Mercer

Report to the Trustee on the Actuarial Investigation as at 30 June 2022

Philip Morris Superannuation Plan

(an employer plan in the MLC Super Fund)

09 December 2022

welcome to brighter

Contents

1

Key Results and Recommendations

This report on the actuarial investigation of the Philip Morris Superannuation Plan (the Plan) as at 30 June 2022 has been prepared to meet the requirements of the Plan's governing rules and the SIS legislation.

This report should not be relied upon for any other purpose or by any party other than the Trustee of the Plan. Mercer is not responsible for the consequences of any other use. This report should be considered in its entirety and not distributed in parts. The Trustee should share this report with Philip Morris Pty Ltd (the Employer) who contributes to the Plan. The Employer may consider obtaining separate actuarial advice on the recommendations contained in the report.

Change in Financial Position

The following table summarises the Plan's financial position, at both this and the previous actuarial investigation.

	Position at 30 June 2022		
Defined Benefits Only*	**$000**	**Asset Coverage**	**Coverage at 30 June 2019**
Assets	36,737		
Liability for Vested Benefits	35,685	103%	124%
Liability for Actuarial Value of Accrued Benefits	38,277	96%	109%
Liability for SG Minimum Benefits	22,520	163%	190%
Retrenchment Benefits	38,673	95%	111%

* The above totals exclude accumulation liabilities of $17,064,000 and additional accumulation balances for defined benefit members of $3,721,000 as at 30 June 2022, but include the actuarial value of the current pension liabilities ($5,207,000) at the investigation date.

The coverage of vested benefits at 30 June 2022 was lower than the levels at the previous actuarial investigation, primarily due to the following items of negative experience:

- The recommended Employer contribution holiday and use of the Defined Benefit assets to fund accumulation insurance premiums;
- Investment earnings of 2.5% p.a., which were lower than assumed (4.9% p.a.); and
- Salary growth of 4.2% p.a. which was higher than assumed (2.75% p.a.);

Partially offset by

- The payment of benefits as members left the Plan which means that the surplus is spread over a smaller number of members, so that the coverage of the benefit liabilities (when expressed as a percentage) has increased accordingly.

The coverage of the Actuarial Value of Accrued Benefits has also decreased due to the above aspects of experience. However, the increase in the gap between the assumed future investment return on assets and the assumed salary increases has resulted in a decrease in the Actuarial Value of Accrued Benefits relative to Vested Benefits.

About 55% of the Vested Benefits and 40% of the Actuarial Value of Accrued Benefits are linked to investment returns rather than based on salary. This reflects the nature of the resignation benefit for members under age 55 and the fact that the resignation benefit can also apply after age 55. The nature of the benefits influences the effect on the financial position of differences between actual and assumed investment returns and salary increases.

It should be noted that the Vested Benefit measures shown above assume the Plan continues to operate 'as is' until the last pensioner dies. In the event of a Plan wind up, or termination of pension payments, prior to the natural cessation of the pensions, different measures of benefit liabilities may apply, and further financing from the Employer may be required to meet the resulting benefit liabilities. Please refer to the discussion in Section 10 for more detail.

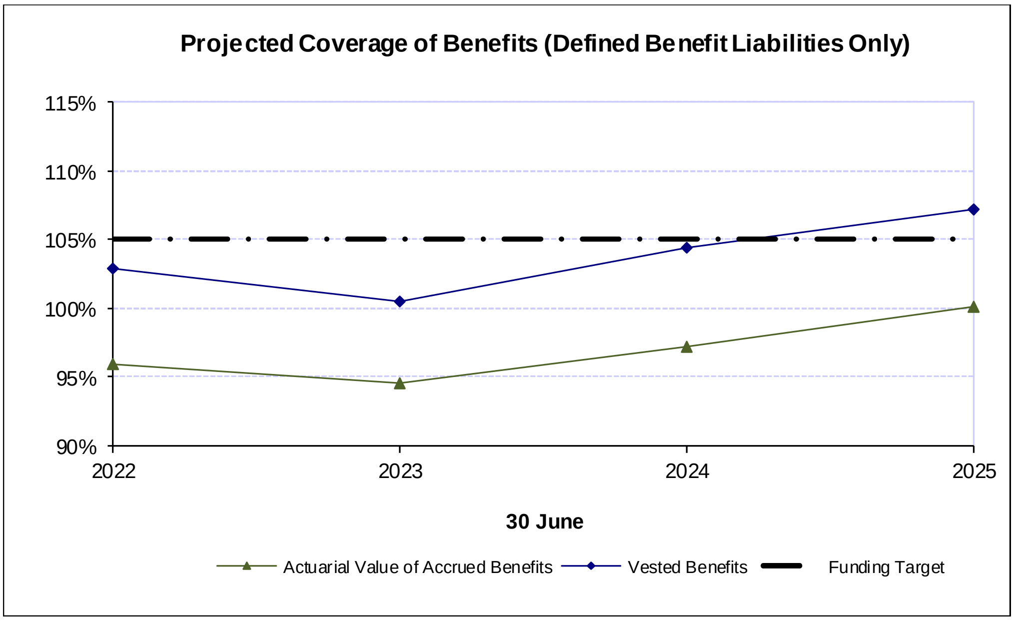
Recommended Contribution Rates and Projections

At 30 June 2022, the Plan was in a "satisfactory financial position". The 103% coverage of the Defined Benefit Vested Benefits was slightly below the financing objective of 105% coverage adopted for this investigation.

Based on the financial position at 30 June 2022 and taking into account the actual investment return of -0.6% for the three months immediately after 30 June 2022, I recommend that the Employer contributes to the Plan in accordance with the following contribution program:

Category	Recommended Contribution Rate
Defined Benefit (Permanent)	Nil from 1 July 2022 to 31 October 2022; 14.4% of salaries from 1 November 2022 until 31 December 2022; and 17.0% of salaries from 1 January 2022 plus $350,000 payable quarterly with the first payment due by 31 March 2023
Frozen (Expatriate)	Nil
Accumulation	At rate to meet Superannuation Guarantee requirements

Based on the assumptions adopted for this investigation and the recommended contribution rates, and allowing for any material experience after the investigation date as detailed in this report, I have prepared the following projection of Plan assets and benefit liabilities:



The graph above shows that the recommended contributions are anticipated to result in assets of at least 105% of Defined Benefit Vested Benefits and 100% of Actuarial value of Accrued Benefits (which is the financing objective adopted in this investigation) by 30 June 2025.

Risks

The Trustee should note that the above projection is based on the assumptions adopted, which represent a single scenario from a range of possibilities. The future is uncertain and the Plan's actual experience will differ from these assumptions; these differences may be minor in their overall effect, or they may be significant and material. In addition, different sets of assumptions or scenarios may also be within the reasonable range and results based on those alternative assumptions would be different. However, the coverage ratios will be reviewed by the Plan actuary every quarter on an approximate basis. The Trustee's monitoring of the experience specified in the Notifiable Events section of the Funding and Solvency Certificate will provide a further means of identifying adverse experience which warrants an immediate review of the Plan's financial position.

Section 8 provides illustrations of the impact of investment volatility on the projected coverage of Vested Benefits and shows that a 1% p.a. reduction in the assumed future investment return would result in a reduction of $1.9 million in the coverage of Actuarial Value of Accrued Benefits (i.e. an increase in liabilities of 5.0%).

Sections 8 and 9 discuss other risks associated with the liabilities, including salary growth risk, insurance risk and legislative risk.

I note in Section 10 that if the pension liabilities were to be valued at the amount which would be required to be paid to a third party (for example, a life office) to take on the liability, a higher pension liability value would be obtained (possibly in the order of 12% higher).

Hence a wind-up of the Plan would likely require additional Employer financing in order to enable provision to be made for continuation of the pension entitlements as well as the active members' accumulated benefits.

Other Findings and Recommendations

Suitability of Policies

I am satisfied that the following current policies for the defined benefit section of the Plan are suitable:

- The investment policy
- The crediting rate policy
- The insurance arrangements
- The Trustee's process for monitoring the Plan's financial position

Recommendation

I recommend the Plan's shortfall limit be updated from 100% to 98% as the employer is no longer on a contribution holiday.

Actions Required by the Trustee

The Trustee should consider this report and confirm its agreement (or otherwise) to the contribution and other recommendations.

The Trustee should seek formal agreement from the Employer to contribute in line with the recommendations.

2

Introduction

Background of the Plan

The Plan is operated for the benefit of employees of Philip Morris Ltd and is an employer plan in the MLC Super Fund. The Trustee of MLC Super Fund, Nulis Nominees (Australia) Limited, holds a Registrable Superannuation Entity License under the SIS legislation and operates the Plan as required under the Trust Deed. The Plan is a resident regulated fund and a complying superannuation fund for the purposes of the SIS legislation. The Plan is taxed as a complying superannuation fund.

The advice contained in this report is given in the context of Australian law and practice. No allowance has been made for taxation, accountancy or other requirements in any other country.

The governing rules of the plan are set out in the MLC Super Fund Trust Deed dated 9 May 2016 (as amended) and the Plum Superannuation Fund Participation Schedule dated 30 May 2006 (as amended).

Purpose

I have prepared this report exclusively for the Trustee of the Philip Morris Superannuation Plan for the following purposes:

- To present the results of an actuarial investigation of the Plan as at 30 June 2022;
- To review Plan experience for the period since the previous actuarial investigation as at 30 June 2019;
- To recommend contributions to be made by the Employer intended to allow the Plan to meet its benefit obligations in an orderly manner, and to reach and maintain an appropriate level of security for members' accrued benefit entitlements;
- To satisfy the requirements of the Plan's Trust Deed for actuarial investigations of the Plan's financial position; and
- To meet legislative requirements under relevant Commonwealth superannuation legislation.

It has been prepared in accordance with the requirements of the Trust Deed, the Superannuation Industry (Supervision) Act 1993 and associated regulations (SIS legislation), Prudential Standard SPS 160 issued by APRA and Professional Standard 400 issued by the Actuaries Institute setting out requirements for actuarial investigations of defined benefit superannuation funds under SIS legislation.

The previous actuarial investigation was conducted as at 30 June 2019 by David A Scott, on behalf of Mercer, and the results are contained in a report dated 11 December 2019.

Significant events since the investigation date

The recommendations in the report take into account the actual investment return of -0.6% for the 3 months immediately after 30 June 2022. I am not aware of any other significant events that have occurred since 30 June 2022 which would have had a material impact on the findings or recommendations in this report.

3

Experience since the last review

Membership

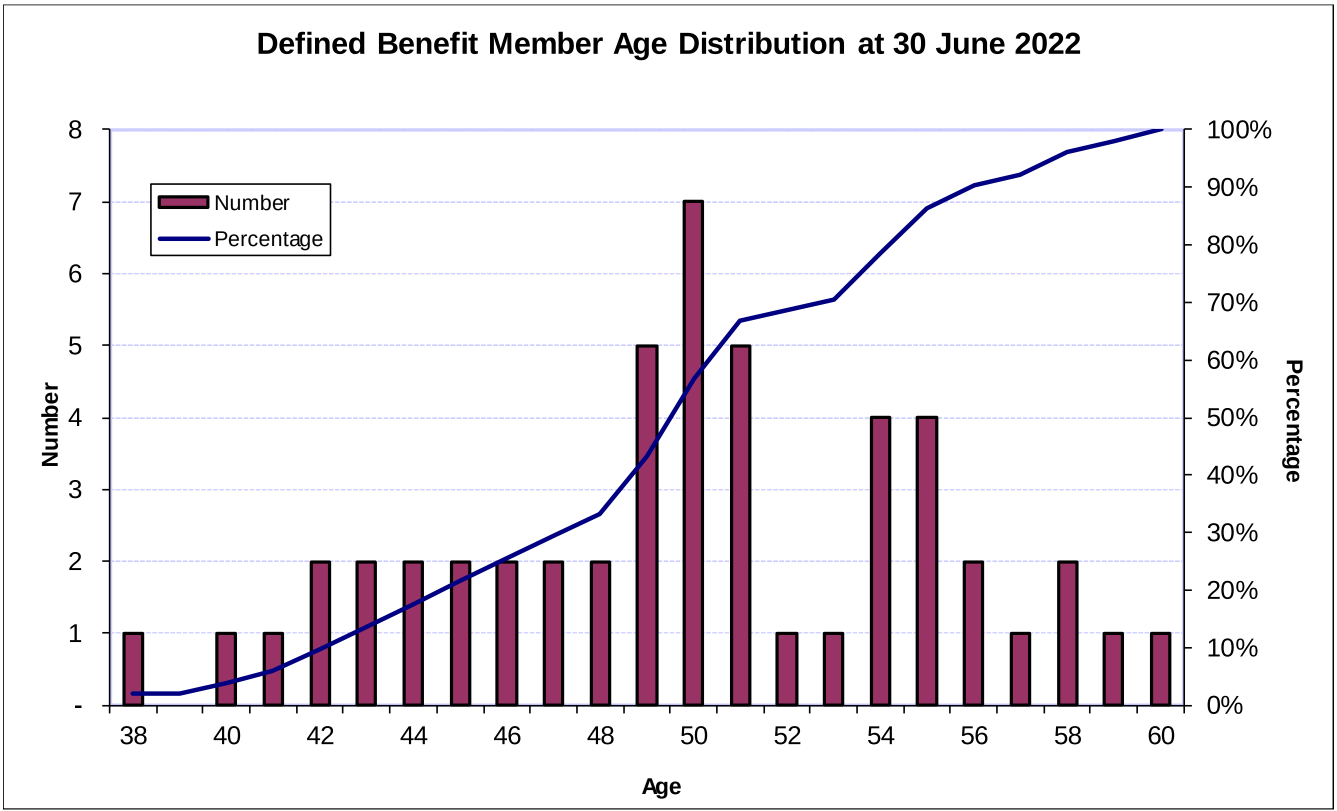
The membership of the defined benefit section has changed since 30 June 2019 as follows:

	Active	Lifetime pensioners
Number of members at 30 June 2019	103	7
Exits	52	-
New Entrants	-	-
Number of members at 30 June 2022	51	7
Total salaries/pensions at 30 June 2022	$11,228,000	$474,000
Average salaries/pensions at 30 June 2022	$220,000	$67,700
Average age at 30 June 2022	50.4 years	68.9 years

In addition, there were 200 members at 30 June 2022 with total salaries of $24,214,000 whose benefits are determined wholly on a defined contributions (or 'accumulation') basis. All new members join the accumulation section of the Plan.

During the period under review the number of defined benefit members within the Plan decreased from 103 to 51 members and the decrease was more than assumed. This means that the surplus is spread over a smaller number of members so that the coverage of the benefit liabilities (when expressed as a percentage) has increased accordingly.

The defined benefit membership split by age as at the 30 June 2022 is shown in the following graph:



Investment Returns and Crediting Rates

The table below shows the rates of investment earnings (after tax, investment fees and asset based administration fees) for the assets supporting the defined benefits of active members, the assets supporting pensions, and crediting rates applied to defined benefit members' accounts, over the period since the previous investigation.

Year Ending	Investment Return (p.a.)	Crediting Rate (p.a.)
30 June 2020	-1.0%	-1.0%
30 June 2021	16.3%	16.3%
30 June 2022	-6.4%	-6.4%
Compound Average	**2.5%**	**2.5%**

The average investment return for the three year period to 30 June 2022 was 2.5% p.a. compared to our long term assumption at the last actuarial investigation of 4.9% p.a. for active members and 5.6% p.a. for lifetime pensioners. The lower return than assumed had a negative impact on the Plan's financial position.

A higher investment return was achieved on the assets supporting pension liabilities as an exemption from tax applies to those assets.

A significant portion of the liabilities are linked to investment returns rather than based on salaries and hence the effect of the investment performance on the asset coverage is less than may be expected.

Salary Increases

Salaries for the current defined benefit members increased by an average of 4.2% p.a. over the period compared to our longer term assumption at the last actuarial investigation of 2.75% p.a. The higher salary increases than assumed had a negative impact on the Plan's financial position.

Similarly, the effect of the salary increases on the asset coverage is less than may be expected as a significant portion of the liabilities are linked to investment returns rather than based on salaries.

Contributions

I believe that the Employer contributed to the Plan over the review period in accordance with the contribution program recommended at the previous actuarial investigation, which was as follows:

Category	Recommended Contribution Rate
Defined Benefit (Permanent)	Nil
Frozen (Expatriate)	Nil
Accumulation	At rate to meet Superannuation Guarantee requirements

The Employer contribution holiday and use of the Defined Benefit assets to fund accumulation insurance premiums has had a negative impact on the Plan's financial position as expected.

Pension Take-up Option

During the period under review, none of the defined benefit members took benefit in the form of a lifetime pension. The assumption at the previous actuarial investigation was that no defined benefit members would take a lifetime pension on retirement. This does not have any impact on the financial position of the plan.

Impact of the experience on the financial position

The main experience items affecting the Plan's financial position during the period from 30 June 2019 to 30 June 2022 were as follows:

Item	Assumption at previous review	Plan experience	Comment on effect
Employer contributions		Contribution holiday and use of DB assets to meet accumulation insurance premiums	Negative effect – Employer contributions less than cost of benefit accrual
Investment returns	4.9% p.a. for active members 5.6% p.a. for pension members	2.5% p.a.	Negative effect – investments grew at a lower rate than assumed
Salary increases	2.75% p.a.	4.2% p.a.	Negative effect – benefit liabilities grew at a higher rate than assumed
Membership changes	103 members	51 members	Positive effect – surplus is spread over a smaller number of members so the coverage of the benefit liabilities (when expressed as a percentage) has increased accordingly

4

Actuarial assumptions

The ultimate cost to the Employer of providing the benefits to members is:

- the amount of benefits paid out; and
- the expenses of running the Plan, including tax;

less

- members' contributions; and
- the return on investments.

The ultimate cost to the Employer will not depend on the actuarial assumptions or the methods used to determine the recommended Employer contribution, but on the actual experience of the Plan. The financing method and actuarial assumptions adopted will however affect the timing of the contribution requirements from the Employer.

The actuarial process includes projections of possible future Plan assets and benefit liabilities on the basis of actuarial assumptions about future experience.

These assumptions include investment returns, salary/wage increases, crediting rates, the rates at which members leave the Plan for various reasons, and other factors affecting the financial position of the Plan.

It is not expected that these assumptions will be precisely borne out in practice, but rather that in combination they will produce a model of possible future experience that is considered a suitable basis for setting contribution rates.

Economic assumptions

The most significant assumption made in estimating the cost of defined benefits is the difference between:

- the assumed rate of investment earnings; and
- the rate of salary increases used in the projections of future benefit payments.

This difference is commonly referred to as the "gap".

The key economic long term assumptions adopted for this investigation are:

	Assumption
Investment returns	
- Active employees (after tax, investment and asset based administration fees)	6.0% p.a.
- Lifetime pensioners (after investment and asset based administration fees)	6.7% p.a.
Crediting rate (after tax and investment fees)	6.0% p.a.
General salary increases	3.5% p.a.

The assumption for investment returns is based on the expected long-term investment return for the Plan's current benchmark investment mix, calculated using Mercer's assumptions of the means and standard deviations of returns from the various underlying asset classes and the correlations of returns between those asset classes.

The general salary increase assumption is based on long term economic forecasts for future increases in average weekly earnings (AWOTE), together with expectations for the future salary increases of Plan members based on discussions with the Employer.

Demographic assumptions

Resignation, Retirement, Death and Disablement in Service

Given the small size of the plan, these are based on the experience of similar plans administered or advised by Mercer. Examples of these assumed rates for current employee members are set out in Appendix B.

Retrenchment

No specific allowance is made for the possibility of future retrenchments.

Pension Take-up Rate

We have assumed that none of the members eligible for a lifetime pension will take that option.

Pensioner mortality

The mortality assumptions adopted for the valuation of lifetime pensions are based on the standard Mercer pensioner mortality table 2012-17.

We also allowed for long term future mortality improvement to reflect the likelihood of future improvements in mortality amongst the pensioners, based on the 25-years mortality improvement factors developed by the Australian Government Actuary as part of preparation of Australian Life Tables 2005-07. Specimen pensioner mortality rates are set out in Appendix B.

Other assumptions

New members

The Plan's defined benefit section is closed to new entrants. No allowance has been made for new members.

Expenses

Based on recent experience, administration and management expenses plus the cost of group life insurance premiums for defined benefit and accumulation members are assumed to average 2.8% of defined benefit members' salaries. With the reduction in membership this assumption may be changed to a fixed dollar amount in the future.

Tax

It is assumed that the current tax rate of 15% continues to apply to the Plan's assessable income, along with current tax credits and deductions.

All future Employer contributions are assumed to be subject to 15% contribution tax, after deduction of any insurance premiums and administration and management costs. All contribution recommendations quoted in this report are gross of contributions tax.

No allowance has been made for:

- Excess contributions tax, as this is payable by the member.
- Additional tax on contributions (including defined benefit notional contributions) for those with incomes above the threshold (currently $250,000), which is also payable by the member.

Impact of the changes in assumptions

The following table sets out changes in assumptions from those used in the previous investigation and the reasons for the changes:

Assumption	Investigation at 30 June 2022	Investigation at 30 June 2019	Reason for change
Investment Return (active members)	6.0% p.a.	4.9% p.a.	Based on the expected long term investment return for the Plan's current benchmark investment mix for assets supporting defined benefit liabilities, net of tax.
Investment Return (lifetime pensioners)	6.7% p.a.	5.6% p.a.	Based on the expected long term investment return for the Plan's current benchmark investment mix for assets supporting defined benefit liabilities, before tax.
General salary increases	3.5% p.a.	2.75% p.a.	Updated to reflect current salary increase expectations and discussions with the Employer
Expenses	2.8% p.a. of DB salaries	0.4% p.a. of DB salaries	Based on the most up to date analysis available

The overall impact of the changes in assumptions was to:

- decrease the Actuarial Value of Accrued Benefits by $1,154,000.
- increase the assessed long-term employer cost of future service benefits by around 2% of salaries.

5

Assets

Market value

The net market value of the Plan’s assets as at 30 June 2022 amounted to $57,521,000 (based on the data provided by the Plan’s administrator).

Calculation of Defined Benefits Assets at 30 June 2022	
Net market value of the Plan’s assets as at 30 June 2022	**$57,522,000**
Less accounts for accumulation members	$17,064,000
Less accumulation accounts for defined benefit members	$3,721,000
Net assets to support the defined benefit liabilities of the Plan	**$36,737,000**

Operational Risk Reserves

The assets to meet the Trustee’s Operational Risk Financial Requirement (ORFR) are held separately from the assets of the Plan.

The scope of this Investigation does not include a review of the adequacy of assets held to meet the Trustee’s ORFR or the Trustee’s ORFR strategy.

Investment Policy

Assets backing defined benefit liabilities

The Plan’s current investment strategy for assets supporting defined benefit liabilities currently involves a benchmark exposure of 65% to ‘growth’ assets such as shares and property and a benchmark exposure of 35% to ‘defensive’ assets such as cash and fixed interest. Please refer to the table below for the actual and benchmark investment allocations of these assets as at the investigation date. ‘Growth’ assets are expected to earn higher returns over the long term compared to ‘defensive’ assets, but at the same time to exhibit more variation in returns from year to year.

The actual asset allocation and benchmark asset allocation for the assets supporting the defined benefit liabilities are as follows:

Asset Class	Actual Allocation as at 30 June 2022	Benchmark Asset Allocation as at 30 June 2022
Australian equities	30.5%	30.0%
Overseas equities	24.5%	25.0%
Property	9.4%	10.0%
Total growth	**64.5%**	**65.0%**
Fixed interest	35.5%	35.0%
Total defensive	**35.5%**	**35.0%**
Total	**100%**	**100%**

The defined benefit liabilities other than the resignation benefit and the SG minimum benefit are not affected by the investment return on the Plan's assets. The volatility of the Plan's investment returns will therefore affect the financial position of the Plan from year to year and is likely to impact on the required level of Employer contributions.

Given that it is not known when members will take their benefit with certainty, the exact term of the Plan's liabilities is unknown. However, the expected term of the Plan's liabilities is such that the Plan is expected to benefit from the higher returns expected from "growth" assets over the long term. The Plan's investments are expected to provide a high level of liquidity in normal circumstances.

I have reviewed the Plan's defined benefit investment policy taking into account the Plan's financial position and the nature and term of the Plan's defined benefit liabilities and confirm I consider that the investment policy adopted is a suitable policy.

This conclusion takes into account my understanding that the Employer understands the possible variability in future contributions associated with the current investment policy. If the Employer has a different view, then this policy should be reviewed.

Assets backing accumulation benefit liabilities

The Plan provides members with a range of investment options for their accumulation benefits (including the additional account balances of defined benefit members). The assets supporting the Plan's accumulation benefit liabilities are invested according to members' selected investment options and the actual returns on those investments (whether positive or negative) are passed on to members via changes in the unit prices by which member account balances are determined. Thus, the Plan's accumulation liabilities and related assets are fully matched.

The Plan's investments are expected to provide a high level of liquidity in normal circumstances.

I consider that the Plan's investment policy for assets relating to accumulation liabilities is suitable, having regard to the nature and term of these liabilities.

Crediting Rate Policy

Defined Benefits

The main features of the crediting rate policy in relation to defined benefits are summarised briefly below:

For the period up to the date of leaving service

Members' resignation benefits as well as their Superannuation Guarantee minimum benefits are based on the accumulation of member and notional employer contributions with investment earnings at the crediting rate.

The crediting rate is determined based on the actual earning rate of the relevant defined benefit assets, after allowance for tax and investment costs, asset-based administration fees and any applicable rebates. The crediting rate is declared quarterly after the actual earning rate for the quarter becomes available. For benefit payments, interim crediting rates apply for the period up to the date of leaving service for which a declared rate is not yet available. The interim crediting rate is determined based on the latest available government bond yield.

Whilst the quarterly update of the interim crediting rate theoretically allows some scope for anti-selection, taking into account the nature of the benefits and that termination of service (with associated notice periods) would generally be required to trigger a payment, I consider that the current frequency of review of interim crediting rates is appropriate.

For the period from the date of leaving service

Members' benefits are crystallised at the date of leaving service. For the period from the date of leaving service to the date of payment of the benefit (or until transferred to an investment option nominated by the member), the benefit is credited with investment earnings at the relevant interim crediting rate.

Accumulation Benefits

The main features of the unit pricing and crediting rate policy in relation to accumulation member accounts and to the additional accumulation accounts of defined benefit members are summarised briefly below:

- Earnings credited to the accounts are based on the actual net earning rates (i.e. earnings net of investment costs, asset-based administration fees and provisions for tax) of the members' selected investment options. Net earnings are allocated via changes in unit prices. Unit prices are determined on a daily basis. Rules relating to the prices at which units are bought and sold are designed to prevent selection against the Plan by members.
- Termination of service does not result in any automatic change in a member's investment options. Member accounts remain invested in their selected investment options until paid.
- No investment reserves are held. Net investment earnings are fully passed on to member accounts via unit prices.

Documentation

The Plan’s crediting and unit pricing policies and related procedures are set out in the Trustee’s Product Management Standard Operating Procedures dated 17 July 2018, with separate documentation of non-standard approaches.

Conclusion

Based on a review of the main features, I consider that the unit pricing and crediting rate policy adopted for these benefits is generally suitable taking into consideration the principles of equity between different generations of members and any material risks which may have a significant impact on the Plan (i.e. a market shock or sudden downturn in investment markets).

6

The Actuarial Approach

Financing Objective

The financing objective adopted for this investigation is to maintain the value of the Plan's assets at least equal to:

- 100% of accumulation account balances; plus
- 105% of Defined Benefit Vested Benefits and 100% of the Actuarial Value of Accrued Benefits

Accumulation account balances are matched by specific assets and do not require any additional margins. However, around half of the defined benefit liabilities are linked to salaries and not to the returns on the underlying assets. Therefore, a margin in excess of 100% coverage of vested defined benefits is desirable to provide some security against adverse experience such as poor investment returns and to make allowance for the future eligibility for retirement benefits for those currently under the early retirement age. I consider the target margin of 5% of Defined Benefit Vested Benefits is suitable.

Based on the assumptions adopted for this investigation, achieving the financing objective of 105% of Vested Benefits for defined benefit members would also result in a satisfactory margin of coverage over 100% of SG Minimum Benefits. Hence, it is not considered necessary to adopt specific financing objectives in relation to SG Minimum Benefits.

I have taken into consideration the provisions of the Trust Deed and any professional requirements as set out below.

Professional Requirements

Under Professional Standard 400 issued by the Actuaries Institute, the funding method selected by the actuary *"must aim to provide that:*

(a) members' benefit entitlements (including any pension increases provided by the Trust Deed or in accordance with either precedent or the intentions of the Trustee and/or Fund Sponsor) are fully funded before the members retire; and

(b) the Net Assets of the Fund from time to time, after making full provision for the entitlements of any beneficiaries or members who have ceased to be employed, exceed the aggregate of benefits which employed members would reasonably expect to be payable to them on termination of membership, including the expenses of paying those benefits, and having regard to the provisions of the Trust Deed and the likely exercise of any Options or Discretions." (Paragraph 5.5.4 of PS400).

Accordingly, the actuary needs to be satisfied that any funding program is expected to provide a level of assets which meets or exceeds immediate benefit entitlements based on members' reasonable expectations. Should assets fall below that level, the funding program needs to aim to lift assets to at least the required level over a reasonable time period and to maintain assets at or above the required level thereafter.

The financing objective has been set on the basis that members' reasonable expectations on termination would be to receive their vested benefit entitlement (including the lump sum value of their pension, on the actuarial assumptions adopted for this investigation, in the case of current pensioners).

Provisions of the Trust Deed

The rules of the MLC Super Fund require that:

- the Trustee ensures an actuarial investigation of the Plan is conducted when required by legislation. Accordingly actuarial investigations are carried out at three yearly intervals at a minimum; and
- The Employer must contribute at the rate determined by the Trustee, after consulting the Employer, on the advice of the Actuary to the Plan.

Financing Method

There are various financing methods that could be followed in setting the Employer contribution level. This investigation uses the "Attained Age Normal" method, which was also used at the previous investigation.

Under this method, the "normal cost" is the estimated level rate of Employer contributions required to provide benefits in respect of future service (i.e. service after the investigation date) for existing members. The normal cost ignores any surplus or deficiency of assets over accrued liabilities.

The recommended Employer contribution rate may then be set above or below the normal cost for a suitable period of time to amortise any surplus/deficiency and to take into account the Plan's financing objectives.

Under this method of financing, the level of the Employer contributions may vary from time to time to ensure that the Plan remains on course towards its financing objectives.

It is noted that, as the defined benefits are closed to new members and (on the assumptions adopted) the cost of future service benefits increases with age, the normal cost is expected to gradually increase as the defined benefit membership ages.

I consider that the Attained Age Normal method is suitable in the Plan's current circumstances as the normal cost reflects the expected (on the assumptions adopted) employer cost of future service benefits and the recommended contribution rate can be varied around the normal cost to take into account the projected financial position as compared with the financing objective.

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7

Financial Position of the Plan

Funding status

Vested Benefits

Vested Benefits are the amounts payable as of right should all active members voluntarily resign or, if eligible, retire at the investigation date, plus the estimated actuarial value of expected future payments in respect of pensioners.

At 30 June 2022, Plan assets were greater than Vested Benefits. Accordingly, the Plan was considered to be in a “satisfactory financial position” under SIS legislation. The 103% coverage of Vested Benefits was slightly below the financing objective of 105% coverage adopted for this investigation.

SG Minimum Benefits

SG Minimum Benefits are the minimum benefits required under SG legislation, as defined in the Benefit Certificate (also referred to as Minimum Requisite Benefits or MRBs).

The Plan assets at 30 June 2022 were also greater than SG Minimum Benefits and hence the Plan was considered to be “solvent” under SIS legislation.

Actuarial Value of Accrued Benefits

The Actuarial Value of Accrued Benefits is the expected value (as at the investigation date) of all future expected benefit payments, based on membership to date, discounted to the investigation date, taking into account the probability of payment. This value is calculated using the actuarial assumptions and method outlined in the previous sections. In determining the value, I have not applied a minimum of the vested benefits. Further details concerning the calculation of the Actuarial Value of Accrued Benefits are set out in Appendix C.

The Plan Assets as at 30 June 2022 represented 96% of the Actuarial Value of Accrued Defined Benefits.

The following table shows these funding measures at both the previous and current valuation dates.

Defined Benefits Only*	Position at 30 June 2022 $000	Asset Coverage	Coverage at 30 June 2019
Assets	36,737		
Liability for Vested Benefits	35,685	103%	124%
Liability for Actuarial Value of Accrued Benefits	38,277	96%	109%
Liability for SG Minimum Benefits	22,520	163%	190%
Retrenchment Benefits	38,673	95%	111%

* The above totals exclude accumulation liabilities of $17,064,000 and additional accumulation balances for defined benefit members of $3,721,000 as at 30 June 2022, but include the actuarial value of the current pension liabilities ($5,207,000) at the investigation date.

The coverage levels at 30 June 2022 were lower than the levels at the previous actuarial investigation due to the overall negative experience discussed in Section 3 partially offset by the changes in the actuarial assumptions resulting in decrease in the actuarial value of the accrued benefits as discussed in Section 4 of this report.

Employer Future Service Cost

Based on the assumptions adopted for this investigation, I estimate that the Employer's long-term funding costs (i.e. the normal cost of funding future service defined benefit accruals for each category) are as follows:

Benefit Class (% Accrual)	Employer long-term cost (of future benefit accrual) (% of Salary/Wage)
15%	16.4%
17.5%	20.9%
20%	23.5%

An average rate for current members is 17.0% of salaries.

The Employer's long-term funding cost above includes the expected expenses (of 2.8% of Defined Benefit salaries) and allowance for the contributions tax.

The average assessed long-term cost has increased from 14.4% since the last investigation, as a consequence of the revision to the expense assumptions, change in financial assumptions and composition of the membership.

Previous recommendation

The previous actuarial investigation recommended the following employer contribution program:

Category	Recommended Contribution Rate
Defined Benefit (Permanent)	Nil
Frozen (Expatriate)	Nil
Accumulation	At rate to meet Superannuation Guarantee requirements

Recommended Contributions

Based on the Trustee's financing objective described above and the results of this investigation, I recommend that the Employer contributes in accordance with the following program:

Category	Recommended Contribution Rate
Defined Benefit (Permanent)	Nil from 1 July 2022 to 31 October 2022; 14.4% of salaries from 1 November 2022 until 31 December 2022; and 17.0% of salaries from 1 January 2022 plus $350,000 payable quarterly with the first payment due by 31 March 2023
Frozen (Expatriate)	Nil
Accumulation	At rate to meet Superannuation Guarantee requirements

This recommended program represents an increase from the previously recommended Employer contribution rate, as the Employer contribution holiday has reduced the defined benefit surplus as expected.

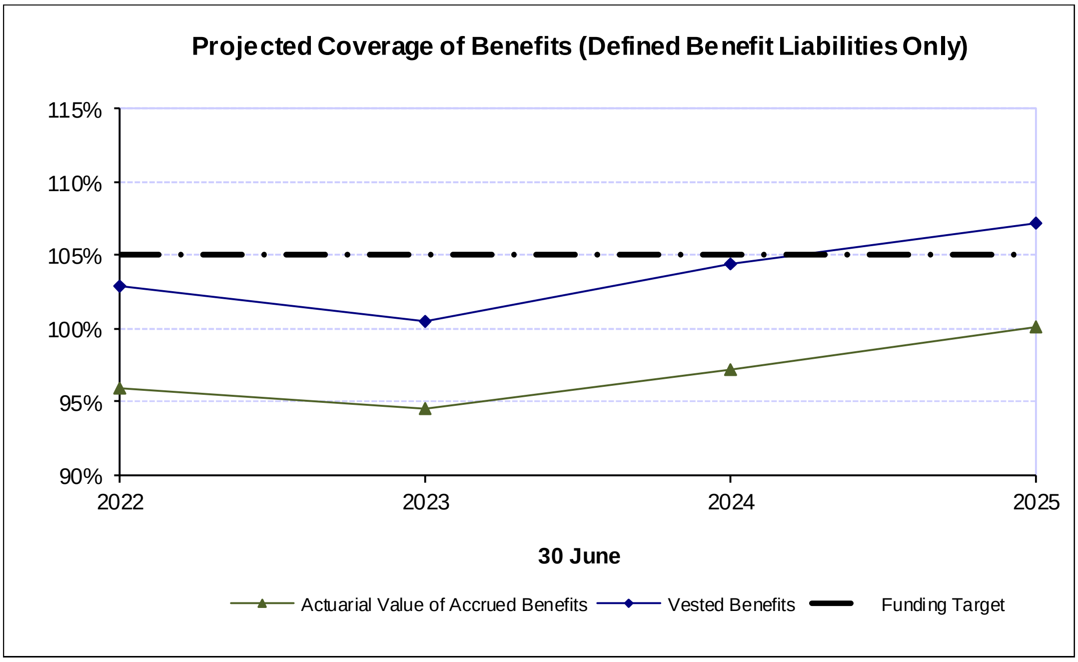
In practice, it is likely to be necessary to vary the Employer contributions at some point in the future to achieve the Trustee's financing objective.

Projected Financial Position

I have prepared a projection of Plan assets and benefit liabilities based on:

- the actuarial assumptions adopted for this investigation;
- the actual investment returns of -0.6% for the 3 months period from 30 June 2022 to 30 September 2022; and
- assuming the recommended Employer contributions will be paid.

The results of the projection are as follows:



The Trustee should note that this projection is based on the assumptions adopted, which represent a single scenario from the range of possibilities. The future is uncertain and the Plan's actual experience will differ from those assumptions; these differences may be minor in their overall effect, or they may be significant and material. In addition, different sets of assumptions or scenarios may also be within the reasonable range and results based on those alternative assumptions would be different, as discussed below.

The projection above shows that the recommended contributions are anticipated to result in assets of at least 105% of Defined Benefit Vested Benefits and 100% of Actuarial Value of Accrued Benefits (which represents the financing objective adopted in this investigation) by 30 June 2025.

8

Key Risks

Investment Volatility

There is a risk that investment returns will be lower than assumed and the Employer will need to increase contributions to offset this shortfall. This risk is normally borne by the Employer.

For example, if the assumed future investment return was reduced by 1% p.a. with no change in other assumptions, then:

(i) the Actuarial Value of Accrued Benefits would increase by $1,933,000 (Employer funding cost impact $1,933,000/0.85 = $2,274,000), with a resulting reduction in the coverage of the Actuarial Value of Accrued Benefits from 96% to 91%; and
(ii) the long term employer contribution rate (the estimated employer cost of future service benefits) would increase from 17.0% to 18.1% of salaries under this scenario.

The actual investment return achieved by the Plan in future may vary (positively or negatively) from the rate assumed at this investigation by much more than the (negative) 1% p.a. illustrated in the example above.

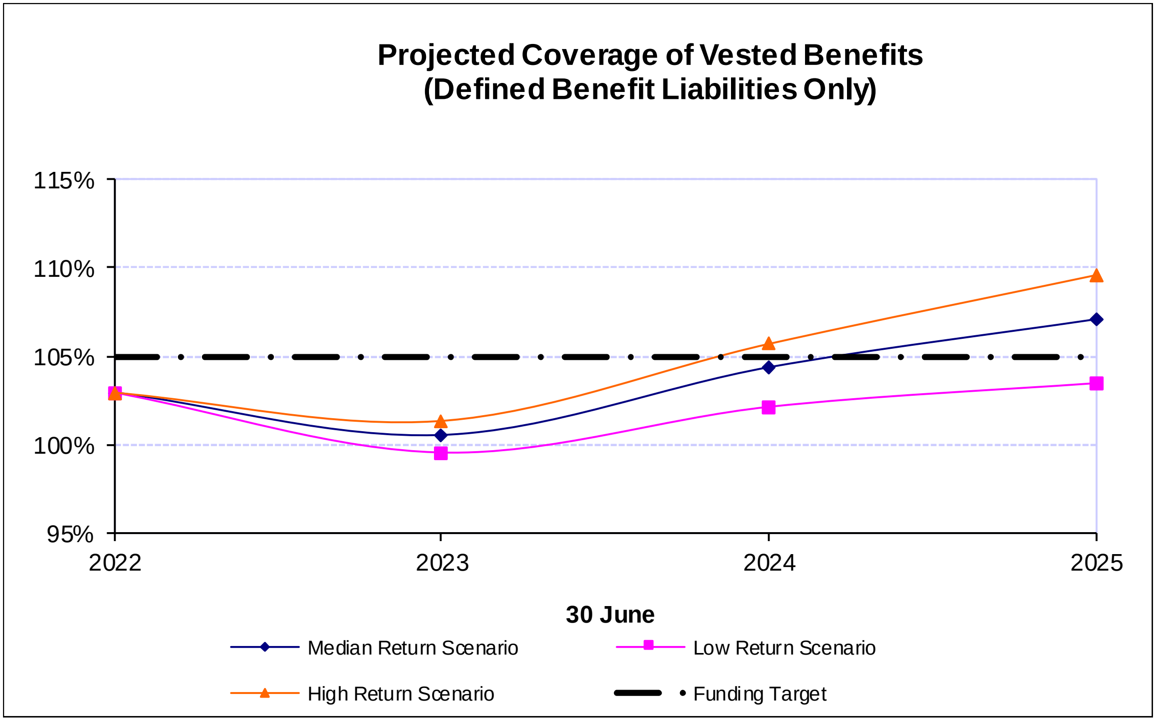
About 45% of the current vested benefits (and 60% of the Actuarial Value of Accrued Benefits) are not linked to investment returns (i.e are salary based benefits). Therefore, the Plan's vested benefits coverage *is not* highly sensitive to changes in the investment returns.

I have considered the impact of investment volatility on the Plan's financial position over the next few years using a "High return" and a "Low return" scenario. The returns under both scenarios have been derived from assumptions about the likely risk attached to the Plan's defined benefit investment strategy.

Using the investment return model and assumptions adopted, there is approximately a 10% chance of the Plan's cumulative investment return being less than the "Low return" scenario. Similarly, there is approximately only a 10% chance of the Plan's cumulative investment return being greater than the "High return" scenario.

1 July 2022 to 30 June	Assumed Cumulative Investment Return (%)		
	"Low Return"	Valuation	"High Return"
2023	2.1%	4.0%	5.7%
2024	5.8%	10.3%	14.5%
2025	9.6%	17.0%	24.2%
2026	13.6%	24.1%	34.6%
2027	17.7%	31.7%	45.8%

The cumulative investment return is the total return from 1 July 2022 up to 30 June in the year shown. The extent of variation allowed for in these projections reflects the Plan's asset mix and Mercer's views on potential variability in investment results in various investment sectors.



The graph above shows the effect on the projected ratio of assets to Vested Benefits for defined benefit members under the "High return" and "Low return" scenarios, with all other investigation assumptions remaining unchanged.

Based on fluctuations in investment returns only, and assuming other experience is in line with the assumptions adopted for this investigation, there is approximately an 80% chance that the coverage of assets over Vested Benefits at 30 June 2025 will fall in the range from 103% to 110%.

Please note that the "low return" scenario and the "high return" scenario shown above are illustrations only, and show what may occur under assumed future experiences that differ from our baseline assumptions. These scenarios do not constitute upper or lower bounds and the actual future coverage of Vested Benefits may differ significantly from the range shown above, depending on actual future experience.

In my view, the Trustee should be satisfied with the expected level of security over the next few years if the Employer contributes at the recommended levels.

Salary growth risk

The risk is that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing benefit amounts and thereby requiring additional employer contributions. This risk is borne by the Employer.

For example, if the assumed future salary increase rate was increased by 1% p.a. with no change in other assumptions, then:

(iii) the Actuarial Value of Accrued Benefits would increase by $1,212,000 (Employer funding cost impact $1,212,000/0.85 = $1,426,000), with a resulting reduction in the coverage of the Actuarial Value of Accrued Benefits from 96% to 93%; and

(iv) the long term employer contribution rate (the estimated employer cost of future service benefits) would increase from 17.0% to 17.8% of salaries under this scenario.

The actual rate of future salary increases may vary (positively or negatively) from the rate assumed at this investigation by much more than the (positive) 1% p.a. illustrated in the example above.

Legislative risk

This risk is that the Commonwealth Government could make legislative changes that increase the cost of providing the defined benefits – for example, an increase in the rate of tax on superannuation funds. This risk is borne by the Employer.

Small plan risk

This risk relates to supporting a defined benefit plan where there are few remaining defined benefit members meaning the law of averages no longer applies and the time horizon of the defined benefit liabilities may have become short. Issues that may require consideration include:

(i) Funding may have previously been based on the Defined Benefit [Plan] continuing in the longer-term, which may no longer hold. Therefore greater focus is required on the funding of benefits immediately payable to members (e.g. Defined Benefit Vested Benefits);

(ii) With few remaining members, the experience of a single member or event will have a proportionately larger impact on the financial position. Therefore frequent monitoring of the financial position will continue to be required;

(iii) Contributions required to finance any shortfalls, specifically as a percentage of salary roll of defined benefit members, can become significant;

(iv) The investment strategy may have been set based on the Defined Benefit liabilities continuing in the longer-term, which may no longer hold. Therefore the strategy may need to be revised to reflect the shorter term of the liabilities;

(v) Fees in respect of the Plan, particularly relative to the number of defined benefit members and salary roll, can become significant. Most actuarial tasks are essentially the same whether there are one or 100 defined benefit members. As defined benefit funds reduce in membership, the actuarial fees may, in fact, increase because of additional monitoring being required (e.g. as there is a higher probability of a plan becoming “unsatisfactory”). Industry changes such as the SG rate increase can also result in additional fees; and

(vi) The expected wind-down of the remaining defined benefit members and impact of pensioner experience once active membership declines.

9 Insurance and Related Risks

The Plan is not permitted to self-insure.

For defined benefit members, the group life sum insured formula currently in use for both death and total and permanent disablement (TPD) benefits is:

Sum Insured = Death Benefit/TPD – Vested Benefit

The total amount insured should cover the excess of the death/TPD benefits over the Plan's assets, unless there is a funding shortfall. Based on the formula in use at the investigation date, the coverage of death/TPD risk as at 30 June 2022 for the Plan was as follows.

	Defined Benefit members	$000
	Death/Disablement Benefits	63,124
less	Sum Insured	29,822
less	Assets	31,530
	Uncovered Death/Disablement Benefits	1,772

The amounts above relate to active members only and allow for some members where their insurance cover is restricted.

The formula has resulted in insurance being less than sufficient to provide full protection. This is due to the death/TPD benefits being based on the retirement benefit at age 65, but the insurance cover being restricted for certain members. The small amount of under-insurance is not at a level where I consider that a change to the current insurance formula is necessary.

I therefore conclude that the sum insured formula remains appropriate and provides adequate protection for the Plan.

The definition of TPD in the Plan's insurance policy is also used to establish a member's eligibility for the benefit under the Plan's governing rules, thus avoiding any definition mis-match risk.

For disability income benefits, the benefit provisions are entirely matched by the insurance cover. As such, there is no funding gap and any claims or adverse experience will have no immediate financial impact on the Plan.

In my opinion, the current group life insurance arrangements, including the sum insured formula for defined benefit members, are appropriate and provide adequate protection for the Plan.

Documentation

The death and lump sum TPD and disability income benefits insurance arrangements are underwritten by MLC Limited ("the insurer") and outlined in a policy dated 1 February 2010 between the Trustee and the insurer (updated with an effective date of 1 December 2013). The purpose of the insurance policy is to protect the Plan against unexpectedly large payouts on the death or disablement of members

Conclusion

I consider that the Plan's current insurance arrangements are suitable.

10

Pension Liabilities and Related Risks

As shown in the membership table in Section 3, the Plan currently has 7 lifetime pensioners. Lifetime pensioners present particular risks to the Plan as there is uncertainty relating to the level of future payments and the period for which they will be paid.

Pensioner take-up rate

This risk is borne by the Employer. Members are eligible to elect to take a lifetime pension on retirement, rather than a lump sum. However, we have assumed that none of the members eligible for a lifetime pension will take that option. This is a reflection of:

- The small number of members who have elected a lifetime pension in the past;
- The lifetime pension is not subject to indexation and has no spouse reversion, making it appear unattractive for most members; and
- The actuarial value of the lifetime pension has historically been assessed as being of only moderately greater value than the lump sum benefit. Based on the assumptions adopted for this actuarial investigation, we have assessed the value of the pension as being from 15% to 35% greater than the lump sum benefit for members retiring from age 55 to 65.

The risk is that if members choose to take up this option, this might incur a higher cost for the Employer and require increased contributions.

Longevity risk

The risk is that the average future lifetime of pensioners is higher than anticipated, increasing the period of time over which payments are made (compared to that expected) and thereby requiring additional Employer contributions. This risk is borne by the Employer.

Impact of using a buy-in contract to fund the pension liability

The basis used to value defined benefit pension entitlements for the purposes of this investigation is considered suitable taking into account the Plan's current circumstances, including the existing assets and assuming the ongoing support of the Employer. However, The Trustee could reduce these risks by purchasing a buy-in contract for the lifetime pensioners of the Plan.

In a buy-in contract, a premium is paid to an insurer and a bulk annuity contract is issued to the Plan. The annuity contract is considered an investment held by the Plan. The payment of pensions is still the responsibility of the Trustee, paid to retirees from the Plan assets and not directly by the insurer. The insurer then pays the Plan the value of the pensions agreed in the bulk annuity contract. Therefore, the assets and liabilities associated with the contract remain on the balance sheet, but are very well matched.

To illustrate the cost of purchasing a buy-in contract I have downloaded Challenger (the main annuity provider in Australia) annuity rates from their advisor portal. Based on this information (e.g. the average price to provide the current lifetime pensions, based on their interest rate and mortality assumptions) the pension liability would be valued at $5.8 million (i.e. $0.6 million higher than the valuation in this investigation), with a resulting reduction in the coverage of Actuarial Value of Accrued Benefits from 96% to 94%.

This valuation is based on Challenger's retail pricing for a comparable benefit and pensioner age profile. It is possible that a lower valuation is achievable through negotiation with various annuity providers.

Purchasing a buy-in contract is likely to be affordable, but will reduce the overall funding position of the Plan. Therefore the Plan may require additional Employer financing to retain the security members' benefits.

There are additional risks associated with a buy-in that would need to be considered, such as:

- Counterparty risk – the risk that the annuity provider defaults on their obligations
- Mismatch risk – the risk that the annuity provider cannot provide annuities that match the lifetime pensioners benefits exactly (likely to be small in this case)

In addition, there are likely to be additional costs relating to purchasing a buy-in contract which could represent approximately $0.05m to $0.1m. However this estimate may change significantly depending on future developments.

11

Prudential Standards

The prudential regulator (APRA) has issued a number of Prudential Standards for the superannuation industry, including Prudential Standard (SPS 160) relating to the financial management and funding of defined benefit plans. We have commented below on several requirements arising from SPS 160.

Shortfall Limit

The Trustee must determine a "Shortfall Limit" for each fund, being:

> "the extent to which the fund can be in an unsatisfactory financial position with the Trustee still being able to reasonably expect that, because of corrections to temporary negative market fluctuations in the value of the fund assets, the fund can be restored to a satisfactory financial position within a year".

I understand that the Plan's Shortfall Limit, determined by the Trustee on the basis of previous actuarial advice, is 100% as the Employer was on a contribution holiday.

The Shortfall Limit is expressed as the coverage level of the defined benefits vested benefits by the defined benefit assets. It is appropriate to consider the following factors when determining if the Shortfall Limit remains appropriate:

- The guidance provided in the Actuaries Institute Information Note;
- The investment strategy for defined benefit assets, particularly the overall benchmark exposure of 65% to "growth" assets;
- The results of this investigation regarding the extent to which the current and projected Defined Benefit Vested Benefits are not linked to the investment return on defined benefit assets (i.e. salary-based benefits) and the current and projected relativity between Vested Benefits and Minimum Requisite Benefits.

Based on the above, I recommend updating the current Shortfall Limit to 98%.

The projections also indicate that the level of Minimum Requisite Benefits is not expected to be a constraint in determining the Shortfall Limit. We will reassess the suitability of the adopted Shortfall Limit as part of the next regular actuarial investigation. The Shortfall Limit should be reviewed earlier if there is a significant change to the investment strategy for defined benefit assets – in particular a change to a more defensive strategy which has a benchmark allocation to "growth" assets of less than 55% - or if the Trustee otherwise considers it appropriate to do so.

Monitoring Process

SPS 160 also requires the Trustee to determine and implement a process for monitoring the defined benefit Vested Benefits coverage against the Shortfall Limit for each plan. If this monitoring process indicates that the vested benefits coverage has (or may have) fallen below the Shortfall Limit, then under SPS 160:

- An “Interim Actuarial Investigation” may be required (depending on the timing of the next regular actuarial investigation).
- A Restoration Plan is required to be put in place if an Interim Actuarial Investigation finds the plan has breached its Shortfall Limit. The Restoration Plan must be designed to return the plan to a “satisfactory financial position”, so that the Vested Benefits are fully covered, within a reasonable period that must not exceed 3 years and this must be submitted to APRA.

I consider that the adopted monitoring process is appropriate.

I recommend that the progress of the Plan’s coverage of Vested Benefits continue to be reviewed quarterly to ascertain if an adjustment to the Employer contribution levels is required prior to the next complete investigation.

The Trustee should also continue to monitor the “Notifiable Events” specified in the Plan’s Funding and Solvency Certificate and advise the Actuary should any actual or potential Notifiable Events occur.

Requirements due to Unsatisfactory Financial Position

Restoration Plan

Under SPS 160, a Restoration Plan is also required to be put in place if the actuary finds in a regular Actuarial Investigation that a plan:

- Is in an unsatisfactory financial position (whether or not the Shortfall Limit has been breached); or
- Is likely to fall into an unsatisfactory financial position.

The Restoration Plan must be designed to return the plan to a “satisfactory financial position”, so that Vested Benefits are fully covered, within a reasonable period that must not exceed 3 years from the investigation date.

An SPS 160 Restoration Plan is not required if the plan is technically insolvent (in which case the insolvency rules must be followed). If an SPS 160 Restoration Plan is already in place then any changes to the contribution program (including its period) must be made within the framework of that Restoration Plan.

As indicated by the financial position and the projections, we consider that:

- The Plan is not in an unsatisfactory financial position; and
- The Plan is not likely to fall into an unsatisfactory financial position.

Hence the special requirements of SPS 160 for funds in an unsatisfactory financial position do not apply at this investigation.

Actuary's Reporting Requirements

Section 130 of the SIS Act requires that if an actuary forms the opinion that a plan's financial position may be unsatisfactory, or may be about to become unsatisfactory, and that opinion was formed in performing an actuarial function, the actuary must advise both the Trustee and the prudential regulator (APRA) in writing immediately. Note: an unsatisfactory financial position applies where assets are less than Vested Benefits.

These requirements do not currently apply as I am of the opinion that the Plan's financial position is not unsatisfactory (or about to become unsatisfactory).

Statements Required by SPS 160

This section provides statements required to be made under APRA Prudential Standard SPS 160. Values cited relate to the Plan as a whole (inclusive of all accumulation members and accounts).

(a) The value of the Plan's assets as at 30 June 2022 was $57,521,000. This value excludes assets held to meet the Operational Risk Financial Requirement.

(b) In my opinion, the value of the liabilities of the Plan in respect of accrued benefits as at 30 June 2022 was $59,062,000. Hence, I consider that the value of the assets at 30 June 2022 is adequate to meet the value of the accrued benefit liabilities of the Plan as at 30 June 2022. Taking into account the circumstances of the Plan, the details of the membership and the assets, the benefit structure of the Plan and the industry within which the Employer operates, I consider that the assumptions and valuation methodology used are appropriate in relation to the determination of the accrued benefit liabilities for the purposes of this report. Further comments on the assumptions and valuation methodology are set out in Sections 4 and 6 of this report. Assuming that the Employer contributes in accordance with my recommendations based on the assumptions used for this actuarial investigation, I expect that assets will remain sufficient to cover the value of accrued benefit liabilities over the period to 30 June 2025.

(c) In my opinion, the value of the liabilities of the Plan in respect of vested benefits as at 30 June 2022 was $56,469,000. Hence, I consider that the value of the assets at 30 June 2022 is adequate to meet the value of the vested benefit liabilities of the Plan as at 30 June 2022. Assuming that the Employer contributes in accordance with my recommendations based on the assumptions made for this actuarial investigation, I expect that assets will remain sufficient to cover the value of vested benefit liabilities over the period to 30 June 2025. Hence, I consider that the financial position of the Plan should not be treated as unsatisfactory as defined in SPS 160.

(d) In my opinion, the value of the liabilities of the Plan in respect of the minimum benefits of the members of the Plan as at 30 June 2022 was $43,305,000. Hence the Plan was not technically insolvent at 30 June 2022.

(e) A projection of the likely future financial position of the Plan over the 3-year period following 30 June 2022, based on what I consider to be reasonable expectations for the Plan for the purpose of this projection, is set out in Section 7 of this report,

(f) Based on the results of this investigation, I consider that the Shortfall Limit should be updated to 98%. Comments are set out earlier in this section.

(g) In respect of the 3-year period following 30 June 2022, I recommend that the Employer contribute to the Plan at least:

Category	Recommended Contribution Rate
Defined Benefit (Permanent)	Nil from 1 July 2022 to 31 October 2022; 14.4% of salaries from 1 November 2022 until 31 December 2022; and 17.0% of salaries from 1 January 2022 plus $350,000 payable quarterly with the first payment due by 31 March 2023
Frozen (Expatriate)	Nil
Accumulation	At rate to meet Superannuation Guarantee requirements

(h) The Plan is used for Superannuation Guarantee purposes:

- all Funding and Solvency Certificates required under Division 9.3 of the SIS Regulations have been issued for the period from the date of the last investigation to 30 June 2022;
- I expect to be able to certify the solvency of the Plan in any Funding and Solvency Certificates that may be required in the three year period from 30 June 2022.

(i) In my opinion, there is a “high degree of probability”, as at 30 June 2022, that the Plan will be able to meet the pension payments as required under the Plan’s governing rules.

12

Actuarial Certification

Actuary's certifications

Professional standards and scope

This report has been prepared in accordance with generally accepted actuarial principles, Mercer's internal standards, and the relevant Professional Standards of the Actuaries Institute, in particular PS400 which applies to *"...actuarial investigations of the financial condition of wholly or partially funded defined benefit superannuation funds."*

Use of report

This investigation report should not be relied upon for any other purpose or by any party other than the Trustee of the Plan. Mercer is not responsible for the consequences of any other use. This report should be considered in its entirety and not distributed in parts. The Trustee should share this report with the Employer(s) who contribute(s) to the Plan. The Employer(s) may consider obtaining separate actuarial advice on the recommendations contained in the report.

The advice contained in this report is given in the context of Australian law and practice. No allowance has been made for taxation, accountancy or other requirements in any other country.

Actuarial Uncertainty and Assumptions

An actuarial investigation report contains a snapshot of a Plan's financial condition at a particular point in time, and projections of the Plan's estimated future financial position based on certain assumptions. It does not provide certainty in relation to a Plan's future financial condition or its ability to pay benefits in the future.

Future funding and actual costs relating to the Plan are primarily driven by the Plan's benefit design, the actual investment returns, the actual rate of salary growth and any discretions exercised by the Trustee or the Employer. The Plan's actuary does not directly control or influence any of these factors in the context of an actuarial investigation.

The Plan's future financial position and the recommended Employer contributions depend on a number of factors, including the amount of benefits the Plan pays, the cause and timing of member withdrawals, plan expense, the level of taxation and the amount earned on any assets invested to pay the benefits. These amounts and others are uncertain and unknowable at the investigation date, but are predicted to fall within a reasonable range of possibilities.

To prepare this report, assumptions are used to select a single scenario from the range of possibilities. The results of that single scenario are included in this report.

However, the future is uncertain and the Plan's actual experience will differ from those assumptions; these differences may be significant or material. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different. For this reason, this report shows the impact on the Plan's financial position if alternative assumptions were to be adopted.

Actuarial assumptions may also be changed from one investigation to the next because of mandated requirements, Plan experience, changes in expectations about the future and other factors. We did not perform, and thus do not present, an analysis of the potential range of all future possibilities and scenarios.

Because actual Plan experience will differ from the assumptions, decisions about benefit changes, investment policy, funding amounts and benefit related issues should only be made after careful consideration of possible future financial conditions and scenarios, and not solely on the basis of a set of investigation results.

Additional information

The next **actuarial investigation** is required at a date no later than 30 June 2025. At that time, the adequacy of the Employer contribution levels will be reassessed. Note that the monitoring process recommended may lead to an earlier reassessment ahead of the next full actuarial investigation.

The next **Funding and Solvency Certificate** is required at least 12 months before the expiry of the current Funding and Solvency Certificate (which expires on 30 June 2024).

The next **Benefit Certificate** is required following the expiry of the current Benefit Certificate (which expires 30 June 2023). The current Benefit Certificate is designed to accommodate changes to the legislated Superannuation Guarantee schedule.

Further Information

Please contact me to provide any supplementary information or explanations about this actuarial investigation as may be required.

Mark Samuels

Fellow of the Institute of Actuaries of Australia

9 December 2022

I have reviewed this report under Mercer's professional Peer Review Policy. I am satisfied that it complies with the applicable professional standards and uses assumptions and methods that are suitable for the purpose.

Richard Raoul Codron

Fellow of the Institute of Actuaries of Australia

Appendix A

Plan Design

Summary of benefits

A simplified summary of the main benefit provisions in respect of defined benefit members is set out below. Reference should be made to the formal governing documents for definitive statements.

Members' Contributions (% of salary)	Members are deemed to contribute 5% of salary Members may also make voluntary contributions by way of salary sacrifice, which are accumulated with investment earnings and paid on all forms of exit.
Final Average Salary (FAS)	Average of annual salaries over the 3 years prior to exit
Retirement Benefit	15% of Final Average Salary for each year of membership. Former members of the Philip Morris Pension Fund and the Philip Morris Australia Staff Superannuation Fund receive a 17.5% accrual rate (or 20% in some cases).
Normal Retirement Age	65
Death and Disablement Benefit	Prospective age 65 retirement benefit, but based on current salary.
Benefit on Retrenchment or Ill-Health	The discounted accrued retirement benefit subject to a minimum of twice the accumulation of deemed member contributions.
Resignation Benefit	2 x post 1 July 1992 deemed member contributions with investment earnings; plus (1 + Vesting factor) x pre 1 July 1992 deemed member contributions with investment earning Vesting factor is 10% of each year of service after 5 years of service, subject to maximum of 100%. All members are fully vested as at the date this report is issued.
Temporary Disability Income	Monthly income benefit of 70% of salary payable for 21 months.

Minimum Retirement Benefit	All retirement benefits are subject to a minimum of the Resignation Benefit.
Pension Option	Members may be eligible to take a pension on retirement after age 55. Pension is single life only pension with a 5 year payment guarantee and there is no escalation.

The table below indicates the material discretions available to the Trustee and Employer and the member options specified within the Plan's legal documents, to the extent that these affect benefits. The table also shows the general prevalence of the past exercise of discretions and the options chosen by the members. Please note that past exercises of discretions should not be viewed as precedents that would constrain any future decisions.

Description and Deed Reference	Historical Prevalence
Members are eligible to take a lifetime pension in lieu of the lump sum benefits on retirement benefits (Participation Schedule – Schedule 2.5 and 2.6)	Currently seven pensioners in payment

Benefits on leaving service for any reason are subject to a minimum Superannuation Guarantee benefit described in the Plan's Benefit Certificate.

The Superannuation Guarantee (Administration) Act 1992

This Act requires employers to provide minimum superannuation benefits that are fully vested in their employees within a complying superannuation fund.

The contribution rates recommended in this report and the projected financial positions allow for benefits being augmented as necessary to meet the minimum Superannuation Guarantee (SG) benefit described in the Plan's current Benefit Certificate.

Under current legislation the SG rate is currently 10.5% and will increase by 0.5% pa until it reaches 12% from 1 July 2025.

Appendix B

Data and Decrement assumptions

Data provisions

To prepare this report, I have relied on financial and participant data provided by the Plan's administrator. The data used is summarised in this report. I have not independently verified or audited the data provided but have performed a range of broad "reasonableness" checks and tested for consistency with previous records. I am satisfied that the data is sufficiently accurate for the purposes of this actuarial investigation.

I have also relied upon the documents, including amendments, governing the Plan as provided by the Trustee. The Trustee is ultimately responsible for the validity, accuracy and comprehensiveness of this information. If the data or Plan provisions are not accurate and complete, the investigation results may differ significantly from the results that would be obtained with accurate and complete information; this may require a revision of this report.

Decrement Assumptions

The following tables show the assumptions that have been made concerning the rates at which members will leave the Plan for a variety of reasons.

Death and Disablement

	Percentage of members age x at beginning of year assumed to leave the Plan during the year on account of:	
Age Last Birthday	Death	Disablement
x	%	%
35	0.050	0.020
40	0.070	0.040
45	0.110	0.080
50	0.190	0.180
55	0.320	0.390
60	0.540	0.830

The same assumptions were used in the 2019 actuarial investigation.

Retirement

It has been assumed that:

- for members aged 55 to 59 at the beginning of the year, 10% of the members will leave the Plan due to retirement;
- for members aged 60 to 64 at the beginning of the year, 20% of the members will leave the Plan due to retirement;
- for members aged 65 at the beginning of the year, 100% of the members will leave the Plan due to retirement.

Given the small size of the Plan, these are based on the experience of similar plans administered or advised by Mercer.

The same assumptions were used in the 2019 actuarial investigation.

Resignation

It is assumed that 5% of members will leave the Plan each year due to resignation.

These take into account the Plan's experience and the experience of similar plans administered or advised by Mercer.

The same assumption was used in the 2019 actuarial investigation.

Appendix C

Calculation of the Actuarial Value of Accrued Benefits

The calculation of the Actuarial Value of Accrued Benefits has been carried out using a method of apportionment of benefits between past and future membership that satisfies the requirements of Professional Standard No. 402 of the Actuaries Institute and is acceptable for Australian Accounting Standard AASB 1056 purposes. The information required for AASB 1056 is in Appendix D.

Defined Benefits

The past membership components of all defined benefits payable in the future from the Plan in respect of current membership are projected forward allowing for assumed future salary increases and credited interest rates and are then discounted back to the investigation date at the investment return rate assumed for the investigation.

The past membership component for each type of benefit is:

Retirement:	based on the member’s accrued benefit multiple or relevant account balances at the investigation date
Death and Disablement:	calculated by adjusting the total expected benefit in proportion to the accrued benefit multiple at the investigation date divided by the accrued benefit multiple at the projected date of death or disablement
Resignation:	based on the accumulated contributions at the investigation date, increased allowing for future vesting to the projected date of resignation

The weighted average term of the accrued benefit liabilities is 7 years.

Accumulation Benefits

The value of accumulation benefits has been taken as the sum of the balances held in accumulation accounts at the date of the investigation.

Methodology of Calculating the Actuarial Value of Accrued Benefits

The method used for the determination of Accrued Benefits is the same as that used at the previous investigation.

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