

SuperViews

From the office of the
Employee Representative
SAS Trustee
Corporation Board



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Is it time to revisit your SASS investment strategy?

Welcome to our first SuperViews for 2007.

It's appropriate that at the start of a new year we take some time out to think about our investment strategy in the State Authorities Superannuation Scheme (SASS), especially in light of the recent fall in world stock markets.

Over time our needs change and with more of us approaching retirement than ever before, it's prudent to consider some of the key issues in charting a successful investment course into the future.

Remember, your chosen Investment Strategy applies only to your Personal Account Balance in SASS if you're currently making contributions or to your Deferred Benefit. In both cases, it does not apply to any Co-contribution account balance or to the Basic Benefit which are automatically invested in the Growth Strategy.

You should carefully consider your investment expectations before switching investment strategies. It's a good idea to get professional financial advice before making a switch.

Is the investment boom coming to an end?

I often get asked whether the strong investment returns we've been experiencing over the last few years can continue. It's a great question and no one knows the answer but plenty of "experts" will give you a variety of different opinions!

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Commonwealth Budget Update

While the general thrust of the new super rules outlined in last year's Report to Members are set to become law from 1 July 2007, at the time of writing there are several issues still being resolved. When they are finalised, details will be posted on our website.

Have we got your Tax File Number?

There is a Taxation Fact Sheet for each scheme outlining how your TFN may be used which includes the ATO determining if you're entitled to Co-contribution payments.

While you currently do not have to provide your TFN to Pillar, you should be aware that when you eventually want your benefit paid to you, it may attract significantly higher PAYG tax if Pillar does not have your TFN.

If you want to provide your TFN to Pillar, simply complete the form available on the website or phone Customer Service for a copy.

SASS Salary Sacrifice starts from 1 April 2007

As detailed in last September's SuperViews, from 1 April 2007 you can salary sacrifice all your compulsory personal contributions into SASS or make contributions via a combination of salary sacrifice and after-tax contributions.

We now have a handy Salary Sacrifice Calculator on our website which lets you select a contribution rate and how much to pay on a before-tax and after-tax basis.

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On 28 February 2007, the Australian Stock Exchange experienced its biggest one-day loss since September 11, 2001 with the ASX 200 index down 2.7% on the day. It was a timely reminder of the way investment markets can quickly fluctuate.

Remember, if you're currently contributing to SASS or you have a Deferred Benefit in SASS you can choose one of four investment strategies:

- Growth
- Balanced
- Conservative Growth
- Cash

If you didn't take up an investment choice when first offered, your super will be in the Growth Strategy which is the SASS default investment strategy.

Investment Strategies allow you to choose an option that more closely suits your needs - from the low return, low risk Cash Strategy to the higher return, higher risk Growth Strategy.

The graph below shows the monthly investment returns for each of the investment strategies over the last year. Note how constant cash is while the Growth Strategy had a five percentage point swing between earning 3.24% in March to losing 1.94% in May.

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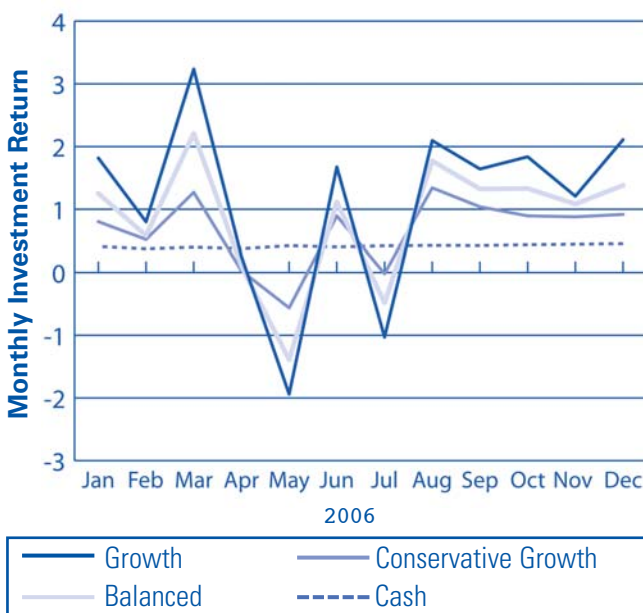
Interestingly, since these strategies were offered in late 2003, 97% of SASS members have remained in the Growth Strategy. While this has proved advantageous for members since then, no one can predict how growth-style investments will perform over the short, medium or long term.

The recent fall in world stock markets showed just how quickly markets can move. And yet they can bounce back nearly as fast. However, you'll recall the Growth Strategy experienced negative returns for two years in a row during 2002 and 2003.

At the time, some members would have liked to switch from the Growth Strategy to the Balanced, Conservative Growth or Cash Strategy to try to stop any further loss in the value of their super.

As it turned out that would have been an inappropriate course of action for members seeking the higher returns expected over the longer term provided by the Growth Strategy. And that's one of the key issues in choosing an investment strategy – your time horizon.

Investment Strategy Performance



SASS Salary Sacrifice

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The calculator then shows you how that affects your after-tax income and whether you could be eligible to receive Commonwealth Government Co-contributions payments. Details on salary sacrifice contributions are in the Flyer in the News Section on our website at www.statesuper.nsw.gov.au or call 1300 130 095 and ask for a copy.

You need to talk to your employer now if you want to make your compulsory personal contributions as salary sacrifice contributions.

Visit us on the web at:

www.statesuper.nsw.gov.au

or phone Customer Service:

SASS 1300 1300 95; **SSS** 1300 1300 96; **PSS** 1300 1300 97

Is the Growth Strategy suited to your needs?

The SASS Growth Strategy could be an appropriate choice for members who have:

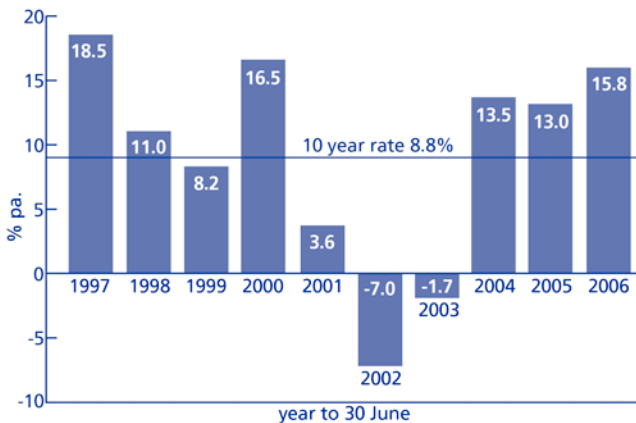
- a long term investment horizon – 10 or more years
- a high tolerance to market volatility – the value of the investment can rise and fall significantly and frequently

It's been designed and structured to achieve returns 4.5% above inflation over 10 year periods. Over the last 10 years to 30 June 2006, it's exceeded that aim having achieved a compound return of 8.8% pa while inflation has averaged about 2.6% pa.

However in aiming to achieve those higher returns over the long term there is an increased risk of negative returns over the short term, like we experienced in 2002 and 2003. Remember, with the Growth Strategy there's a likelihood a negative return will be experienced once every four years.

The graph below shows how returns for the Growth Strategy dipped into the negative during 2002/3.

Growth Strategy declared rate of return



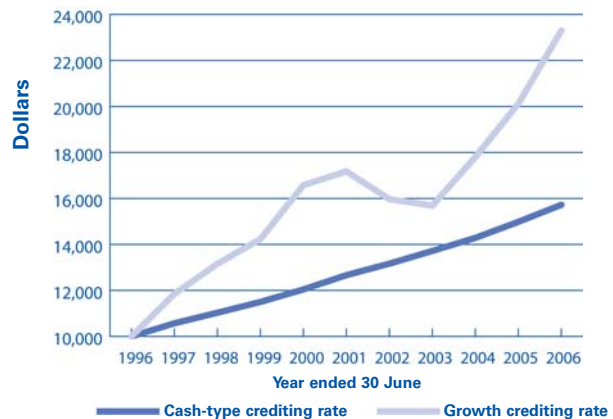
The compound declared rate over 10 years to 30 June 2006 was 8.8% pa.

Returns shown are after tax and investment management expenses have been deducted.

Past performance is no guarantee of future performance.

The next graph shows how \$10,000 would have fared in the Growth Strategy compared with a cash-type strategy over the last 10 years. Certain reasonable assumptions have been made in the graph as a cash-type strategy was not available before November 2003.

Value of \$10,000 over 10 years to 30 June 2006



Note the even returns earned by the cash-type strategy compared with the volatility experienced with the Growth Strategy.

However it also shows how someone in the growth-type strategy would have seen their \$10,000 grow to \$23,299 compared with \$15,722 in the cash-type strategy over that 10 year period.

And don't forget we're all living longer than ever before – an average of 83 years for women and 78 years for men.

So, unless you intend spending your entire lump sum on the day you retire, don't make the mistake of thinking your time horizon is the number of years you've got left until you retire. Remember, if you intend to invest your lump sum to provide an income in your retirement, your time horizon could be 15 or 25 years beyond your retirement date.

But peace of mind is important. If you don't think you can cope with the ups and downs of world stock markets and the effects on the value of your super, you should consider getting some financial planning advice so that your needs and feelings can be more closely reflected in your chosen investment strategy.

For further updates on investment performance and how the different investment strategies compare, please visit our website at www.statesuper.nsw.gov.au

While world stock markets experienced a correction in February 2007 as mentioned in our earlier story, you should note that the following Investment Update is for the three months to December 2006.

Market conditions were good during the December quarter 2006, which enabled STC to generate strong returns across all the investment options. The quarterly returns ranged from 1.3% for Cash to 5.2% for Growth in a quarter where risk was clearly rewarded, as can be seen from the table below.

Net Investment Returns/Strategy	March Qtr 2006 %	June Qtr 2006 %	Sept Qtr 2006 %	Dec Qtr 2006 %
Growth	6.0	0.0	2.7	5.2
Balanced	4.1	-0.2	2.6	3.8
Conservative Growth	2.6	0.4	2.4	2.7
Cash	1.2	1.2	1.3	1.3

The quarterly returns translate into very good returns for all the investment options over 1 and 3 years ending December 2006. This is the first time a 3 year average annual return is available for the Balanced, Conservative Growth and Cash options and over this period all the diversified investment options have generated returns well in excess of the rate of inflation.

Net Investment Returns/Strategy To 31 December 2006	1 Year %	3 Years % per annum	5 Years % per annum
Growth	14.5	14.8	8.4
Balanced	10.7	11.7	N/A
Conservative Growth	8.3	9.0	N/A
Cash	5.1	4.9	N/A
CPI	3.3	2.9	2.8

Past performance is no guarantee of future performance. The Trustee does not guarantee the performance of any product.

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The investment strategy for the Growth option is calibrated to generate solid returns well above CPI over 10 year rolling periods and the strong performance over the past 3 years has resulted in a nice buffer being generated relative to that long-term objective. Although it is less relevant, the short-term performances of the diversified options are compared to other products with similar risk profiles to ensure that the investment options behave in accordance with expectations. By monitoring the universe of investment options with a similar risk profile, STC is able to evaluate its own asset allocation and manager decisions against the performances of a broad range of funds.

The reference or peer group for the short-term performance of the Growth option is the Intech Growth Super Survey, made up of about 65 other funds. Within this universe of funds, the Growth option out-performed the median manager by 0.6% over 1 year and 0.1% pa over 3 years. It must be emphasised, that the relative ranking of the Growth option is not a primary objective of the fund, but it is closely monitored and it triggers debate and at times policy changes if the performance of STC diverts from the median in a way, which could jeopardise it achieving its long-term objective.

To 31 December 2006	Growth %	Balanced %	Cons Growth %	Cash %
1 Year	14.5	10.7	8.3	5.1
Median Manager*	13.9	11.2	8.3	

*The Median Manager refers to the median in the relevant Intech performance survey.

The last issue of SuperViews mentioned that the September quarter 2006 was an outstanding quarter for investments in the listed property trust sector given the sector returned 10.6%. However, this performance was topped in the December quarter with a return of 13.9%. Over the past 12 months the sector has returned 34%, which is the best 12 months rolling return recorded over the past 10 years for this sector.

Listed Property Rolling 1 year return (%) 31 December 1996 – 31 December 2006



It was also a strong quarter for Australian equities, which rose 10.9%. For the year the market rallied 24.2% making it the third consecutive year of returns exceeding 20%. Corporate activity continued to support the market led by international and local private equity funds attempting to buy several big listed companies. The bids for Qantas and Coles Myer were high profile examples of this activity.

Mergers and acquisitions were also a feature of international equities, which rose 2.4% on an unhedged basis during the December quarter. In terms of the economic fundamentals, investors became more comfortable about the strength of the US economy as US housing indicators started to bottom out and oil prices continued to ease.

Relative to the returns generated by the equity markets, the returns from the fixed income markets were modest during the quarter and the one year returns from both Australian and international bonds were below the return from Cash.

Asset Sector Index Returns (before allowance for tax and fees)

To 31 December 2006	3 Months %	1 Year %	3 Years % per annum	5 Years % per annum
Australian Shares (ASX 200)	10.9	24.2	25.0	15.3
International Shares (unhedged)	2.4	11.5	12.7	0.6
Listed Property Trusts	13.9	34.0	25.8	19.3
Australian Fixed Interest	0.3	3.1	5.3	5.5
International Fixed Interest (hedged)	0.8	3.8	6.6	7.2
Cash	1.6	6.0	5.8	5.4

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Simpler Super Opportunities and You

The Federal Budget in May 2006 announced the introduction of the "Simpler Super" changes to tax and superannuation laws.

The changes aim to make superannuation a very attractive investment. Benefits paid from a taxed superannuation fund after age 60, as pensions, income streams or lump sums will be tax-free after 1 July 2007. With good planning, it is possible for many people to increase the amount of their total superannuation benefit that is tax free, and to access a tax free income stream even before age 60. To achieve this, the essential requirement is knowledge of how the new environment will operate, and good professional advice.

The announced changes have created a number of strategic financial planning opportunities. To take advantage of some of these opportunities you may need to act sooner rather than later.

In this article, we will focus on just one of the changes and the potential opportunities that it represents to some people.

Our example of this is the changes relating to undeducted contributions to superannuation. Firstly, what is an undeducted contribution (UDC)? Essentially this is a contribution that you have made with after tax dollars rather than say salary sacrifice (which is made with pre tax dollars). Why would UDC be beneficial to your superannuation? Firstly the tax on the earnings of superannuation funds is low compared to other investments. The maximum tax paid on

the earnings of the superannuation fund is 15% compared to marginal tax rates as high as 45%. This means that you get to keep more of your investment earnings and so your super account can continue to grow. Secondly, when you withdraw UDCs from your superannuation, they are tax free.

It must be remembered, however, that generally you will not be able to access your superannuation until you reach age 55 or your preservation age, whichever is higher and have retired. This means that for some, UDCs are a long term investment. However if you are nearing age 55 and are considering your retirement options they could be a very useful investment tool.

Up until the recent budget, it was possible to make unlimited undeducted contributions to superannuation. However from 9 May 2006 this changed. Initially, The Treasurer announced that there would be a \$150,000 limit on UDCs, effective from 9 May 2006. In subsequent announcements, he softened his stance to allow contributions of up to \$450,000 in total over a 3 year period. This means that it is possible to make a \$450,000 contribution in the first year, but you would not be able to make any UDCs in year 2 and 3.

After industry consultation, the Treasurer announced that for the period 10 May 2006 to 30 June 2007 UDCs of up to \$1 million were possible.

This window of opportunity means that for some people now is a good time to review

their other assets. By utilising this opportunity, it may be possible to reduce tax and increase the amount of tax-free income that may be available to you in retirement.

Planning your retirement takes time and so you should plan to start your financial planning process about 1 to 2 years from when you plan to leave work. Understanding the superannuation and taxation environment will certainly assist this process.

When should you see a retirement planner?

Our experience shows that there are certain times in life when most of us would benefit from seeking professional financial planning advice. For example, if you are over 55 and:

- You believe you will be able to take advantage of the opportunities created from Simpler Super
- You are 1 to 2 years from leaving work and have started actively planning your retirement;
- You are considering a redundancy offer and need to make a decision;
- You are a member of SASS considering retirement in the next 1 to 2 years and you need to consider your retirement income options;
- You have a SASS deferred benefit (DB) that may be affected by legislative changes – for many people this will be age 58.

Need retirement planning help?

To find out how we can help you plan your retirement
call 1800 620 305 or visit our website at www.ssfs.com.au

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