STATE SUPER
SAS Trustee Corporation

SuperViews

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From the office of the
Employee Representative
SAS Trustee
Corporation Board

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SASS member investment choice is now available — issues to consider when making your choice

In November 2003 member investment choice was made available to members of SASS. Choice applies to:

- the Personal Account Balance of contributing SASS members (it does not apply to the Employer Financed benefit), or
- the benefit of deferred SASS members (excluding any superannuation guarantee shortfall or the SANCS Basic Benefit).

Prior to the introduction of choice, all moneys relating to SASS members were invested in the Pooled Fund. The investment strategy of the Pooled Fund has a high allocation to shares and property due to its long term time horizon. While this strategy is considered appropriate for the Pooled Fund, it has been recognised that individual members, especially those approaching retirement age, may have shorter investment horizons and may be less comfortable with the high volatility of investment returns that has been encountered in recent years.

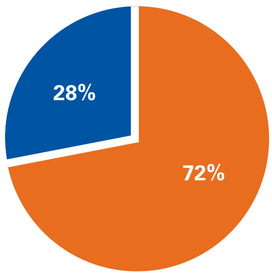
There are currently four investment strategies available, which allow members to choose a risk/return profile to suit their needs. The choices range across the volatility spectrum from Growth (the most volatile), Balanced, Conservative Growth to Cash (the least volatile). ***If you do not wish to make a choice, your benefit will remain invested in the Growth strategy (the current strategy for the Pooled Fund). You don't have to take any action.***

What investment choices are available?

The Strategic Asset Allocation (SAA) below shows the percentage of growth assets* and income producing assets# for each investment strategy. The proportions allocated to growth and income producing assets for each strategy will remain within a margin of + or -5% of the percentages shown. However, the allocation to the asset sectors that make up these broader categories may change. See the target sector allocation charts below for the current composition.

There are 4 investment strategies to choose from:

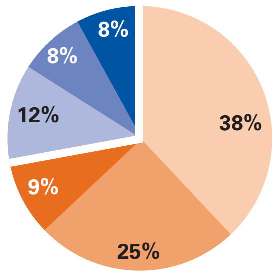
Strategic Asset Allocation / **Target Sector Allocation**

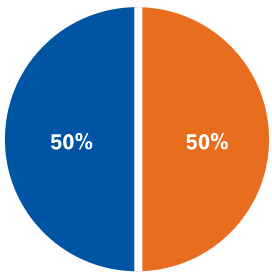


Growth

This is the existing investment strategy used by the Pooled Fund. This will be the investment strategy in which your accumulation benefit is invested unless you actively select another investment strategy.

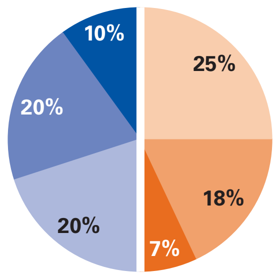
- Appropriate for members with a long term investment horizon (10+ years) and a high tolerance to market volatility (ie. capital value and returns may go up and down both significantly and frequently).
- Target return: 3.75% pa. above inflation over 10 year rolling periods.
- Likelihood of a negative annual return: 1 in 4 years.

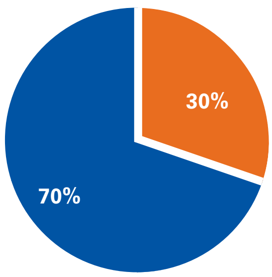




Balanced

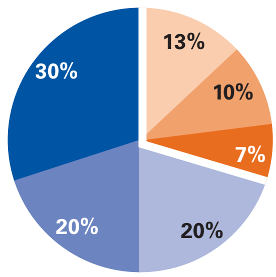
- Appropriate for members who are looking for real growth with a medium term investment horizon (5-7 years).
- Target return: 3.00% pa. above inflation over 7 year rolling periods.
- Likelihood of a negative annual return: 1 in 6 years.

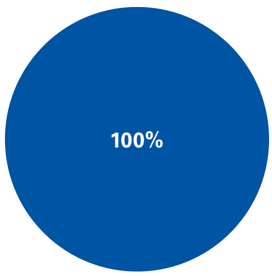




Conservative Growth

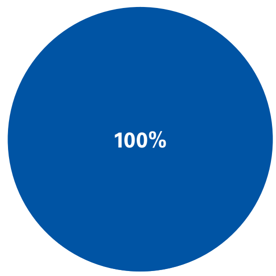
- Appropriate for members with a short term investment horizon (3–5 years) and a preference for security.
- Target return: 2.00% pa. above inflation over 4 year rolling periods.
- Likelihood of a negative annual return: 1 in 9 years.





Cash

- Members with a very short term investment horizon (up to 3 years).
- Target return: 1.50% above inflation over 3 year rolling periods.
- Likelihood of a negative annual return: N/A.



Note: Negative annual returns may occur in consecutive years. The above indicative likelihood of negative returns has been determined over a number of years.

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- * Growth assets: eg, shares and property.
- # Income producing assets: eg, cash deposits and fixed interest securities.

LEGEND

- Australian Shares
- International Shares
- Property
- Australian Fixed Interest
- International Fixed Interest
- Cash

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With over 31,000 clients and in excess of $3.8 billion in funds under advice we understand how important it is to have a guide through the growing complexity of taxation, superannuation, social security and the ups and downs of investment markets (figures are at 31 January 2004).

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If you wish to exercise an investment choice, it is important to understand the nature of risk and the characteristics of different assets that the Fund invests in on your behalf. Following are examples of some of the issues that should be considered when making your investment choice.

Volatility or risk
Volatility is the movement in investment returns both up and down. This movement can be frequent and significant. The more returns fluctuate between positive and negative over the short term, the higher the volatility, which in turn creates uncertainty about the return.

The relationship between risk and return
Financial risk is the exposure to volatility of investment returns or the chance of loss of capital. History has shown that, in general, growth assets produce higher, though less predictable returns over the longer term. The returns in growth assets may be unexpectedly high or low over short time periods. Defensive assets though less volatile and therefore less risky, generally deliver lower returns over the longer term.

Your risk profile
Your risk profile is your ability to cope with the chance of a negative return. If you understand your attitude to risk it will help you determine the appropriate investment strategy for you. Consider which of the three brief profiles below best describes your attitude to investment risk:

High Growth Strategy
- Are you seeking ***maximum returns over the long term*** and prepared for negative returns in some years in order to achieve this?

Balanced/Conservative Growth
- Are you seeking a ***moderate level of return over the long term, perhaps accepting that there may be a negative return but not as great or as often*** as another investor may be prepared to accept?

Cash/Conservative Growth
- Are you seeking ***consistent returns without major fluctuations*** in the value of your investment and only a very small risk of a negative return in any one year?

It is important to understand that one of the significant risks associated with long term investing is not only the possibility of negative returns over short time periods but the risk of too low a return over the long term. For instance, the risk that the return over a long term will not keep pace with inflation and consequently the real value of your money will be eroded over time. This is a particular risk for investors with a longer timeframe who select an investment strategy which comprises primarily income producing assets.

Your time horizon (investment timeframe)
Your time horizon is the time that you have before you need to access your retirement savings. Time is another factor which helps to reduce risk. Time is often your friend, since generally the longer your money is invested, the lower the risk over time. Many people think that the number of years to their retirement is their time horizon. If you intend to spend your lump sum at retirement this could be true but if you intend to invest your lump sum to provide an income in your retirement, your time horizon could be 20 or 30 years beyond your retirement.

Investment cycles and switching your investment choice
The value of investments tends to rise and fall over time. Each year when you receive your benefit statement you are shown the value of your account at the date of the statement. This amount is a snapshot of the value of the assets you own through your superannuation fund, similar to a valuation of your house on a given date. The valuation may be different by the next month as the value of the assets changes. If your super fund statement shows a 'loss', one reaction can be to move (switch) your money from the investment choice where the 'loss' occurred to a 'safer' or less volatile investment choice. When you do this you crystallise the value of your account at the date of the switch. The switch effectively realises any losses before you transfer the balance of your account to the new investment choice, where you 'purchase' a share of the assets in the new investment strategy. If the markets were then to rise again you would no longer own the share of the assets you held in the original investment strategy, therefore you would not be able to share in any increase in thier value. You would however, share in any change in the value of the assets in the new investment strategy. You should therefore think carefully about these issues and get professional independent advise before making a switch of investment strategy.

What rules apply to switching investment strategies in SASS?
You may wish to choose a different investment strategy from the one in which your account is currently invested. Making this change is referred to as a switch. The scheme rules only allow a member to switch once each calendar month. If your *Choice of Investment Strategy* form is received by the administrator on or before the 25th of the month, the switch will be made at the close of business on the last business day of that month, meaning that the new strategy will apply from the first day of the following month. If the advice is received by the administrator after the 25th of the month, it will not be processed until the last business day of the following month. You can obtain a *Choice of Investment Strategy* form from the web site, www.statesuper.nsw.gov.au (click on SASS, then click on member forms) or by contacting Customer Service on 1300 130 095.

The first switch in any financial year is free of charge. For every additional switch made within a financial year, a fee of $25 will be charged.

You are not able to mix the investment strategies. If you elect to switch, the investment strategy you choose will apply to your whole Personal Account Balance or your Deferred Benefit excluding any Superannuation Guarantee shortfall or the SANCS Basic Benefit.

Investment returns were positive in 3 out of 4 quarters in 2003

Turning the time back one year, the outlook was full of uncertainty about the impending war in Iraq and the growth prospects for the major economies. When markets are nervous investment returns are seldom good and the first quarter of 2003 was no exception. However, as the year progressed, the economic news improved beyond expectations. This enabled the Pooled Fund's growth option to achieve a return of 7.9 % for the year ended 31 December 2003 compared to the 7.6 % generated by the median manager in InTech's Growth Funds survey over the same period.

	Mar Quarter 2002 %	June Quarter 2003 %	Sept Quarter 2003 %	Dec Quarter 2003 %
Pooled Fund (Growth)	-2.9	4.6	2.9	3.2

As members would be aware, December 2003 was the first month in which the Pooled Fund offered investment choice to the Personal Account Balance of contributing SASS members. The December investment returns for the various investment options were as follows:

Growth:	2.1%
Balanced:	2.0%
Conservative Growth:	1.5%
Cash:	0.4%

The figures clearly show that risk was rewarded during December, as sharemarkets around the world continued their significant recoveries relative to the levels recorded in March 2003. However, from an Australian investor's perspective the improvement in international sharemarkets was not realised unless the investment was hedged. The unhedged return for international shares was a negative 0.8% for the year ended 31 December 2003, whereas the hedged return was 25.2%.

The shift in currency markets became a major theme as the US dollar continued to fall relative to the Euro, the Yen and the Australian dollar. The Australian dollar started and finished the year at US$0.56 and US$0.75 respectively, as interest rate differentials, commodity prices and economic fundamentals all moved in favour of the currency. During this period the Pooled Fund was 25% hedged, but the hedging issue is reviewed on an ongoing basis in conjunction with the Fund's asset consultant.

Looking ahead, sentiment is strong at the moment, but there are a number of potential difficulties, which could undermine investor optimism. Those centre around recent press coverage on the US twin deficit, (fiscal and current account deficits) following a report from the International Monetary Fund warning that the deficits, if not addressed, could negatively impact the growth prospects of the world economy.

Net Investment and Asset Sector returns for periods ending December 2003

	3 Months %	1 Year %	3 Years % per annum	5 Years % per annum
Pooled Fund - Growth Strategy	3.2	7.9	0.3	3.8
InTech*Surveys Median Manager				
Growth Strategies	3.2	7.6	1.4	4.1
Asset Sector Index Returns				
Australian Shares	5.1	14.6	4.9	7.1
International Shares (unhedged)	2.6	-0.8	-13.5	-4.9
Listed Property Trusts	8.0	8.8	11.7	9.3
Australian Fixed Interest	0.2	3.0	5.7	5.5
International Fixed Interest (hedged)	0.9	5.3	7.9	6.8
Cash	1.2	4.9	5.0	5.2

Investment returns in the Pooled Fund are not guaranteed by the Trustee of the Fund or the NSW Government. Past performance is not an indication of future performance.

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

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