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17 August 2016

Diversa Trustees Limited
C/- Mr R Barletta
Diversa Trustees Limited
GPO Box 3001
MELBOURNE VIC 3001

Dear Trustee,

MACMAHON EMPLOYEES SUPERANNUATION FUND – REVIEW OF FINANCIAL POSITION AND CURRENT FUNDING ARRANGEMENTS AS AT 30 JUNE 2016

Introduction

ALEA Actuarial Consulting Pty Limited ("ALEA") was requested by Mr Robert Barletta (Diversa Trustees Limited), on your behalf, to undertake a review of the financial position and current funding arrangements of the MacMahon Employees Superannuation Fund (the "Fund").

The present review of the Plan was undertaken as at 30 June 2016 and is in accordance with the requirements of the Institute of Actuaries of Australia's practice guideline relating to the provision of a "short actuarial report" commenting on the financial condition of a defined benefit superannuation fund (PG199.01).

Background

The previous full actuarial investigation of the Fund was conducted as at 30 June 2015 (by Mr D Barton FIAA report dated 14 April 2016). It was recommended McMahon Holdings Limited (the "Employer") contributes nil in respect of the remaining defined benefit member.

Based on the advice from the Trustee, I understand the Employer ceased its contributions from April 2016.

Regulatory Changes with Effect from 1 July 2013

Prudential Standard SPS160 ("SPS160") – Defined Benefit Matters

SPS160 commenced with effect from 1 July 2013 and includes a number of matters to be addressed in actuarial investigations.

It also provides for the establishment of a "shortfall limit" for the Fund to be used as a measure of the extent to which the Trustee considers an "unsatisfactory" financial position, arising due to temporary investment market fluctuations, may be corrected within one (1) year.

It is my understanding the Trustee decided upon a shortfall limit for the Fund as a VBI figure of 100% to comply with SPS160. On this basis, the shortfall limit has not been breached as at 30 June 2016.

In my opinion, the current shortfall limit remains appropriate for the purpose of SPS160 at this time.

Prudential Standard SPS114 ("SPS114") – Operational Risk Financial Requirement ("ORFR")

In accordance with SPS114 the Trustee has established and fully funded the ORFR reserve for the Fund through a charge to members recovered in the unit prices of the underlying asset portfolios. We understand the Fund's assets provided to us exclude this amount.

Members' Benefits and Assumptions

A brief summary of the basis upon which members' defined benefits are provided is set out in the previous full actuarial valuation of the Fund as at 30 June 2015 (report by Mr D Barton FIAA dated 14 April 2016).

The future long-term earnings rate used in the estimation of the future value of Fund's assets and members' vested benefits was 6.0% per annum (net of tax). The future long-term salary growth rate used in the estimation of members' vested benefits was 5.0% per annum. These long-term assumptions are the same as the assumptions used for funding purposes in the latest full actuarial investigation of the Fund.

The demographic assumptions used in the calculation of the future Employer contribution arrangements are the same as the assumptions used for funding purposes in the latest full actuarial investigation of the Fund.

Data

The Trustee has provided the following data for the purpose of this report:

- membership details as at 30 June 2016;
- unaudited asset values as at 30 June 2016; and
- unaudited details of contributions covering the period from 1 July 2015 to 30 June 2016.

I have undertaken a brief review only of the member and asset data provided by the Trustee for this review and I am satisfied it is appropriate for use in this investigation.

Membership and Asset Data

As at 30 June 2016 there was one (1) member entitled to receive a defined benefit under the Fund.

The value of the Fund's defined benefit assets was advised to be approximately $411,000 as at 30 June 2016. This figure was adjusted for an additional benefit payment due to a previously exited member and an insurance premium refund resulting in a net reduction of approximately $28,000 in the Fund's assets.

On this basis the net asset value used in this valuation was calculated to be $383,000 as at 30 June 2016.

Results – Financial Position

Vested Benefit Index ("VBI")

It is a minimum requirement of the level of assets in a fund that if the fund was wound up on the valuation date the available assets should be sufficient to pay members' leaving service benefits – i.e. the total of members' Vested Benefits. The Fund's financial position on this basis is illustrated by considering the following VBI figures:

	30 June 2015 ($'000)	**30 June 2016 ($'000)**
A. Vested Benefits	283	302
B. Market Value of Assets	405	383
C. Vested Benefits Index (B/A)	143%	127%
Surplus/(Deficit)	122	81

As the remaining member's dominant benefit is their Minimum Benefit, their Value of Accrued Benefit and Minimum Benefit are both equal to their Vested Benefit.

On this basis, as at 30 June 2016:

- the Fund's VBI of 127% represents a satisfactory financial position;
- the Fund was in a sound financial position on an ongoing basis; and
- the Fund was not in a position of "technical insolvency.

Comments

The Fund's indexes have reduced since the latest valuation of the Fund as at 30 June 2015 (report by Mr D Barton FIAA dated 14 April 2016). In particular this reflects:

- actual investment returns achieved over the year since 30 June 2015 were less than expected – i.e. approximately 3.4% per annum compared to 6.0% per annum;
- the rate of salary growth for the member over the year since 30 June 2015 was less than the expected rate of growth – i.e. nil compared to 5.0% per annum;
- the Employer commenced the contribution holiday from April 2016 as recommended; and
- the payment of an additional benefit amount to an exited member which was partly met from surplus monies in the Fund.

Financial Experience since 30 June 2016

During the period from 1 July 2016 to 5 August 2016 the Fund's assets achieved an average return of 1.5% for the period – i.e. approximately 15.7% per annum (based on the change in unit prices advised by the Trustee).

This is greater than was assumed in this review (6.0% per annum) and is expected to have a favourable impact upon the Fund's financial position. I have taken this experience into consideration in making the comments below.

Employer Contribution Arrangements

On the basis of the above it appears the current contribution arrangements remain appropriate at this time.

Accordingly I believe it would be reasonable for the Employer to continue its "contribution holiday". In this event I expect the Fund's VBI to remain at a level above 110% over the period to 30 June 2018 – i.e. the date of the next full actuarial valuation – and in three (3) years time.

It is also important to note that the Fund's future VBI will be influenced by actual financial experience in the future that could result in the VBI being higher or lower than the expected level depending upon whether such experience has been better or worse than assumed.

In particular, should the Fund's financial position worsen over the period, the Employer may be required to make further additional contributions in the future.

Reliance & Limitations

Please note that:

- we have not checked the data provided to us in detail and have relied upon the data provided to us by the Trustee;
- we have not reviewed the Fund's experience in detail since 30 June 2015; and
- this letter does not constitute a full actuarial investigation of the Fund.

This report is provided to assist the Trustee only in assessing the Fund's likely financial position as at 30 June 2016 and the continued appropriateness of the current Employer contribution arrangements. It should not be used for any other purpose without being discussed with ALEA to confirm its appropriateness to such other purpose.

Should you wish to discuss the above, or a related matter, please phone me on (02) 9279 0455.

Yours sincerely,

D.J. O'Keefe

David O'Keefe
Fellow of the Institute of Actuaries of Australia
Director – ALEA Actuarial Consulting Pty Limited