

Super Views

From the office of the
Employee Representative
SAS Trustee
Corporation Board



Ron Davis
Full-time Employee Representative

PO Box N259,
Grosvenor Place,
NSW 1220

By now all members should have received their 2002 annual statement and I know that some of you are feeling concerned about your retirement savings. This year is the first time in their scheme membership that members have been exposed to negative crediting rates in their annual statement. I have asked Deutsche Asset Management to produce the following article to put into perspective what is happening in the current investment environment. However, I remind SSS and Police scheme

members that if they stay in their employment until retirement, it is their employer, rather than the member, who bears the investment market risk. In contrast, SASS (member's own contribution) and FSS members are exposed directly to this risk.

Ron Davis

Putting recent fund returns in perspective

This article was prepared by Deutsche Asset Management, a member of the Deutsche Bank Group

Deutsche Asset Management
Deutsche Bank Group



Introduction

Fund members will be well aware that the last 12 months was a disappointing period for sharemarket investments, despite a generally favourable Australian economic performance. Sharemarkets, both domestic and international, were buffeted during the year by several shocks which dented investor sentiment or confidence. These events included the massive terrorist attack at the heart of global financial and investment markets, increased world tensions, some high-profile company failures, revelations of several (mostly US) company accounting scandals and the protracted fallout from the *tech wreck* which began over 2 years earlier, particularly affecting the telecommunications and media market sectors.

Consequently, the daily, weekly and monthly measures of the Australian and the major international sharemarkets' movements were marked by significant volatility (ups

and downs). As at 30 June 2002, investors' annual returns were generally both below expectations and the average return of recent years.

What exactly does volatility mean for my super savings?

Volatility means that as share prices rise and fall in the short-term — sometimes quite dramatically — the balance of your personal account will rise and fall. If you exit your fund (SASS & FSS) after the market has fallen, you may receive less than anticipated. If you exit after the market has risen, you may receive more. Your superannuation fund cannot determine when sharemarket fluctuations will occur and can only give you estimates of your exit benefit as at the day requested.

How is my money invested?

Your super fund invests your money in different asset classes according to their risk and return characteristics. Each investment asset has an expected rate of return and a level of volatility or uncertainty (risk)

associated with that return. Australian and international shares, direct property and listed property trusts are growth assets. They generate strong long-term returns but with significant shorter-term fluctuations.

By contrast, investments in cash (term deposits and short-term money market securities) typically generate returns closely related to prevailing short-term interest rates. They are low volatility investments, tending to move broadly in line with periodic changes in the official cash rate (currently 4.75% at the time of writing) determined as the key national monetary policy instrument by the Reserve Bank of Australia. Thus they give investors relative certainty about their expected returns (hence low risk).

While cash investments never yield negative returns, they are the poorest performers of all investment assets in the long-term. For superannuation purposes, having all your investments in cash would hardly ever be an appropriate option, as cash investments rarely provide sufficient income over time to sustain living standards in retirement, given the lower returns and the effects of taxation, inflation and fees.

Bonds represent longer-term loans to the bond issuers, whether governments, banks or companies. The issuer promises to make regular fixed interest payments to the investor, usually semi-annually, and to repay the principal (face value of the bond) in full when the bond matures. Because the rate of interest is fixed (coupon rate) at the time of issue, and each payment is for the same amount until maturity, bonds are classified as fixed income investments.

While similar in nature to cash returns, bond returns are more volatile because bonds are longer-term investments and their market value is more susceptible to rises and falls in market interest rates.

If rates rise, for example, the price or market value of an existing bond will fall so that the yield (interest as a percentage of the market price paid for the bond) matches the higher rates available on comparable newly-issued bonds.

However, if bonds are acquired prior to a fall in interest rates they will appreciate in value (achieve capital growth) as a result.

The range of annual returns for the same asset sector are shown in Chart A (below) for 1, 5 and 10 year periods from April 1985 to 30 June 2002. Note how the volatility of each sector diminishes significantly over time.

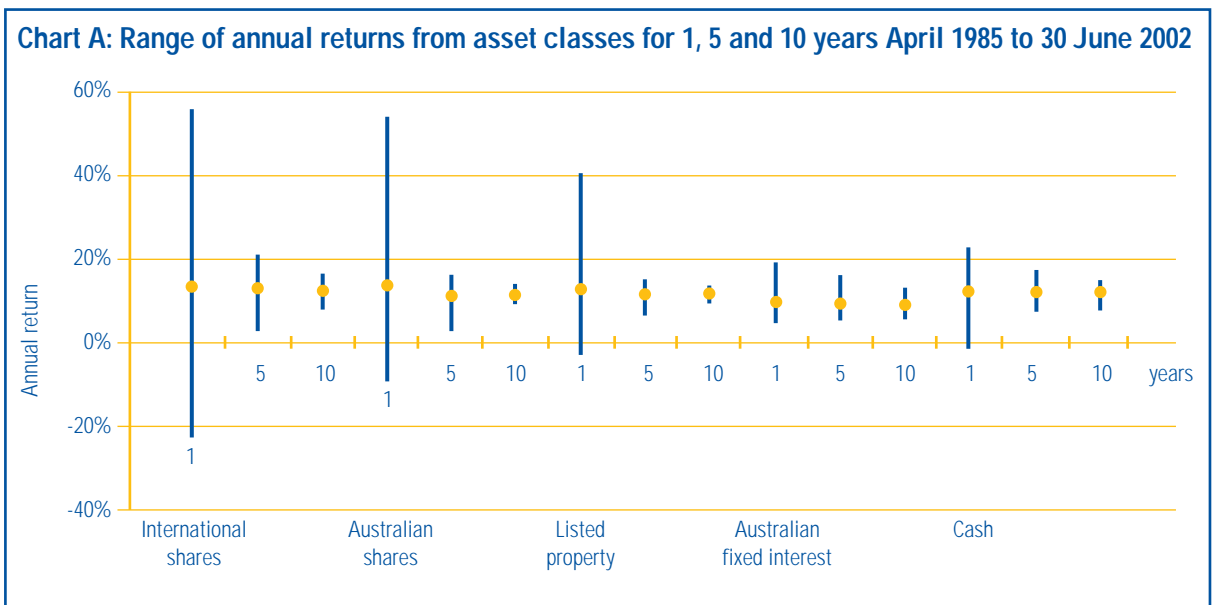
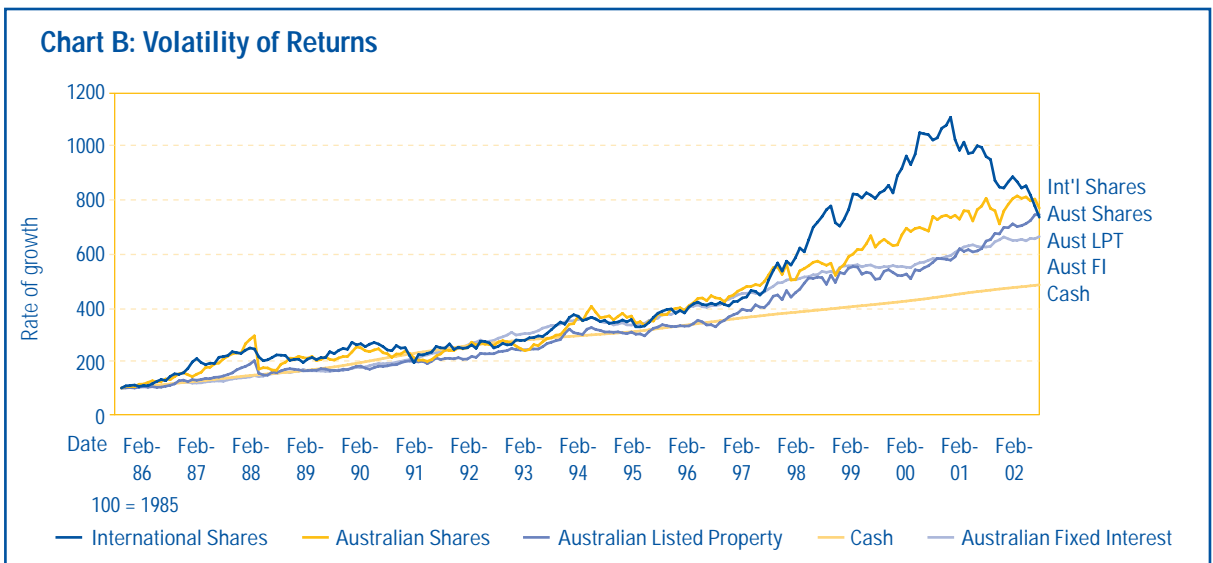


Chart B also clearly demonstrates volatility of returns from the various asset classes and shows, over time, that higher volatility/higher risk investments achieved higher returns over the long-term than cash and fixed income.



Visit us on the web at:

www.statesuper.nsw.gov.au or www.firststatesuper.nsw.gov.au

KEEPING YOUR OPTIONS OPEN — PLANNING FOR YOUR FINANCIAL FUTURE.

For many Australians, retirement isn't planned, it just happens. Unfortunately, what can go hand in hand with not planning your retirement is the loss of choice. When your retirement income is restricted, so are your lifestyle choices. This might mean needing to work longer than you had intended, forgoing the overseas holiday, the new car, the new kitchen, the regular entertainment.

Consider five steps you can take to ensure the retirement lifestyle you want:

1 Know what you want

You need something to aim for. When to retire? Where to live? How much to live on? How will you manage the transition from work to retirement? Spend some time thinking about the choices you would like to make.

2 Matching your investment with your time horizon

Matching your investment with your time horizon is one of the secrets of successful investing. Short-term savings you intend to spend within 1 to 2 years, are best held in an investment with a matching time horizon, such as cash. However, when investing for your retirement income, consider growth assets and a much longer timeframe. Historically, growth assets like shares and property have outperformed defensive assets such as cash and fixed interest in the longer term.

3 Make the most of your superannuation

For many of us, our super is our biggest investment. It pays to make sure every dollar of superannuation we have is working as hard as it can. Consider salary sacrifice and spouse contributions, which offer more than just tax advantages. In the long-term, boosting your family's super savings will mean you will be able to

maximise your retirement options. Your financial planner will be happy to discuss these simple but effective strategies.

4 Better late than never

How can you bolster your retirement savings? Consider moving your *rainy day* money into superannuation. For those born before July 1960, it will be accessible once you reach 55 and retire from the workforce. In the meantime it will be growing in a tax advantaged environment. Your financial planner will analyse your situation and help you decide your best *accelerated* savings options.

5 Have a financial plan

A financial plan is all about options. You are always in control, but your planner can advise you and help you to make the decisions and use the strategies that are right for you. Your plan needs to meet your financial goals now and in the future.

Financial planning — the choice is yours

State Super Financial Services was established to provide a quality financial planning service exclusively for current and former public sector employees and their families.

You can use State Super Financial Services and be assured of a personalised service tailored to suit your individual needs, goals and circumstances. Our extensive office network across NSW and the ACT, means you can see a planner at a place and time convenient to you.

There is no cost to meet with a financial planner to discuss your situation and there are no entry, exit, or switching fees for our investment products.

To make an appointment without cost or obligation, call today on 1800 620 305 or visit our website at www.ssfs.com.au

It should be noted that this article is published for your interest and every effort has been made to ensure the information contained in it is accurate. The item above is of a general nature only, is not completely comprehensive, and has not taken into account your personal situation or requirements. Also, changes in legislation sometimes occur very quickly. Accordingly, we strongly recommend that you consult a financial planner before taking action based on the material above.

State Super Financial Services (SSFS) is 85% owned by the SAS Trustee Corporation (STC), the Trustee for the State Super schemes, and 15% owned jointly by the Commonwealth Superannuation Scheme Board and the Public Sector Superannuation Scheme Board. SSFS is a separate legal entity to the STC. Neither the STC nor the NSW Government take any responsibility for any of the services, or guarantee the performance of any product, provided by State Super Financial Services Limited.

Investment returns for 2002 – 2003 Maintain your long-term strategy

It has been a year which many investment professionals would like to forget. Sharemarkets have been very volatile, as they gyrated between hope and fear in response to the latest piece of financial news. In this type of investment climate, fundamentals often recede to the background while short-term sentiment factors dominate market behaviour.

It is easy with hindsight to know exactly where your investments should have been positioned at a point in time. But when markets are highly volatile, the *right* strategy changes all the time. In those circumstances, the most effective strategy is to maintain your long-term strategy. This is exactly what both the STC and FTC Boards have done. They have reviewed the strategic asset allocation of the investment options offered to members, but have not made any major changes, because the advice from the Boards' asset consultants remains unchanged. In the medium- to long-term, expectations are that equities will outperform bonds, which will outperform cash.

The performance table opposite clearly shows that risk was not rewarded over the past year. However, this is unusual over the long-term. In FSS, Cash Plus was the best performing investment option, followed by the Capital Guarded and Balanced options. The larger the exposure to international equities, the poorer the performance of the investment option, which is why High Growth with an allocation of 40% to international equities returned a negative 6.2% for the year ending 30 September 2002.

Although the absolute investment performance was disappointing, the FSS investment options performed better, than the median manager in the different risk categories. To give just two examples:

- The median return for a conservative growth fund in the marketplace was 1.3% compared with First State Super's return on the Capital Guarded investment option of 3.0%.
- For a growth fund, the median return for the year ending 30 September 2002, was a negative 3.7% compared with a negative 2.4% for the Diversified investment option in First State.

A good relative performance does not alter the fact that most FSS member accounts have experienced negative investment returns over the past year. It is a fact that the higher the risk (ie. the allocation to growth assets) of an investment portfolio/strategy, the higher the probability of negative returns in any given year. However, over the longer-term it has been the experience that a higher allocation to growth assets has rewarded the patient investor with higher overall returns. In the short-term this has not been the case as has been demonstrated over the last couple of years.

Members should note that investment returns vary and are not guaranteed.

Pooled Fund and First State Super Net investment returns for periods ended 30 September 2002

	3 Months %	1 Year %	3 Years % pa.	5 Years % pa.
Pooled Fund	-5.7	-5.4	1.9	4.3
FSS Fund's Investment Strategies				
High Growth	-7.6	-6.2	-0.2	3.4
Diversified	-4.6	-2.4	2.1	4.4
Balanced	-2.3	0.4	3.6	5.0
Capital Guarded	-0.1	3.0	4.8	5.4
Cash Plus	1.4	4.8	5.5	5.1
Median Manager – InTech* Surveys				
High Growth	-7.3	-6.9	1.3	3.6
Growth	-5.3	-3.7	2.4	4.4
Balanced Growth	-2.8	-2.3	2.4	4.0
Conservative Growth	-1.0	1.3	4.0	4.5
Asset Sector Index returns				
Australian Shares	-6.6	1.0	4.6	5.1
International Shares (Unhedged)	-15.8	-27.0	-9.2	1.6
Australian Listed Property Trusts	1.1	11.7	12.3	10.2
Australian Fixed Interest	3.8	5.7	7.4	6.6
International Fixed Interest (Hedged)	5.3	9.7	9.0	8.1
Cash	1.3	4.6	5.4	5.3

* InTech is an asset consulting firm which publishes surveys of the investment performance of superannuation fund managers.

Disclaimer: The information in this newsletter gives a general interpretation of the issues. Nothing in the newsletter is to be regarded as personal advice. Members should seek professional advice before making decisions which may affect their future.

Neither the FSS Trustee Corporation nor the SAS Trustee Corporation necessarily agree with the opinions, nor take any responsibility for the accuracy or completeness of information, contained in material accepted from other organisations for publication in SuperViews.



STATE SUPER
SAS Trustee Corporation

Visit us on the web at:

www.statesuper.nsw.gov.au or www.firststatesuper.nsw.gov.au

The long period covered in the charts includes the major sharemarket crash of October 1987 (note how the passage of time smoothed away the effects so that it appears merely as a blip on the long-term return profile). In addition, cash interest rates were exceptionally high in the late 1980s and their fall through the 1990s greatly favoured bond investments (as well as shares and property trusts) due to the resulting capital growth.



Why are growth assets more volatile?

Most of the time the sharemarket quietly carries on its major role of raising capital for companies to develop and expand their operations, while steadily creating wealth and income for investors.

However, market prices of growth assets, especially company shares, will normally fluctuate, even on a daily basis, because investors are constantly assessing current and prospective value of investments in the light of a wide variety of new information and changing expectations. Interest rates and expectations of rate changes are important considerations, as they always are for cash and fixed income investments.

But many other short-term factors, be they specific to individual companies such as earnings reports, national economic data, global trends affecting particular companies and industries, or simply changes in investor perceptions, can play key roles in determining valuations at any particular time.

How much risk is right for me?

In recent years Australian investors have increasingly accepted the benefits of investing in higher risk growth assets to provide for their retirement. Around 45% of adult Australians now own shares directly, a percentage exceeded only in the USA. General levels of participation in the sharemarket have risen substantially in the past decade through major floats such as Commonwealth Bank, Qantas and Telstra.

In addition, the great majority of Australians own shares indirectly through their superannuation or other managed investment funds. This proportion is likely to increase further in the years ahead. An ageing population means that more people will be planning carefully for their retirement, while compulsory superannuation savings will continue to channel a growing stream of investment funds into the Australian and international sharemarkets.

Today more Australians are exposed to investment market volatility than ever before. Retirees relying on investment income are an important example. Many appreciate that they need to choose and maintain a worthwhile exposure to higher risk growth assets to protect their standard of living over their period of retirement.

Are you taking too much risk? Obviously factors such as your age and investment horizon influence your risk tolerance. But one of the hazards of investment planning is taking a too short-term view of market behaviour and investment returns. In other words, being overly-influenced by, and responding inappropriately to, short-term market volatility. ■

This article was prepared by Deutsche Asset Management, a member of the Deutsche Bank Group

Deutsche Asset Management
Deutsche Bank Group



Should I lower my SASS contribution rate?

When investment returns are disappointing it is tempting to consider lowering your contribution rate. Please think carefully before taking this action.

As a member of SASS, every time you save 1% of your annual salary for one year, your employer matches it with a further 2.5% or — in some cases — 3% of your Final Average Salary at retirement. The employer does this up to a maximum average of 6% for each year of membership.

If you reduce your contribution rate below an average of 6% each year, you will not only reduce your savings in your Personal Account, but you will also reduce your entitlement to benefits paid by your employer.



How do investment returns affect my SASS, SSS or PSS benefit?

Most SSS and PSS benefits are based on a member salary at exit and in some cases years of service. Therefore, investment returns do not directly affect most of the benefits in these schemes, particularly if a member works until retirement.

However the investment returns of the Pooled Fund do directly affect active and deferred SASS members as their benefits always include the Personal Account Balance (an accumulation of personal contributions and investment earnings), as shown on your annual statement.

Benefit affected and impact of investment returns

SASS members

All benefits

Active members

All benefits payable from SASS include the member's Personal Account Balance.

If a member takes a SASS resignation (withdrawal) benefit, it is based on the Personal Account Balance which is affected by investment earnings. However, the optional deferred resignation benefit, which most members select, includes a large employer financed benefit that is not affected by investment returns until the benefit is deferred.

SSS members

Resignation (withdrawal) benefit (pre-retirement)

Active members

If a member takes the SSS resignation benefit, it will include the Personal Account Balance (which is affected by investment earnings) and an employer financed benefit based on the Personal Account balance.

Alternatively the member can defer payment of the benefit until at least age 55 to access a greater employer financed benefit that is not affected by investment earnings.

PSS members

Resignation (withdrawal benefit pre-retirement)

Active Members

If a member takes the PSS resignation benefit, he or she will receive their Personal Account Balance, which is affected by investment earnings. Alternatively they may defer payment of the benefit until age 55 and access the higher employer financed benefit.

Deferred members — all Pooled Fund schemes

For information about how investment returns affect your benefit, go to www.statesuper.nsw.gov.au

6

Disclaimer: The information in this newsletter gives a general interpretation of the issues. Nothing in the newsletter is to be regarded as personal advice. Members should seek professional advice before making decisions which may affect their future.

Neither the FSS Trustee Corporation nor the SAS Trustee Corporation necessarily agree with the opinions, nor take any responsibility for the accuracy or completeness of information, contained in material accepted from other organisations for publication in SuperViews.



11/02

Visit us on the web at:

www.statesuper.nsw.gov.au or www.firststatesuper.nsw.gov.au