

legalsuper

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

ABN: 60 346 078 879

legalsuper
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Statement of Financial Position
As at 30 June 2020

	Note	2020 \$	2019 \$
Assets			
Cash and cash equivalents	15	22,312,050	13,874,513
Receivables	5	198,164	645,518
Investments			
Cash and short term deposits	4	536,906,846	488,883,671
Australian fixed interest securities	4	230,670,229	382,050,037
International fixed interest securities	4	123,615,211	238,963,213
Australian equities	4	1,281,907,389	1,286,386,763
International equities	4	1,053,767,268	1,120,755,614
Alternative assets	4	524,035,400	265,450,864
Property	4	437,481,821	403,465,244
Property, plant and equipment	6	718,968	828,689
Deferred tax assets	11	747,065	822,025
Income tax assets		3,090,822	-
Total assets		<u>4,215,451,233</u>	<u>4,202,126,151</u>
Liabilities			
Lease incentive liability		(410,938)	(513,673)
Payables	7	(5,988,492)	(6,790,015)
Income tax payable		-	(14,660,580)
Deferred tax liabilities	11	(38,081,876)	(52,318,654)
Total liabilities excluding member benefits		<u>(44,481,306)</u>	<u>(74,282,922)</u>
Net assets available for member benefits		<u>4,170,969,927</u>	<u>4,127,843,229</u>
Member benefits			
Allocated to members		(4,148,800,149)	(4,097,089,841)
Unallocated to members		(7,792,786)	(6,754,116)
Total member benefits	3	<u>(4,156,592,935)</u>	<u>(4,103,843,957)</u>
Net assets		<u><u>14,376,992</u></u>	<u><u>23,999,272</u></u>
Equity			
General reserve	10	(4,432,300)	(13,875,063)
Operational risk reserve	10	(9,944,692)	(10,124,209)
Total equity		<u><u>(14,376,992)</u></u>	<u><u>(23,999,272)</u></u>

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

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Income Statement
For the year ended 30 June 2020

	Note	2020 \$	2019 \$
Superannuation activities			
Interest		3,458,637	4,140,447
Distributions and dividends		304,049,970	125,114,414
Changes in assets measured at fair value	8	(343,897,043)	160,651,674
Other investment income		2,995,723	5,203,507
Other income		220,268	376,821
Total superannuation activities income		(33,172,445)	295,486,863
Investment expenses	12	(2,494,548)	(1,885,372)
Administration expenses		(4,846,553)	(4,780,018)
Operating expenses	13	(11,632,386)	(11,816,139)
Anti-detriment expenses		-	(136,210)
Total expenses		(18,973,487)	(18,617,739)
Net result from superannuation activities		(52,145,932)	276,869,124
Less: Net benefits allocated to members' accounts		23,480,557	(256,611,488)
Profit/(loss) before income tax		(28,665,375)	20,257,636
Income tax expense/(benefit)	11	(19,043,095)	17,347,843
Profit/(loss) after income tax		(9,622,280)	2,909,793

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

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

	Note	2020 \$	2019 \$
Opening balance of member benefits		4,103,843,957	3,732,898,014
Contributions:			
Employer		202,353,877	191,358,018
Member		66,790,845	64,083,405
Transfer from other superannuation plans		105,041,753	115,087,801
Government co-contributions		199,684	197,953
Income tax on contributions		(31,755,373)	(29,057,671)
Net after tax contributions		342,630,786	341,669,506
Benefits to members/beneficiaries		(266,338,749)	(223,058,879)
Insurance premiums charged to members' accounts		(16,947,891)	(19,284,373)
Death and disability insurance benefits credited to members' accounts		16,885,389	15,008,200
Benefits allocated to members' accounts, comprising:			
Net investment income		(22,563,704)	258,337,286
Administration fees		(916,853)	(1,725,797)
Closing balance of member benefits	3	4,156,592,935	4,103,843,957

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

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

	General reserve	Operational risk reserve	Total equity
	\$	\$	\$
Opening balance as at 1 July 2019	13,875,063	10,124,209	23,999,272
Net transfers to/from reserves	-	-	-
Profit/(loss)	(9,442,763)	(179,517)	(9,622,280)
Closing balance as at 30 June 2020	<u>4,432,300</u>	<u>9,944,692</u>	<u>14,376,992</u>

	General reserves	Operational risk reserve	Total equity
	\$	\$	\$
Opening balance as at 1 July 2018	12,229,671	8,859,808	21,089,479
Net transfers to/from reserves	-	-	-
Profit/(loss)	1,645,392	1,264,401	2,909,793
Closing balance as at 30 June 2019	<u>13,875,063</u>	<u>10,124,209</u>	<u>23,999,272</u>

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

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Statement of Cash Flows
For the year ended 30 June 2020

	Note	2020 \$	2019 \$
Cash flows from operating activities			
Interest received		3,458,637	4,140,447
Distributions and dividends		235,757,240	59,970,980
Insurance proceeds		16,964,251	15,095,958
Other general administration expenses		(16,427,885)	(16,127,510)
Other income		3,202,875	5,384,023
Investment expenses		(2,215,038)	(1,944,646)
Insurance premiums		(17,640,477)	(19,398,261)
Income tax paid		(12,870,125)	(11,975,460)
Net cash inflows from operating activities	15	<u>210,229,479</u>	<u>35,145,531</u>
Cash flows from investing activities			
Sale/(Purchase) of investments		(278,033,071)	(150,525,167)
(Purchase) of fixed assets		(50,908)	(85,780)
Net cash outflows from investing activities		<u>(278,083,979)</u>	<u>(150,610,947)</u>
Cash flows from financing activities			
Employer contributions		202,353,877	191,358,019
Member contributions		66,790,845	64,083,405
Transfers from other superannuation plans received		105,041,753	115,087,801
Government co-contributions received		199,684	197,953
Benefits paid to members		(266,338,749)	(223,058,879)
Income tax paid on contributions received		(31,755,373)	(29,057,671)
Net cash inflows from financing activities		<u>76,292,037</u>	<u>118,610,628</u>
Net increase in cash		8,437,537	3,145,212
Cash and cash equivalents at the beginning of the financial period		13,874,513	10,729,301
Cash and cash equivalents at the end of the financial period	15	<u><u>22,312,050</u></u>	<u><u>13,874,513</u></u>

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

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

1. Reporting entity

legalsuper is a superannuation fund that was established on 6 March 1989. Since inception it has provided accumulation benefits and from 1 July 2006 it has also provided pension benefits. Under legalsuper's trust deed, Legal Super Pty Ltd (A.B.N. 37 004 455 789) is its trustee. Members' entitlements are comprised of units valued using the unit price for the investment option(s) in which a member is invested.

In accordance with amendments to the Superannuation Industry (Superannuation) Act 1993 legalsuper was registered with the Australian Prudential Regulation Authority on 9 June 2006. (Registration number RSEL0002585)

The registered office of the Trustee of legalsuper (Legal Super Pty Ltd) is located in Australia at level 37, 140 William Street, Melbourne. It does not pay dividends to its shareholders. All net profits generated by legalsuper, subject to any amounts held in reserve, are distributed to members.

2. Summary of significant accounting policies

(a) Basis of preparation

The financial statements are general purpose statements which have 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.

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

Amounts in the financial statements have been rounded off to the nearest whole dollars. The amounts disclosed in note 18 have been rounded off to the nearest thousand dollars.

The financial statements were authorised for issue by the Board of Legal Super Pty Ltd, on 18 September 2020.

(b) New accounting standards and interpretations

AASB 16 Leases is effective for annual reporting periods beginning on or after 1 January 2019. The standard requires almost all leases to be recognised on the Statement of Financial Position.

Based on an assessment performed, adoption of the standard is assessed as immaterial on legalsuper's assets and liabilities and therefore the standard has not been adopted. Note 19 includes disclosure of legalsuper's future minimum lease payments.

AASB 1058 Income of Not-for-Profit Entities is effective for annual reporting periods beginning on or after 1 January 2019. AASB 1058 does not have a significant impact on the financial statements as the large majority of the legalsuper's revenue is accounted for under AASB 9.

There have been no other new accounting standards and interpretations issued that are mandatory for 30 June 2020 reporting periods required to be adopted by legalsuper.

2. Summary of significant accounting policies (continued)

(c) Assessment as investment entity

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

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

legalsuper's product disclosure statement states its objective of providing services to members which includes investing in a diversified investment portfolio for the purpose of returns in the form of investment income and capital appreciation.

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

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

The Trustee has therefore concluded that legalsuper meets the definition of an investment entity. These conclusions will be reassessed on an annual basis, if any of these criteria or characteristics changes.

The Trustee currently has no subsidiaries.

(d) Financial assets and liabilities

(a) Classification

legalsuper classifies its financial assets and financial liabilities into the categories below in accordance with AASB 9.

Financial assets and liabilities held for trading

These assets are acquired principally for the purpose of generating a profit from short-term fluctuation in price. All derivatives are classified as held for trading. Derivative financial instruments entered into by legalsuper do not meet the hedge accounting criteria as defined by AASB 9. Consequently hedge accounting is not applied by legalsuper.

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 risk management and investment strategies of legalsuper.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. legalsuper 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.

(b) Recognition

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

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

(c) Derecognition

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

- i. The rights to receive cash flows from the asset have expired; or
- ii. legalsuper has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows full without material delay to a third party under a 'pass-through' arrangement; and

2. Summary of significant accounting policies (continued)

(d) Financial assets and liabilities (continued)

- iii. Either (a) legalsuper has transferred substantially all the risks and rewards of the asset, or (b) legalsuper has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

(d) Initial measurement

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

Loans and receivables and financial liabilities (other than those classified at fair value through profit or loss) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

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

(e) Subsequent measurement

After initial measurement, legalsuper measures investments and derivatives at fair value through profit or loss. Subsequent changes in the fair value of those investments are recorded as 'changes in assets measured at fair value' through the income statement. Interest earned is recorded in 'Interest revenue' according to the terms of the contract. Dividend revenue is recorded in 'dividend revenue'.

(e) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by legalsuper.

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.

legalsuper uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Fair Values have been determined as follows:

Market quoted investments

The fair value of an investment for which there is a readily available market quotation is determined as the last quoted sale price at the close of business on year end.

Non-market quoted investments

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

- i) Unlisted securities are recorded with reference to recent arm's length transactions, current market value of another instrument substantially the same or discounted cash flows.
- ii) Where discounted cash flow techniques are used, estimated future cash flows are based on Trustee's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms, condition and risk.
- iii) Where other pricing models are used, inputs are based on market data at year end.
- iv) Private equity investments are valued according to the most recent valuation obtained from the underlying manager at fair value adjusted for subsequent investments, redemptions and significant changes in underlying market conditions through to year end.

2. Summary of significant accounting policies (continued)

(e) Fair value measurements (continued)

Derivative Financial Instruments

Derivative financial instruments including financial futures and forward exchange contracts, interest rate swaps, exchange traded and other options and forward rate agreements are recorded at a mark to market basis at year end using the most recent verifiable sources of market prices or generally accepted valuation principles.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy. Refer to Note 4.

COVID-19

While the COVID-19 pandemic has caused uncertainty and market volatility during the period, the Fund has continued to follow its established policies and process for managing risk, determining fair values and classifying assets and liabilities in the fair value hierarchy for disclosure purposes as at the reporting date.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and short-term deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Short term deposits are held with banks and/or authorised deposit-taking institutions.

For the purposes of the Statement of Cash Flows, no bank overdrafts existed at 30 June 2020 (2019: nil).

(g) Receivables and payables

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

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

(h) Property, plant and equipment

Depreciation on property, plant and equipment is calculated using the diminishing value method as follows:

- Furniture and fittings and computers	40% p.a.
- Audio visual equipment	30% p.a.
- Telephone equipment	20% p.a.
- Other	10%-16.67% p.a.

(i) Revenue recognition

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

Changes in fair value

Changes in the fair value of investments and derivatives are calculated as the difference between the fair value at sale, or at year end, and the fair value at the previous valuation point. All changes are recognised in the income statement.

Interest

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

Dividends and distributions

Dividend and distribution revenue is recognised when legalsuper'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.

2. Summary of significant accounting policies (continued)

(j) Income tax

legalsuper 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 legalsuper's taxable income.

Income tax in the income statement for the year comprises current and deferred tax.

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

Deferred tax is provided on all temporary differences at year end between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

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

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

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

Unrecognised deferred tax assets are reassessed at each year end and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

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

(k) Goods and services tax (GST)

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

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

The net amounts of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

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

2. Summary of significant accounting policies (continued)

(l) Foreign currency

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

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

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

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

(m) Accrued benefits

The liability for accrued benefits is legalsuper's present obligation to pay benefits to members and beneficiaries arising from membership up to 30 June.

(n) Significant accounting judgements, estimates and assumptions

The preparation of legalsuper'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 and estimates have been consistently applied in the current and prior financial years unless otherwise stated. The key estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements are described in Note 4 Fair value of financial instruments.

3. Member benefits

Member balances are valued using a unit price determined by the Trustee based on underlying investment valuations.

Members bear the investment risk relating to the underlying assets and unit prices used to value member balances. Unit prices are updated daily.

At 30 June 2020 \$7,792,786 (2019: \$6,754,116) was not allocated to members at year end. The amount not yet allocated to members' accounts consists of contributions and insurance proceeds received by legalsuper that have not been able to be allocated to members as at year end.

Refer to Note 18 for the Fund's management of the investment risks.

Member benefits vest 100% to members.	2020	2019
	\$	\$
Members benefits at end of the year	<u>4,156,592,935</u>	<u>4,103,843,957</u>
As compared to net assets available for member benefits	<u>4,170,969,927</u>	<u>4,127,843,229</u>

4. Fair value of financial instruments

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

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

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

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

	30-Jun-20			Total
	Level 1	Level 2	Level 3	
	\$	\$	\$	\$
Investments				
Cash and short term deposits	536,906,846	-	-	536,906,846
Australian fixed interest securities	-	230,670,229	-	230,670,229
International fixed interest securities	-	123,615,211	-	123,615,211
Australian equities	28,706,468	1,253,200,921	-	1,281,907,389
International equities	-	1,053,767,268	-	1,053,767,268
Alternative assets	-	-	524,035,400	524,035,400
Property	-	-	437,481,821	437,481,821
Total investments	<u>565,613,314</u>	<u>2,661,253,629</u>	<u>961,517,221</u>	<u>4,188,384,164</u>

	30-Jun-19			Total
	Level 1	Level 2	Level 3	
	\$	\$	\$	\$
Investments				
Cash and short term deposits	488,883,671	-	-	488,883,671
Australian fixed interest securities	-	382,050,037	-	382,050,037
International fixed interest securities	-	238,963,213	-	238,963,213
Australian equities	24,807,870	1,261,578,893	-	1,286,386,763
International equities	-	1,120,755,614	-	1,120,755,614
Alternative assets	-	-	265,450,864	265,450,864
Property	-	-	403,465,244	403,465,244
Total investments	<u>513,691,541</u>	<u>3,003,347,757</u>	<u>668,916,108</u>	<u>4,185,955,406</u>

4. Fair value of financial instruments (continued)

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

Valuation process for Level 3 valuations

Valuations are the responsibility of the Trustee.

For financial instruments classified in Level 3 in the fair value hierarchy some of the inputs to the valuation models are unobservable and therefore subjective in nature. The use of reasonably possible alternative assumptions could produce a different net market value measurement. If the impact of using those alternative assumptions would cause the fair value of Level 3 assets to be higher or lower by 5% of the net assets of legalsuper then the result for the year would have been higher or lower by \$48,075,861 (2019: \$33,445,805).

Significant unobservable inputs in level 3 measuring financial instruments

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

Type	Fair value as at \$	Valuation approach	Key unobservable input	Range of estimates (weighted average for unobservable input)	Inter-relationship between key unobservable inputs and fair value measurement
Units in unlisted unit trusts					
30 June 2020	961,517,221	Some of legalsuper's investments are in units in pooled investment trusts. These pooled investment trusts regularly issue unit prices which legalsuper uses to value its investment in those trusts.	The pooled investment trusts in which legalsuper is invested own the underlying investments and applies their valuation policy to determine the trust's net asset value.	20%-80% (50%)	Increases or decreases in the valuation of the underlying investments owned by the pooled investment trust will increase or decrease fair value. Significant redemptions from the pooled investment trust by its investors may necessitate the sale of investments to provide liquidity. If significant redemptions were to occur for a protracted period, the pooled investment trust may suspend redemptions in the interests of maintaining equity for all investors.
30 June 2019	668,916,108				

4. Fair value of financial instruments (continued)

(b) Level 3 reconciliation

30 June 2020	Property \$	Alternative assets \$	Total \$
Opening balance	403,465,244	265,450,864	668,916,108
Total realised/unrealised gains and losses	(25,482,261)	(21,968,131)	(47,450,392)
Purchases/applications	47,452,848	355,079,437	402,532,285
Sales/redemptions	(32,252,196)	(87,845,921)	(120,098,117)
Distributions and interest income	44,298,186	13,319,151	57,617,337
Transfers into / (out of) level 3	-	-	-
Closing balance	437,481,821	524,035,400	961,517,221

30 June 2019	Property \$	Alternative assets \$	Total \$
Opening balance	378,833,425	249,776,995	628,610,420
Total realised/unrealised gains and losses	23,516,211	1,939,102	25,455,313
Purchases/applications	58,068,871	59,439,496	117,508,367
Sales/redemptions	(38,298,569)	(71,141,707)	(109,440,276)
Distributions and interest income	(18,654,694)	25,436,978	6,782,284
Transfers into / (out of) level 3	-	-	-
Closing balance	403,465,244	265,450,864	668,916,108

(c) Transfers Between Hierarchy Levels

There have been no significant transfers between Level 1 and Level 2, Level 1 and Level 3, nor between Level 2 and Level 3 of the fair value hierarchy during the year.

5. Receivables

	2020 \$	2019 \$
Recoverable within 12 months		
GST receivable	195,572	435,619
Prepayments	-	207,290
Sundry receivables	2,592	2,609
	198,164	645,518

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk is the fair value of receivables. Information regarding credit risk exposure is set out in Note 18.

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6. Property, plant and equipment

	2020	2019
	\$	\$
<u>Building improvements</u>		
Cost	764,692	736,082
Accumulated depreciation	(286,232)	(220,740)
	<u>478,460</u>	<u>515,342</u>
<u>Office equipment and furniture</u>		
Cost	822,444	800,147
Accumulated depreciation	(581,936)	(486,800)
	<u>240,508</u>	<u>313,347</u>
Net written down value	<u>718,968</u>	<u>828,689</u>

7. Payables

	2020	2,019
	\$	\$
Due within 12 months		
Insurance premiums payable	4,028,995	4,721,581
Audit fees payable	194,864	200,348
Operating expenses payable	509,100	802,317
Administration expenses payable	341,162	382,386
Provision for employee benefits	756,575	558,243
Sundry creditors	157,796	125,140
	<u>5,988,492</u>	<u>6,790,015</u>

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in Note 18.

8. Changes in fair value of investments

	2020	2019
	\$	\$
Investments held at year end		
Cash and short term deposits	16,771,214	8,493,618
Interest bearing securities	(1,221,509)	11,888,471
Australian equities	(62,578,738)	63,233,362
International equities	12,158,442	75,591,300
Alternative assets	(23,261,575)	2,434,930
Property	(25,482,261)	22,691,565
Total unrealised gains/(losses)	<u>(83,614,427)</u>	<u>184,333,246</u>
Investments realised during the year		
Cash and short term deposits	(43,709,368)	(20,517,849)
Interest bearing securities	3,114,977	(652,501)
Australian equities	(211,655,568)	(2,995,799)
International equities	(9,326,101)	155,759
Alternative assets	1,293,444	(495,828)
Property	-	824,646
Total realised gains/(losses)	<u>(260,282,616)</u>	<u>(23,681,572)</u>
Change in fair value of investments	<u>(343,897,043)</u>	<u>160,651,674</u>

The amounts recorded as 'realised gains/(losses)' above is the difference between the fair value at sale and the carrying amount at the beginning of the year or when acquired, if acquired during the year.

9. Funding arrangements

During the year ended 30 June 2020, employers contributed the Superannuation Guarantee Charge of 9.50% (2019: 9.50%) to legalsuper on behalf of members. Member and additional employer contributions are paid to legalsuper at a rate determined by the member and/or employer.

10. Reserves

	2020 \$	2019 \$
General reserve	4,432,300	13,875,063
Operational risk reserve	9,944,692	10,124,209
	14,376,992	23,999,272

The Board has established a general reserve which may be used in certain circumstances as approved by the Board. Pursuant to APRA Prudential Standard SPS 114: Operational Risk Financial Requirement (ORFR), the Board has approved an Operational Risk Financial Requirement Policy (ORFR Policy). This ORFR Policy has established an Operational risk reserve (ORR) as part of the financial management of legalsuper which is reviewed at least annually. The ORR is subject to a target amount of 0.25% of net assets, subject to a tolerance limit of a 20% or more reduction in that target amount when the ORR will be replenished. The ORR may be used in certain circumstances to address operational risk events or claims against legalsuper arising from operational risk.

11. Income tax

(a) Major components of income tax expense/(benefit) for the years ended 30 June 2020 and 2019:

Income statement	2020 \$	2019 \$
<i>Current tax expense</i>		
Current tax charge	(2,924,634)	14,945,461
Adjustments in respect of current income tax of previous years	(1,956,643)	(4,887,046)
<i>Deferred tax</i>		
Relating to origination and reversal of temporary differences	(14,161,818)	7,289,428
Total tax expense/(benefit) as reported in the Income Statement	(19,043,095)	17,347,843

	2020 \$	2019 \$
(b) Reconciliation between income tax expense/(benefit) and accounting profit before income tax		
Profit/(loss) from operating activities	(28,665,375)	20,257,636
Income tax at 15%	(4,299,806)	3,038,645
Derecognition of temporary differences	249,881	464,740
Net benefit allocated to member accounts	(3,384,557)	38,491,723
Anti-detriment deduction	-	(116,370)
Capital (gains)/losses not (assessable)/deductible	2,769,118	(8,677,168)
Exempt pension income	718,192	(3,398,486)
Net imputation and foreign tax credits	(13,139,280)	(7,568,195)
Under/(over) provision in the previous year	(1,956,643)	(4,887,046)
	(19,043,095)	17,347,843

11. Income tax (continued)

(c) Deferred Tax

	Opening balance \$	2020 (Deducted) / added to income \$	Closing balance \$
Deferred tax assets			
Fund expenses accrued but not paid	822,025	(74,960)	747,065
	<u>822,025</u>	<u>(74,960)</u>	<u>747,065</u>
Deferred tax liabilities			
Income receivable	(504,176)	18,770	(485,406)
Unrealised (gains) / losses on investments	(51,814,478)	14,218,008	(37,596,470)
	<u>(52,318,654)</u>	<u>14,236,778</u>	<u>(38,081,876)</u>
Net deferred tax (liability) / asset	<u>(51,496,629)</u>	<u>14,161,818</u>	<u>(37,334,811)</u>
	Opening balance \$	2019 (Deducted) / added to income \$	Closing balance \$
Deferred tax assets			
Fund expenses accrued but not paid	819,095	2,930	822,025
	<u>819,095</u>	<u>2,930</u>	<u>822,025</u>
Deferred tax liabilities			
Income receivable	(101,071)	(403,105)	(504,176)
Unrealised (gains) / losses on investments	(44,925,225)	(6,889,253)	(51,814,478)
	<u>(45,026,296)</u>	<u>(7,292,358)</u>	<u>(52,318,654)</u>
Net deferred tax (liability) / asset	<u>(44,207,201)</u>	<u>(7,289,428)</u>	<u>(51,496,629)</u>

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

12. Investment expenses

	2020 \$	2019 \$
Asset consultancy fees	573,205	543,665
Custodian fees	1,463,061	1,015,667
Other investment fees	458,282	326,040
	<u>2,494,548</u>	<u>1,885,372</u>

13. Operating expenses

	2020 \$	2019 \$
Director's remuneration	446,941	519,014
Staff costs and support	6,646,449	5,804,290
Audit, tax and legal fees	580,561	597,531
Statutory fees	408,635	321,269
Member service & support expenses	1,486,252	2,263,313
Other expenses	2,063,548	2,310,722
	<u>11,632,386</u>	<u>11,816,139</u>

legalsuper incurs operating costs in managing its operations. These expenses are shown in the Income Statement. legalsuper recovers its operating costs from members. It deducts a member fee of \$1.30 (2019: \$1.30) per week from all member accounts and all other operating costs are recovered by the deduction of 0.29% (2019: 0.29%) from member balances.

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14. Auditors' remuneration

	2020	2019
	\$	\$
Amounts received or due and receivable by KPMG for:		
- audit of the financial statements and other assurance services	192,769	187,232
- other services	-	28,875
	<u>192,769</u>	<u>216,107</u>
Amounts received or due and receivable by PricewaterhouseCoopers for:		
- taxation and other services	288,272	53,772
	<u>481,041</u>	<u>269,879</u>

15. Cash flow statement reconciliation

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

	2020	2019
	\$	\$
Cash and cash equivalents	<u>22,312,050</u>	<u>13,874,513</u>

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

Profit / (loss) after income tax	(9,622,280)	2,909,793
Adjustments for:		
Distributions reinvested	(68,292,730)	(103,747,302)
(Increase) / decrease in assets measured in fair value	343,897,043	(160,651,674)
Depreciation and impairment	57,894	17,214
(Increase) / decrease in insurance	(62,502)	(4,276,173)
(Increase) / decrease in receivables	207,307	38,645,381
Increase / (decrease) in payables	(561,476)	264,421
Increase / (decrease) in income tax payable	(31,913,220)	5,372,383
Allocation to member accounts	(23,480,557)	256,611,488
Net cash outflows from operating activities	<u>210,229,479</u>	<u>35,145,531</u>

16. Segment information

legalsuper operates solely in one reportable business segment, being the provision of superannuation benefits to members. legalsuper also operates from one reportable geographic segment, being Australia, from where its activities are managed. Revenue is derived from interest, dividends, gains on the sale of investments and unrealised changes in the value of investments.

17. Related party disclosures

a) Trustee

The Trustee of legalsuper is Legal Super Pty Ltd. The shareholders of Legal Super Pty Ltd are the Law Institute of Victoria and the Law Society of New South Wales, each holding 50% of the issued capital of Legal Super Pty Ltd. No dividends are paid to the shareholders of Legal Super Pty Ltd.

The Board of Legal Super Pty Ltd has ten directors, including:

- (i) Independent Chair – Kirsten Mander
- (ii) 4 employer directors – Andrew Boog, Richard Fleming, Geoffrey Hone, and Richard Flitcroft
- (iii) 5 member directors – Nikhil Mishra, Carita Kazakoff, Phil Kennon QC, Emma Maiden, and Imogen Sturni

The Independent Chair is appointed by the Board of Legal Super Pty Ltd.

All other directors are nominated by the stakeholders of legalsuper, including:

- (i) 2 employer directors by the Law Institute of Victoria;
- (ii) 2 employer directors by the Law Society of New South Wales;
- (iii) 2 member directors by the New South Wales Local Government, Clerical, Administrative, Energy, Airlines and Utilities Union, trading as the United Services Union;
- (iv) 2 member directors by the Australian Municipal, Administrative, Clerical and Services Union, trading as the Australian Services Union (Victorian Private Sector Branch); and
- (v) 1 member director by the Victorian Bar Inc.

17. Related party disclosures (continued)

b) Director remuneration

The remuneration of Directors differs to reflect their varying workload. Some Committees meet more often and more time is involved for the Chairs of Committees.

The remuneration of the Independent Chair is determined by the Board. The remuneration of other Directors requires the approval of the organisations that nominate directors (i.e. the stakeholders set out above). Remuneration is indexed annually for a cost of living adjustment. Travel, accommodation and other incidental costs associated with performing their responsibilities as directors are either paid directly by legalsuper or paid by a director and reimbursed by legalsuper.

Remuneration paid in respect of each Director for the last two years is shown below. Remuneration is gross of any tax impacts for the recipient and includes any superannuation contributions paid or salary sacrificed. As indicated in the table, some directors have instructed the Trustee to pay their remuneration to another organisation.

Director fees paid to each of the Directors were as follows:

Current directors at 30 June 2020

Director name	Committee roles	Remuneration paid to:	2020 \$	2019 \$
Kirsten Mander	Remuneration (Chair since 15/12/17)	Director	103,734	102,100
Nikhil Mishra		Director	10,373	-
Geoff Hone	Audit, Risk and Governance (Chair since 09/09/16)	Director	51,867	51,050
Phil Kennon, QC	Investment	Director	46,680	45,945
Emma Maiden (1)	Investment Remuneration	Director	46,680	45,945
Richard Flitcroft	Administration and Insurance	Director	40,640	10,000
Imogen Sturni	Administration and Insurance	Australian Services Union	40,640	10,000
Richard Fleming	Investment (Chair since 04/03/18)	Director	57,053	56,155
Carita Kazakoff (2)	Administration & Insurance (Chair since 04/03/18)	Australian Services Union	51,867	51,050
Andrew Boog	Audit, Risk and Governance Remuneration	Director	41,493	40,840

17. Related party disclosures (continued)

b) Director remuneration (continued)

Retired directors

Director name	Committee roles	Remuneration paid to:	2020 \$	2019 \$
Chris Joyce	Audit, Risk and Governance	Director (retired 31/03/20)	31,120	40,840
Vicki Rogers	Administration and Insurance	Director (retired 31/03/19)	-	30,630
Coralie Kenny	Investment Administration and Insurance Remuneration	Director (retired 31/03/19)	-	34,459
Total			522,147	519,014

(1) A meeting attendance fee was paid to Emma Maiden - \$Nil (2019: \$4,901) by the United Service Union.

(2) A meeting attendance fee was paid to Carita Kazakoff - \$3,000 (2019: \$2,250) by the Australian Services Union.

Legal Super Pty Ltd has in place a trustee liability insurance policy for director and officer liabilities, professional indemnity and crime. During the year, legalsuper paid premiums and broker costs of \$169,098 (2019: \$147,260) which included broker costs paid for the prior year amounting to \$20,900 (2019: \$20,900) for the trustee liability insurance policy.

Directors have the benefit of a right of indemnity under the Constitution of the Trustee.

The following directors are members of legalsuper:

- | | |
|-----------------------|--------------------------|
| (i) Geoff Hone | (vi) Richard Fleming |
| (ii) Nikhil Mishra | (vii) Carita Kazakoff |
| (iii) Phil Kennon, QC | (viii) Richard Flitcroft |
| (iv) Emma Maiden | |
| (v) Imogen Sturni | |

Directors are subject to the same terms and conditions that apply to all other members of legalsuper.

c) Key management personnel

The Board has determined that the following individuals are responsible officers of the Trustee:

- (i) Andrew Proebstl – Chief Executive
- (ii) David Eastwood – Executive Manager, Operations and Member Services
- (iii) Norman Zhang - Chief Investment Officer (Commenced on 02/03/20)
- (iv) Kaye Wheatley Brown - Executive Manager, Legal, Risk & Compliance
- (v) Patsy Mullen-Conolly - Executive Manager, Member Experience (Ceased on 17/07/20)

The above individuals were key management personnel of legalsuper and its Trustee during the year. They are employed by the Trustee and paid remuneration that is included in these Financial Statements.

Remuneration paid and payable to the responsible officers for services to legalsuper is as follows:

	2020 \$	2019 \$
Short-term employee benefits (salaries)	1,407,342	1,389,462
Post-employment benefits (superannuation)	107,622	112,988
Other long-term benefits (payable)	203,268	145,685
Total	1,718,232	1,648,135

Apart from disclosures in this note, no key management personnel have entered into a contract for services with legalsuper since the end of the previous financial year and there are no contracts involving key management personnel subsisting at year end.

17. Related party disclosures (continued)

d) Other

The Trustee sponsors professional development events in the legal community. This sponsorship also increases awareness of legalsuper's products and services in the legal community.

The aggregate amount paid for these sponsorships was \$302,189 (2019: \$431,751).

The organisations sponsored by legalsuper include the shareholders of the Trustee, the Law Institute of Victoria, the Law Society of New South Wales and the Australian Services Union.

18. Financial risk management objectives and policies

(a) Financial instruments

legalsuper's principal financial instruments are units in pooled superannuation trusts, equity securities, fixed interest securities, cash and short-term deposits. The main purpose of these financial instruments is to generate a return.

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

legalsuper has entered into foreign currency hedging contracts to mitigate movements in foreign currency. legalsuper also indirectly invests in derivatives via unit trust investments. Investments in derivatives are not used to gear legalsuper's investment portfolio, and are limited to the asset allocation limits for the underlying investment class.

The main risks arising from legalsuper's financial instruments are interest rate risk, credit risk, market risk and currency risk. The Trustee has policies for managing each of these risks and they are summarised below.

legalsuper's accounting policies in relation to derivatives are set out in Note 2.

While the COVID-19 pandemic has caused uncertainty and market volatility during the period, the Fund has continued to follow its established policies and process in managing risk (set out in this Note) and determining the fair value of the financial assets and liabilities (set out in Note 4) as at the reporting date. No changes were required to the principles used in applying the fair value measurement hierarchy to financial assets and liabilities held, with each asset and liability continuing to be classified in a manner which reflects the significance and observability of the inputs used in the valuation.

(b) Market risk

Market risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments in the market.

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

(i) Other price risk

Other price risk is the risk that the fair value or future cashflows 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 instruments traded in the market. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

legalsuper is exposed to the price risk relating to changes in the net market value of its investments. Changes in the net market value of investments are due to movements in the unit price of the unit trusts that legalsuper invests in or changes in the value or prices of underlying assets or securities.

The Trustee mitigates this risk through careful selection of investment managers that trade in securities and other financial instruments within specified limits. legalsuper's overall market positions are monitored by the Trustee.

The asset allocation ranges for each investment option have been determined by the Trustee. These ranges have been set to ensure the appropriate overall fund risk is maintained and to ensure satisfactory diversification across asset classes. Investments in each asset class will be spread over more than one investment manager. In this way legalsuper is less exposed to the risk of investment failure of one investment manager.

18. Financial risk management objectives and policies (continued)

(i) Other price risk (continued)

Sensitivity analysis

The volatility of expected returns for the purpose of this analysis has been based on historical analysis and input from the Trustee's asset consultant (Willis Towers Watson). The following table represents the returns that would be considered reasonably possible based on the underlying asset classes as at year end.

This analysis has been performed on a pre tax basis.

	Carrying amount	Movement in underlying sectors	Increase/ (decrease) in profit (loss) before tax	Increase/ (decrease) in equity
2020	\$'000	%	\$'000	\$'000
Australian fixed interest securities	230,670	1.00%	2,307	2,307
International fixed interest securities	123,615	0.50%	618	618
Australian equities	1,281,907	21.30%	273,046	273,046
International equities	1,053,767	18.10%	190,732	190,732
Property	437,482	12.90%	56,435	56,435
Alternative assets				
Infrastructure	207,671	11.00%	22,844	22,844
Equity strategies	316,364	11.00%	34,800	34,800

	Carrying amount	Movement in underlying sectors	Increase/ (Decrease) in profit (loss) before tax	Increase/ (decrease) in equity
2019	\$'000	%	\$'000	\$'000
Australian fixed interest securities	382,050	1.10%	4,203	4,203
International fixed interest securities	238,963	0.70%	1,673	1,673
Australian equities	1,286,387	19.50%	250,845	250,845
International equities	1,120,756	17.00%	190,529	190,529
Property	403,465	11.70%	47,205	47,205
Alternative assets				
Infrastructure	70,984	12.50%	8,873	8,873
Equity strategies	194,467	12.50%	24,308	24,308

(ii) Currency risk

Currency risk is the risk that the fair value or future cashflow of a financial instrument will fluctuate because of changes in foreign exchange rates. legalsuper has exposure to foreign currency risk by way of securities denominated in a foreign currency. Foreign exchange contracts are used by investment managers within a mandate approved by the Trustee to mitigate the risk of foreign currency movements.

Total net exposure to fluctuations in foreign currency exchange rates at year-end was as follows:

Sensitivity analysis

The movement in exchange rates for the purpose of this analysis has been based on historical analysis and input from the Trustee's asset consultant (Willis Towers Watson).

	Carrying amount	Movement in exchange rate	Increase/ (decrease) in profit (loss) before tax	Increase/ (decrease) in equity
2020	\$'000	%	\$'000	\$'000
USD	38,529	11.50%	4,431	4,431
EUR	(10,200)	9.90%	(1,010)	(1,010)
JPY	(33,616)	14.50%	(4,874)	(4,874)
GBP	(12,511)	10.90%	(1,364)	(1,364)
Other	13,540	10.00%	1,354	1,354

	Carrying amount	Movement in exchange rate	Increase/ (decrease) in profit (loss) before tax	Increase/ (decrease) in equity
2019	\$'000	%	\$'000	\$'000
USD	99,631	11.50%	11,458	11,458
EUR	2,689	9.90%	266	266
JPY	(28,050)	14.50%	(4,067)	(4,067)
GBP	(10,232)	11.00%	(1,126)	(1,126)
Other	7,169	9.90%	710	710

18. Financial risk management objectives and policies (continued)

(ii) Currency risk (continued)

An 11.36% strengthening/weakening of the Australian dollar against the tabled currencies at 30 June 2020 would have (\$1,463,000) (2019: \$7,241,000) (decreased)/increased to the net assets available to pay member benefits and the net result from superannuation activities by the amounts as shown above. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2019.

(iii) Interest rate risk

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

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

2020	Weighted average effective int Rate	Floating interest rate	Fixed Interest Rate - Time to Maturity			
			1 Year or less	1 - 5 Years	Over 5 years	Total
	% p.a.	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets						
Cash at bank	0.52%	22,312	-	-	-	22,312
Cash & short term deposits	0.48%	-	536,907	-	-	536,907
		22,312	536,907	-	-	559,219

2019	Weighted average effective int Rate	Floating interest rate	Fixed Interest Rate - Time to Maturity			
			1 Year or less	1 - 5 Years	Over 5 years	Total
	% p.a.	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets						
Cash at bank	1.33%	13,875	-	-	-	13,875
Cash & short term deposits	1.13%	-	488,884	-	-	488,884
		13,875	488,884	-	-	502,758

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

Financial instruments of legalsuper, other than fixed interest rate securities and financial assets mentioned in above tables, are non-interest bearing and therefore are not subject to interest rate risk.

Sensitivity analysis

The following table represents the returns that would be considered reasonably possible based on expected movements in interest rates as at year end.

	2020			2019		
	Carrying amount	Change in interest rates	Increase/ (decrease) in profit (loss) before tax	Carrying amount	Change in interest rates	Increase/ (decrease) in profit (loss) before tax
	\$'000	%	\$'000	\$'000	%	\$'000
Financial assets						
Cash at bank	22,312	1.20%	268	13,875	1.30%	180
Cash & short term deposits	536,907	2.40%	12,886	488,884	2.10%	10,267

(iv) Credit risk

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

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

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

18. Financial risk management objectives and policies (continued)

(iv) Credit risk (continued)

legalsuper's financial assets exposed to credit risk amount to the following:

	2020	2019
	\$'000	\$'000
Interest bearing securities	-	121,996
	<u>-</u>	<u>121,996</u>

There are no significant concentrations of credit risk within legalsuper.

(v) Liquidity and cash flow interest rate risk

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

To control liquidity and cash flow interest rate risk, legalsuper invests in financial instruments, which under normal market conditions are readily convertible to cash.

2020	Carrying amount	Contractual cash flows	Less than 1 month	1-6 months	> 6 months
Financial liabilities	\$'000	\$'000	\$'000	\$'000	\$'000
Accounts payable	5,232	5,232	-	5,232	-
Income tax payable	-	-	-	-	-
Provision for employee benefits	757	757	-	-	757
Deferred income tax liability	38,082	38,082	-	-	38,082
Vested benefits	4,156,593	4,156,593	4,156,593	-	-
Total financial liabilities	4,200,664	4,200,664	4,156,593	5,232	38,839

2019	Carrying amount	Contractual cash flows	Less than 1 month	1-6 months	> 6 months
Financial liabilities	\$'000	\$'000	\$'000	\$'000	\$'000
Accounts payable	6,232	6,232	-	6,232	-
Income tax payable	14,661	14,661	-	14,661	-
Provision for employee benefits	558	558	-	-	558
Deferred income tax liability	52,319	52,319	-	-	52,319
Vested benefits	4,103,844	4,103,844	4,103,844	-	-
Total financial liabilities	4,177,614	4,177,614	4,103,844	20,893	52,877

Vested benefits, as per Note 3, have been included in the less than one month column, as this is the amount that members could call upon as at year-end. This is the earliest date on which legalsuper could be required to pay members vested benefits, however members may not necessarily call upon amounts vested to them during this time.

19. Commitments

(a) Investments

legalsuper has outstanding investment capital commitments. Commitments contracted for year end but not recognised as liabilities are as follows:

	2020	2019
	\$	\$
- not later than 1 year	91,665,486	93,318,081
- later than 1 year but not later than 5 years	50,664,396	74,086,403
- later than 5 years	-	-
	<u>142,329,882</u>	<u>167,404,484</u>

19. Commitments (continued)

(b) Operating lease commitments

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2020	2019
	\$	\$
- not later than 1 year	665,055	641,016
- later than 1 year but not later than 5 years	1,929,683	2,594,745
- later than 5 years	-	-
	<u>2,594,738</u>	<u>3,235,761</u>

legalsuper leases commercial office spaces (within Australia) and other office equipment. The office leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the lease are renegotiated. During the year ended 30 June 2020, \$641,023 (2019: \$611,288) was recognised as an expense in the income statement in respect of operating leases.

20. Insurance

Employed members of legalsuper receive death and disability insurance on joining unless they opt out (opt in for under age 25 or where the account balance is less than \$6,000). For members who have valid insurance, this insurance provides a lump sum pursuant to an insurance policy taken out by the Trustee.

21. Significant events after balance date

There has not arisen in the interval between year-end and the date of this report any item, transaction or event of a material and unusual nature likely to significantly affect legalsuper's operations, the results of its operations, or the state of legalsuper in future years.

legalsuper
Financial Statements
For the year ended 30 June 2020
TRUSTEE DECLARATION


In the opinion of the Trustee of legalsuper:

- (a) the accompanying financial statements and notes set out on pages 1 to 25 are in accordance with:
- (i) Australian Accounting Standards and other mandatory professional reporting requirements, and
 - (ii) present fairly the Fund's financial position as at 30 June 2020 and of its performance for the financial year ended on that date;
- (b) the Fund has been conducted in accordance with its constituent Trust Deed and the requirements of the Superannuation Industry (Supervision) Act 1993 and its accompanying Regulations; the relevant requirements of the Corporations Act 2001 and Regulations; the requirements under section 13 of the Financial Sector (Collection of Data) Act 2001 during the year ended 30 June 2020; and
- (c) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors of Legal Super Pty Ltd (A.B.N. 37 004 455 789).

Dated this _____ 18th _____ day of _____ September _____ 2020 _____

Melbourne, Victoria


Kirsten Mander

Kirsten Mander
Chair - Board


Geoffrey Hone

Geoff Hone
Chair - Audit, Risk and Governance Committee



Independent Auditor's report on financial statements

legalsuper ABN 60 346 078 879 (RSE)

Report by the RSE Auditor to the trustee and members

Opinion

I have audited the financial statements of legalsuper (the Fund) for the year ended 30 June 2020, comprising the statement of financial position, income statement, statement of changes in member benefits, statement of changes in reserves, statement of cash flows and accompanying notes 1 to 21.

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

Basis for Opinion

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

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

Responsibilities of the trustee for the Financial Statements

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

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



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 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.

KPMG

KPMG

Dean Waters
Partner

Melbourne

18 September 2020