MERCER
MAKE TOMORROW, TODAY

PENLEIGH AND ESSENDON GRAMMAR SCHOOL SUPERANNUATION PLAN

STATEMENT OF ADVICE

REPORT TO THE TRUSTEE ON THE ACTUARIAL INVESTIGATION AS AT 30 JUNE 2017

12 DECEMBER 2017

MARSH & McLENNAN COMPANIES

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1

Key Results and Recommendations

This report on the actuarial investigation of the Plan as at 30 June 2017 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 the Employer who contributes to the Plan. The Employer may consider obtaining separate actuarial advice on the recommendations contained in the report.

1.1. Change in Financial Position

	Position at 30 June 2017		
Defined Benefits Only*	**$000**	**Asset Coverage**	**Coverage at 30 June 2014**
Assets	6,956		
Liability for Vested Benefits	5,487	126.8%	121%
Liability for Actuarial Value of Accrued Benefits#	5,051	137.7%	134%
Liability for SG Minimum Benefits	3,704	187.8%	190%

*The above totals exclude accumulation balances (member investment choice) and defined benefit surcharge offset accounts of $1,723,000 as at 30 June 2017.

#The Liability for Actuarial Value of Accrued Benefits differs from that shown in the 30 June 2017 financial update due to an update of assumptions as part of this investigation.

The coverage levels at 30 June 2017 were higher than the levels at the previous actuarial investigation, due to the following items of positive experience:

- Investment earnings of 5.6% p.a., which were higher than the long term rate (5.3% p.a.)
- Significant level of member benefits paid on exits while the Plan was in surplus.

This positive experience was partially offset by higher than expected salary growth.

1.2. Recommended Contribution Rates and Projections

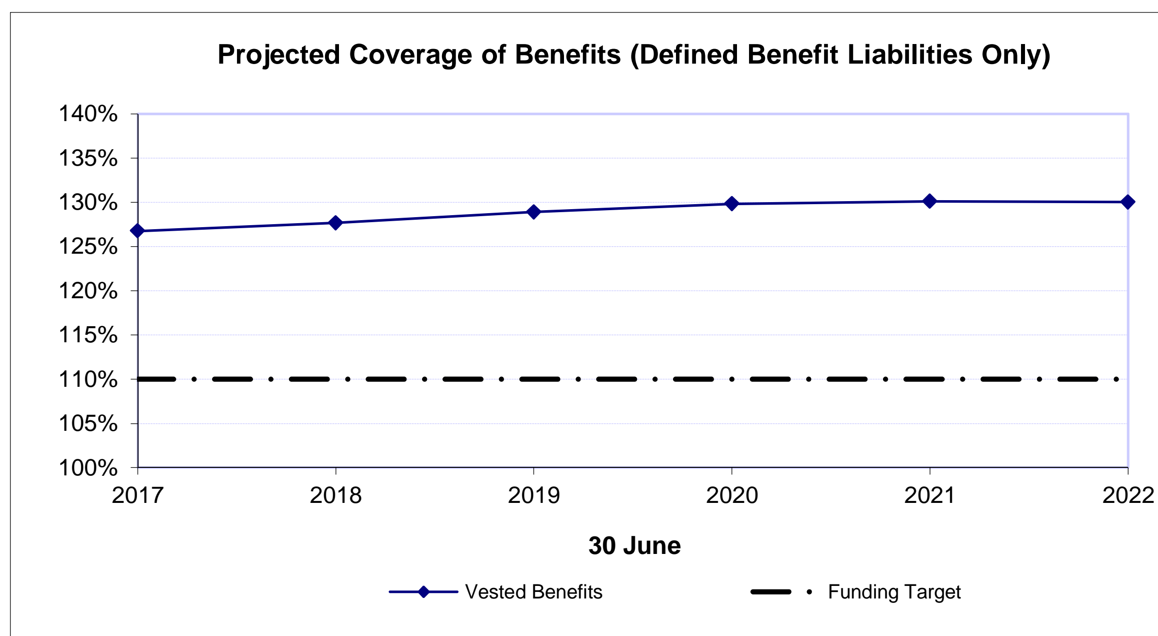
At 30 June 2017, the Plan was in a satisfactory financial position. The 126.8% coverage of Defined Benefit Vested Benefits was significantly above the financing objective of 110% coverage adopted for this investigation.

Based on the financial position at 30 June 2017 and taking into account the actual investment return of 2.9% for the 4 months immediately after 30 June 2017, I recommend that the Employer continues to contribute to the Plan as follows:

- Continue with the contribution holiday (nil contributions payable) in respect of Executive (PEGS:1) and Staff (PEGS:2) members;
- 3.0% Award contributions (as required);
- SG% of OTE in excess of salary e.g. bonuses and allowances (allocated to the members' accumulation accounts); and
- 10.0% of salary (subject to a minimum of the SG rate) for members who remain in the Plan after their Normal Retirement Date.

The Employer should also ensure that the 5.25% of salary member contributions (or 6.18% of salary if paid via salary sacrifice) are paid to the Plan plus any other additional employer contributions agreed between the Employer and a member (e.g. additional salary sacrifice contributions).

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



The graph above shows that the recommended contributions are anticipated to maintain assets of at least 110% of Defined Benefit Vested Benefits over the period to 30 June 2020 (which is the financing objective adopted in this investigation).

Given that the financial position is expected to improve further, despite the defined benefit contribution holiday, the Company and the Trustee may wish to consider financing the 3% Award contributions from the defined benefit assets.

1.3. Other Findings and Recommendations for the Trustee

Suitability of Policies

- The investment policy for the defined benefit section of the Plan is suitable.

- The crediting policy for the defined benefit section of the Plan is suitable.
- The insurance arrangements for the defined benefit section of the Plan are suitable.
- The Shortfall Limit (for the purposes of SPS 160) is suitable.
- The Trustee's process for monitoring the Plan's financial position is suitable.

Recommendations

- The Trustee, with input from the Company, should consider available options to manage the high level of surplus assets in the Plan, including the payment of 3% Award contributions from Plan assets.
- The investment policy for the defined benefit section of the Plan should be reviewed to ensure it remains acceptable to the employer given the projected strong financial position. In addition, the existing rebalancing policy should be reaffirmed.

1.4. Action Required

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

Liability Measures as at 30 June 2017

2.1. 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.

At 30 June 2017, Plan assets were greater than Vested Benefits. Accordingly the Plan was considered to be in a "satisfactory financial position" under SIS legislation. The 126.8% coverage of Defined Benefit Vested Benefits was also above the financing objective of 110% coverage adopted for this investigation.

2.2. 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).

Plan assets at 30 June 2017 were also greater than SG Minimum Benefits and hence the Plan was considered to be "solvent" under SIS legislation.

2.3. 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 actuarial methods and assumptions. In determining the value, I have not applied a minimum of the vested benefits.

2.3.1. Summary of Method of Attributing Benefits to Past Membership

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.

2.3.2. 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.

2.3.3. 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
Resignation:	based on the member's accrued benefit multiple or relevant account balances at the investigation date

2.3.4. Changes in 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.

3

Experience

3.1. Change in Financial Position since Previous Investigation

The table below shows the coverage of assets over Vested Benefits, the Actuarial Value of Accrued Benefits and the SG Minimum Benefits as at 30 June 2017, and the corresponding values at the previous investigation date.

	Position at 30 June 2017		
Defined Benefits Only*	**$000**	**Asset Coverage**	**Coverage at 30 June 2014**
Assets	6,956		
Liability for Vested Benefits	5,487	126.8%	121%
Liability for Actuarial Value of Accrued Benefits#	5,051	137.7%	134%
Liability for SG Minimum Benefits	3,704	187.8%	190%

*The above totals exclude accumulation balances (member investment choice) and defined benefit surcharge offset accounts of $1,723,000 as at 30 June 2017.

#The Liability for Actuarial Value of Accrued Benefits differs from that shown in the 30 June 2017 financial update due to an update of assumptions as part of this investigation.

The coverage levels at 30 June 2017 were higher than the levels at the previous actuarial investigation due to the overall positive experience over the review period.

The reasons for the changes in the financial position due to experience since the previous investigation are detailed below.

3.1.1. Investment Returns and Crediting Rates

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

Year Ending	Investment Return/Crediting Rate (pa)
30 June 2015	6.0%
30 June 2016	2.2%
30 June 2017	8.7%
Compound Average	**5.6%**

The average investment return for the three year period to 30 June 2017 was 5.6% p.a. compared to our longer term assumption at the last actuarial investigation of 5.3% p.a. The higher than assumed return had a positive impact on the Plan's financial position.

3.1.2. Salary Increases

Salaries for the current defined benefit members increased by an average of 3.6% pa over the period compared to our longer term assumption at the last actuarial investigation of 3.0% pa. The higher than assumed salary increases had a negative impact on the Plan's financial position.

3.1.3. Changes in Membership/Decrements

During the period under review the number of defined benefit members within the Plan decreased and the decrease was more than assumed. The payment of benefits has had a positive impact on the Plan's overall financial position as the surplus is now spread over a smaller capital base.

3.1.4. Contributions

The Employer contribution rates since the date of the prior actuarial investigation were as follows:

- 17.5% of Salary for Executive members (PEGS:1) until February 2015, reducing to nil from 1 March 2015;
- 15.0% of Salary for Staff members (PEGS:2) until February 2015, reducing to nil from 1 March 2015;
- 3.0% award contributions (as required);
- SG% of OTE in excess of salary e.g. bonuses and allowances (allocated to the members' accumulation accounts); and
- 10.0% of salary for members who remain in the Plan after their Normal Retirement Date.

The Employer contribution rates were broadly in accordance with the prior actuarial investigation and subsequent contribution recommendations. The Employer continued to contribute for a short period after a contribution holiday was recommended to begin. However, this action was to the benefit of the Plan.

3.2. Recommendations in Previous Actuarial Investigation

The previous actuarial investigation made the following recommendations and the status of these is shown in the table below:

Recommendation	Status
Contribution program	Refer Section 3.1.4
Regular monitoring of the Plan	The Trustee monitors the Plan (financial position, contribution requirements, notifiable events etc.) on a quarterly basis.
Consideration be given to an appropriate strategy to manage the asset surplus in the Plan.	The Plan implemented a contribution holiday to help prevent further build-up in the surplus.

4

Contribution Requirements

4.1. Financing Objective

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

- 100% of accumulation account balances plus
- 110% of Defined Benefit Vested Benefits

Accumulation account balances are matched by specific assets and do not require any additional margins. However the defined benefit liabilities are not linked to the returns on the underlying assets. A margin in excess of 100% coverage of vested defined benefits is therefore desirable to provide some security against adverse experience such as poor investment returns. I consider that the target margin of 10% strikes a suitable balance between the Trustee's desire to provide security to members and the Employer's desire to avoid an unnecessary build-up of surplus

Based on the assumptions adopted for this investigation, achieving the financing objective of 110% of Vested Benefits for defined benefit members would also result in at least 100% coverage of the Actuarial Value of Accrued Benefits and 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 these benefit liability measures.

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

4.1.1. 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 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 receive their vested benefit entitlement.

4.1.2. Provisions of the Trust Deed

The rules of NGS Super include requirements 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.

4.2. Financing Method

There are various financing methods that could be followed in setting the Employer contribution level. This investigation uses a "Target Funding" method.

Under this method, the Employer contribution rate required to provide a target level of coverage of a particular benefit liability measure is determined.

Under this method of financing, the level of the Employer contribution may vary from time to time to ensure that the Plan remains on course towards its financing objective (minimum 100% coverage of Vested Benefits).

I consider that the Target Funding method is suitable in the Plan's current circumstances as it allows the recommended contribution rate to be determined specifically to meet the Plan's financing objective.

4.2.1. Changes in Financing Method

The Target Funding method was also adopted at the last investigation.

4.3. Employer's Future Service Cost

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

Defined Benefit Membership Group	Employer long-term cost (of future benefit accrual) (% of Salary/Wage)
PEGS:1	11.2%
PEGS:2	8.3%

An averaged rate for current members is 9.4% of salaries.

The Employer's long-term defined benefit funding cost above includes an allowance for expected insurance premiums (of 2.1% of DB salaries) and contributions tax.

The following items are also a cost to the Employer and are in addition to the long-term defined benefit funding cost above:

- Actuarial expenses estimated to be $45,000 per annum plus GST;
- Plan administration expenses of $50,000 per annum plus GST;
- 3.0% award contributions (as required) – allocated to the member's accumulation account;
- SG% of OTE in excess of salary e.g. bonuses and allowances – allocated to the member's accumulation account;
- 10% of salary (subject to the minimum of the required SG% rate) for members who remain in the Plan after their Normal Retirement Date.

The other expenses of running the Plan (investment) have already been allowed for by a reduction in the investment return assumption (refer section 10.1).

Under the Target Funding method, it would be appropriate to continue with the current employer contribution holiday based on the strong financial position of the Plan.

4.4. Recommended Contributions

Based on the Trustee's financing objective described and the results of this investigation, I recommended that Employer contributes as follows from 1 July 2017:

- Continue with the contribution holiday (nil contributions payable) in respect of Executive (PEGS:1) and Staff (PEGS:2) members;
- 3.0% Award contributions (as required);
- SG% of OTE in excess of salary e.g. bonuses and allowances (allocated to the members' accumulation accounts); and
- 10.0% of salary for members who remain in the Plan after their Normal Retirement Date.

The Employer should also ensure that the 5.25% of salary member contributions (or 6.18% of salary if paid via salary sacrifice) are paid to the Plan plus any other additional employer contributions agreed between the Employer and a member (e.g. additional salary sacrifice contributions).

Given that the financial position is expected to improve further, despite the defined benefit contribution holiday, the Company and the Trustee may wish to consider financing the 3% Award contributions from the defined benefit assets.

Note that if contributions paid are lower than recommended, the SIS legislation may require the actuary to report this to APRA.

Contribution rates post normal retirement

On reaching Normal Retirement Age members' defined benefits are crystallised. At this time members can choose to either remain in the Plan or transfer their benefits to the Industry section of NGS Super. If they remain in the Plan their crystallised defined benefits will receive investment earnings based on the earning rates of the defined benefit assets. If they transfer to the Industry section of NGS Super members are given investment choice on their balance.

The Employer must continue to meet its Superannuation Guarantee obligations for employees continuing to work after Normal Retirement Age. We understand that the Employer makes contributions at 10.0% of salary for its employees post Normal Retirement Age irrespective of whether they remain members of the Plan or transfer to the Industry section of NGS Super. Hence in terms of contributions, the two options available to the member are considered equitable.

4.5. Valuation Balance Sheet

The following table shows the Plan's valuation balance sheet which treats future contributions as an asset and future benefits (based on both past and future service) as a liability.

Item	**Actuarial Value $M**
Present Value of future defined benefits payments in respect of membership accrued at the valuation date	5.051
Present Value of future defined benefits payments in respect of membership after the valuation date	1.092
Present Value of future Plan operating costs and tax on contributions	0.854
Total Present Value of future payments out of Plan	**6.997**
Value of Plan Assets at 30 Jun 2017	6.956
Present Value of future Employer contributions (at rate recommended)	0.000 (Nil)
Present Value of future Member contributions (at rate(s) specified in Trust Deed)	0.433
Total available Assets (in absence of other contributions)	**7.389**
Excess/(Deficit) of Assets to value of benefits	0.392

The table suggests that if the Employer continues to contribute at the recommended rate, there will be a projected surplus of assets of $0.392m. In practice it is likely to be necessary to vary the Employer contribution rate over time to achieve the Trustee's financing objective.

4.6. Projected Financial Position

The next section of the report shows the projected financial position on the recommended contributions compared with the Financing Objective adopted by the Trustee.

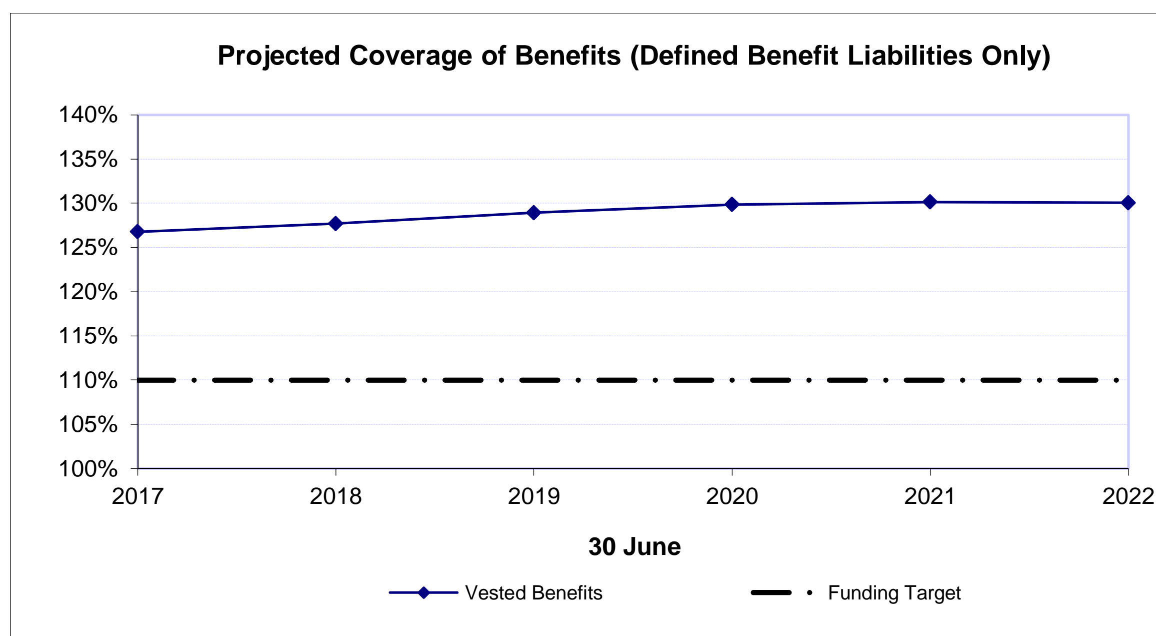
5

Projections

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

- the actuarial assumptions adopted for this investigation; and
- assuming that the Employer contributes on the basis as recommended above.

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.

5.1. Meeting the Financing Objective

The projection above shows that the recommended contribution program is anticipated to result in assets remaining above 110% of Defined Benefit Vested Benefits over the period to 30 June 2020 (the financing objective adopted in this investigation).

We have not prepared a graph to show the coverage of assets compared with the Actuarial Value of Accrued Benefits. However, given the margin of Vested Benefits over the Actuarial Value of Accrued Benefits at the investigation date and the projected level of asset coverage at 30 June

2020, I am of the opinion that the recommended contributions are projected to result in asset coverage of 100% of the Actuarial Value of Accrued Benefits by 30 June 2020.

6

Investment Policy and Related Risks

6.1. Investment Policy

Assets backing accumulation benefit liabilities

The Plan provides members with a range of investment options for their accumulation benefits. 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 matched.

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

Award Account

Members are provided with investment choice on their Award Account which includes the additional 3% contributions payable by the Employer (the "Award Account"). The Award Account is payable in addition to all defined benefits other than when the SG benefit is payable (or the Temporary Disability benefit). As such, to an extent the Employer bears the investment risk chosen by the member for the balance of the Award Account. For example, if investment returns on the Award Account were low as a result of the member's investment choice, the SG benefit may be more likely to apply and hence the additional cost of this higher benefit lies with the Employer.

Given the structure of the SG benefit compared to the other defined benefits on exit, we believe that the current investment risk to the employer posed by allowing investment choice on the Award Account is minimal.

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.

Assets backing defined benefit liabilities

The Plan's strategic and actual asset allocation as at 30 June 2017 for assets supporting defined benefit liabilities are shown below:

30 June 2017	Benchmark Allocation	Actual Allocation
Australian Shares	30.5%	34.8%
Overseas Shares	11.0%	14.4%
Property	11.0%	13.9%
Cash	47.5%	36.9%
Total	**100.0%**	**100.0%**

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The current policy is to direct all cash flow via the Cash investment option with the Plan's assets being rebalanced on an annual basis as necessary. Given the substantial benefit payments expected over the next few years and the recommendation to largely cease employer contributions, the net cash flow is expected to be negative. As such, rebalancing of the assets may be required on a more regular basis (see below).

The current defined benefit investment policy still has the potential for substantial variability in investment returns.

The defined benefit liabilities (other than some aspects of 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 (refer illustrations in Section 6.4) and is likely to impact on the required level of Employer contributions (refer illustration in Section 6.3).

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, with the defined benefits having been closed to new members for some time now and a significant amount of retirement benefits due to become payable in the next few years (refer age profile in Appendix A), the projections carried out as part of this actuarial investigation indicate that a substantial reduction of defined benefit assets is expected over the next 5 years.

The Plan's investments are expected to provide a high level of liquidity in normal circumstances. Hence we do not envisage any problem in being able to redeem assets to meet benefit payments as they arise.

Given the nature of the defined benefit liabilities and the financial position of the Plan, we consider the currently strategy remains suitable at present if the Employer continues to be comfortable with this level of risk as ultimately they will have to make up any shortfall that may arise; however we recommend that this be reviewed at least as part of each actuarial valuation, particularly given the age profile of the membership. However, as the Vested Benefits coverage is 127% at the date of this investigation, and it is projected to continue to improve (refer Section 5) based on the actuarial assumptions adopted for this investigation, we would recommend reviewing the investment strategy as the Employer may wish to further remove the investment risk from the Plan.

Rebalancing

In line with the Former Fund's policy the asset allocation is monitored on a quarterly basis with a formal review and rebalancing exercise completed on an annual basis as necessary.

Given the significant amount of retirement benefits due to become payable in the next few years (refer Appendix A) we recommend that this review process continues.

We note that the Plan is currently underweight in cash and overweight in the other investment options. However, given the funding position of the Plan, we are comfortable with this. Furthermore, we understand that the School is holding around $600,000 in cash in case the Plan requires top-up contributions which effectively increases the allocation to Cash.

Based on the assumptions adopted for this valuation, the total assets invested in the Cash option as at 30 June 2017 are expected to be sufficient to pay the benefits over the next 2-3 years (without taking into account other cashflows or rebalancing).

We recommend that the Employer and Trustee reaffirm the current rebalancing policy, including the allowance for additional cash holdings held outside of the Plan and whether a change in the benchmark allocation is warranted in these circumstances.

6.2. Crediting Policy

NGS Super has a documented unit pricing policy (September 2011) and the Plan has a documented Crediting Rate policy (dated December 2013).

The following accounts are credited with investment earnings at the Crediting Rate:

- Defined Benefit Member Account and Vested Benefit at 1 July 1992 Account (payable as part of the SG minimum benefit only)
- Surcharge Account
- DB Offset Account (in relation to partial withdrawals from the DB component of the benefit excluding Family Law Offsets)
- Defined Benefits after Normal Retirement Date

The main features of the unit pricing and Crediting Rate policies are summarised briefly below:

- Crediting Rates are determined monthly following the release of NGS Super's last set of unit prices prior to the end of each month.

- The Crediting Rate is determined based on the movement in the underlying unit prices (after allowance for tax, investment costs and 0.1% asset-based administration fees) between the last declared unit price in the previous month and the latest declared unit price in the current month and weighted according to the asset allocation at the beginning of the current month. This figure is then annualised.

- No allowance is made for changes in asset allocations or transactions during the month.

- There is no adjustment made at the end of the financial year to the previously declared crediting rates.

- 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 return of the cash investment option over the previous crediting period.

- Members' defined 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 the Industry section of NGS Super), late payment interest is payable on the benefit. This is determined based on the movement in the unit price of the cash investment option between the date of leaving service and the date of payment/transfer.

- Members' additional accumulation benefits (where member investment choice has been exercised) are calculated using the latest unit price at the date of payment/transfer.

- The Plan allocates earnings to any Family Law Offset Accounts in relation to defined benefits using AWOTE plus 2.5% per annum.

- Members reaching normal retirement age will be given the option to remain in the Plan and receive accumulation style benefits or transfer to the Industry section of NGS Super. Members leaving service for any other reason will be automatically transferred to the Industry section (unless alternative payment instructions have been received).

  Termination of service can result in an automatic change in a member's investment option. If a member remains in the Plan post normal retirement age, the member's crystallised benefit will remain invested in the defined benefit investment option until paid. If transferred to the Industry section (on reaching Normal Retirement Age or exit for any other reason):

  - If the member has selected an investment option or options for any additional accounts, the former defined benefit is to be invested according to the nominated investment choice from the date the conversion is processed.
  - If the member has not selected an investment option for the additional accounts or does not have any additional accounts, the former defined benefit is to be invested in the default investment option for accumulation members from the date the conversion is processed.
  - The member may switch investment options at any time after the processing date.

- NGS Super Management allows certain member transaction requests to be backdated. That is, certain transactions can be processed with an earlier "business effective date" than the actual "processing date".

- Unit prices are determined on a weekly basis.

- Hard-close unit prices are calculated (monthly and annually) for performance monitoring but are not used for transaction processing or member statements.

- NGS Super maintains a unit pricing reserve to cover any potential errors caused by incorrect calculations of unit prices.

- Contingency arrangements are documented for the Trustee to take action if markets become significantly volatile, including the release of additional unit prices and the suspension of member transaction processing.

Comments

Whilst the monthly update of the interim 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 rates is appropriate.

I consider that the current frequency of review of unit prices is appropriate. Whilst the use of historical unit pricing can result in members being disadvantaged or advantaged (depending on market movement), when considered alongside the contingency arrangements in place I consider the risk is controlled sufficiently.

Backdating of transactions creates a risk for the Plan if markets fall between the business effective date and the actual processing date. Generally the contribution information received is clean and hence there is little delay in the allocation of contributions. We therefore consider the risk to this

Plan to be minimal. We also understand that there are limitations in amending the administration system to remove backdating of transactions.

The crediting rate process does not allow for the asset allocations or transactions over the month. This is more of an issue if employer contributions cease (in line with our recommendations). Therefore it is important to rebalance the asset allocation on a regular basis (as recommended in 6.1). Whilst allowing for such cashflows would result in the calculation of a more accurate return, I consider that the current process produces a sufficient balance between accuracy and timeliness.

As a member's exit can result in a change to the member's investment options, the Trustee should ensure that this and the member's choices are clearly indicated in any communication provided on and before exit.

Conclusion

The unit pricing and Crediting Rate policy and related procedures are documented. A detailed review of the policy and related procedures is outside the scope of this investigation.

Based on a review of the main features, I consider that the unit pricing and Crediting Rate policy 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).

6.3. Investment Risk – Impact on Cost to the Employer

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% pa with no change in other assumptions, then:

(i) the Actuarial Value of Accrued Benefits would increase by $241,000 (Employer funding cost impact $241,000 /0.85 = $283,000), with a resulting reduction in the coverage of the Actuarial Value of Accrued Benefits from 137.7% to 131.4% and

(ii) the estimated employer cost of future service benefits would increase from 9.4% to 10.1% 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% pa illustrated in the example above.

6.4. Investment Volatility

The current vested benefits for defined benefit members (excluding their accumulation accounts) are not related to investment returns (i.e. are 100% salary based benefits) and therefore the Plan's vested benefits coverage is highly sensitive to changes in the investment returns.

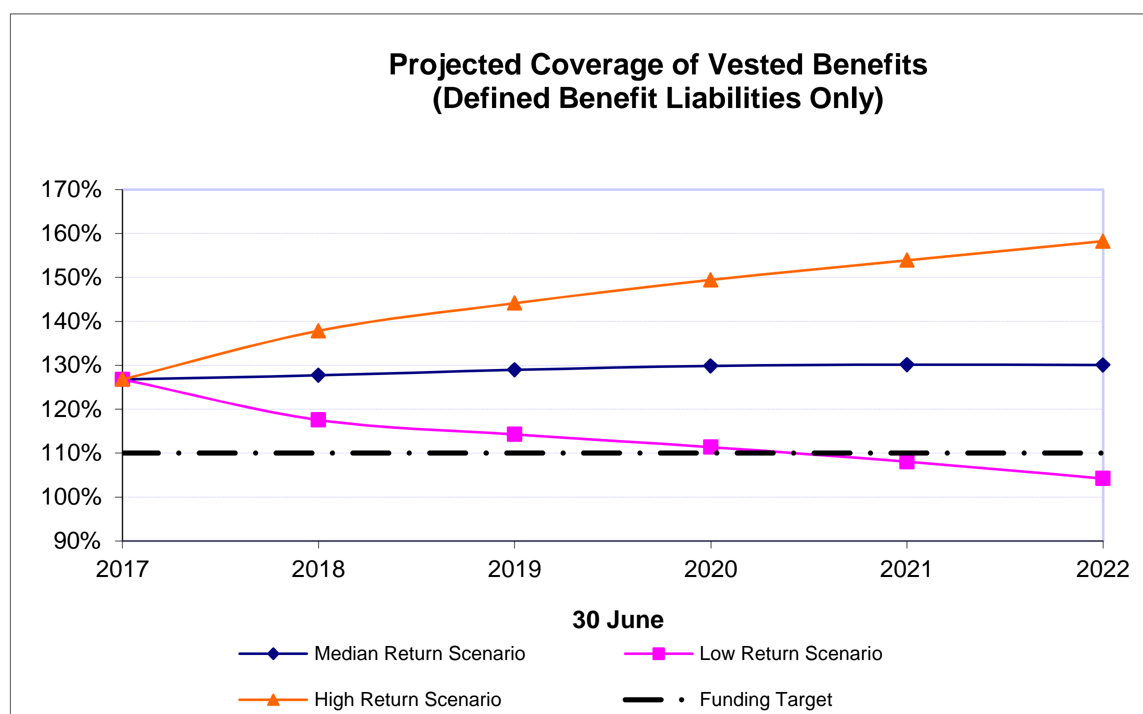
I have considered the impact of investment volatility on the Plan's financial position over the next few years using a "high return" and a "low return" scenario. The returns under both scenarios have been derived from assumptions about the likely risk attached to the Plan's defined benefit investment 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 2017 to 30 June	Assumed Cumulative Investment Return (%)		
	"Low Return"	Valuation	"High Return"
2018	-2.6%	5.0%	12.6%
2019	-0.1%	10.3%	20.9%
2020	3.5%	15.8%	28.7%
2021	7.6%	21.6%	36.5%
2022	11.9%	27.6%	44.7%

The cumulative investment return is the total return from 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 below 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 2020 will fall in the range from 111% to 149%.

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 which 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.

7

Insurance Policy and Related Risks

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 – Accrued Retirement Benefit*

*Based on current salary rather than final average salary

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 uncovered death/TPD risk as at 30 June 2017 for the Plan was as follows.

	Defined Benefit members	$000
	Death/Disablement Benefits	8,014
less	Sum Insured	2,297
less	Assets	6,956
	Uncovered Death/Disablement Benefits	(1,239)

It can be seen that there is a significant amount of over insurance in the Plan at the moment, largely as a result of the surplus assets in the Plan.

The definition of TPD in the 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.

Underwriting is required if the insured benefit exceeds the Automatic Acceptance Limit. If the insurer does not accept an application for cover in excess of the Automatic Acceptance Limit, clause 1.5.2a) of the NGS Super Trust Deed dated 8 March 2011 allows the Trustee to reduce member benefits to the extent that the Policy cover has not been increased. The Trustee will need to have communicated this adequately to the members concerned i.e. through relevant disclosure.

Disability income benefits

The Plan provides for a temporary disablement income benefit of 75% of salary (plus 10% of salary to superannuation) to the earlier of death, TPD, recovery or 31 December after the member turns age 65 (consistent with Normal Retirement Date) after a waiting period of 90 days.

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 our 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.

The Plan is not permitted to self-insure.

7.1. Documentation

The insurance arrangements are underwritten by TAL Life Limited ("the insurer") and outlined in a policy dated 1 June 2017 between the Trustee and the insurer. The purpose of the insurance policy is to protect the Plan against unexpectedly large payouts on the death or disablement of members.

7.2. Conclusion

We recommend that the level of over insurance be reviewed as part of the surplus management discussions, rather than via a direct adjustment to the insurance cover formula.

8

Other Risks

There are a number of other risks relating to the operation of the Plan. The more significant financial risks, other than investment and insurance risk, relating to the defined benefits are:

8.1. 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% pa with no change in other assumptions, then

(i) the Actuarial Value of Accrued Benefits would increase by $202,000 (Employer funding cost impact $202,000/0.85 = $238,000), with a resulting reduction in the coverage of the Actuarial Value of Accrued Benefits from 137.7% to 132.4% , and

(ii) the estimated employer cost of future service benefits would increase from 9.4% to 9.9% 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% pa illustrated in the example above.

8.2. Legislative risk

The risk is that legislative changes could be made which 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.

8.3. 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 may no longer apply 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. Greater focus may be required on the funding of benefits immediately payable to members (eg 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. More frequent monitoring of the financial position may 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. 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. As defined benefit funds reduce in membership, the actuarial fees may in fact increase as a result of additional monitoring being required and that most actuarial tasks are essentially the same whether there are 1 or 100 defined benefit members. 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.

The Plan's Risk Management Statement and Risk Management Plan should identify a full range of risks faced by the Trustee.

9

Assets

9.1. Assets

The net market value of the Plan's assets as at 30 June 2017 amounted to $8,679,000 (based on unaudited data provided by the Plan's administrator at 30 June 2017.

Calculation of Defined Benefit Assets at 30 June 2017	$
Net market value of the Plan's assets as at 30 June 2017	**$8,679,000**
Less accumulation accounts for defined benefit members	$1,723,000
Assets to support the defined benefit liabilities of the Plan	**$6,956,000**

9.2. Operational risk reserves

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

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

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10

Actuarial Assumptions

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

- the amount of benefits paid out; plus
- 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 investigation assumptions or methods used to determine the recommended Employer contribution rate, 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, rates at which members cease service for different reasons, and various 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.

10.1. 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 (after tax, investment and asset based administration fees)	5.0% p.a.
Crediting rate (after tax, investment and asset based administration fees)	5.0% p.a.
General salary increases	3.0% 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 Investment Consulting'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 following fees have been allowed for in the investment return assumption (by way of a deduction to the return):

- Annual investment fee of $7,500 as set out in clause 4.4 (b) of the Participation Schedule due to the non-standard investment structure that is currently applied.

The general salary increase assumption is based on long term economic forecasts for future increases in average weekly earnings (AWOTE) and discussions with the Employer. A separate allowance for promotional increases is not considered necessary.

10.2. Other assumptions

New members

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

Expenses

The following expenses have been allowed for as a cost in determining the long-term funding cost and setting the contribution recommendation:

- Actuarial consulting fees (estimated to be $45,000 p.a.)
- Administration fees payable for the year ended 30 June 2018 will be $50,330 + GST (indexed thereafter) plus the $65 per member administration fee.
- Net cost of group life and disablement income insurance (assumed to average 2.1% of defined benefit members' salaries based on recent experience)

Investment fees have been allowed for in setting the investment return assumption (refer Section 10.1).

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 other concessions.

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 contribution tax.

No allowance has been made for:

- Any surcharge liability as members' benefits will be reduced by a surcharge offset amount equal to the surcharge payments made, accumulated at the Plan crediting rate. Surcharge was abolished with effect from 1 July 2005.
- 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.

Death and Disablement

Given the small size of the Plan and the age profile of the remaining members, no specific allowance is made for the possibility of future member exits due to death or disablement in our calculations.

Retirement

The rates at which members are assumed to leave the Plan due to retirement are set out below. I have maintained the same assumptions as were adopted at the 30 June 2014 actuarial investigation of the Plan. Given the small size of the Plan, these are based on the experience of similar plans administered or advised by Mercer.

Age Last Birthday	Percentage of members age x at beginning of year assumed to leave the Plan during the year on account of early retirement
x	%
55	20
56 - 59	5
60	20
61 - 62	15
63	20
64	50
65	100

Resignation

Specimen rates at which members are assumed to leave the Plan due to resignation are set out below. I have maintained the same assumptions as were adopted at the 30 June 2014 actuarial investigation of the Plan. Given the small size of the Plan, these are based on the experience of similar plans administered or advised by Mercer.

Age Last Birthday	Percentage of members age x at beginning of year assumed to leave the Plan during the year on account of resignation
40	7.60
45	5.80
50	3.40
55	0.00
60	0.00

Retrenchment

The retrenchment benefit is the same as the benefit paid on resignation or retirement.

10.3. Changes in Assumptions since the Previous Investigation

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

Assumption	30 June 2017 investigation	30 June 2014 investigation	Reason for change
Investment return	5.0% p.a.	5.3% p.a.	Updated to reflect current investment market outlook
Expenses	As detailed in Section 10.2 of this report.	As detailed in 30 June 2014 actuarial investigation report	Updated to reflect Plan experience and future expectations.

The overall impact of the changes in assumptions was to:

- increase the Actuarial Value of Accrued Benefits by $68,000
- increase the assessed long-term employer cost of future service benefits by 0.2% of salaries.

11

The Regulator and Prudential Standards

The 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 a number of the requirements arising from SPS 160.

11.1. 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".

We understand that the Plan's Shortfall Limit, determined by the Trustee on the basis of previous actuarial advice, is 98%.

The Shortfall Limit is expressed as a percentage coverage level of defined benefit vested benefits by defined benefit assets and it is appropriate to consider the following when determining if the Shortfall Limit remains appropriate:

- The guidance provided in the Actuaries Institute Information Note: Shortfall Limit in Prudential Standard 160 dated June 2013;
- The investment strategy for defined benefit assets, particularly the benchmark exposure of 52.5% to "growth" assets;
- The results of this investigation which show that the current and projected defined benefit Vested Benefits are not linked to the investment return on defined benefit assets (i.e. they are 100% salary-based benefits);
- and the current and projected relativity between Vested Benefits and Minimum Requisite Benefits.

Based on the above, we recommend maintaining the current Shortfall Limit.

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 47.5% - or if the Trustee otherwise considers it appropriate to do so.

11.2. 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 defined benefit 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.

We understand that the Trustee has adopted a monitoring process which includes the following:

- A broad estimate of the defined benefit vested benefits coverage for each Plan is prepared each quarter using an approximate approach which takes into account key factors such as the investment return and top-up contributions (if any) for the quarter ("Trustee's estimate");
- If the Trustee's estimate indicates that the Shortfall Limit has, or may have been breached, action will be taken as required by SPS 160;
- For plans in a satisfactory financial position where there has been a significant reduction in the Trustee's estimate of defined benefit vested benefits coverage, the Trustee will request a review of the financial position and formal advice from the Plan actuary as to whether or not the current contribution program remains appropriate;
- For plans in an unsatisfactory financial position, the Trustee will request a review of the financial position and advice from the Plan actuary each quarter as to whether or not the current contribution program remains appropriate or any other action should be taken;

We consider that the adopted monitoring process is appropriate.

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.

11.3. Requirements due to Unsatisfactory Financial Position

11.3.1. 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.

11.3.2. 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 regulator (APRA) in writing immediately (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).

The Plan's assets are sufficient to fully cover the SG Minimum Benefits at 30 June 2017. Therefore the Plan is not considered to be technically insolvent.

11.4. 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 2017 was $8,679,000. 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 2017 was $6,774,000. Hence I consider that the value of the assets at 30 June 2017 is adequate to meet the value of the accrued benefit liabilities of the Plan as at 30 June 2017. 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 10 and 4 of this report. Assuming that the Employer contributes in accordance with my recommendations, then, based on the assumptions made for this actuarial investigation which I consider to be reasonable expectations for the Plan, I expect that assets will remain sufficient to cover the value of accrued benefit liabilities over the period to 30 June 2020.

(c) In my opinion, the value of the liabilities of the Plan in respect of vested benefits as at 30 June 2017 was $7,210,000. Hence I consider that the value of the assets at 30 June 2017 is adequate to meet the value of the vested benefit liabilities of the Plan as at 30 June 2017. Assuming that the Employer contributes in accordance with my recommendations, then, 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

2020. 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 2017 was $5,427,000. Hence the Plan was not technically insolvent at 30 June 2017.

(e) A projection of the likely future financial position of the Plan over the 3-year period following 30 June 2017, based on what I consider to be reasonable expectations for the Plan for the purpose of this projection, is set out in Section 5 of this report,

(f) Based on the results of this investigation, I consider that the Shortfall Limit does not require review. Comments are set out in Section 12.1 of this report.

(g) In respect of the 3-year period following 30 June 2017, I recommend that the Employer contribute to the Plan at least:

- Continue with the contribution holiday (nil contributions payable) in respect of Executive (PEGS:1) and Staff (PEGS:2) members;
- 3.0% Award contributions (as required);
- SG% of OTE in excess of salary e.g. bonuses and allowances (allocated to the members' accumulation accounts); and
- 10.0% of salary for members who remain in the Plan after their Normal Retirement Date.

The Employer should also ensure that the 5.25% of salary member contributions (or 6.18% of salary if paid via salary sacrifice) are paid to the Plan plus any other additional employer contributions agreed between the Employer and a member (e.g. additional salary sacrifice contributions).

(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 2017;

§ 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 2017.

12

Actuarial Certification

12.1. Purpose

I have prepared this report exclusively for the Trustee of the Penleigh and Essendon Grammar School Superannuation Plan for the following purposes:

- To present the results of an actuarial investigation of the Plan as of 30 June 2017;
- To review Plan experience for the period since the previous actuarial investigation (effective at 30 June 2014);
- 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 2014 by Angela Hartl, on behalf of Mercer, and the results are contained in a report dated 1 October 2014.

12.2. Background information of the Plan

The Plan is operated for the benefit of employees of Penleigh and Essendon Grammar School and is a sub-plan of NGS Super. The Trustee of NGS Super, NGS Super Pty Limited, holds a Registrable Superannuation Entity Licence 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.

12.3. Governing Documents

The governing rules of the Plan are set out in the NGS Super Trust Deed dated 8 March 2011 (as amended).

12.4. Additional information

Significant events since the investigation date – The recommendations recognise that the Plan's assets have received a positive investment return in the 4 months immediately after 30 June 2017. I am not aware of any other significant events that have occurred since 30 June 2017 which would have a material impact on the recommendations in this report.

Next actuarial investigation - Required at a date no later than 30 June 2020. 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.

Next Funding and Solvency Certificate – required at or before the expiry of the current Funding and Solvency Certificate (which expires on 30 June 2019).

Next Benefit Certificate – required at or before the expiry of the current Benefit Certificate (which expires 30 June 2018). The current Benefit Certificate is designed to accommodate changes to the legislated Superannuation Guarantee schedule.

12.5. Actuary's certifications

Professional standards and scope

This report has been prepared in accordance with generally accepted actuarial principles, Mercer 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 who contributes to the Plan. The Employer 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 inflation 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.

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 future possibilities and scenarios.

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

Data and Plan Provisions

To prepare this report, we have relied on financial and participant data provided by the Plan's administrator. The data used is summarised in this report. We have reviewed the financial and participant data for internal consistency and general reasonableness and believe it is suitable for the purpose of this report. We have not verified or audited any of the data or information provided. We 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.

Further Information

If requested, the actuary is available to provide any supplementary information and explanation about the actuarial investigation.

Prepared by

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Stuart Mules
Fellow of the Institute of Actuaries of Australia

12 December 2017

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

....
Richard Codron
Fellow of the Institute of Actuaries of Australia

APPENDIX A

Membership Information

The membership of the defined benefit section has changed since 30 June 2014 as follows:

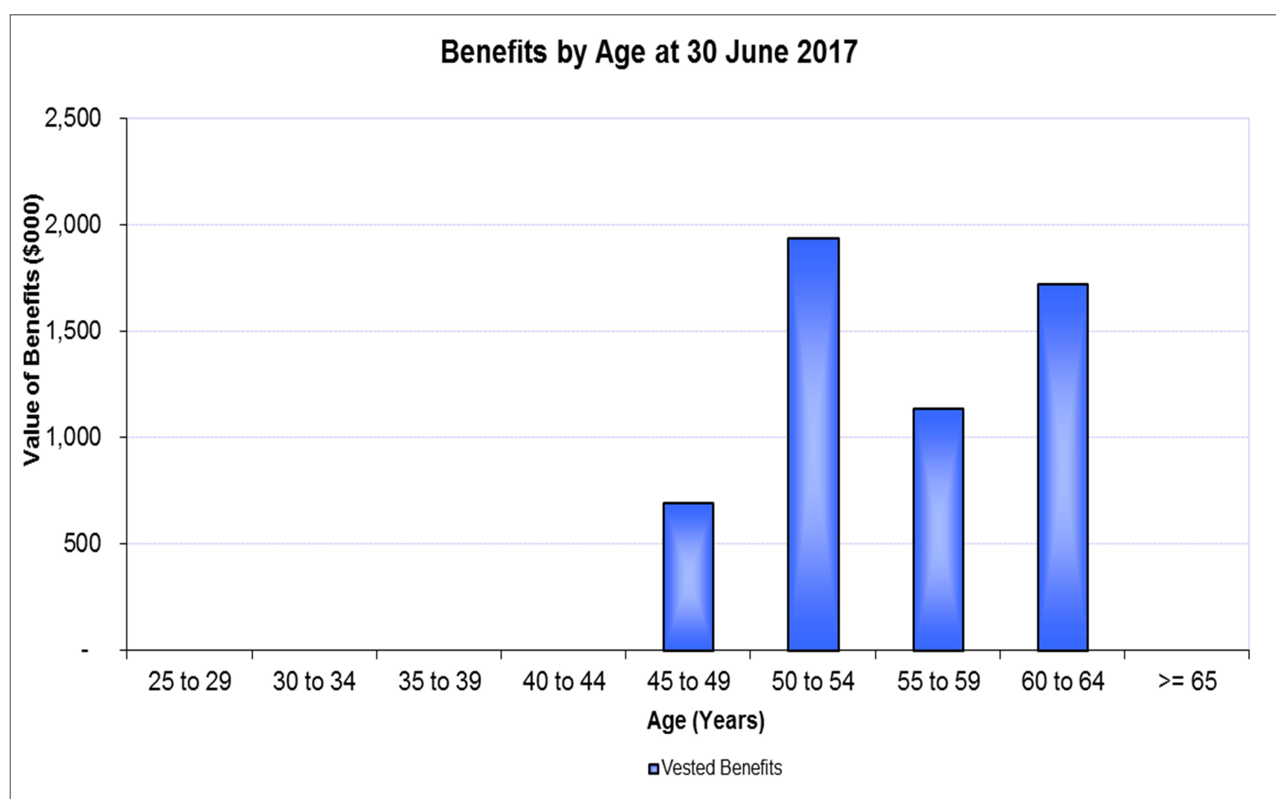
Active members at 30 June 2014	20
Exits	7
Active members at 30 June 2017 *	13
Total salaries at 30 June 2017	$1,680,000
Average salaries at 30 June 2017	$129,000
Average age at 30 June 2017	57.2years

* 2 Executive and 11 Staff members

The membership data used for this investigation was taken from the database used to administer the Plan. I have carried out some broad “reasonableness” checks on the data and I am satisfied with the quality of the data and its suitability for this purpose.

A.1. Actuarial Value of Accrued Benefits age profile

The following graph shows the Vested Benefits of defined benefit members (excluding additional accounts) at 30 June 2017, split by age.



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APPENDIX B

Plan Design

B.1. Summary of benefits

A 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.

Defined Benefit	
Resignation/Retirement	Multiple x Final Average Salary (maximum benefit of 7 x Final Average Salary)
Late Retirement	Retirement Benefit at Normal Retirement Date plus contributions paid after the Normal Retirement Date accumulated with investment returns
Death / Total and Permanent Disablement (TPD)	Normal Retirement Multiple x Final Average Salary (FAS) (maximum benefit of 7 x Final Average Salary)
Temporary Disability Benefit	75% of salary plus 10% super contributions (unitised basis) 90 day waiting period. Payable to the earlier of death, TPD, recovery or age 65
Accrual Rate (for Multiples)	Executive members (PEGS:1): 16.5% pa Staff members (PEGS:2): 13.75% pa
Investment returns	Actual earnings which may be positive or negative
Final Average Salary	The average of the Salary paid in the 3 years immediately before retirement or resignation. On death/TPD, salary is assumed to continue unchanged to normal retirement age.
Normal Retirement Date	31 December in the year the member turns 65

Additional Voluntary Accounts, Productivity Account, Rollover/Transfer In Account, negative Surcharge and Family Law Accounts are added to all benefits above except the Temporary Disability Benefit.

Defined Benefit Accounts	**Contributions**	**Deductions**
Member Account	5.25% of Salary (6.18% if paid by salary sacrifice)	Tax if paid by salary sacrifice
Productivity Account	3.0% of Salary plus SG% on OTE in excess of Salary (e.g. SG% on bonuses and allowances)	Tax Non payment transactions fees (FL, switch, financial planning)

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 which would constrain any future decisions.

We have not reviewed the NGS Super Trust Deed to determine if there are any additional material discretions (with the exception of insurance arrangements which were required to be reviewed separately).

Trustee and Employer Discretions	
Description and Deed Reference	**Historical Prevalence**
Clause 7 – The Trustee is able to vary by deed the Participation Schedule subject to there being no detrimental effect on members' benefits, Relevant Law or with written member consent	Not since Plan commencement
Schedule 1 Clause 2.1 – Salary definition variations	Base salary for defined benefit calculations.
Schedule 1 Clause 2.1 – The Trustee, Employer and Member are able to agree on an alternate Normal Retirement Date for the Member	Not since Plan commencement
Schedule 1 Clause 5.2 – Investment of defined benefit assets	Lower risk strategy recommended in Former Fund and adopted in 2009.
Schedule 1 clause 5.2 – Additional employer contributions for members payable in addition to standard benefits	Adjustment to benefits to meet SG legislation (including award contributions) are paid in addition to other benefits and appropriately allowed for in the SG minimum benefit calculations
Schedule 1 Clause 11 – Employer can direct the Trustee to increase the benefit up to the member's Equitable Share	Not since Plan commencement
NGS Super Trust Deed: Trustees can decide to reduce benefits payable on death and disability in the event of insurance not being provided by the insurer	Not since Plan commencement
Member Options	
Description and Deed Reference	**Historical Prevalence**
Clause 5.1 – Members are given investment choice on their Supplementary Accounts. This includes the Award Account which could result in investment risk being passed to the Employer if the SG benefit is payable.	Numerous investment option chosen by members. Refer to Section 6.1 for further comments.

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

B.2. 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.

Legislation was passed in September 2014 to freeze the SG rate at 9.5% until 1 July 2021. The SG rate will then increase by 0.5% pa until it reaches 12% from 1 July 2025.

APPENDIX C

Information for AASB 1056 Purposes

Penleigh and Essendon Grammar School Superannuation Plan

The calculation of Member Liabilities (representing the actuarial value of accrued liabilities) is provided annually to the Trustee as part of the Plan's 30 June financial update. This figure is included in the relevant financial statements and is suitable for the purposes of Australian Accounting Standard AASB 1056.

The calculation is based on the actuarial assumptions adopted as part of the financial update and would be expected to be consistent with the assumptions adopted as part of the most recent actuarial investigation. For example, the value of Member Liabilities included as part of the 30 June 2017 financial update was calculated using actuarial assumptions adopted as part of the 30 June 2014 investigation. We note that the assumptions have been updated as part of the current actuarial investigation.

Due to the small size of the Plan and potential changes in economic conditions, it is not appropriate to rely on the relationship of the DB Member Liabilities relative to the DB Vested Benefits remaining constant and I recommend that the Trustee continues to use updated calculations at each 30 June to meet their annual financial reporting requirements.

Stuart Mules
Fellow of the Institute of Actuaries of Australia
Representative of
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12 December 2017

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