Corporations Regulations specified above for the year ended 30 June 2018
- b) The requirement to maintain an operational risk reserve at the required target amount in accordance with its ORFR strategy

Basis for Opinion

I conducted the engagement in accordance with the Standard on Assurance Engagements ASAE 3100 *Compliance Engagements* and 3150 *Assurance Engagements on Controls* issued by the Auditing and Assurance Standards Board.

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

Trustee's responsibility for compliance

The RSE's trustee is responsible for complying with the requirements of the SIS Act, SIS Regulations, APRA reporting standards, the Corporations Act and Corporations Regulations, Regulations and the conditions of its RSE licence.

The trustee is responsible, under *Prudential Standard SPS 114 Operational Risk Financial Requirement* (SPS 114), for maintaining financial resources at the required target amount in accordance with its Operational Risk Financial Requirement (ORFR) strategy. The financial resources held to meet the ORFR target amount must be held either as:

- a) an operational risk reserve within an RSE;
- b) operational risk trustee capital held by the RSE licensee; or
- c) a combination of both an operational risk reserve held within an RSE and operational risk trustee capital held by the RSE licensee.

⁴ Conducted under ASAE 3100 Compliance Engagements



Independence and Quality Control

I have complied with the independence and other relevant ethical requirements relating to assurance engagements, and apply Auditing Standard ASQC 1 Quality Control for Firms that *Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements* in undertaking this assurance engagement.

Independent Assurance Practitioner's responsibilities

My responsibility is to express an opinion on the trustee's compliance with the requirements of the SIS Act, SIS Regulations, APRA reporting standards, Corporations Act and Corporation Regulations based on the reasonable assurance engagement. My reasonable assurance engagement has been conducted in accordance with applicable AUSAB Standard on Assurance Engagements. This Standard requires that I comply with relevant ethical requirements and plan and perform my procedures to obtain reasonable assurance whether the trustee of Hostplus Superannuation Fund has, in all material respects:

- a) complied with the relevant requirements of the following provisions of the SIS Act and SIS Regulations:

Sections 29VA, 35A, 65, 66, 67, 95, 97, 98, 99F, 101, 105, 106, 109, 117, 154 and 155(2);

Regulations 3.10, 5.08, 6.17, 7.04, 7.05, 9.09, 9.14, 13.14, 13.17, 13.17A;

- b) complied with the APRA reporting standards that are subject to reasonable assurance (to the extent applicable);

- c) complied with the relevant requirements of the following provisions of the Corporations Act and Corporation Regulations (to the extent applicable):

Sections 1012B, 1012F, 1012H(2), 1012I, 1013B, 1013D, 1013K(1), 1013K(2), 1016A(2), 1016A(3), 1017B(1), 1017B(5), 1017BA, 1017C(2), 1017C(3), 1017C(5), 1017C(8), 1017D(1), 1017D(3), 1017D(3A)⁵, 1017DA(3), 1017E(2), 1017E(3), 1017E(4), 1020E(8) and 1020E(9);

Regulations 7.9.07Q–7.9.07W, 7.9.11K, 7.9.11N, 7.9.11O, 7.9.11P, 7.9.11Q, 7.9.32(3), 7.9.48B, 7.9.48C and 7.9.48D; and

- d) complied with the requirement to prepare the respective forms required by the APRA reporting standards;

for the year ended 30 June 2018.

My procedures with respect to SIS Regulation 6.17 included testing whether amounts identified by the trustee as preserved and restricted non-preserved have been cashed or transferred only in accordance with the requirements of Part 6 of the SIS Regulations. These procedures did not include testing of the

⁵ Subsection 1017DA(3A) was added to the Corporations Act by Item 12.1 of Schedule 10A to the Corporations Regulations 2001.



calculation of the preserved and restricted non-preserved amounts beyond a broad assessment of the apparent reasonableness of the calculations.

My responsibility is also to express an opinion on the trustee's compliance with their ORFR strategy with respect to maintaining an operational risk reserve at the required target amount for the year ended 30 June 2018.

My procedures in relation to SIS Section 155(2) included assessing the trustee's controls in place to monitor compliance with Section 155(2). These procedures did not include testing the trustee's methodology used to calculate the issue or redemption price.

Inherent limitations

Due to the inherent limitations of any evidence gathering procedures and the internal control framework, it is possible that fraud, error or non-compliance may occur and not be detected. A reasonable assurance engagement is not designed to detect all instances of non-compliance with the applicable SIS Act and SIS Regulations, APRA reporting standards, Corporations Act and Corporations Regulations specified above, as a reasonable assurance engagement is not performed continuously throughout the year and the procedures performed in respect of compliance with the applicable SIS Act and SIS Regulations, APRA reporting standards, Corporations Act and Corporations Regulations specified above are undertaken on a test basis.

Emphasis of Matter – Basis of Preparation of APRA reporting forms and restriction on use and distribution

This report has been prepared solely for the trustee in order to meet the APRA reporting requirements of the trustee. This report is intended solely for the trustee and APRA (and ASIC where applicable), and should not be distributed to or used by parties other than the trustee and APRA (and ASIC where applicable). I disclaim any assumption of responsibility for any reliance on this report to any party other than the trustee and APRA (and ASIC where applicable), or for any purpose other than that for which it was prepared.

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to be 'G. Sagonas'.

George Sagonas
Partner

Melbourne
21 September 2018

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