



STATE SUPER
SAS Trustee Corporation

POOLED FUND

2004/05
ANNUAL REPORT

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Report to the Minister

October 2005

The Hon. Morris Iemma, MP
Premier and Treasurer
Governor Macquarie Tower
Level 39
1 Farrer Place
SYDNEY NSW 2000

Dear Minister

We have pleasure in submitting to you for presentation to Parliament the annual report of the SAS Trustee Corporation, covering the period 1 July 2004 to 30 June 2005.

The annual report contains the report for the SAS Trustee Corporation and the Pooled Fund. These have been prepared in accordance with the provisions of the *Annual Reports (Statutory Bodies) Act 1984*, the *Public Finance and Audit Act 1983*, associated regulations and Treasurer's Directions.

We look forward to working with you during the coming year and wish to note our appreciation for the support and interest that your predecessor has shown in our activities.

Yours sincerely



Michael Cole
Chairperson
SAS Trustee Corporation



Ian Blair
Board Member and Chairperson of the
Audit and Compliance Committee
SAS Trustee Corporation

Part A – About the SAS Trustee Corporation

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Charter

SAS Trustee Corporation (STC) is a body corporate constituted by the *Superannuation Administration Act 1996*.

It is trustee of the STC Schemes:

- the State Authorities Superannuation Scheme (SASS),
- the State Superannuation Scheme (SSS),
- the Police Superannuation Scheme (PSS), and
- the State Authorities Non-contributory Superannuation Scheme (SANCS).

Its principal functions are to:

- administer the STC Schemes,
- invest and manage the fund of the STC Schemes,
- provide for the custody of the assets and securities of the STC Schemes,
- ensure scheme benefits are properly paid, and
- determine disputes under the Schemes.

Mission

To support the future well being of NSW Government employees and their families by the productive delivery of superannuation benefits with optimal investment returns and member service.

Glossary:

Board means the Trustee Board of the SAS Trustee Corporation (STC), appointed under the *Superannuation Administration Act 1996* and comprising an independent chairperson, four employee representatives and four employer representatives.

Executive means the executive staff of the SAS Trustee Corporation.

FTC means the FSS Trustee Corporation.

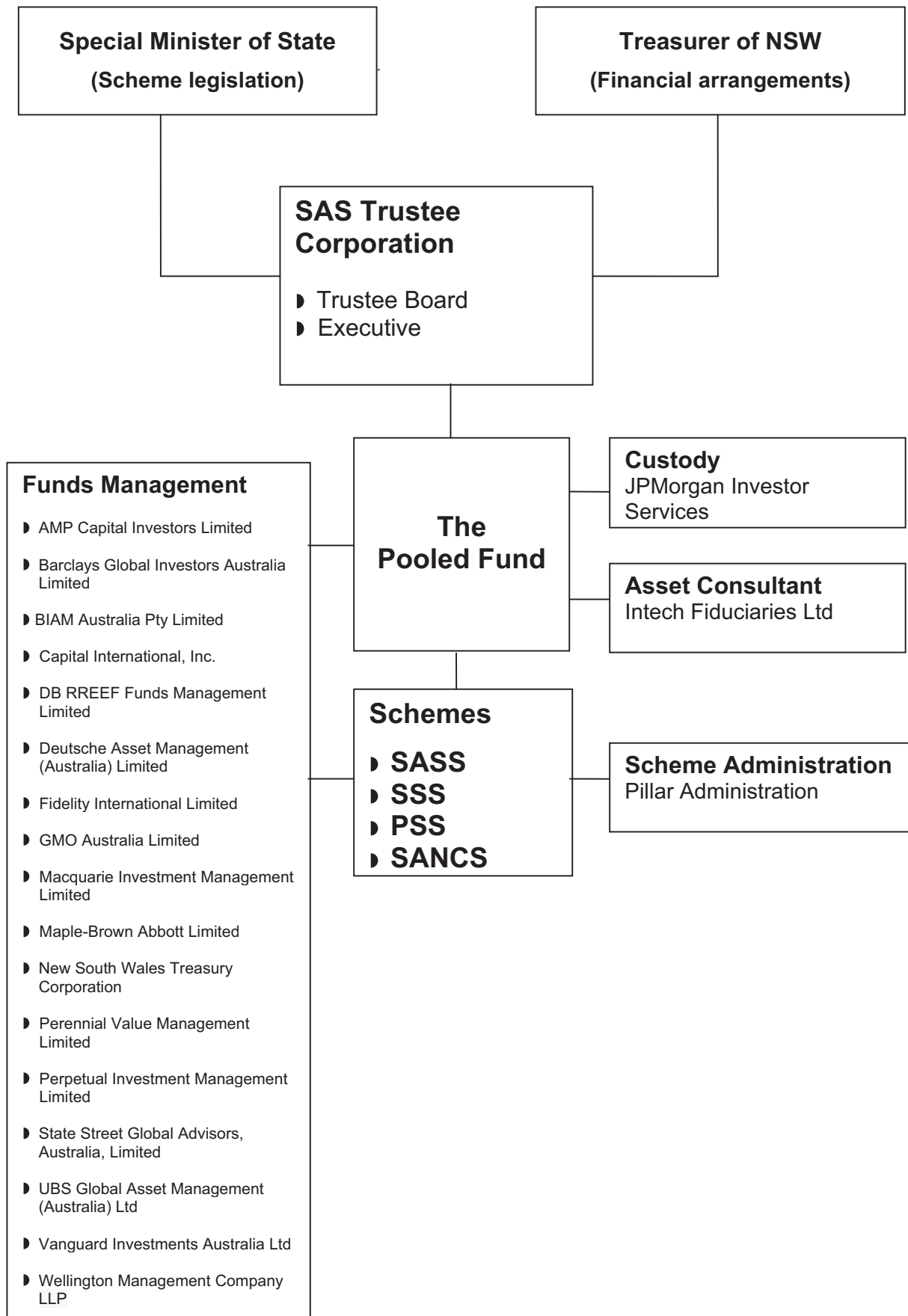
Pooled Fund or **Fund** means the Pooled Fund of the STC schemes.

Trustee Corporation means the SAS Trustee Corporation (STC).

This STC *Annual Report 2004–05* is on our website, www.statesuper.nsw.gov.au The accounts of the Pooled Fund's Controlled Entities may be obtained on request from the STC (see outside back cover for contact details). The accounts of the Controlled Entities have been separately tabled in the NSW Parliament.

Organisation structure

at 30 June 2005



Chairperson's report

For the second straight year, very favourable investment market conditions, particularly in Australia, assisted the generation of double digit investment returns.

The major investment strategy, Pooled Fund Growth Strategy, achieved 13.0% for the year.

The investment options for SASS members also achieved strong returns, with the Balanced Strategy earning 11.6%, Conservative Growth earning 9.3% and Cash earning 4.9% for the year. These investment returns were competitive with the median investment manager.

Throughout the year, the Trustee Board closely monitored the strategic asset allocation and implemented a number of changes to the Pooled Fund portfolio including:

- a reduction in the strategic allocation to direct property assets to 4.5%, with listed property securities making up a further 4.5% to give a total strategic property exposure of 9.0%;
- the implementation of a broader range of investment styles into the Australian equity sector with the introduction of enhanced index and long/short managers;
- an increase to 5% in the strategic allocation to mature infrastructure assets, although it is anticipated that limited available opportunities will mean that this target may take some time to achieve.

The Trustee Board welcomes the Commonwealth Government's proposal to eliminate surcharge tax on employer superannuation contributions made on or after 1 July 2005. However, members should be aware that surcharge will still apply to the 2005 financial year. Further, all existing surcharge debts will remain in defined benefit schemes and will continue to accrue interest, until the debt is paid.

The strong investment returns were the major factor in the growth during the year of the Fund's total net assets from \$24.2 billion to \$25.9 billion. This was achieved despite significant cash outflows resulting from benefit payments to members exceeding contributions received in the year by more than \$1.5 billion.

STC continues to improve its services to members. Early in the year, a project was undertaken to enable the Fund to accept Commonwealth Government Co-contributions into members' accounts. By year end, over 9,500 members had received Co-contributions totalling over \$4.5 million, an average of \$481 per recipient.

In previous years, STC has shared its executive team with FSS Trustee Corporation, the trustee of the First State Superannuation scheme. During the year, separate executive teams were established. This separation will enable the Executive to focus solely on the issues that impact on Pooled Fund Scheme members.

In conclusion, I thank the Trustee Board and the Executive staff for their ongoing commitment to the management of the Pooled Fund Schemes during another challenging year.



Michael Cole
Chairperson
October 2005

Board members' profiles

Michael Cole, Chairperson, had a 17 year career with Bankers Trust Australia as a Director/Executive Vice-president in both the Investment Bank and Funds Management divisions. At various times executive responsibilities included Head of Fixed Interest/Capital Markets/Structured Finance, Credit, Stockbroking and Retail Funds Management. In September 2001 he was appointed a Director of the New South Wales Treasury Corporation. Michael is a member of the General Government Liability Management Fund, Ministerial Corporation, Management Committee. He is also the Chairman of Ironbark Capital Limited and a Board Member of IMB Ltd.

Ian Blair (Employer Representative) is a Chartered Accountant and a Company Director, holding a Master of Management degree from Macquarie University. Before joining the Trustee Board, Ian completed a long career with accounting firm Deloitte Touche Tohmatsu, including a five year term as CEO of the firm. He is also a Director of IOOF Holdings Ltd, Melbourne Business School Ltd and Sisters of Charity Health Service Ltd. Ian has been active in local government and community organisations and received an Order of Australia Medal in 1987 for his services to the community.

Ron Davis (Employee Representative) is the full-time employee representative on the Trustee Board, a position he has held since 1 January 2002. Ron was previously a Valuation Manager with the State Valuation Office. He is a registered Real Estate Valuer and Fellow of the Australian Property Institute. He is a Central Councillor with the Public Service Association and immediate past president of the Professional Officers' Association. He also represents members as a delegate to Unions NSW's Public Sector Employees' Superannuation Committee. Ron is a member of the Australian Institute of Superannuation Trustees, a Fellow of the Association of Superannuation Funds of Australia (ASFA), a Board Member of ASFA and the Deputy Chair of ASFA's NSW Division Executive Committee. He is also a Director of State Super Financial Services Australia Limited.

Rod Harty (Employee Representative) is an Advocate and Legal Advisory Officer for the Police Association of NSW and a consultant to the Police Federation of Australia. Rod also represents Police as a delegate to Unions NSW's Public Sector Employees' Superannuation Committee. Rod has post-graduate qualifications in Workplace Relations and Labor Law and has a broad public sector background in human resource management and business services.

Michael Lambert (Employer Representative) is an Executive Director in the Corporate Finance Department of the global investment bank, ABN AMRO. Previous to that Michael was the Secretary of the New South Wales Treasury and held various other senior positions. He has extensive experience and expertise in financial analysis and advising governments and clients on financial and strategic issues. In addition Michael is a non-executive Director of Energy Australia and Queensland Racing. Michael has a Bachelor of Economics (Honours) and Master of Economics from Sydney University.

Nick Lewocki (Employee Representative) is Secretary of the Rail, Tram and Bus Union. Nick spent his early career with the NSW Railways Department before being elected to a full-time union official's position in 1979. From 1990 he worked with Unions NSW for 6 years as an Industrial Officer responsible for a range of industries. Nick is a Director of the NSW Trades Hall Association. As Secretary of the Union he has overall responsibility for industrial agreements and their certification before the industrial tribunals which affect over 14,000 members.

Maree O'Halloran (Employee Representative) is the President of the NSW Teachers Federation and was appointed to the Trustee Board on 1 September 2002. Her union experience includes numerous roles in the Teachers Federation as well as being a delegate to Unions NSW. Her teaching career spans city and country schools as well as TAFE and Corrective Services. She is admitted as a legal practitioner in NSW and has practised as a solicitor. She is currently a Board Member of the legal firm, MacMahon Associates and was previously a Board Member of the Blue Mountains Community Legal Centre. Maree is also a contributing author of an *HSC Legal Studies* textbook.

Board members' profiles continued

Ouma Sananikone (Employer Representative) maintains a portfolio of non-executive directorships and consultancy and has an extensive background in banking and financial services. She was formerly at BT Financial Group, where she was Director of Corporate Strategy and Development for the wealth management subsidiary of Westpac. Prior to the Westpac group, she was CEO of EquitiLink and Managing Director of BNP Investment Management. Ouma holds a Bachelor of Arts (Economics) from the Australian National University and a Master of Commerce from University of NSW and is a recipient of the Centenary Medal for services to the Australian finance industry.

Paul Scully (Employer Representative) is a Director of Decision Horizons, a consulting enterprise through which he offers his services based on thirty years of experience in financial services and investment management. Paul is an actuary by training and was until July 2003 Chief Executive Officer for the Asia Pacific region of ING Investment Management and a member of its global board. Paul has held executive positions in life insurance and retail funds management. He now maintains a portfolio of non-executive directorships and consulting assignments.

Executive management team

In previous years, STC has had a commercial arrangement with FSS Trustee Corporation (FTC) whereby the two entities shared the services of a joint executive. Over the 2004–05 financial year, separate executive teams were established. As from December 2004, FTC appointed its own CEO and now operates autonomously, except for the investment team which currently remains shared between STC and FTC. However, over the 2005–06 year, FTC will engage its own investment personnel and the two executives will then operate totally independently.

Details of STC's senior management team as at 30 June 2005 are set out below:

Don McLean – Chief Executive Officer

Mr McLean's main focus is to ensure that the Trustee Board receives expert professional advice on which to make its decisions. He joined STC as Chief Executive Officer in January 2003. Before that, he worked in the financial services industry for over 30 years, both as a senior executive in major retail fund management organisations and in consulting roles.

Lyn Collingridge – General Counsel and Company Secretary

Ms Collingridge joined STC in October 1998. Having worked in the industry since 1989, she is a superannuation lawyer with extensive experience in both the public sector and private practice. She is responsible for the delivery of secretarial services as well as advice on legal and compliance to the Trustee Board and the Executive.

Rod Macleod – Manager, Investment Services

Mr Macleod manages STC's investment advisory team that monitors all aspects of the investment management and performance of the Pooled Fund. This includes liaison with investment service providers, such as the asset consultant, investment managers and the custodian. He has wide experience spanning over 30 years in investment management.

Karen Faulconbridge – Operations Manager

Ms Faulconbridge joined STC in March 2000 as Manager, Policy Advice. She took on the broader role of Operations Manager in July 2004 following a restructure of the Executive. Prior to her appointment to STC, she worked in the superannuation industry in the private and public sector for over 17 years. She is responsible for the management of operational areas, including administration, accounting and member communication.

Review of 2004–05 year

STC's Objectives and Achievements for 2004–05

The objectives set for the 2004–05 financial year are set out below along with brief details of actions taken in pursuit of these objectives.

- *Continuously review investment strategies in order to satisfy the overall return and risk objectives of the Pooled Fund.*

The Fund's asset allocation is formally reviewed annually but is constantly monitored throughout the year. In addition, two independent asset consultants were engaged to provide their overview of an asset allocation for the Growth Strategy. Their views confirmed the appropriateness of the current strategy of having a growth oriented asset allocation.

A number of changes to the portfolio were implemented during the year including:

- the overweight position in direct property was corrected by the sale of some direct property assets and by the establishment of a diversified portfolio of listed property trusts;
- in Australian shares, assets managed by "boutique" managers were increased and enhanced index mandates were awarded to improve the overall risk/return profile of the Fund;
- in international equities, there were changes in managers and an exposure to high conviction managers was introduced;
- the allocation to unlisted equity is targeted to increase as opportunities arise. In addition, the unlisted equity portfolio has been split into two components, namely mature infrastructure and development capital.

- *Contain administration costs*

In 2005, the total costs of administering the Pooled Fund Schemes was \$34.8m, compared to \$36.5m in the previous year. Although the administration contract was due to expire on 30 June 2005, reduced fees for the 2005 financial year were negotiated. However, these reductions were partially offset by the costs of implementing systems changes required for the acceptance of the Commonwealth Government Co-contributions and other projects.

Subsequent to the year end, terms for a five year extension of the contract have been agreed with Pillar Administration. The revised terms will assist STC in containing total costs in the next five years. However, in an environment where superannuation legislative changes frequently do not account for the complexities of defined benefit schemes, the containment of total administration costs will remain a challenge, due to the implementation of regulatory changes.

- *Provide members with access to information on their benefit entitlements*

Members have a range of options for obtaining information on the Pooled Fund Schemes and each has been widely used.

Number of Member Contacts in year to 30 June 2005

Service	Number of Contacts
Number of telephone calls received	126,885
Correspondence	
- received by post	7,821
- received by email	9,744
Attendees at pre-retirement seminars	4,745
Personal interviews conducted	4,535

In addition, members have access to a range of Fact Sheets, which explain members' entitlements to benefits from the Schemes as well as superannuation issues in general. These are available to members either by contacting the Customer Service Centre or by downloading them from the website.

The Trustees have initiated a project to upgrade the website, so that members may more easily navigate the site and find the information they seek.

- *Work with the Fund's administrator to improve services to members*

The Trustee closely monitors the performance of the administrator to ensure that the agreed service standards are being met. Key service standards and the performance of the administrator over the year are summarised below:

Service	Standard	2005 Achievement
Telephone Calls - answered within standard - calls abandoned	90% < 5%	91% 1%
Correspondence - response within 15 days	95%	98%
Benefit Payments - death benefits paid within 10 days of receipt of all information - resignation/retirement benefits paid within 5 days of receipt of all information	95% 95%	100% 97%
Contribution Processing - within 5 days	95%	100%
Member Record Adjustments - adjust within 5 days	95%	98%
Payment of Pensions - fortnightly on due date	100%	100%

Overall, the service levels achieved in the year exceeded contractual standards.

For the first time, Commonwealth Government Co-contributions became payable during the year and were accepted by the Fund. By the end of June, 9,514 members had received payments totalling \$4.6m, representing an average of \$481. With the changes to Commonwealth legislation, more members are expected to receive larger payments in the 2005–06 year.

In conjunction with the administrator, a project has been initiated to review major processes and procedures to further improve service to members as well as to investigate cost-efficiencies.

- *Ensure that the Trustee Corporation and Executive operate both efficiently and in accordance with best practice principles*

While the Pooled Fund Schemes are “exempt” funds regulated by NSW State legislation and not directly by Commonwealth superannuation legislation, STC’s objective is to comply, where appropriate, with the Commonwealth legislation. Developments in superannuation fund governance are monitored and incorporated, as appropriate, into STC’s governance and compliance procedures.

During the year, initiatives that were implemented included:

- all relevant staff passed PS146 competency tests and an ongoing staff training program has been introduced so that staff maintain up-to-date knowledge on superannuation issues;
- new and amending contractual arrangements include the new outsourcing provisions required under the Commonwealth Safety in Superannuation legislation;
- a Risk Management Strategy and Plan has been developed and implemented;
- all the Trustee Board’s policies and plans being reviewed, and revised where necessary, over the next two years.

Membership of Schemes

The membership of the Pooled Fund Schemes as at 30 June 2005 was:

	Active	Deferred	Pensioners	Total
State Authorities Superannuation Scheme	60,776	11,843	5,012	77,631
State Superannuation Scheme	28,593	4,539	38,548	71,680
Police Superannuation Scheme	3,706	192	5,377	9,275
	93,075	16,574	48,937	158,586

The Pooled Fund Schemes are closed to new members. Consequently, the number of active members, who are contributors to the Schemes, declined from 100,262 to 93,075 during the year, a reduction of 7%. As members reach retirement age and leave the workforce, active membership will continue to steadily decline. Similarly, the number of members who have deferred their benefit in the scheme has reduced slightly from 16,920 to 16,574 during the year.

However, the number of pensioners has increased from 47,280 to 48,937. This reflects the number of members in SSS and PSS who are leaving the workforce and choosing to take their retirement benefit in the form of a pension. In the immediate future, the number of pensioners is projected to continue to increase.

One area where the number of exits has significantly exceeded expectations relates to Police disability benefits in the Police Superannuation Scheme. The number of applications for these benefits received in the last three financial years has been:

Financial Year	Hurt-on-Duty Applications Received		
	Before Leaving Service	After Leaving Service	Total
2003	338	24	362
2004	177	40	217
2005	471	15	486

After a downturn in applications in 2004, the number received increased significantly in 2005 and represented over 10% of the total active membership in the Police Superannuation Scheme.

Administration

The level of service provided by the administrator has improved substantially in the past few years, both in timelines and in the accuracy of the transaction processing. The Trustee Board continues to closely monitor the service levels achieved by Pillar to ensure that the contractual standards are maintained. In the last year, the level of service achieved exceeded the contractual service levels.

The contract for the provision of administration services with Pillar expired on 30 June 2005. As at 30 June 2005, a short term extension had been put in place but agreement had not been reached on a long term extension of the contract. However, subsequent to the year end, STC and Pillar have agreed on terms for a five year extension of the contract.

The administrator, in conjunction with STC, has recently embarked on a major project to review and implement some major business processes with a view to making them both more efficient and cost effective. This project is expected to run over the next two financial years.

Member Services

STC continues to operate a range of services, whereby members can obtain information on the Schemes or on their personal benefit entitlements. These include:

- a telephone call centre, which received over 126,000 calls from members in the financial year;
- a personal interview service, which conducted 4,535 member interviews;
- an active seminar program aimed at members approaching scheme retirement age. During the year, 77 seminars were conducted across the state – 32 in the Sydney Central Business District, 14 in the wider Sydney Metropolitan area and 31 in regional centres. These seminars were attended by over 4,700 members (i.e. over 10% of the active membership in the targeted age groups);
- a comprehensive range of Fact Sheets, which explain members' entitlements as well as general superannuation information. Members may obtain printed copies of the Fact Sheets from the Customer Service Centre or alternatively, they are available on State Super's website, which is well used by members for this purpose;
- a quarterly newsletter on superannuation issues is distributed via employers and employee organisations;
- all current STC publications are available on the website. Member Annual Statements may also be downloaded from the website. As at 30 June 2005, there were 21,791 active members, 453 Deferred Benefit members and 3,611 pensioners who have registered to access their personal details on the website;
- the Customer Service Centre received 17,565 items of correspondence from members in the year. Of these, 9,744 were received by e-mail, indicating a significant switch by members to the use of internet based communications.

In SASS, active and deferred members have a range of investment strategies available for the accumulation part of their benefit. At 30 June 2005, the funds in each strategy were:

Investment Strategy	\$m
Growth (default)	4,678.8
Balanced	74.4
Conservative Growth	32.0
Cash	19.8
Total	4,805.0

Staff

At 30 June 2005, STC employed the full time equivalent of 22 staff.

In previous years, the executive team of STC has also provided executive services to FTC, which is trustee for the First State Superannuation scheme. During the year, a process of phasing out this sharing arrangement was initiated, so that by year end, the separate executive teams had been largely established and were operating out of their own office premises.

At year end, the Investment team of four staff continued to be shared with FTC. However, it is anticipated that FTC will employ its own investment personnel in the 2005–06 financial year and that the STC and FTC executives will then be totally independent.

A staff training program was initiated during the year to ensure that relevant staff maintain up-to-date knowledge on superannuation issues and maintain competency levels in line with ASIC's PS146 requirements.

Corporate Governance

Compliance Framework

STC has a multi-tiered compliance framework and during the reporting year has documented most of its compliance practices. The original target for the completion of this formal documentation was prior to July 2005. However, this has been delayed because the feedback from a review conducted by the Australian Prudential Regulatory Authority (APRA) was not available. Once the documentation is completed, each of the Plans and Policies will be reviewed on a two year rolling basis or sooner if required.

During the year STC hired a Compliance Officer so that adequate resources can be focussed on compliance.

STC's compliance requirements include:

- Policies and Plans that are required by NSW legislation for public sector agencies to develop and maintain;
- Plans and Statements that comply with APRA and ASIC requirements for regulated and licensed superannuation funds. STC attempts to conform with the spirit of APRA and ASIC practices to ensure best practice;
- A comprehensive compliance checklist that identifies all STC's legislative (both Commonwealth and NSW) and contractual obligations is completed by the relevant responsible STC manager once a year and the results are reported to the Trustee Board;
- Formal annual verification from STC's outsourced service providers that they have complied with their contractual and legislative obligations during the year in relation to their services to STC.

Prudential Governance

The Pooled Fund is an exempt public sector superannuation scheme under the Commonwealth *Superannuation Industry (Supervision) Act 1993* (SIS). The SIS legislation treats exempt public sector superannuation funds as complying funds for concessional taxation and superannuation guarantee purposes.

In May 1996 the NSW Premier and the Commonwealth Treasurer signed a Heads of Government Agreement. Under that Agreement the NSW Government undertakes to ensure that the Pooled Fund schemes will conform with the principles of the Commonwealth retirement incomes policy related to preservation, vesting and reporting to members and that members' benefits are adequately protected.

Amendments made to the Pooled Fund legislation in March 2004 enable the NSW Government to prudentially monitor and audit the Pooled Fund and the Trustee Board activities in a manner consistent with the prudential controls of the SIS legislation. These provisions are in addition to other legislative obligations on the Trustee Board and internal processes that monitor the Trustee Board's adherence to the principles of the Commonwealth's retirement incomes policy.

Investment Governance

The Trustee Board has formally adopted a Proxy Voting Policy in relation to its Australian shareholdings. This policy acknowledges that, in view of the limitation of STC's investment powers contained in the *Superannuation Administration Act 1996*, STC must delegate the voting function to its active Australian equities managers. Under the policy, managers are required to:

- vote on all resolutions at all meetings;
- lodge a copy of their voting policy with STC at least annually;
- report quarterly to STC on how they voted;
- where required, explain the reasons for the way they voted; and
- consult with STC when a potentially sensitive or controversial issue arises.

Legislative and policy review

The Pooled Fund Schemes operate under State legislation. They must also comply with the principles of the Commonwealth superannuation regulatory regime and with other Commonwealth and State Legislation such as tax, anti-discrimination and privacy. Legislative or regulatory changes that impacted on members of the Pooled Fund Schemes are summarised below.

The *Superannuation Legislation Amendment Act 2005* (proclaimed to commence on 8 July 2005) included a number of changes to the Scheme legislation.

Post exit surcharge assessments

Regulations have been introduced to allow members of the Pooled Fund Schemes to have surcharge assessments which are received after date of exit from the Scheme measured against the surcharge cap. The surcharge cap is the maximum amount of surcharge that an individual member is required to pay personally. A member may choose to reduce their pension to pay this amount. The balance is paid by the employer.

Anti-Detriment provisions for death benefits

Where a death benefit is paid to a dependant, Commonwealth tax laws permit the contributions tax to be waived. Amendments to the Scheme rules allow the anti-detriment provisions to apply to deferred benefits, as the deferred benefit has already been reduced to offset the 15% tax on employer contributions. To the extent that a tax deduction is allowed to the Pooled Fund, the death benefit will be increased by the amount of the tax credit available.

SSS invalidity pensions

Amendments to the *Superannuation Act 1916* allow an invalidity pensioner who has attained age 55 years to elect to take their pension as a pension for life. (This effectively means that the pensioner gives up any right to a commute the pension.) Once a pensioner is granted a pension for life, the provisions of the Act, which permit a pension to cease if the pensioner is recalled to employment service, do not apply.

Family Law provisions

On 28 December 2002, Commonwealth legislation took effect allowing superannuation interests to be divided following the breakdown of a marriage. Commonwealth legislation provides the basis for valuing a member's superannuation entitlement for this purpose. On review of the Commonwealth's valuation methods for determining the value of a superannuation interest, the Trustee Board considered that these were inconsistent with the benefit design of the Pooled Fund Schemes. As a consequence the Trustee Board has applied to the Commonwealth Attorney General seeking approval for alternative valuation methods to be adopted for SASS, SSS, PSS and SANCS.

It should be noted that for current Family Law requests for information, information as required under the Commonwealth legislation is provided to the parties so that a valuation of the interest can be determined by the parties. This valuation is currently based on the valuation methods specified by the Commonwealth legislation.

However, once the alternative valuation methods are approved by the Commonwealth Attorney General, new Family Law provisions will be legislated for the Pooled Fund Schemes and future requests for information will include a value of the interest in accordance with these changes.

Legislative and policy review continued

Overview of the Commonwealth Government's Co-contribution

The superannuation Co-contribution is a payment made by the Commonwealth Government to match certain personal contributions paid to a superannuation fund from 1 July 2003. Personal contributions include after tax payments made to a superannuation fund, such as employee contributions to SASS, SSS and PSS. Contributions made by a spouse and salary sacrifice contributions do not qualify as eligible contributions for Co-contribution purposes.

Who is eligible to receive the Co-contribution?

If a member was eligible to receive a Co-contribution payment in the 2003–04 financial year, the member would have been notified by the Australian Taxation Office (ATO) of the applicable amount during the 30 June 2005 financial year.

Generally, the Commonwealth Government's Co-contribution will be payable for a financial year if the member meets **all** of the following conditions:

- the member makes personal superannuation contributions from their *after tax* income during a financial year, and
- the member's total income* for the 2004–05 financial year was less than \$58,000**, and
- at least 10% of the member's total income* is attributable to employment, and
- the member lodges an income tax return for the financial year, and
- the member is less than 71 years of age at the end of the financial year, and
- the member did not hold a temporary resident visa at any time during the year.

*Total income means assessable income plus reportable fringe benefits.

**Subject to indexation from 2007–08.

Where is the Co-contribution paid to?

Unless the member has nominated a particular superannuation fund, the ATO will forward the Co-contribution amount to the superannuation fund where the member made their personal contributions.

Co-contribution payments received in respect of SASS, SSS and PSS members, will be treated as undeducted contributions (i.e. contributions tax is not payable) and will be deposited to a Co-contribution account in SANCS. Details of Co-contribution payments received on a member's behalf have been included on their 2004–05 Annual Benefit Statement.

How is the Co-contribution calculated?

The ATO will determine the applicable Co-contribution amount on the basis of the member's income tax return and the information that is provided by the member's superannuation fund.

For years ended 30 June 2005 and later:

- The Co-contribution is \$1.50 for every \$1 of personal contributions made in a financial year (subject to the maximum Co-contribution available).
- For annual incomes up to \$28,000**, the maximum Co-contribution for the 2004–05 and later years is \$1,500.
- For incomes above \$28,000**, the maximum (\$1,500) reduces by 5 cents for each dollar of income above \$28,000, so that it phases out completely at \$58,000**.

**Subject to indexation from 2007–08.

When can a member access the co-contribution payment?

Co-contribution payments are required to be preserved until the member reaches their preservation age (i.e. between 55 and 60) or meets a condition for earlier benefit release. The Annual Benefit Statement will provide details of the benefit preservation requirements.

Super surcharge amendments

The Commonwealth Government has recently passed legislation to remove the superannuation contributions surcharge tax. Effective from 1 July 2005, the surcharge will not be payable on employer superannuation contributions made, or employer termination payments received after this date.

However, it is important to note the following:

Surcharge Debt at 30 June 2005

If a member had a surcharge debt prior to 30 June 2005, that debt will remain in their Scheme and will continue to accrue interest until the debt is paid. (The member's 2004–05 Annual Statement shows any outstanding surcharge debt at 30 June 2005.)

Post 30 June 2005 surcharge assessments

The Australian Taxation Office will continue to issue surcharge assessment notices for the 2004–05 year and for prior financial years from the 1996–97 year. If the member receives any future surcharge assessments these will be applied to their debt account as appropriate.

Interest on outstanding debt

A member's surcharge debt will continue to accrue interest at the Commonwealth 10 year Treasury bond rate until the debt is paid. The 30 June 2005 bond rate was 5.11%.

Voluntary payments made to reduce debt

Payments to reduce a member's surcharge debt may be forwarded to the scheme administrator at any time. The administrator is then required to adjust the outstanding amount accordingly.

Surcharge Cap

Scheme legislation requires that the maximum amount deducted from a member's benefit for surcharge purposes is limited to a percentage of the post 20 August 1996 share of their employer-financed benefit. The percentage rate that will apply is based on the maximum surcharge rates set by the Commonwealth Government. These are 15% to 30 June 2003, reducing to 14.5% to 30 June 2004 and 12.5% to 30 June 2005. If all or part of the assessment exceeds your surcharge cap, the excess amount is paid from the relevant scheme employer reserve.

Review of investments

(i) Investment Overview

Economic Environment:

Growth has been strong in the global economy over the past year. This has been fuelled by the China growth story, which in turn is facilitated by the demand of the US consumer. A sharp increase in oil prices and increases in US interest rates during the past 12 months has only had a moderate impact on world growth. The outlook amongst analysts is for world growth to slow during 2005–06.

In Australia there has been a change in the composition of growth, as the housing boom has been replaced by a commodities boom, which is likely to follow the rhythm and pulse of China. The Reserve Bank has not been compelled to increase interest rates in step with its US counter part, but has closely monitored the economy for signs of increases in inflation. However, so far the inflationary outlook has been fairly benign and official interest rates are on hold.

Australian Equities:

Australian listed equities recorded another strong annual return year, with the S&P/ASX 300 Accumulation Index rising by 25.9% which followed a rise of 21.7% in the previous year. The Australian Equities market was a beneficiary of the recent strong growth in the Chinese and Indian economies and the surge in oil prices. The best performing sectors in the 2005 year were Energy up 67.2%, Industrials 38.1% and Basic Materials 36.6%.

International Equities:

World share markets, excluding Australia, as reflected by the Morgan Stanley World Capital Index on an unhedged basis remained virtually static for the year to 30 June 2005 rising by 0.1%. International stock markets which had a relatively strong year were the European and Asian (excluding Japan) markets whilst the US was weak. However, while the share markets rose in local currency terms, these market increases were largely offset by the strong lift over the year of the value of the Australian dollar against currencies like the US dollar and the Euro.

Fixed Interest:

During the year, the Australian Reserve Bank lifted its short term money rate from 5.25% to 5.50%, while over the year the yield on 10 year Commonwealth Bonds fell from 5.87% to 5.11%.

In the US, the Federal Reserve lifted official short term money market rates eight times from 1.25% to 3.25%. However, the longer term 10 year US Government bond yield fell from 4.73% to 4.00%.

Sector Market Returns:

Market	Index	Return
Australian Equities	S&P/ASX 300 Accumulation	25.9%
International Equities	MSCI World ex Australia (\$A)	
	▪ unhedged	0.1%
	▪ hedged	9.8%
Listed Property Trusts	S&P/ASX 200 LPT Accumulation	18.4%
Australian Fixed Interest	UBSW All Government All Maturities	7.8%
International Fixed Interest	JP Morgan Global ex Australia Govt. Bond Index Hedged(\$A)	12.3%
Cash	UBSW Australian Bank Bill	5.6%

(ii) Investment Returns

SSS and PSS

Most benefits paid from SSS and PSS are defined benefits, which are not directly affected by the Fund's investment earnings. All moneys received in respect of SSS and PSS benefits are invested in the Growth Investment Strategy. This includes deferred SSS and deferred PSS benefits, as well as the lump sum SANCS Basic Benefit (including Commonwealth Government Co-contributions Account) and any superannuation guarantee shortfall amount. Member investment choice does not apply to any portion of SSS and PSS benefits.

SASS

Part of the benefits payable to SASS members are accumulation benefits, which are directly affected by the investment returns. These benefits include the Personal Account Balance and Commonwealth Government Co-contributions Account of SASS contributing members and the whole benefit of Deferred SASS members.

SASS members have a range of investment strategies which they may select for their accumulation benefit. These strategies are Growth, Balanced, Conservative Growth and Cash. The Growth strategy is the default strategy that applies if a SASS member does not make a choice.

For both SASS and Deferred SASS members, investment choice does not apply to the lump sum SANCS Basic Benefit, the Commonwealth Government Co-contributions Account and any superannuation guarantee shortfall amount.

The crediting rates in recent times are set out in the table below:

Year Ended 30 June	Growth	Balanced	Conservative Growth	Cash	CPI
	% pa	% pa	% pa	% pa	% pa
2000	16.5	These strategies were introduced in December 2003. Consequently there are no crediting rates for the full year ended 30 June 2004 or earlier.			3.2
2001	3.6				6.0
2002	-7.0				2.8
2003	-1.7				2.7
2004	13.5				2.5
2005	13.0	11.6	9.3	4.9	2.5
Average 3 Years	8.0	These strategies were introduced in December 2003. Consequently there are no crediting rates for the 3, 5 or 10 year periods.			2.6
Average 5 Years	3.9				3.3
Average 10 Years	8.5				2.5

Note: The figures above are after allowance for tax and investment management expenses. Past returns are no guarantee of future returns. The Personal Account Balance and Commonwealth Government Co-contributions Account portion of a SASS member's benefit or the benefit of a Deferred SASS member is not guaranteed and the value of such accounts can go up or down with investment returns. SASS members are encouraged to seek professional advice before selecting an investment strategy to suit their personal circumstances.

(iii) Asset Allocation

The Strategic Asset Allocation is the percentage of Growth Assets and Income Assets for each Investment Strategy, as set out below:

Strategic Asset Allocation for Investment Strategies

Strategy	Growth Assets %	Income Assets %
Growth	74.5	25.5
Balanced	50.0	50.0
Conservative Growth	30.0	70.0
Cash	0.0	100.0

Note: Growth Assets include shares, property and 50% of mature infrastructure assets, and Income Assets include cash deposits, fixed interest and 50% of mature infrastructure assets.

(iii) Asset Allocation continued

The proportions allocated to each strategy remain within a margin of plus or minus 5% of the percentages shown. However, the allocation to the asset sectors that make up these broader categories may change. The Fund's asset allocations are reviewed formally at least once a year and are constantly monitored throughout the year.

	Asset Sector Allocation							
	Growth		Balanced		Conservative Growth		Cash	
	2004 %	2005 %	2004 %	2005 %	2004 %	2005 %	2004 %	2005 %
Australian Equities	32.1	34.0	25.2	25.6	13.2	13.6	0.00	0.00
International Equities	27.5	25.9	18.3	18.1	10.3	10.0	0.00	0.00
Unlisted Equities	2.9	3.2	0.0	0.0	0.0	0.0	0.00	0.00
Mature Infrastructure	2.4	2.6	0.0	0.0	0.0	0.0	0.00	0.00
Property								
- direct	8.3	5.1	5.6	4.3	5.7	4.3	0.00	0.00
- listed property trusts	2.1	3.5	1.4	2.8	1.4	2.8	0.00	0.00
Australian Fixed Interest	11.0	11.1	19.8	19.7	19.8	19.8	0.00	0.00
International Fixed Interest	7.0	7.4	19.9	19.8	19.8	19.9	0.00	0.00
Cash	6.7	7.2	9.8	9.7	29.8	29.6	100.0	100.00
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.00

(iv) Investment Return Objectives

(a) Growth Strategy

The Growth strategy has two investment return objectives, namely:

Investment Return Objective	Outcome for 2004-05
<p>Long Term Objective: To exceed the Consumer Price Index (CPI) plus 4.5% p.a. over rolling 10 year periods.</p>	The Growth strategy return over the 10 years to 30 June 2005 was 8.5% p.a. which exceeded the target 10 year return of 7.0% p.a.
<p>Shorter Term Objective: To earn returns over rolling three year periods which rank in the top half of the universe of managers in the Intech* Growth Super Survey.</p>	The Growth strategy did not meet this objective, being 0.8% below the median manager. This was primarily due to underperformance in the 2003 financial year.

*Intech Asset Consulting Pty Ltd is an asset consulting firm which publishes surveys of the investment performance of superannuation fund managers.

(b) Other Strategies

The investment return objectives for the other strategies are:

Strategy	Investment Return Objective
Balanced	CPI plus 3.0% p.a. over rolling 7 year periods.
Conservative Growth	CPI plus 2.0% p.a. over rolling 4 year periods.
Cash	CPI plus 1.5% p.a. over rolling 3 year periods.

These investment strategies were introduced in December 2003 and therefore have not been in place long enough to be measured against the longer term investment objectives.

(v) *Investment Expenses*

Investment management expenses include funds management fees, custodial fees and the costs of managing the investment portfolio. These expenses are deducted from investment earnings, before the crediting rates are determined.

Year Ended 30 June	Investment Expenses as a % of Average Total Assets			
	Growth % pa	Balanced % pa	Conservative Growth % pa	Cash % pa
2001	0.25	These strategies were introduced in December 2003.		
2002	0.27			
2003	0.22			
2004	0.31	0.19*	0.18*	0.11*
2005	0.29	0.20	0.22	0.12

*Annualised for the seven months from 1 December 2003 to 30 June 2004.

The Fund's overall investment expenses continue to be low as competitive investment management fees can be negotiated due to the large size of the total portfolio.

(vi) *Investment Managers*

All of the Pooled Fund's assets are managed by external fund managers who are appointed by the Trustee Board, on the advice of the asset consultant. The performance of the various fund managers is monitored throughout the year and managers may be added or replaced. At 30 June 2005, the Fund's investment managers were:

Australian Shares

- AMP Capital Investors Limited
- Barclays Global Investors Australia Limited
- Deutsche Asset Management (Australia) Limited
- GMO Australia Limited
- Macquarie Investment Management Limited
- Maple-Brown Abbott Limited
- New South Wales Treasury Corporation
- Perennial Value Management Limited
- Perpetual Investment Management Limited
- State Street Global Advisors, Australia, Limited
- UBS Global Asset Management (Australia) Ltd

International Shares

- BIAM Australia Pty Limited
- Capital International, Inc.
- Fidelity International Limited
- New South Wales Treasury Corporation
- State Street Global Advisors, Australia, Limited
- Wellington Management Company LLP

Alternative Assets

- Deutsche Asset Management (Australia) Limited

Property (including listed property trusts)

- DB RREEF Funds Management Limited
- Vanguard Investments Australia Ltd

Australian Fixed Interest and Cash

- Deutsche Asset Management (Australia) Limited
- State Street Global Advisors, Australia, Limited

International Fixed Interest

- State Street Global Advisors, Australia, Limited

Cash

- State Street Global Advisors, Australia, Limited

(vii) Investment Policies

(a) Investment Reserves

The Trustee Board has determined that investment earnings will not be placed in an investment reserve. Consequently, all available investment earnings or losses, after providing for tax and investment expenses, are distributed to employers and members, based on a crediting rate which is determined monthly. Members exiting the Pooled Fund Schemes receive a daily crediting rate applicable since the last monthly rate was struck.

(b) Derivatives

Derivatives, including futures and options, can be used by the Pooled Fund investment managers. However, the investment mandates clearly state that derivatives may only be used to facilitate efficient cash flow management or to hedge the portfolio against adverse market movements and cannot be used for speculative purposes or gearing the investment portfolio. During the year to 30 June 2005, the managers made limited use of derivatives.

(c) Hedging

STC's policies in regard to currency hedging as at 30 June 2005 are:

- international fixed interest: 100% hedged into Australian dollars;
- international equities: 25% hedged into Australian dollars, increasing to 30% during the 2005–06 financial year;
- international mature infrastructure: 100% hedged into Australian dollars.

(d) Custodian

The Trustee Board has appointed JPMorgan Investment Services as custodian to hold the Pooled Fund's assets. In addition, the custodian values the Fund daily and monitors each investment manager's daily activity to ensure compliance with their investment mandate.

(e) Passive Rebalancing

The Pooled Fund passively rebalances the tradeable asset classes in the portfolio in a disciplined manner. Each day, after the portfolio is valued, the index manager, State Street Global Advisers, Australia, Limited reviews the asset allocation for each strategy. If a sector has deviated outside a set range relative to the target allocation, the manager reallocates funds between sectors to return allocations within the agreed range. This rebalancing process may involve the use of futures or derivatives.

(viii) Large Investments

During the year, there was no individual investment directly held by the Pooled Fund that exceeded 5% of the Fund's total investments.

However, the Pooled Fund held 5.5% of the Fund's total investments in the Emerging Managers Trust (managed by New South Wales Treasury Corporation), an unlisted unit trust, which engages a range of managers to manage Australian Share portfolios.

5 years at a glance — to 30 June

	2001	2002	2003	2004	2005
Member statistics					
Active Members — SASS	76,974	72,629	68,543	64,968	60,776
Active Members — SSS	37,887	35,661	33,465	31,151	28,593
Active Members — PSS	5,652	5,066	4,489	4,143	3,706
Total active members	120,513	113,356	106,497	100,262	93,075
Pensioners — SASS	6,552	6,072	5,615	5,312	5,012
Pensioners — SSS	33,003	34,136	35,378	36,872	38,548
Pensioners — PSS	4,100	4,459	4,877	5,096	5,377
Total pensioners	43,655	44,667	45,870	47,280	48,937
Deferred Benefits — SASS	13,270	13,703	12,216*	12,080	11,843
Deferred Benefits — SSS	4,885	4,812	4,753	4,638	4,539
Deferred Benefits — PSS	237	232	230	202	192
Basic Benefit only	96,240	1,211**	-	-	-
Total deferred benefits	114,632	19,958	17,199	16,920	16,574

Gender ratios – active members

Females — SASS	53%	53%	53%	52%	53%
Males — SASS	47%	47%	47%	48%	47%
Females — SSS	33%	33%	32%	33%	33%
Males — SSS	67%	67%	68%	67%	67%
Females — PSS	10%	10%	11%	11%	11%
Males — PSS	90%	90%	89%	89%	89%

Contributions — \$m

Employer contributions	483	175	316	326	332
Employee contributions	460	464	464	474	494
Accelerated Crown Contribution	-	-	-	-	-
Total contributions	943	639	780	800	826
Benefits Paid — \$M	1,890	2,304	2,071	2,038	2,398
Net Contributions — \$M	-947	-1,669	-1,291	-1,238	-1,572
Investment Revenue — \$M	1,529	-2,175	-523	3,251	3,354

Assets/Liabilities — \$m

Accrued Benefits — SASS	8,636	8,743	8,903	9,824	10,566
Net assets to pay benefits	6,403	5,712	5,278	5,779	6,105
Over/under funding	-2,233	-3,031	-3,625	-4,045	-4,461
Accrued Benefits — SSS	21,492	22,156	23,661	24,888	26,203
Net assets to pay benefits	18,482	16,428	15,431	16,866	18,409
Over/under funding	-3,010	-5,728	-8,230	-8,022	-7,794
Accrued Benefits — PSS	3,877	3,989	4,318	4,761	5,065
Net assets to pay benefits	1,610	1,328	1,126	1,096	1,020
Over/under funding	-2,267	-2,661	-3,192	-3,665	-4,045
Accrued Benefits — SANCS	2,207	1,848	1,888	2,097	2,231
Net assets to pay benefits	1,242	597	471	474	366
Over/under funding	-965	-1,251	-1,417	-1,623	-1,865
Total Accrued Benefits \$M	36,212	36,736	38,770	41,570	44,065
Total net assets to pay benefits	27,737	24,065	22,306	24,215	25,900
Total over/under funding	-8,475	-12,671	-16,464	-17,355	-18,165
Total Investments — \$M	27,750	23,829	22,092	24,231	25,980

Annual crediting rates — %

Net Returns – 1 year	3.6%	-7.0%	-1.7%	13.5%	13.0%
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*In May 2003, 1,145 Deferred SASS accounts were transferred to the First State Superannuation scheme.

**In December 2001, 92,762 Deferred Benefit SANCS only accounts were transferred to the First State Superannuation scheme.