

Fund Report

Report from CoINVEST Limited as Trustee for the Construction Industry Long Service Leave Fund

Chairman's Review

CoINVEST's Mission is to administer long service leave benefits to the Construction and Allied Industries.

CoINVEST will do this by providing security, accuracy and responsiveness to our customers, on a cost effective basis.



The Fund's return of 9.71% was a pleasing outcome and with the de-risking of the portfolio completed, the Board considers the fund to be in a

strong position to weather any potential market correction. The long term funding ratio strengthened to 121.2%, up from 119.3% over the 12 months.

Despite factors in 2018/19 such as deteriorating world growth, trade war escalation and difficult international relations weighing on markets, CoINVEST's investment performance in this volatile market was strong. These factors are expected to have a greater effect in 2019/20 with return expectations lower.

Claims for long service leave increased to a record \$130.8 million for 13,781 workers, well up on the previous year despite employment numbers continuing to be strong, as evidenced by record contributions of \$186.5 million.

In conjunction with its Internal Auditors, Pitcher Partners, the Board of Directors actively reviews risks in all areas of operation including investment, compliance, coverage and the potential impact of Federal and State legislation, and has developed a risk framework and review program.

Reviewing the challenges and risks for the next 5 years, the Board has developed a new strategic plan with a focus on Governance, Security, IT development and managing in difficult economic times.

The Board of CoINVEST values the support of its interstate counterpart schemes as well as industry associations and unions in Victoria, especially when working through complex issues of coverage and compliance which require the support of the overall industry.

In October 2018 Barry Terzic was appointed to the Board to replace Craig Kelly as the Director representing Metal Trades workers. Craig resigned from the Board in July 2018 due to a change in employment. Barry Mitchell also did not seek a further term as the Director representing Metal Trades Employers and was replaced by Tim Piper. Tim is the Victorian Director of the Australian Industry Group.

Barry Mitchell was first appointed to the Board in August 2006 and had served with distinction for almost 13 years. I thank Barry and Craig for their service and wish them well for the future.

This report will be my last as Chairman and as a Director of CoINVEST. I have spent an enjoyable 14 years at CoINVEST with my last four as Chairman. Kate Spargo will take my place as Chairman of the Board from 1 October 2019. Kate has a longstanding involvement with CoINVEST, having been appointed to the CoINVEST Board as a Director on 1st October 2005. She has been the Chairman of the Audit Committee, as well as being on the Board's Finance and Investment and Remuneration Committees. Kate's background is in law both as a practitioner and in academia.

David St John will be the new independent Director on the Board and will also commence on 1 October. David built his executive career in investment management and consulting, and was the Chief Investment Officer of UniSuper for eight years. Currently he is employed by PwC as an Expert Advisor, consulting in investment and superannuation. He is an experienced Director bringing much experience to the position.

I would like to thank all Directors for their continued service to the industry and, on behalf of the Board, I thank John Hartley and his staff for their efforts over the year which has again been a busy and successful one.

It has been a privilege to serve on the CoINVEST Board and I am proud of the benefit that the long service leave fund provides for workers in this critical industry. It is a benefit that would be denied to the vast majority of workers if this great scheme did not exist.

Members of the Board as at 30 June 2019

CoINVEST Limited has eleven Directors on its Board. Eight of the members are elected by the Industry with four employee representatives and four employer representatives. Three are independent Directors appointed by the Board with special expertise in either investment, financial or legal matters.

Michael Anderson	Chairman
Kate Spargo	Independent
Di Fulton	Independent

Arron Harris
Robert Graauwmans
Barry Terzic
Paddy McCrudden
Grant Donald
David Newnham
Michael Purnell
Tim Piper

Representing Electrical Trades workers
Representing Building Trades workers
Representing Metal Trades workers
Representing Building Trades workers
Representing Building Trades employers
Representing Building Trades employers
Representing Electrical Trades employers
Representing Metal Trades employers

Accounts Summary

Construction Industry Long Service Leave Fund Financial Statements Summary

The figures below have been extracted from the statutory financial statements of the Fund which have been independently audited.

The independent audit report below relates to the specific requirements of the Trust Deed.

Summary Statement of Comprehensive Income for the year ended 30 June 2019

Accounts Summary	\$,000's 2019	\$,000's 2018
Net Investment Income	117,819	108,877
Total Income	117,819	108,877
Trustee Expenses	13,484	12,249
Depreciation and Provisions	1,467	675
Total Expenses	14,951	12,924
Net Surplus/(Deficit)	102,868	95,953
Net change in member benefit liabilities	53,984	31,417
Interest credited to working subcontractors	2,861	2,923
Total Distribution	56,845	34,340
Increase in Accumulated Surplus	46,023	61,613
Summary Balance Sheet as at 30 June 2019		
	\$,000's 2019	\$,000's 2018
Cash and Debtors	70,288	73,846
Plant and Equipment	926	684
Investments	1,440,013	1,273,707
Total Assets	1,511,227	1,348,237
Payables	4,390	3,869
Accrued LSL Benefits Liabilities	1,209,365	1,094,874
WSC Balances	40,789	38,834
Total Liabilities	1,254,544	1,137,577
Accumulated Surplus (Deficits)	256,683	210,660

The trustee has set in place a plan that intends to restore the Fund to full funding over the medium to long term.

CoINVEST Limited (ABN 35 078 004 985)



Performance of the Fund

	Return for 12 months ending June 2019	Return for 3 years ending June 2019	Return for 5 years ending June 2019
Rate of Return	9.71%	9.95%	9.17%
Benchmark	8.32%	9.13%	9.36%
*Increase in Victorian Construction Industry Weekly Ordinary Time Earnings (per annum)	3.58%	3.87%	3.04%

*from benefits payment data based on weeks claimed and paid to workers per claim forms.

2019 was a financial year of two halves. In the first 6 months to December 2018 returns were challenged with market corrections resulting in negative returns in the months of September, October and December (negative 1.82% for the 6 months).

Since December, returns rebounded, ranging from 1.5% to 3.1% every month except for May which was negative. This second 6 month period produced a return of 11.2%.

Our total return for the year was 9.71%. This is an excellent result placing the Fund again at the top quartile relative to other Australian institutional investors. The highlights of this performance are:

- The Real Assets portfolio's exceptional return of 11.13% (well above benchmark of 5.33%), driven by maturing infrastructure investments. This portfolio now includes direct property, listed and unlisted infrastructure and property. The portfolio has grown from 23.1% to 25.7% of the Fund in the year.
- The Equities portfolio produced a strong relative absolute return of 13.40%, down on last year's return of 15.04% but up on the benchmark of 11.49%. As part of a de-risking program, exposure to volatile equity markets was reduced during the year from 51.1% of the Fund in 2018 to 31.7% in 2019. Plans are in place to further reduce this exposure in the next financial year.
- The Australian Fixed Income portfolio's exceptional returns of 9.74% exceeded the benchmark of 9.57% in a rising interest rate environment. The result of the de-risking program meant Fixed Income increased from 23.1% to 25.7% of the Fund.
- The Alternative Assets portfolio (a new assets class which the Fund has invested in over the past 4 years) produced a solid 6.14%, up on its benchmark of 5.33%. This portfolio now includes multi-assets and credit investments and our currency overlay, remaining at 10% of the Fund's portfolio in the year.
- The Cash allocation of the portfolio produced a positive result of 2.37%, and

exceeded benchmark of 1.97%; a strong result given strong liquid positions had to be maintained during de-risking.

A key feature of the Fund this year has been a de-risking program resulting from the Accrued Benefits Ratio exceeding the Board-set strategic range of 115% to 120%. This primarily resulted in a reduction in Equities with funds invested in less volatile Fixed Income. In light of falling interest rates this was a sound move.

The Fund has now been fully funded for over five years. During the year the Accrued Benefits Ratio increased from 119.3% to 121.2%.

The more growth oriented investment style (80% growth / 20% defensive) adopted in recent years again reaped excellent returns with the five year return of 9.17% exceeding our benchmark of 8.36%. Accordingly, the Board approved a more tempered growth oriented investment style (70% growth / 30% defensive) focusing more on matching assets with liabilities rather than return seeking. The Fund's return target for 2020 is 5.8% compared to 6.25% in 2019.

The Board-approved investment strategy continues to implement diversification of the portfolio, aiming to greater protect the Fund's Accrued Benefits Ratio position, reduce volatility and compensate for risk.

The global economic outlook remains positive, with the OECD's global growth forecast at 3.2%-3.4% the next two years. Wage and price inflation are projected to rise only moderately, given the apparent muted impact of resource pressures on inflation in recent years and the scope left in some economies to strengthen labour force participation and hours worked.

The political outlook however still has significant uncertainty; issues surround the Presidency in the USA, their trade war with China, Brexit negotiations, and geopolitical uncertainty in the middle-east and Asia.

The Finance and Investment Committee of the Board remains vigilant in regard to its investment responsibilities.

Independent Audit Report on Remuneration and Expenses Reimbursed

To the Directors of CoINVEST Limited

Audit Opinion

In our opinion, the financial reports of CoINVEST Limited and the Construction Industry Long Service Leave Fund for the period ended 30 June 2019 are properly drawn up:

(a) so as to give a fair and reasonable view of:

- the remuneration appropriated out of the Fund by the Trustee
- the remunerations paid by the trustee to each member of the Board
- the expenses reimbursed by the Trustee to each member of the Board and

(b) are in accordance with CoINVEST Limited's

- Trust Deed, clause 10.3
- Articles of Association, recital 25
- Memorandum of Association, clause 5

Ernst & Young
Chartered Accountants

Maree Pallisco
Partner

Melbourne, Victoria
10 September 2019