DuluxGroup Superannuation Plan

Actuarial Investigation as at 31 October 2022

Prepared under the advice of

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Fellow of the Actuaries Institute

27 April 2023

This report has been prepared for the Trustee of Australian Retirement Trust and the Principal Employer, DuluxGroup (Australia) Pty Ltd. Sunsuper Financial Services Pty Ltd and its employees do not accept responsibility to any third party for anything in or arising out of the material contained herein.

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Section 1 Introduction

1.1 Introduction

The DuluxGroup Superannuation Plan (the "Plan") is a corporate plan within Australian Retirement Trust that provides defined benefits to members.

Australian Retirement Trust was formed as a result of a merger between the Sunsuper Superannuation Fund and QSuper effective 28 February 2022 and under Prudential Standard SPS 160, an actuarial investigation was due as at that date. APRA has provided approval for the Plan's next actuarial investigation date to be effective 31 October 2022.

As the Plan is a defined benefits plan which pays defined benefit pensions, an actuarial investigation of the Plan is required on an annual basis to meet the provisions of the Prudential Standard SPS 160. This report contains the results of the actuarial investigation of DuluxGroup Superannuation Plan as at 31 October 2022 and covers the period from 1 November 2021 to 31 October 2022.

This report has been prepared in accordance with the Actuaries Institute Professional Standard 400 and Prudential Standard SPS 160.

The Trustee and Employer should be aware that this document must be made available to members of the DuluxGroup Superannuation Plan in accordance with superannuation legislation.

1.2 Purpose

The main purpose of the actuarial investigation is to evaluate the financial position of the Plan. The report details:

(a) Recommendations on the level of Employer contribution rates to be made to the Plan;

(b) The extent to which Plan assets are adequate in relation to the benefits payable; and

(c) Actuarial statements required by Prudential Standard SPS 160.

This report is not intended to be used for any other purpose including accounting or other regulatory requirements.

1.3 Source of Information

This investigation has been based on the benefits and terms set out in the Plan's Benefit Deed. A summary of the benefits is included in Appendix D.

All asset and membership information as at 31 October 2022 was sourced from the administration records held by Australian Retirement Trust. A summary of asset and membership information as at 31 October 2022 is included in Appendix B.

In preparing this report, we have relied on the information and data provided. We have not independently verified the accuracy or completeness of the information and data provided, however where possible we have checked the information and data for reasonableness and it is considered suitable for the purposes of this investigation.

1.4 Previous Actuarial Investigation

The previous actuarial investigation of DuluxGroup Superannuation Plan was prepared by Shane Mather, FIAA of Sunsuper Financial Services Pty Ltd as at 31 October 2021. The report was dated 21 April 2022.

1.5 Plan Structure

The Plan is a corporate plan within Australian Retirement Trust. Australian Retirement Trust is a regulated superannuation fund which is in compliance with the SIS Act and is subject to a concessional tax rate of 15% on Employer contributions and up to 15% on investment earnings.

The Plan is divided into three sections, namely:

- Active Defined Benefit section;
- Lifetime Pensioners section; and
- Accumulation Benefit section.

Active Defined Benefit section

A proportion of the Plan's liabilities relate to active defined benefits, i.e. lump sum or pension benefits that depend on the period of membership and salary over the last few years of membership. The defined benefit categories are closed to new members and new members join the Accumulation Benefit section.

A description of the benefits valued in this investigation is included in Appendix D.

Lifetime Pensioners section

The Lifetime Pensioners are:

- members who are currently in receipt of a pension payable for life. A reversionary pension is payable to an eligible spouse upon the primary pensioner's death; and
- deferred pensioners are members who have ceased employment with the Employer and are entitled to commence a lifetime pension.

Accumulation Benefit section

The Accumulation Benefit section comprises the balances of all members' accumulation accounts.

This report focuses on the assets and liabilities of the Active Defined Benefit and Lifetime Pensioners sections as these are subject to actuarial review. However, in providing details of the overall financial position of the Plan for reporting purposes, the assets of the Accumulation Benefit section have been included.

1.6 Restoration plan

The initial actuarial investigation report, effective 1 November 2018 and dated 30 April 2019, identified that the Plan was in an unsatisfactory financial position. A Restoration plan was approved by the Sunsuper (now Australian Retirement Trust) Board on 28 June 2019.

The DuluxGroup Superannuation Plan's actuarial investigation report as at 31 October 2019 showed that the financial position of the Plan remained "unsatisfactory" as defined in the Prudential Standard SPS 160. After consulting with the Employer, a request was made to APRA to extend the restoration period by 1 year (to 31 October 2022) and APRA granted the extension. The Trustee subsequently approved an updated Restoration plan at the 26 June 2020 Board meeting and a copy of the Restoration plan was provided to APRA.

Section 2 Plan Experience

2.1 Benefit Changes

From 1 July 2022, the Superannuation Guarantee (SG) rate, being the minimum rate employers must provide for its employees increased from 10.0% p.a. to 10.5% p.a. This increase in the SG rate has been included in the Plan's Benefit Certificate.

2.2 Contributions

As recommended in the 31 October 2021 actuarial investigation, the Employer contributed at the following rates:

Defined Benefit Members

- 13.0 % p.a. of defined benefit salaries;
- For the period from 1 November 2021 to 31 October 2022: Additional contributions of $2,000,000 per quarter (for the quarters ending 31 December, 31 March, 30 June and 30 September);
- Any additional Superannuation Guarantee contributions on Ordinary Time Earnings in excess of superannuation salary.

Accumulation Members

- Employer contributions at the rate/s agreed.

2.3 Financial experience

Investment Return

The following table shows the investment return during the investigation period:

Period	Super Investment Return (% p.a.) (net of investment tax and fees)	Pension Investment Return (% p.a.) (net of investment fees)
1 November 2021 to 31 October 2022	-0.4%	-0.4%

The investment return (net of investment tax and fees) over the investigation period on the assets backing the active defined benefit liabilities was -0.4%, compared to the assumed rate of 2.5%.

The investment return (net of investment fees) over the investigation period on the assets backing the lifetime pensioner liabilities was -0.4%, compared to the assumed rate of 2.75%.

Salary Increases

The average rate of salary increase during the investigation period for active defined benefit members who were defined benefit members at both 1 November 2021 and 31 October 2022 was 2.7%.

The above salary increase rate compares with an assumed rate of increase of 3.25% p.a. assumed at the last actuarial investigation.

Differential between Investment Return and Salary Increases

A key determinant of the cost of providing defined superannuation benefits relating to salary is the ‘gap’ between actual investment returns and actual salary increases.

Over the investigation period, the gap between the actual investment returns and salary increases was -3.1% which compares to the expected gap of -0.75% assumed at the previous investigation.

As the actual gap was lower than assumed, this aspect of the Plan experience has had a negative impact on the financial position of the Plan.

Pension Increases

There were no pension increases over the investigation period which was in line with what was assumed.

Differential between Investment Return and Pension Increases

Over the investigation period the gap between the actual investment returns and pension increases was -0.4% which compares to the expected gap of 2.75% assumed at the previous investigation. Given that the actual gap is lower than that expected, this item of Plan experience has had a negative impact on the financial position on the Plan.

Pension Take-up Rate

If the pension take-up experience of the Plan is greater than expected, the Plan’s future liabilities will also be greater than expected. Likewise, lower pension take-up experience will result in lower than expected liabilities. The value of the lifetime pension from the Plan is generally more valuable than the corresponding lump sum benefit.

At the last actuarial investigation, it was assumed that 50% of eligible retirement benefits would be taken in the form of a lifetime pension at retirement. Over the investigation period, 75% of eligible retirement benefits were taken in the form of a lifetime pension. This item of Plan experience has had a detrimental impact on the financial position on the Plan.

For this review, we have increased the assumption to be that 60% of eligible members take their benefits in pension form. However, we will continue to monitor the actual experience.

2.4 Membership

Active Defined Benefit

Details of the change in the active defined benefit membership of the Plan over the investigation period are shown in the following table:

		Number
Membership at 1 November 2021		157
Less	Deaths/Disablements	1
Less	Early Retirements / Retirements	18
Less	Withdrawals	1
Membership at 31 October 2022		137

Note: The Plan's active defined benefit categories are closed to new members.

Statistically significant results based on actual experience are not available for a defined benefit group of this size.

Lifetime Pensioners

Details of the change in the lifetime pensioner membership of the Plan over the investigation period are shown in the following table:

		Current Pensioners	Deferred Pensioners
Membership at 1 November 2021		107	1
Plus	Transfers in	12	-
Less	Transfer out	-	-
Less	Deaths	-	-
Membership at 31 October 2022		119	1

Statistically significant results based on actual experience are not available for a lifetime pensioners group of this size.

Appendix B contains a summary of the defined benefit membership at the investigation date.

2.5 Changes in Assumptions

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

Assumption	31 October 2021 Investigation	31 October 2022 Investigation	Reason for Change
Pension take-up assumption	50%	60%	To reflect the Plan experience

More detail is included in Appendix A.

2.6 Summary

The overall effect of the Plan experience up to 31 October 2022 was that the financial position of the Plan was weaker than anticipated at the previous actuarial investigation primarily due to the poorer than expected differential between investment return and salary increases/pension increases. The Plan’s financial position was also impacted by the higher than expected pension take-up experience.

Section 3 Security of members' benefits

In this section, comparisons are made between the assets that have been built up at the investigation date and the accrued benefits at that date. The accrued benefits ratios calculated provide useful information concerning the adequacy of the funding at the present time and the security of members' benefits.

We have taken three definitions of accrued benefits for comparison as set out below.

3.1 Minimum Requisite Benefits

The Minimum Requisite Benefits (MRB) are the minimum Superannuation Guarantee (SG) benefits set out in the Plan's Benefit Certificate.

The MRB Index is calculated as the Plan assets divided by the MRB. Should the ratio of total assets to total MRB fall below 100% then under the Superannuation (Industry) Supervision Regulations, the Plan is "technically insolvent". The legislation requires that a Plan that is "technically insolvent" must either:

- Initiate actions to return the Plan to a solvent position by the end of 5 years; or
- Wind up the Plan.

While the legislation provides for a period of 5 years to correct a technical insolvency, APRA look for the trustees to pursue a much shorter period.

3.2 Vested Benefits

Vested Benefits are the benefits which would have been payable had all members voluntarily resigned on the investigation date. Vested Benefits are calculated as the total of all standard resignation benefits, or for eligible members, early retirement benefits. The Vested Benefits include an allowance for 60% of eligible benefits to be taken in the form of a lifetime pension, with all other benefits valued as lump sums.

The benefit payable on retrenchment is the same as the resignation benefit.

The Vested Benefits Index is calculated as the Asset Value divided by the Vested Benefits and represents the extent to which the Asset Value covers Vested Benefits.

Total Vested Benefits can be regarded as the minimum liabilities that should be covered by assets. A plan is considered to be in an "unsatisfactory financial position" if its Vested Benefits Index falls below 100% (i.e. assets are less than Vested Benefits).

3.3 Actuarial Value of Accrued Benefits

The Actuarial Value of Accrued Benefits represents the total value in current dollars of the defined benefit members' accrued benefits in respect of their membership up to the investigation date allowing for future salary increases, investment earnings and expected incidence and type of payment. The Actuarial Value of Accrued Benefits has been calculated in accordance with the Actuaries Institute Professional Standard 402.

The assumptions used in calculating the Actuarial Value of Accrued Benefits are detailed in Appendix A. No allowance is made for future administration expenses.

For the purposes of the calculations, the Actuarial Value of Accrued Benefits for each member is subject to a minimum of their Vested Benefit.

For accumulation benefits, the Actuarial Value of Accrued Benefits is taken as the total balance of the members' accounts.

The Actuarial Value of Accrued Benefits Index is calculated as the Asset Value divided by the Actuarial Value of Accrued Benefits and represents the extent to which the Asset Value covers the Actuarial Value of Accrued Benefits. An Actuarial Value of Accrued Benefits Index of 100% represents a fully secured position. At this level, if the plan were closed to new entrants and no further benefits were allowed to accrue to current members, assets would be sufficient to meet all future benefit payments if the actuarial assumptions are borne out in practice.

3.4 Financial Position

A comparison of the Plan's assets and the benefits on the three bases is set out below:

Total Plan

The value of assets used to determine the indices for the total Plan is set out in Appendix B.

Benefit Type	**Value at 31 October 2022 (‘000s)**	**Index at 31 October 2022**	**Index at 31 October 2021**
Plan Assets	$439,291	-	
Minimum Requisite Benefits	$409,591	107%	109%
Vested Benefits	$445,849	98.5%	99.6%
Actuarial Value of Accrued Benefits	$446,543	98.4%	99.5%

Active Defined Benefit and Pension Liabilities

The value of assets used to determine the indices for the active defined benefit and pension liabilities is set out in Appendix B.

Benefit Type	Value at 31 October 2022 ('000s)	Index at 31 October 2022	Index at 31 October 2021
Plan Assets	$180,356	-	
Minimum Requisite Benefits	$150,656	120%	126%
Vested Benefits	$186,914	97%	99%
Actuarial Value of Accrued Benefits	$187,608	96%	99%

Comment on the Financial Position as at 31 October 2022

The minimum requisite benefits for members are well covered by the Plan assets thereby maintaining the solvency of the Plan as defined in the SIS Regulations.

Based on the above, the financial position of the Plan as at 31 October 2022 remains "unsatisfactory" as defined in the Superannuation (Industry) Supervision (SIS) Regulations. That is, the assets of the Plan held in respect of the defined benefit liabilities are less than the defined benefit vested benefits.

The defined benefit Actuarial Value of Accrued Benefits Index of 96% indicates that the Plan's past service benefits are not covered if the actuarial assumptions are borne out in practice.

Allowance for experience since 1 November 2022

From 1 November 2022 to late April 2023, the overall investment return for the defined benefit assets (which are invested in the Retirement investment option) was approximately 4.3% for the active defined benefit assets and 4.9% for the lifetime pension assets.

We have not made any special allowance for this experience in setting the investment return assumption for the year to 31 October 2023 for the purposes of the projections.

3.5 Unsatisfactory Financial Position

Prudential Standard SPS 160 sets out a number of requirements in the management of the defined benefit funds.

One of the important requirements of the Prudential Standard is that, unless a Restoration plan is in place, if in conducting an actuarial investigation the actuary finds that a plan is in an unsatisfactory financial position then the actuary must prepare a statement to the Trustee that provides a recommendation on the contributions that, on reasonable expectations, will restore the plan to, and maintain it in, a satisfactory financial position, within a time period that is reasonable in the circumstances of the plan but which must not exceed three years from the valuation date. This statement must be provided within 15 business days of making a finding in the actuarial report of the investigation. As noted above, the financial position of the Plan is "unsatisfactory".

When the Trustee receives a statement from the actuary, the Trustee must set out a plan (a "Restoration plan") to return the Plan to a satisfactory financial position no later than three years after the valuation date. The Restoration plan may be developed in consultation with the Employer and the actuary and must be approved by the Board within three months of receiving the statement from the actuary. The Trustee must provide a copy of the Restoration plan to APRA as soon as practicable but no later than 15 business days after the Board has approved the plan.

The Restoration plan must outline:

(a) the Trustee's view of the likelihood that contributions will be made as recommended, taking into account obligations of the employer under the governing rules of the plan, and the outcome of the consultation with the employer-sponsor;

(b) any necessary changes to the investment strategy;

(c) the likely impact on benefit payments during the period of the plan;

(d) the monitoring and review for the period of the plan.

The key requirement of the Restoration plan is to develop a contribution program that is expected to restore the Plan to a satisfactory financial position in a time period that is reasonable in the circumstances but which must not exceed three years from the valuation date.

The initial actuarial investigation report, effective 1 November 2018 and dated 30 April 2019, identified that the Plan was in an unsatisfactory financial position at that time and an actuarial statement was issued to the Trustee on 13 May 2019 with a copy of the actuarial statement provided to APRA on 14 May 2019. A Restoration Plan was approved by the Board on 28 June 2019 and a copy of the Restoration Plan was provided to APRA.

Under Prudential Standard SPS 160, it is not permitted to extend the period of the restoration period unless APRA permits a variation to the period. After discussions with the Employer to assess the impact that the COVID-19 pandemic was having on the Employer, a request was made to APRA to extend the restoration period by 1 year and APRA have granted the extension. The Trustee subsequently approved an updated Restoration plan at the 26 June 2020 Board meeting and a copy of the Restoration plan has been provided to APRA.

Given the Plan's lower than expected investment returns, the Plan was not restored to a satisfactory financial position by 31 October 2022. The Plan's vested benefits index in respect of the defined benefit liabilities as at 31 October 2022 was 97%.

The recommended Employer contribution strategy in Section 4 takes into account the requirements of Prudential Standard SPS 160.

3.6 Shortfall Limit

Prudential Standard SPS 160 requires the Trustee to set a Shortfall Limit for the Plan. The Shortfall limit is the extent to which a Trustee considers that the Plan can be in an unsatisfactory financial position without the necessity for immediate action with the Trustee still being able to reasonably expect that the Plan can be restored to a satisfactory financial position within one year.

The current Shortfall limit set by the Trustee for the Plan is 98%. We have reviewed the Shortfall limit and recommend no change.

3.7 Insurance Cover

Part of each member's death and disablement benefit is insured with an external insurer. The insurance arrangements are underwritten by MetLife Insurance Limited. This protects the Plan against fluctuating claims experience. As part of this investigation, we investigated the adequacy of the existing level of group life cover on the death and disablement benefits.

The current basis for calculating the amount insured for each active defined benefit member is:

Death/TPD benefit less Lump Sum Vested Benefit subject to a minimum insured amount of nil.

The following table compares the Plan's Assets (excluding Lifetime pensioners and Accumulation Benefit assets) and sums insured for the active defined benefit members at the investigation date against total death and disablement benefit entitlements as at 31 October 2022:

Insurance arrangements	**$ millions**
Active Defined Benefit Plan Assets	76.4
Plus Insured Amount	12.7
Total	89.1
Less Death/TPD Benefits	88.5
Over/(under) Insurance	0.6

The above table shows that as at 31 October 2022 the Plan would be over insured by around $0.6 million under the current formula in the unlikely event that all active defined benefit members should die or become disabled within a short space of time.

Taking into account the projected financial position of the Plan, I recommend no change to the current insurance basis for active defined benefit members.

Insurance for income protection benefits for the Accumulation members is provided through a policy with the same external insurer. The cost of these premiums is deducted from the accounts of the Accumulation members.

Section 4 Long term adequacy of Employer contributions

4.1 Current Employer Contribution Program

The recommended contributions at the 31 October 2021 actuarial investigation include the following:

Defined Benefit Members:

- 13.0% p.a. of defined benefit salaries;
- For the period from 1 November 2021 to 31 October 2022: Additional contributions of $2,000,000 per quarter (for the quarters ending 31 December, 31 March, 30 June and 30 September);
- Any Superannuation Guarantee contributions on Ordinary Time Earnings in excess of superannuation salary.

The recommended Employer contribution rates included an allowance for expenses and contribution tax.

Members' contributions (including salary sacrifice contributions) were required to be made.

Accumulation Members**:** at the rate, or rates agreed.

The contribution program was included in the Board approved Restoration plan.

4.2 Results of the Actuarial Projection

To assess the likelihood that the Plan will be able to meet the anticipated benefit payments into the future, we have undertaken a projection of benefits, assets and contributions. The projection is used to determine the required Employer contribution rate for defined benefit members into the future. We have undertaken a projection in respect of the defined benefit members only.

The projection has been performed on the actuarial valuation basis (Basis 1) and on the sensitivity bases (Bases 2 and 3).

Valuation Assumptions	Basis 1 (Actuarial Investigation Basis)	Basis 2 (Sensitivity Basis – Lower long-term investment return)	Basis 3 (Sensitivity Basis – Higher pension take up rate)
Investment return (net of investment fees and tax) – pre-retirement	5.25% p.a.	4.75% p.a.	5.25% p.a.
Investment return (net of investment fees) – post-retirement	5.75% p.a.	5.25% p.a.	5.75% p.a.
Salary inflation rate	3.25% p.a.	3.25% p.a.	3.25% p.a.
Pension take-up rate	60%	60%	75%

The remaining assumptions are set out in Appendix A. For the purpose of this investigation, the assumed long-term gap between the investment return (net of investment fees and tax) and salary increase rate is 2.0% p.a. for active defined benefit members and the assumed long-term gap between the investment return (net of investment fees) and pension increase rate is 5.75% p.a. for lifetime pension members. Other assumptions could be used and basis 2 shows the impact of varying the “gap” by reducing the assumed long-term investment return (net of investment fees and tax) on superannuation assets to 4.75% p.a. and the assumed long-term investment return (net of investment fees) on pension assets to 5.25% p.a. Please note that the basis selected for the sensitivity analysis does not indicate upper or lower bounds of all possible outcomes.

We have assumed a take-up of the pension option of 60% and will monitor the experience. If the pension take-up experience of the Plan is greater than expected, the Plan’s future liabilities will also be greater than expected. Likewise, a lower pension take-up experience will result in lower than expected liabilities. The value of the pension from the Plan is generally more valuable than the corresponding lump sum benefit. Basis 3 shows the impact of a higher pension take-up rate of 75%.

We have assumed the Employer’s preference is to maintain regular contributions of 13.0% p.a. of defined benefit members’ salaries and any amount above 13.0% p.a. will be made up as part of the additional contributions. As noted in Section 4.1, the current additional contribution is $2,000,000 per quarter.

In setting the Employer contributions from 1 November 2022, consideration has been given to building a buffer to allow for adverse experience that may arise at any time. Taking into account the investment strategy of the defined benefit assets and the current strong pension take-up experience of the Plan, the selected target level of the buffer is between 5% and 10% above vested benefits.

Based on the above, the following Employer contributions have been selected:

- 13.0% p.a. of defined benefit salaries;
- For the period from 1 November 2022 to 31 October 2023: Additional contributions of $2,000,000 per quarter (for the quarters ending 31 December, 31 March, 30 June and 30 September);
- For the period from 1 November 2023 to 31 October 2025: Additional contributions of $1,000,000 per quarter (for the quarters ending 31 December, 31 March, 30 June and 30 September).

Based on the above Employer contributions, the projection of the ratio of assets to vested benefits in respect of the defined benefit and pension liabilities in the short to medium term is:

	Vested Benefit Index Basis 1	**Vested Benefit Index Basis 2**	**Vested Benefit Index Basis 3**
31 October 2022	97%	93%	95%
31 October 2023	**101%**	**96%**	**98%**
31 October 2024	102%	97%	100%
31 October 2025	105%	99%	102%
31 October 2026	105%	99%	102%
31 October 2027	105%	98%	102%

The projection of the Vested Benefit Index under the actuarial investigation basis (Basis 1) shows that assuming the above contribution program, the Plan is expected to return to a satisfactory financial position by 31 October 2023 and the buffer is expected to reach 5% by 31 October 2025.

Based on the above assumptions and Employer contribution program, the projection results at 31 October 2022 can be summarised as follows:

Defined Benefit Members		**Basis 1 \$ millions (Actuarial Investigation Basis)**	**Basis 2 \$ millions (Sensitivity Basis - Lower long-term investment return)**	**Basis 3 \$ millions (Sensitivity Basis - Higher pension take up rate)**
Plan Assets		180.4	180.4	180.4
Plus	Present value of future member contributions for current defined benefit members	2.6	2.7	2.6
Plus	Present value of future Employer contributions (net of tax) for current defined benefit members	19.6	19.8	19.6
Less	Present value of expenses, benefits for current active defined benefit members and benefits for current and deferred lifetime members	193.5	202.9	197.3
Excess/(Shortfall)		**9.1**	**0.0**	**5.3**

The projection of the Plan's benefits, assets and contributions, assuming the Employer contributes at the above contribution rates, showed that as at 31 October 2022 the Plan would be in a surplus financial position on Bases 1 and 3 and a balanced financial position on Basis 2, with respect to funding the benefits over the remaining lifetime of the defined benefit members.

The employer rates will be reviewed at the next actuarial investigation as at 31 October 2023.

4.3 Recommended Employer Contribution Program

The Restoration plan expired on 31 October 2022, however the Plan had not yet been restored to a satisfactory financial position. Prudential Standard SPS 160 requires that in conducting an actuarial investigation, if the actuary finds that a plan is in an unsatisfactory financial position, then the actuary must prepare a statement to the Trustee that provides a recommendation on the contributions that, on reasonable expectations, will restore the plan to, and maintain it in, a satisfactory financial position, within a time period that is reasonable in the circumstances of the plan but which must not exceed three years from the valuation date. The actuarial statement must be provided to the Trustee within 15 days of signing the actuarial investigation report.

The Plan is in an unsatisfactory financial position as at 31 October 2022 and the contribution rate recommendations below have been determined on the basis of restoring the Plan to a satisfactory financial position by 31 October 2023. The period of 1 year has been selected after discussions with the Employer.

The recommended Employer contributions rates are:

Defined Benefit Members

- 13.0% p.a. of defined benefit salaries;
- For the period from 1 November 2022 to 31 October 2023: Additional contributions of $2,000,000 per quarter (for the quarters ending 31 December, 31 March, 30 June and 30 September);
- For the period from 1 November 2023 to 31 October 2025: Additional contributions of $1,000,000 per quarter (for the quarters ending 31 December, 31 March, 30 June and 30 September);
- Any additional Superannuation Guarantee contributions on Ordinary Time Earnings in excess of superannuation salary. In determining these amounts the Maximum Contributions Base can be applied.

The defined benefit employer contributions must be paid by the 28th day following the end of the quarter to which they relate (for example, contributions for the quarter ending 30 June 2023 must be paid by 28 July 2023).

Accumulation Members

- Employer contributions at the rate/s agreed.

Members' contributions (including salary sacrifice and deemed contributions) should continue to be made in accordance with the Benefit Deed. The recommended Employer contribution rates include an allowance for expenses and contribution tax.

As noted in Appendix A, the Plan has been valued using the Aggregate funding method. An Aggregate funding method used for a declining number of defined benefit members can be expected to produce some volatility in the recommended Employer contribution rate over time, particularly if the investment return, salary increase rate or pension take-up rate differs from the assumed rate.

The above recommendations are based on the Plan membership as at the investigation date. A review of the Plan to ensure that contribution rates remain adequate to meet future superannuation liabilities would be necessary if there were to be a material change in the Plan membership, if there were significant Plan retrenchments or an increase in the number of eligible retirements opting for the pension option.

4.4 Comment on Investment Strategy

Active Defined Benefit Assets

The defined benefit assets are invested in the Retirement Investment Option. The strategy adopted has approximately 50% invested in growth assets such as shares and property and approximately 50% invested in defensive assets such as fixed interest and cash.

At 31 October 2022 the average age of the active defined benefit members was 58 years and the average future-working lifetime was 5 years which indicates a medium-term time horizon.

A move to an investment strategy with less growth assets can reduce the volatility of the investment returns and therefore reduce the probability of a significant increase in the level of Employer contributions as a result of low investment returns. However, the trade-off is that a more conservative investment strategy has a lower expected long-term investment return.

A change to a more conservative investment strategy would also have an impact on the Superannuation Guarantee benefit or the accumulation guarantee benefit for some defined benefit members. This is because the Superannuation Guarantee benefit and the accumulation guarantee benefit for relevant members is based on member and Employer contributions plus investment earnings.

At the present time, we consider that the current investments for the active defined benefit liabilities are suitable taking into account the nature and term of the liabilities as well as the Plan’s current financial position.

Lifetime Pension Assets

The lifetime pension assets are invested in the Retirement Investment Option. The strategy adopted has approximately 50% invested in growth assets such as shares and property and approximately 50% invested in defensive assets such as fixed interest and cash.

At 31 October 2022 the average age of the lifetime pensioners is 67 years and there are likely to be new pensioners in the short to medium term as active defined benefit members retire and elect to receive their benefit as a pension. This indicates a medium-term time horizon.

A move to an investment strategy with less growth assets can reduce the volatility of the investment returns and therefore reduce the probability of a significant increase in the level of Employer contributions as a result of low investment returns. However, the trade-off is that a more conservative investment strategy has a lower expected long-term investment return which would have resultant implications for the Employer’s contribution program. For example, the impact of a 0.5% p.a. reduction in the long-term investment return would result in an increase of $4.8 million in the value of the current pension liability.

We consider the assets held by the Plan to be suitable for meeting the future expected pension payments for the pension members of the Plan. We also consider the assets, including future contributions, to be sufficient to provide for the risk of longevity. The Plan has sufficient liquidity to make pension payments from regular cashflows.

4.5 Next Actuarial Investigation

The next actuarial investigation is required on or before 31 October 2023 for the Plan to comply with the prescribed actuarial investigation standards for regulated defined benefit funds which pay defined benefit pensions.

Section 5 Statements required under Prudential Standard SPS 160

In accordance with Prudential Standard SPS 160, I hereby certify the following in relation to DuluxGroup Superannuation Plan.

a) The value of the assets as at 31 October 2022 was $439,291,000. This value excludes assets held to meet the Operational Risk Financial Requirement which are held outside of the Plan.

b) I consider that the value of assets of the Plan is not adequate to meet the liabilities of the Plan in respect of the actuarial value of accrued benefits at 31 October 2022. However, based on the recommended Employer contributions, valuation methodology and the assumptions as to future experience, which I regard as reasonable, I consider that the value of the assets will become adequate to meet the actuarial value of accrued liabilities over the three years following 31 October 2022.

c) The vested benefits of the Plan at 31 October 2022 totalled $445,849,000. The value of the assets of the Plan is not adequate to meet the liabilities of the Plan in respect of vested benefits as at 31 October 2022, and hence the Plan is in an unsatisfactory financial position within the meaning of Regulation 9.04. However, based on the recommended Employer contributions, valuation methodology and the assumptions as to future experience, which I regard as reasonable, I consider that the value of the assets of the Plan will become adequate to meet the liabilities of the Plan in respect of vested benefits over the three years following 31 October 2022 and hence the Plan is expected to return to a satisfactory financial position at that time.

d) In my opinion, at 31 October 2022, there is a high degree of probability that the Plan will be able to pay the pensions as required under the governing rules.

e) The value of the liabilities in respect of minimum benefits for the members of the Plan as at 31 October 2022 was $409,591,000.

f) I consider that the current shortfall limit of 98% remains appropriate and does not need to be reviewed.

g) The recommended Employer contribution rates are:

   Defined Benefit Members

   - 13.0 % p.a. of defined benefit salaries;
   - For the period from 1 November 2022 to 31 October 2023: Additional contributions of $2,000,000 per quarter (for the quarters ending 31 December, 31 March, 30 June and 30 September);
   - For the period from 1 November 2023 to 31 October 2025: Additional contributions of $1,000,000 per quarter (for the quarters ending 31 December, 31 March, 30 June and 30 September);
   - Any additional Superannuation Guarantee contributions on Ordinary Time Earnings in excess of superannuation salary. In determining these amounts the Maximum Contributions Base can be applied.

   Accumulation Members

   - Employer contributions at the rate/s agreed.

   Members’ contributions (including salary sacrifice and deemed contributions) should continue to be made in accordance with the Benefit Deed.

h) (i) All Funding and Solvency certificates required by the Superannuation Industry (Supervision) Act and Regulations were issued in respect of the investigation period.

(ii) I consider that during the 3-year period immediately following 31 October 2022, a Funding and Solvency Certificate can be provided to certify the solvency of the Plan having regard to the notifiable events and the minimum Employer contributions specified in the certificate.

Signed:

S Mather

Shane Mather
Fellow of the Actuaries Institute
Sunsuper Financial Services Pty Ltd
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27 April 2023

Peer reviewed:

TL

Terence Leung
Fellow of the Actuaries Institute

Appendix A Funding Method and assumptions

A.1 The Actuarial Projection

The objective of an actuarial projection is to provide a systematic basis for determining Employer contributions and to promote a build-up of assets in the Plan that is in line with the accrued actuarial liabilities. It is an exercise in financial control rather than a forecast of the future.

A.2 The Funding Method

A funding method is used to calculate the contribution rates. The method used to value the Plan in this actuarial investigation is the Aggregate funding method. The Plan is closed to new defined benefit members.

This funding method involves:

- Projecting the Plan's expected future cash flows in respect of active defined benefit and pensioner members, including expected contributions made by the Employer and members, and benefit/pension payments expected to be paid to defined benefit members;
- Using the expected cash flows, projecting the total value of assets backing the active defined benefit and pensioner liabilities held by the Plan over the future lifetime of the Plan;
- Projecting the Plan's benefits, in respect of the active defined benefits and lifetime pension liabilities, over the future lifetime of the Plan;
- Comparing the value of the benefits with the value of the assets to assess the Plan's ability to pay benefits at any particular point in time in future.

The Plan was valued using the Aggregate funding method at the last actuarial investigation.

I confirm that the Aggregate funding method is appropriate for this actuarial investigation.

A.3 Assumptions

The assumptions used in the actuarial investigation are:

Investment Earnings

We consider that an investment return of 5.25% p.a. (after investment fees and tax) for active defined benefit assets and 5.75% p.a. (after investment fees) for lifetime pension assets are appropriate long-term return assumptions based on the current investment strategy and future investment outlook.

Salary Inflation Increase

The salary increase rate assumption adopted is 3.25% p.a.

We consider that a salary inflation assumption of 3.25% p.a. is an appropriate salary increase assumption and takes into consideration Average Weekly earnings (AWOTE) and the expected salary growth of the Employer.

Pension Increase

We have assumed no indexation to lifetime pensions will be granted by the Employer in the future.

Rates of exit

(a) The rates below represent the number of members leaving the Plan in one year per 10,000 members at the start of the year for modes of exit including withdrawal, death, disablement and incapacity.

Age	Withdrawal	Death	Disablement	Incapacity
25	1,900	4	1	0.5
30	1,300	4	2	1
35	900	4	3	4
40	700	6	4	11
45	600	9	9	24
50	500	14	18	41
55	-	22	36	-
60	-	34	63	-

(b) The rates below represent the number of members leaving the Plan in one year per 10,000 members due to early retirement:

Age	Early Retirement	Age	Early Retirement
55	1,200	66	3,000
56	1,300	67	3,000
57	1,400	68	3,000
58	1,500	69	3,500
59	1,600	70	10,000
60	2,000		
61	2,000		
62	2,000		
63	2,500		
64	2,500		
65	2,500		

(c) Pensioner mortality is assumed to be in line with the Australian Life Tables ALT 2015-2017 adjusted with 10% mortality improvement factors and rating ages of pensioners down by 3 years to reflect that pensioners in the Plan are likely to exhibit lighter mortality rates than the Australian population.

Deferred Pensioner Members

Retirement is assumed at preservation age.

Lifetime Pension Take-up

60% of all eligible members take their benefits in lifetime pension form, applying from early retirement age.

Retrenchments

No allowance has been made for retrenchments.

Crediting Interest Rate for Defined Benefit Accounts

Active Defined Benefit Accounts are credited with the actual investment return (net of investment fees and tax) from the underlying assets.

Expenses

Expenses for defined benefit members are assumed to be $30,000 p.a.

Plan administration expenses for defined benefit members are assumed to be 0.07% p.a. of defined benefit assets.

Insurance Premiums

Insurance premiums for active defined benefit members are assumed to be 0.5% p.a. of defined benefit salaries.

Surcharge

Any surcharge liability is deducted from the member's benefit.

Tax

The Plan is subject to a concessional tax rate of 15% on employer contributions and up to 15% on investment earnings. It is assumed that this will continue.

Superannuation Guarantee (SG) Contributions

For the active defined benefit members, the relevant SG rate has been taken into account. An allowance has been made for future SG increases up to the legislated 12%.

Change in Assumptions

The long-term financial assumptions adopted for this investigation are the same as the assumptions adopted in the 31 October 2021 actuarial investigation report.

For this investigation, we have increased the pension take-up rate assumption from 50% to 60% based on the Plan's experience. The change in the assumption has resulted in an increase of $2.3 million to the Actuarial Value of Accrued Benefits.

It is stressed that the eventual cost of the benefits will depend on the Plan experience rather than on the assumptions.

A.4 Material Risks

As part of this actuarial investigation, I have considered the below material risks associated with the ongoing actuarial management and funding of the Plan. If adverse Plan experience relative to the assumptions occurs, then the financial position of the Plan would be adversely affected and the funding plan might need to be amended.

Active defined benefit liabilities

The material risks are:

- Investment returns being lower than expected;
- Salary increases being higher than expected;
- The proportion of active defined benefit members electing to take the pension option is higher than assumed;
- The employer being unable to make the recommended contributions;
- Any large downsizing of the membership, when the VBI is less than 100%;
- The occurrence of a catastrophic event leading to a significant number of deaths or disablements of members.

Pension liabilities

The material risks are:

- Longevity risk in respect of lifetime pensioners;
- Decision to purchase annuities at market rates to back the current pension liabilities funded from the Plan;
- Pension increases being granted by the Employer.

The Trustee monitors the financial position on a quarterly basis and as such would identify if the funding position is deteriorating as a result of adverse experience, including adverse investment returns, salary increases, pension take-up rates and exits.

The Trustee also monitors the employer contributions on a quarterly basis and as such would identify if the employer has not paid contributions at the recommended rate.

Appendix B Data used in the Investigation

B.1 Assets

The value of the Plan's assets at 31 October 2022 was $439,291,000 sourced from the administration records held by Australian Retirement Trust. This value excludes assets held to meet the Operational Risk Financial Requirement which are held outside of the Plan.

The accumulation members' accumulation balances as at 31 October 2022 was $249,492,000 and the active defined benefit members' additional accumulation balances as at 31 October 2022 was $9,443,000. For these accumulation balances, members can choose from a range of investment options. The returns credited to each option directly reflect the investment earnings of the option. No reserves are maintained to smooth returns credited to members' investment options. The policy in relation to crediting rates is appropriate.

Therefore, the asset value held in respect of active defined benefit and lifetime pension liabilities has been calculated as follows:

	$000's
Adjusted Plan Assets	439,291
Less Accumulation members' accumulation balances	249,492
Less Active Defined Benefit members' additional balances	9,443
Asset value for active defined benefit and lifetime pension liabilities	180,356

The Plan's active defined benefit and lifetime pension assets are invested in Australian Retirement Trust's Retirement option.

B.2 Member Statistics

A summary of the active defined benefit members as at 31 October 2022 is set out in the following table:

	Number of Members	**Total Salaries ($)**	**Average Salary ($)**	**Average Age (years)**	**Average M'ship (years)**
Pre 92 members	46	5,131,454	111,553	60.7	33.6
Post 92 members	88	8,958,905	101,806	56.4	26.7
Late Retirements	3	227,229	75,743	-	-
Total	137	14,317,588	104,508	57.9	29.1

A summary of the pensioners as at 31 October 2022 is set out in the following table:

	Number of Pension Members	**Total Annual Pension ($)**	**Average Age (years)**
Former Male Member with Spouse	82	5,161,800	67.3
Former Female Member with Spouse	21	1,151,000	66.9
Former Male Member with no Spouse	9	499,700	65.0
Former Female Member with no Spouse	4	222,400	69.7
Male Spouse	0	0	-
Female Spouse	3	85,000	71.7
Total	**119**	**7,119,900**	**67.3**
Deferred pensioners	1	139,400	58.8

Appendix C Pension Liability

C.1 Pension Liability

For the current and deferred pensioner members, the value of the benefit liability is calculated as the present value of future expected pension payments using the assumptions set out in Appendix A.

For the purpose of this investigation, the assumed long-term gap between the investment return (net of investment fees) and the pension increase rate is 5.75% p.a. for lifetime pensioners (long term investment earning assumption of 5.75% p.a. and pension increase rate assumption of 0.0% p.a.). Other assumptions could be used and we have shown the impact of varying the "gap" by reducing the assumed long-term investment return (net of investment fees) to 5.25% p.a. (Sensitivity basis). Please note that the basis selected for the sensitivity analysis does not indicate upper or lower bounds of all possible outcomes.

Based on the above assumptions, the value of the benefit liability in respect of the current and deferred pensioners as at 31 October 2022 is shown in the table below:

Basis	**Value of Current and Deferred Pension Liability ($)**
Valuation basis	$94,762,000
Sensitivity basis	$99,609,000

It should however be noted that in the event of the Plan's termination, Clause 7 of the Participation Deed specifies that the Trustee's first duty is to secure benefits in respect of pensioners and unpaid benefits at the termination date.

If the pension liabilities were to be valued on a 'market value' basis, the amount which would be required to be paid to a third party (for example, a life insurance company) to take on the liability would be substantially above the value of pensions as assessed in the actuarial review. This is because the pension valuation basis used by an insurance company in pricing its annuities will likely be more conservative than that used by the Plan. It is not possible to be precise about what the 'market value' of the pension liabilities would be, as the market in Australia is not deep.

It is likely that a third party would base its pricing on a discount rate around the level of long-term Government bond rates. To provide an illustration of the order of magnitude of the potential impact, we have valued the pension liabilities using a discount rate of 3.9% p.a. (based on the 10-year duration Commonwealth bond rate at 31 October 2022) and adding a 10% loading to the present value of pension liabilities to allow for administration expenses and profit margins, but with other assumptions unchanged. On this basis, the pension liabilities are estimated to be $128 million.

C.2 High Degree of Probability Assessment

Paragraph 23(h) of Prudential Standard SPS 160 requires that, where a plan has at least one defined benefit pensioner, the actuary must provide an opinion as to whether there is a “high degree of probability” that the plan will be able to pay the pensions. A “high degree of probability” is more than 70%.

There are currently 119 lifetime pensioners and 1 deferred pensioner in the Plan, with liabilities valued at $94,762,000.

For the purpose of this assessment an amount of assets equal to $104,000,000 is required to support the current pension liabilities. This amount has been calculated such that we can make the statement that there is a high degree of probability that the Plan will be able to pay pensions to current lifetime pensioners.

The calculation of the assets is based on projecting the expected pension payments and pension assets over the next 50 years 5,000 times based on an expected return and variation in investment returns. For each simulation, we have recorded whether the pension assets ever reduced below zero. This allowed us to determine the probability of the pension assets not being sufficient to meet pension payments in the future.

Based on the projection results, in our opinion, at 31 October 2022, there is a high degree of probability that the Plan will be able to pay pensions to current lifetime pensioners.

In practice, it is anticipated that the Employer will provide adequate funding to enable the pensions to be paid in full.

Appendix D A summary of member benefits

The following is a brief summary of the benefits provided to defined benefit members. For full details of the standard benefits, terms and conditions provided by the DuluxGroup Superannuation Plan, refer to the Benefit Deed.

(a) Definitions

Final Average Salary (FAS)

Final Average Salary is the average of the highest three annual salaries which occur within any 3 years before the date of calculation.

Normal Retirement Age

The member's Normal Retirement Age is on their 65th birthday, or an earlier date not earlier than their 62nd birthday, as already applied under the Former Fund or as otherwise agreed.

Accrual Rates:

Member Contribution Rate	Accrual rate based on Final Average Salary for each Year of Membership
0%	4.7%
1%	7.7%
2%	10.7%
3%	13.7%
4%	16.7%
5%	19.7%
6%	22.7%
7%	25.7%

Years of membership is measured in years and any fractions of an incomplete year.

Former Fund Multiple (FFM):

The multiple which applies in respect of the member's period of membership of the Former Fund and any predecessor plan other than the Provident Fund if applicable.

(b) Contributions

Member contributions:

Members are required to contribute to the Plan at a rate between 0% and 5% p.a. of salary at the member's option. Members can elect to contribute at the rate of 6% p.a. or 7% p.a. of salary provided that the member's accrued retirement multiple is not greater than an accrued retirement multiple calculated using an accrual rate of 19.7% p.a. for the member's entire period of membership.

	Members may choose to have their contributions paid from after-tax or pre-tax salary.
Employer contributions:	The Employer contributes the balance required to provide the benefits under the Defined Benefit section of the Plan.

(c) Benefits

Normal Retirement:	The lump sum benefit payable on Normal Retirement is the sum of: (a) FFM x FAS; and (b) Accrual Rate x FAS x Period of membership from 1 November 2018. The benefit payable is subject to a minimum of the Resignation benefit. The lump sum may be converted to an annual pension of one-tenth of the lump sum.
Early Retirement:	The benefit payable on Early Retirement shall be calculated in the same way as the benefit payable upon normal retirement. Members may retire at any age after age 55 or an earlier age if applicable.
Late Retirement:	The normal retirement benefit at age 70 accumulated with interest to the date of late retirement.
Death/TPD:	The lump sum benefit payable on Death or Total & Permanent Disablement (TPD) is: <u>Under age 62</u> The amount calculated in the same way as the prospective Retirement Benefit at age 62 assuming the Member’s Salary at the date of death/TPD continues unchanged and the member contributes at 5% over future membership to age 62. <u>Over age 62</u> The amount that would have been paid if the member had retired on the date of death/TPD.
Incapacity:	The lump sum benefit payable on Incapacity is: <u>Under age 62</u> The amount calculated in the same way as the prospective Retirement Benefit plus 3.94% of Final Average Salary for each year of future potential membership to age 62 assuming the Member’s Salary continues from date of incapacity until age 62. <u>Over age 62</u> The amount that would have been paid if the member had retired on the date of incapacity.

Resignation

The lump sum benefit payable on resignation is equal to the accrued retirement benefit multiplied by a reduction factor. The reduction factor varies from 70% to 100% evenly over the member's total membership from date of joining the Plan to age 55.

Pension option

A member may elect to receive a pension (or deferred pension) rather than a lump sum in the following circumstances:

a) retirement;
b) total and permanent disablement;
c) incapacity retirement; or
d) resignation, if the member joined the Employer before 1 July 1987 and joined the Former Fund (or its predecessors) before 1 October 1987.

Members who joined prior to 1 July 1992

A minimum benefit applies to these members on all modes of exit. The lump sum benefit payable is the sum of:

(a) Member's contributions with compound interest;
(b) An additional contribution of the following percentage of Salary:

Member Contribution Rate	Additional Percentage
0%	6.0%
1%	6.5%
2%	7.5%
3%	8.5%
4%	9.0%
5%	10.0%
6%	11.0%
7%	12.0%

Additional Credit

The additional accumulation accounts are payable on all forms of exit.

Minimum Benefit:

All benefits are subject to a Minimum Requisite Benefit. The minimum benefit is defined in the Benefit Certificate.

The Trustee can augment members' benefits with Employer consent so long as the Trustee with the advice of the Actuary is satisfied that it does not affect the financial stability of the Plan.