



STATE SUPER
SAS Trustee Corporation

2006/07 ANNUAL REPORT



www.statesuper.nsw.gov.au

Contents

Part A – About the SAS Trustee Corporation	1
Part B – Financial Statements	
SAS Trustee Corporation	20
SAS Trustee Corporation Division of the Government Service of NSW	22
Pooled Fund	24
Part C – Triennial Actuarial Valuation	26
Part D – SAS Trustee Corporation Statutory Information	28
Compliance Index	50
Contact Details	Back Cover

This *STC Annual Report 2006–07* is on our website, www.statesuper.nsw.gov.au. The accounts of the Pooled Fund's Controlled Entities have been separately tabled in the NSW Parliament and may be obtained on request from the STC (see outside back cover for contact details).

Report to the Minister

October 2007

The Hon. Michael Costa, MLC
Treasurer, Minister for Infrastructure
and Minister for the Hunter
Level 31, Governor Macquarie Tower
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 2006 to 30 June 2007.

The annual report contains the report for the SAS Trustee Corporation, the SAS Trustee Corporation Division of the Government Service of NSW 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 you have 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

Charter and Mission statement	2
Chairperson’s report	3
Board members’ profiles	5
Executive management team	6
Organisational structure	7
Review of 2006-07 year	8
STC’s Achievements and Objectives	15
Corporate Governance	17
Legislative and policy review	18
5 years at a glance – to 30 June	19

Charter

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

It is trustee of the STC Schemes which are:

- 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:

Executive means the executive staff of the SAS Trustee Corporation.

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

STC means the SAS Trustee Corporation.

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

Chairperson's report

The 2007 financial year was a very active year in the two major areas of the fund, investments and member services.

Investments

Continued strong global economic growth and a subdued inflation outlook underpinned excellent global and domestic equity market performance resulting in the following declared returns for members:

Declared Returns for periods ending 30 June 2007

Strategy	1 year	3 years	5 years	10 years
STC Growth	14.9%	14.6%	10.9%	8.5%
STC Balanced	11.6%	11.5%		
STC Conservative Growth	8.9%	8.8%		
STC Cash	5.4%	5.1%		

For the Growth Strategy, where over 98% of the Pooled Fund's accounts are allocated, it has resulted in the fourth consecutive year of double digit returns. The cumulative impact of the strong recent investment returns has generated double digit returns for the last 5 years. The 10 year investment return for the Growth Strategy has comfortably exceeded its goal of CPI plus 4.5% pa. Across all strategies, STC's returns are competitive with comparable funds.

STC received a significant employer contribution of over \$7 billion in the year. This necessitated a detailed review of the Strategic Asset Allocation (SAA) and refinements were made to the risk/return profile with a greater allocation of new funds to Alternative assets. The SAA implementation and the Fund's high level of liquidity resulted in some drag on the Fund's investment returns in the year.

The large level of employer funding and the strong investment performance resulted in a significant improvement in the unfunded deficit. As at 30 June 2007, the unfunded liabilities are estimated to have declined to around \$9.84 billion.

Following an extended period of outstanding investment returns, it is timely to encourage SASS members who have a choice of investment strategy for the accumulation part of their benefit to seek professional advice so that their investment portfolio selection best meets their ever changing retirement needs.

Member Services

Services to members continue to be improved with a number of major initiatives undertaken during the year:

- In conjunction with the major stakeholders a comprehensive review of the administration of the PSS scheme was undertaken. This will result in a number of new procedures being introduced in the current year which will result in greater efficiency in PSS administration;
- Working with our service provider, Pillar Administration, procedures continue to be enhanced to provide a higher level of service to members. Major initiatives included the introduction of Salary Sacrifice options for SASS and SSS members as well as the implementation of the Commonwealth's Better Super regulations;
- A member survey conducted during the year reported a high level of member satisfaction, with 80% indicating that they were Satisfied or Very Satisfied with the information and communication material provided by STC.

Chairperson's report continued

My term as Chairperson will conclude shortly after nearly 8 years in the position. When added to my prior periods as an investment professional employee and Trustee it will total 20 years service to STC in its current and past incarnations. In all my roles it has been a rewarding experience both personally and professionally. In this regard there are a large number of past and present people to whom I owe a debt of gratitude.

As a graduate trainee, I learnt my Investment craft under Michael O'Riordan and was mentored by Warren Davis. As Trustee I gained a broader insight into the Trustee's responsibilities under the Presidency of Greg Bunbury. Finally as Chairman my job has been made immeasurably easier by the energetic efforts of a number of outstanding executives, namely, CEO's Lyn Gearing and her successor Don McLean and CIO's Rod Macleod and more recently Martin Drew.

Finally I would like to thank my fellow Trustees for the diligence and professional commitment over my term as Chair. Together with the efforts of the Executive we have endeavoured to manage the investment assets and member liabilities in the best interests of all stakeholders in a manner consistent with our fiduciary responsibility.



Michael Cole
Chairperson
September 2007

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 the Chairman of Platinum Asset Management Limited and 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 the Chairman of IOOF Holdings Ltd, and a Director of Capral Aluminium Ltd. He was formally a Director of the Sisters of Charity Health Service Ltd and Melbourne Business School 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 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), and the Chair of ASFA's NSW Division Executive Committee. He is also a Director of State Super Financial Services Australia Limited.

Anne De Salis (Employer Representative) is on the boards of the NSW TAFE Commission and the Superannuation Funds Management Corporation of South Australia, as well as acting as an advisor to the Vet Science Foundation of Sydney University. Anne has a diverse career spanning both the public and private sectors, which has included experience as a non-executive director since 1996. For more than 12 years, Anne worked in senior executive/director positions with AMP Limited and MBF Australia Limited. Prior to this, she enjoyed several years as Senior Adviser to the then Prime Minister, Rt Hon Paul Keating. She joined the Keating office from the Commonwealth Treasury, where she worked as an economic adviser in Canberra.

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 also a non-executive Director of Energy Australia, Queensland Racing, the Sax Institute, Racing Information Services Australia and Asylum Seekers Centre of NSW. 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, Australian Industrial Skills Futures Pty Ltd and the Transport and Logistic Centre Pty Ltd. As Secretary of the Union, he has overall responsibility for industrial agreements and their certification before the industrial tribunals which affect over 15,000 members.

Board members' profiles continued

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 an Executive member of 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 of Teachers Federation Health. She was previously a Board Member of the Blue Mountains Community Legal Centre. Maree is also a contributing author of an HSC Legal Studies textbook.

Paul Scully (Employer Representative) is a Director of Decision Horizons, a consulting enterprise through which he offers his services based on 30 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

Details of STC's senior management team as at 30 June 2007 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 superannuation industry since 1989, she is a superannuation lawyer with extensive experience in both the public sector and private practice. She is responsible for providing the Trustee Board and the Executive with legal services and oversees the compliance and secretariat services.

Martin Drew – Chief Investment Officer

Mr Drew 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. Martin has a diverse career both in the public and private sectors spanning almost 10 years.

Karen Faulconbridge – Operations Manager

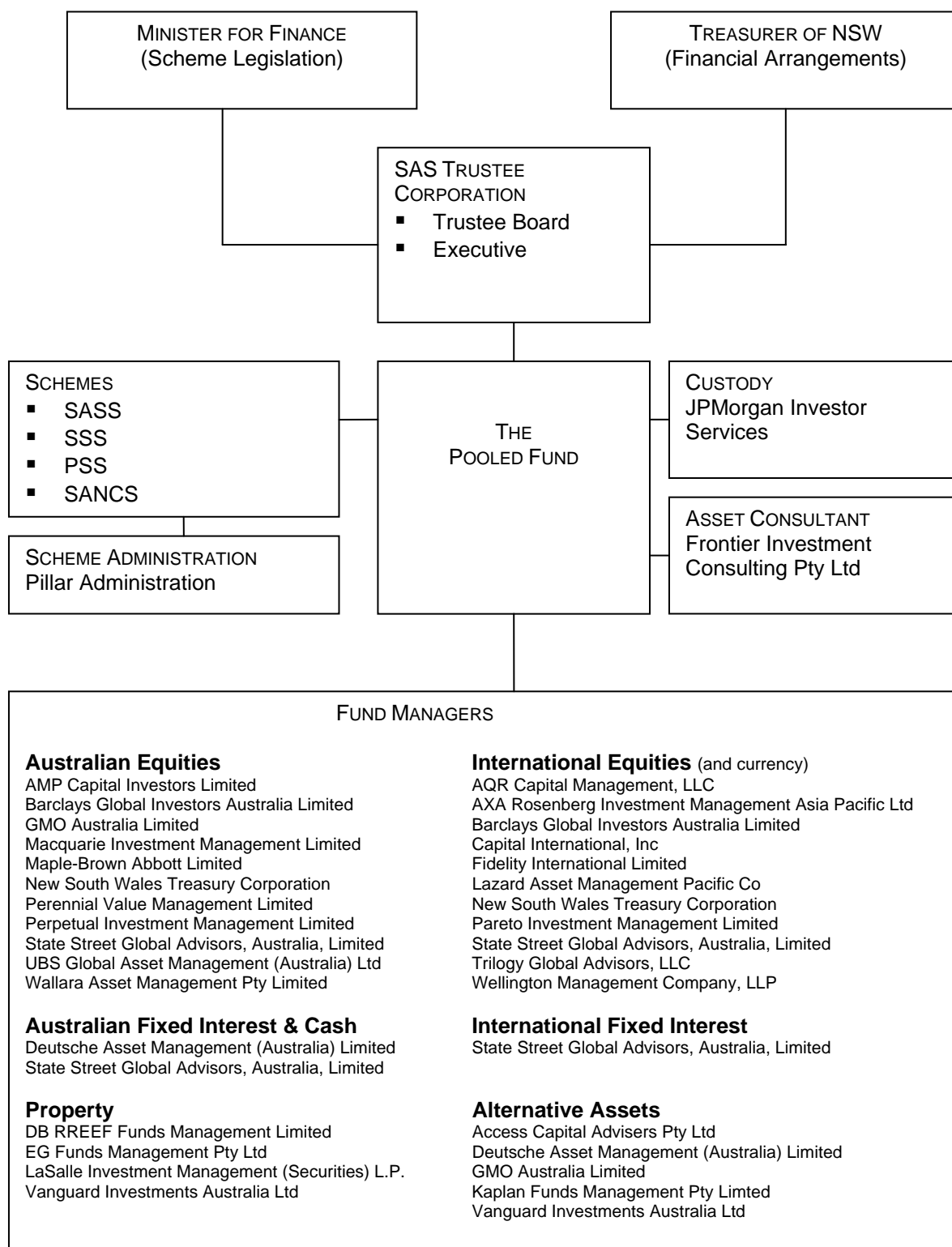
Ms Faulconbridge joined STC in March 2000 as Manager, Policy Advice. She took on the broader role of Operations Manager in July 2004 following a restructure of the Executive. Prior to her appointment to STC, she worked in the superannuation industry in the private and public sector for over 17 years.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

Andrew Grice – Accounting and Administration Manager

Mr Grice is responsible for the accounting, actuarial and taxation functions within STC. He is a Chartered Accountant and has more than 10 years of superannuation work experience. Prior to joining STC, Andrew was an external auditor involved in the audit of several large entities, including superannuation funds.

Organisational structure

at 30 June 2007



Review of 2006-07 year

Scheme Membership

The STC schemes are all closed to new members and total membership numbers are declining as shown below:

Member Numbers

Scheme Category	As at 30 June 2003	As at 30 June 2007	% Movement in 4 years
Active Members			
- SSS	33,465	24,419	(27%)
- SASS	68,543	53,776	(22%)
- PSS	4,489	2,923	(35%)
Total Active	106,497	81,118	(24%)
Deferred Members			
- SSS	4,753	4,161	(12%)
- SASS	12,216	11,549	(5%)
- PSS	230	174	(24%)
Total Deferred	17,199	15,884	(8%)
Pensioners			
- SSS	35,378	41,151	16%
- SASS	5,615	4,381	(22%)
- PSS	4,877	5,880	21%
Total Pensioners	45,870	51,412	12%
TOTAL	169,566	148,414	(12%)

Over the last four years, active membership has fallen by around 25,000 (or 24%). Over the next four years, it is anticipated that active membership will continue to decline by about 6,000 per annum. On the other hand, pensioner numbers are increasing primarily as a result of members in SSS reaching retirement age and taking a pension. Pensioner numbers are projected to peak at around 58,000 in approximately 10 years.

Member Services

(a) Member Contacts

STC continues to provide a range of services to enable members to obtain information on the Schemes or their personal benefit entitlements. The trends in members' use of these services are set out below:

Member Usage of Services

Service	Number of users in year ending 30 June				
	2003	2004	2005	2006	2007
Telephone Calls	142,437	130,344	126,885	126,683	149,619
Personal Interviews	4,698	4,691	4,540	4,276	4,031
Seminar Attendance	N/A	5,377	4,745	5,429	6,732
Correspondence					
- postal	8,259	6,916	7,821	6,404	4,971
- email	5,215	7,647	9,744	10,418	8,400

The Commonwealth Government's "Better Super" changes have created interest in superannuation, both amongst members and in the media. In addition, the introduction of salary sacrifice for SASS and SSS members has generated significant additional telephone calls.

Interest in these superannuation issues is reflected by the 18% increase in telephone calls, which has occurred despite a 3% reduction in the total membership. Further, STC's pre-retirement seminar program has experienced a significant increase in attendances, especially in the last six months of the financial year.

Review of 2006-07 year continued

(b) SASS Member Investment Choice

Since December 2003, active and deferred SASS members have been able to choose from a range of four investment strategies for the accumulation part of their benefit. The table below illustrates the take up of these strategies:

SASS Member Account Balances at 30 June

Investment Strategy	2005 \$m	2006 \$m	2007 \$m
Growth (default)	4,679	5,373	6,062
Balanced	74	89	101
Conservative Growth	32	32	36
Cash	20	17	17
Total	4,805	5,511	6,216

To date a small minority of SASS members have switched out of the default strategy, with only 2.5% of available funds being switched to the new options.

However, investment returns from the growth oriented investment sectors have remained strong since the investment choices were introduced. In a lower return environment, a higher level of switching out of the default strategy may be expected.

(c) Commonwealth Co-contributions

In the 2005 financial year, the Commonwealth Government Co-contribution scheme was introduced. As members of the STC Schemes have paid contributions from their after tax income, eligible members of STC Schemes with taxable incomes of less than \$58,000 qualified for this Commonwealth payment in the 2006 financial year.

Overall, around 20% of contributing members have received a Co-contribution payment. In its 2007 Budget, the Commonwealth Government announced an additional Co-contribution payment in respect of the 2005-06 year. Additional payments of over \$10.5 million were received from the ATO and processed to members' accounts in June.

(d) SASS Salary Sacrifice

From April 2007, SASS members have been able to pay their compulsory member contributions from before tax rather than after tax income i.e., by salary sacrifice. The take up of this option has been quite strong with around 26% of member contributions received in June being paid by salary sacrifice.

(e) Financial Planning Advice

STC has an 80% shareholding in State Super Financial Services Australia Limited (SSFSAL), which provides financial planning advice to members of the STC Schemes and their relatives. During the year, STC has negotiated with SSFSAL the expansion of their call centre facility to provide an improved service to STC members in the future.

(f) Member Survey

Early in 2007, STC conducted a member survey to assess members' attitudes to a range of superannuation issues and to assess their level of satisfaction with the information and communication material provided to them. The response from members was particularly positive, with 80% of members surveyed indicating that they were Satisfied or Very Satisfied with member information and communication services.

Review of 2006-07 year continued

Administration

(a) Administration Services

STC's administration of member records is outsourced to Pillar Administration under a five year contract.

The Administration Agreement sets out a range of service levels for the provision of agreed services. Key service standards and the performance of the administrator for the period to June 2007 are summarised below:

Service	Standard	Year to 30 June 2007
Telephone Calls - answered within standard - calls abandoned	90% <3%	83.2% 4.0%
Correspondence - response within 15 days	95%	99.4%
Benefit Payments - lump sum payments within five days of receipt of all information - payment of pensions on due date	95% 100%	91.8% 100.0%
Member Record Adjustments - within 5 days	95%	97.7%
Contribution Processing - within 5 days	95%	99.6%

During the year, there was a substantial increase in member contacts, particularly in the telephone customer service centre. This increase reflected higher awareness of superannuation issues, as a result of the Better Super tax changes and Scheme initiatives introduced during the year. These higher volumes put pressure on existing resources and telephone centre results were below the standard for the year. However, there was no increase in complaints received from members on the service being provided. Further, it is anticipated that as the changes are implemented, call volumes will drop and services will return to being within standard.

During the 2006-07 financial year, major administration projects absorbed significant time and resources within both the STC Executive and the administrator, Pillar Administration. These were:

- *Commonwealth Government's "Better Super" taxation changes to superannuation:* In its May 2006 budget, the Commonwealth Government announced significant changes to the rules affecting the taxation of both superannuation contributions and benefits. While the objective was to simplify taxation from a member's perspective, in practice, it has resulted in wide ranging and expensive changes to the administrator's IT systems and procedures. This has especially been the case for defined benefit schemes, such as the STC Schemes, where some regulations were not finalised until the final quarter of the financial year.

Completion of system changes and procedures is expected to continue throughout the first half of the 2007-08 financial year;

- *SASS Salary Sacrifice:* In April 2007, SASS members became eligible to salary sacrifice their compulsory member contributions. In order to accommodate its introduction, systems were modified to not only record transactions correctly in the members' records but also to change and streamline the way that employers provide information to the administrator.

In June, approximately 26% of SASS member contributions were paid by salary sacrifice. This is an encouraging early take up by members;

Review of 2006-07 year continued

- *SSS Salary Sacrifice*: Legislation to permit SSS members to salary sacrifice their member contributions was passed in the NSW Parliament in late June. This enables SSS members to begin to salary sacrifice their SSS personal contributions as from 1 July or as soon as their employers are able to implement changes to their own systems and procedures.

Consequently, the administrator has had to develop IT systems for the new facility. This was achieved and the administrator was in a position to accept salary sacrifice contributions from 1 July.

These projects have all been major tasks and have been the key focus during the last year. Finalisation of "Better Super" and SSS Salary Sacrifice will continue into the new financial year. In addition, in the next six months, systems will be developed for PSS members to Salary Sacrifice.

STC has also undertaken a major review of the administration procedures for applications for invalidity benefits in the PSS. New forms and procedures were implemented as from 1 July 2007, with comprehensive documentation of the new processes being placed on the STC website.

(b) PSS Medical Expenses

From April 2007, the administration of medical expenses payable to PSS members and former members was outsourced to Allianz Insurance Australia Limited. STC has responsibility under the PSS legislation for administering these payments. Formerly, this function was undertaken by the NSW Police Force.

(c) Administration Expenses

STC administration expenses for the year reduced to \$32.9 million. However, this includes an accounting item relating to defined benefit superannuation which is required by the accounting standards. If this item is removed, expenses were \$33.6 million, compared to \$34.4 million in the 2006 financial year.

Investment Overview

(a) Economic Environment

The world economy continued to expand strongly, growing at 5.5%, compared to an average long term growth rate of 3.5%pa. Europe enjoyed accelerated economic activity led by Germany, which after some years of indifferent performance has emerged more efficient and competitive. Growth in Asia remained strong, led by the remarkable pace of growth in China. In contrast, the US economy slowed, especially in the housing sector, where falling house prices gave rise to problems in the sub-prime mortgage market.

The trends in the global economy have a major impact on Australia. The rise in resource prices has improved Australia's terms of trade to their highest levels since the 1950s. The A\$ started the year at US\$0.743, but strengthened through the year to hit an 18 year high of \$0.849, with similar strengthening against the Yen.

Australian Equities

The Australian Share Market again experienced very strong growth, with the S&P/ASX200 index producing a total return of 28.7%, which is the fourth year in a row that the return from Australian shares has exceeded 20%. The market performed strongly across all sectors, with the lowest performing sector being Energy with a 21.1% total return, while the highest returning sectors were Industrial (40.6%) and Telecommunication Services (40.1%).

International Equities

The strength in the world economy translated into solid earnings growth and strong share markets around the world. In the US, the S&P500 index rose by 18.5% during the year. As the Australian dollar strengthened during the year, the decision whether or not to hedge currency was significant. The return for the MSCI World Index on a hedged basis was 21.4%, compared to 7.8% on an unhedged basis.

Review of 2006-07 year continued

Property

Property also performed strongly during the year, with unlisted property returns of 28.3% and listed property securities achieving a 25.9% return.

Fixed Interest

With a fear of inflation and rising interest rates eroding returns, it was another poor year for fixed interest investments. Australian fixed interest (4.0%) and international fixed interest (5.2% on a hedged basis) both underperformed cash, which returned 6.4%.

(b) *Investment Returns*

The returns based on declared rates are set out below:

Declared Returns

Year End 30 June	Strategy			
	Growth	Balanced	Conservative Growth	Cash
2003	-1.7%	These strategies were introduced in December 2003. Consequently, there are no declared returns for the full year ended 30 June 2004 or earlier.		
2004	13.5%			
2005	13.0%	11.6%	9.3%	4.9%
2006	15.8%	11.4%	8.1%	4.9%
2007	14.9%	11.6%	8.9%	5.4%
Compound Returns for				
2 Years	15.4%	11.5%	8.5%	5.2%
3 Years	14.6%	11.5%	8.8%	5.1%
5 Years	10.9%	These strategies were introduced in December 2003. Consequently, there are no declared returns for the 5 or 10 year periods.		
10 Years	8.5%			

Note: The figures above are after allowance for tax and investment management expenses. Past returns are no guarantee of future returns.

These returns reflect the strong investment markets that have prevailed over the last four years.

(c) *Investment Objectives*

For each of the available investment strategies, the return objective is expressed as a margin above the rate of increase in the Consumer Price Index (CPI), as follows:

Investment Objectives

Strategy	Objective
Growth	To exceed CPI plus 4.5% over 10 year periods
Balanced	To exceed CPI plus 3.0% over 7 year periods
Conservative Growth	To exceed CPI plus 2.0% over 4 year periods
Cash	To exceed CPI plus 1.5% over 3 year periods

In each case, the measured return is the declared rate of return after tax and after investment management expenses.

The Balanced and Conservative Growth Strategies have only been in existence for 3½ years. Consequently, they are not yet able to be measured against their long term objectives over 7 and 4 years respectively.

Review of 2006-07 year continued

The table below shows the returns for the Growth and Cash Strategies relative to their long term investment objectives as well as the performance to date for the other two strategies.

Declared Returns for the period ending 30 June 2007 against Objectives

Strategy	Period	Declared Return % pa	Objective % pa
Growth	10 years	8.5%	7.2%
Cash	3 years	5.1%	4.3%
Balanced	3 years	11.5%	4.8%
Conservative Growth	3 years	8.8%	5.8%

The Growth and Cash Strategies have clearly exceeded their objectives, while the short term performance to date of the other strategies relative to their benchmarks has been particularly strong.

Over shorter time frames, up to three years, the investment returns are monitored against results achieved by comparable funds as reported in the Intech Super Survey. At 30 June 2007, the returns achieved on each strategy have been competitive with peers on this measure.

(d) Asset Allocation

The Strategic Asset Allocation is the percentage of Growth Assets and Defensive Assets for each investment strategy, as set out below:

Strategic Asset Allocation for Investment Strategies

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

The above proportions allocated to each strategy remain within a margin of plus or minus 5% of the percentages shown.

However, the allocations that make up these broader categories may change. Asset allocations are reviewed formally at least once a year and are constantly monitored throughout the year. The actual allocation at the end of each of the last two financial years are shown in the table below:

Asset Sector Allocation at 30 June	Growth		Balanced		Conservative Growth		Cash	
	2006 %	2007 %	2006 %	2007 %	2006 %	2007 %	2006 %	2007 %
Australian Shares	37.5	33.2	25.1	24.3	13.1	13.3	0.0	0.0
International Shares	27.9	26.2	18.0	17.4	10.2	9.1	0.0	0.0
Property	8.8	10.1	7.4	6.8	7.5	7.0	0.0	0.0
Alternative Assets	4.5	7.6	0.0	3.9	0.0	2.3	0.0	0.0
Australian Fixed Interest	9.7	6.8	20.0	18.0	20.3	19.4	0.0	0.0
International Fixed Interest	6.7	6.4	20.0	17.8	20.3	19.4	0.0	0.0
Cash	4.9	9.7	9.5	11.8	28.6	29.5	100.0	100.0
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Review of 2006-07 year continued

(e) *Investment Expenses*

Investment Management expenses include fund management fees, custodial fees, asset consulting fees, performance fees and estimates of fees in unlisted units trusts, and the costs of managing the investment portfolio. These expenses are deducted from investment earnings before the declared rates are determined. The table below shows the level of investment expenses for the year ending 30 June 2007:

Strategy	Investment Expenses as % of Average Total Assets for year end 30 June 2007
Growth	0.31%
Balanced	0.22%
Conservative Growth	0.23%
Cash	0.15%

(f) *Asset Consultant*

The Trustee Board engages Frontier Investment Consulting Pty Ltd as its investment consultant advising on strategic asset allocation and fund manager selection.

(g) *Investment Managers*

All assets are managed by external fund managers who are appointed by the Trustee Board after receiving advice from the asset consultant. The performance of the various fund managers is monitored throughout the year and managers may be added or replaced.

Investment managers as at 30 June 2007 are set out on page 7 of this Report.

(h) *Custodian*

The Trustee Board engages JPMorgan Investor Services as custodian to hold Pooled Fund assets. The custodian values assets daily and monitors each fund manager's daily activity to ensure compliance with their investment mandate.

(i) *Large Investments*

During the year, there was no individual investment directly held by the Pooled Fund that exceeded 5% of the total investments. However, 5.9% of total investments were held in the Emerging Managers Trust, an unlisted unit trust managed by NSW Treasury Corporation which engages Australian equity managers.

(j) *Investment Policies*

Investment Reserves

The Trustee Board has determined that investment gains will not be placed in an investment reserve. Therefore, all available investment gains or losses, after providing for tax and investment expenses, are distributed to employers and members, based on a declared rate which is determined monthly.

When a member leaves their STC Scheme, a daily interim rate is applied, where appropriate.

Derivatives

Derivatives, including futures and options, can be used by fund managers. However, 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 2007, the managers made limited use of derivatives.

Review of 2006-07 year continued

Hedging

The Trustee Board's policy in regard to currency hedging is:

- International fixed interest: 100% hedged into Australian dollars.
- International equities: Specialist currency managers have been engaged to manage the currency exposure of international equities. The level of hedging could have varied during the year from 0% to 68% depending on the managers' position from time to time. From 1 July 2007, the level of hedging may vary from 0% up to 80%.
- Other international assets and securities: 100% hedged into Australian dollars.

Passive Rebalancing

The tradeable asset classes of the portfolio are passively rebalanced 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.

Staff

At 30 June 2007, STC employed 22 staff. Over the year, there was very low staff turnover.

STC continues its staff training program, which is aimed at ensuring that relevant staff maintain up to date knowledge on superannuation issues and maintain competency levels in line with ASIC's PS146 requirements.

During the year, STC staff were again offered the opportunity to have influenza prevention immunisations and 14 staff accepted.

STC's Objectives and Achievements for 2006-07

The objectives for the 2006-07 financial year are set out below along with a summary of actions taken in pursuing these objectives:

- *Achieve the long term return objectives of the Fund*

The return objective of the Pooled Fund Growth Strategy is to achieve a return, after tax and fees, which exceeds the increase in the Consumer Price Index plus 4.5% over ten year periods. For the ten year period ending 30 June 2007, the return achieved was 8.5% per annum which was comfortably in excess of the target of 7.2%.

During the year, STC implemented a number of investment initiatives, including:

- the introduction of exposure to global listed infrastructure;
- the introduction of managers focussed on the emerging markets;
- a small exposure to absolute return managers;
- an increase in the funds invested in mature infrastructure assets;
- development of a strategy to invest in unlisted global property, with the actual investment to take place over the next two years.

STC has continued to increase the diversification in the Pooled Fund, both in asset sectors and management styles, with the objective of improving the overall risk/return characteristics of the portfolios.

Review of 2006-07 year continued

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

STC maintains a strong working relationship with its administrator, Pillar Administration. Over the past year, STC and the administrator have worked closely on the implementation of SASS Salary Sacrifice and on the development of systems to implement SSS Salary Sacrifice as from 1 July 2007.

In addition, a major task for the administrator has been the introduction of the Commonwealth Government's "Better Super" changes. STC and Pillar have worked closely on implementation issues.

Despite these significant changes and new member facilities, costs have been contained with total administration expenses for the year being lower than the previous year.

- *Communicate to members their benefit entitlements.*

STC offers members a range of sources of information on their entitlements and the Schemes' benefits. These include:

- annual statements;
- a website, providing both general information on the Schemes and secure access to a member's details;
- seminars targeted at members approaching retirement. These are run in both metropolitan and regional centres and have been very well attended;
- personal interviews;
- Fact Sheets on the Schemes' Rules. These are available on the website or alternatively from Customer Service;
- SuperViews, which is a quarterly newsletter distributed to employers and unions;
- information in selected union publications.

During the year, increased call volumes to the telephone call centre and increased attendances at STC's pre-retirement seminars reflected the greater interest in superannuation issues, not only among STC members but the community generally.

In early 2007, STC conducted a member survey, which reported high levels of satisfaction among members of the member communication services. 80% of members reported that they were "Satisfied" or "Very Satisfied" with member information and communication services.

- *Maintain strong working relationships with key stakeholders.*

STC continues to work with both Treasury and Department of Premier and Cabinet on key superannuation issues, including the implementation of SASS Salary Sacrifice and SSS Salary Sacrifice, as well as other legislative changes.

STC also maintains close working relationships with its key service providers, notably its administrator (Pillar Administration), its custodian (JPMorgan Investor Services) and the Scheme Actuary (Mercer Human Resource Consulting).

- *Ensure that the Trustee Board and Executive operate in accordance with best practice governance principles.*

While the STC Schemes are "exempt" funds regulated by NSW State legislation and not directly by Commonwealth superannuation and corporation's legislation, STC endeavours to comply, where appropriate, with Commonwealth legislation. Consequently, developments in superannuation fund governance are monitored and incorporated, as appropriate, into STC's governance and compliance procedures.

STC carries out regular reviews of its various policies and plans. During the year, documents that were updated included Risk Management Plan and Strategy and Occupational Health and Safety Plan.

Over the last two years, STC has undertaken a major review of the processes and procedures relating to claims for invalidity benefits in PSS. New forms and procedures were introduced from July 2007.

Corporate Governance

Compliance Framework

STC's formal compliance framework has been in operation since late 2005 and the Plans and Policies are documented. The Trustee Board receives ongoing reporting and actively participates in the monitoring process to ensure the adequacy of the Plans and Policies.

All the Plans and Policies are reviewed on a two year rolling basis or sooner if required as a result of legislative change.

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, the spirit of which STC attempts to conform with 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 quarterly and annually 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;
- Periodic audits of a number of STC's Plans and Policies to ensure compliance with best practice measures.

During the year, the Trustee undertook the following compliance reviews:

- Audit of STC's Risk Management documentation to ensure compliance with the requirements of Section 113(3)(c) of the *Superannuation Industry Supervision (SIS) Act 1993*;
- Audit of STC's premises for compliance with the Occupational Health and Safety Policy; and
- Review of STC's Business Continuity Plan and Disaster Recovery Plan to ensure compliance with industry best practice.

Prudential Governance

STC Schemes are exempt public sector superannuation schemes under the Commonwealth *Superannuation Industry (Supervision) Act 1993* (SIS). The SIS legislation treats exempt public sector superannuation schemes 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 which the New South Wales Government undertakes to ensure that STC Schemes conform with the principles of the Commonwealth Government's Retirement Incomes Policy relating to preservation, vesting, reporting to members, and adequate protection of members' benefits.

The *Superannuation Administration Act 1996* enables the New South Wales Government to prudentially monitor and audit the STC Schemes and 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 Retirement Incomes Policy.

Corporate Governance continued

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

2007 NSW Legislative Amendments

SSS and PSS Salary Sacrifice

The *Superannuation Legislation Amendment Act 2007* included amendments to the SSS legislation to enable members to pay their compulsory personal contributions as salary sacrifice contributions, effective 1 July 2007.

All SSS members were sent an information kit by mail explaining how SSS salary sacrifice works and the effects of the new Concessional Contributions Cap.

The *Police Superannuation Legislation Amendment Act 2007* also included provisions for members to be able to salary sacrifice their compulsory personal contributions to PSS. This option will be introduced for PSS members in 2008.

All PSS members will be mailed an information kit shortly explaining how salary sacrifice works and the effects of the new Concessional Contributions Cap.

Other changes were made to the relevant scheme Acts to effect the following:

PSS

- STC will only provide a certificate of incapacity where a police officer or former police officer is incapable, on medical grounds, of exercising the functions of a police officer referred to in section 14(1) of the *Police Act 1990*. The functions referred to in that section are those conferred or imposed on a constable by or under any law, including the common law, of the State.
- members' medical expenses in connection with hurt on duty injuries may be paid by an entity other than STC and from sources other than the Pooled Fund.

SASS, SSS & PSS

- enable senior executive service members to transfer their accrued scheme benefit to a complying superannuation fund without leaving employment.

The *Superannuation Administration Act 1996* was also amended to permit STC, with the written approval of the Minister, to:

- Indemnify an Officer of STC (Trustee Board Members and CEO) against any liability incurred as a consequence of holding or having held office as an Officer; or
- Enter into an indemnity agreement with an Officer.

5 years at a glance — to 30 June

	2003	2004	2005	2006	2007
Member statistics					
Active Members — SASS	68,543	64,968	60,776	57,168	53,776
Active Members — SSS	33,465	31,151	28,593	26,614	24,419
Active Members — PSS	4,489	4,143	3,706	3,280	2,923
Total active members	106,497	100,262	93,075	87,062	81,118
Pensioners — SASS	5,615	5,312	5,012	4,569	4,381
Pensioners — SSS	35,378	36,872	38,548	39,795	41,151
Pensioners — PSS	4,877	5,096	5,377	5,697	5,880
Total pensioners	45,870	47,280	48,937	50,061	51,412
Deferred Benefits — SASS	12,216	12,080	11,843	11,809	11,549
Deferred Benefits — SSS	4,753	4,638	4,539	4,347	4,161
Deferred Benefits — PSS	230	202	192	179	174
Total deferred benefits	17,199	16,920	16,574	16,335	15,884
Gender ratios – active members					
Females — SASS	53%	52%	53%	52%	52%
Males — SASS	47%	48%	47%	48%	48%
Females — SSS	32%	33%	33%	33%	33%
Males — SSS	68%	67%	67%	67%	67%
Females — PSS	11%	11%	11%	11%	11%
Males — PSS	89%	89%	89%	89%	89%
Contributions — \$M					
Employer contributions	316	326	332	274	262
Employee contributions	464	474	494	507	516
Crown Contribution	-	-	-	-	7,176
Total contributions	780	800	826	781	7,954
Benefits Paid — \$M	2,071	2,038	2,398	2,458	2,759
Net Contributions — \$M	-1,291	-1,238	-1,572	-1,677	5,195
Investment Revenue — \$M	-523	3,251	3,354	4,372	4,941
Assets/Liabilities — \$M					
Accrued Benefits — SASS	8,903	9,824	10,566	11,600	12,705
Net assets to pay benefits	5,278	5,779	6,105	8,590	9,282
Over/under funding	-3,625	-4,045	-4,461	-3,010	-3,423
Accrued Benefits — SSS	23,661	24,888	26,203	26,143	27,384
Net assets to pay benefits	15,431	16,866	18,409	17,881	24,031
Over/under funding	-8,230	-8,022	-7,794	-8,262	-3,353
Accrued Benefits — PSS	4,318	4,761	5,065	5,673	5,807
Net assets to pay benefits	1,126	1,096	1,020	963	4,107
Over/under funding	-3,192	-3,665	-4,045	-4,710	-1,700
Accrued Benefits — SANCS	1,888	2,097	2,231	2,354	2,531
Net assets to pay benefits	471	474	366	1,144	1,168
Over/under funding	-1,417	-1,623	-1,865	-1,210	-1,363
Total Accrued Benefits \$M	38,770	41,570	44,065	45,770	48,427
Total Net assets to pay benefits	22,306	24,215	25,900	28,578	38,588
Total Over/under funding	-16,464	-17,355	-18,165	-17,192	-9,839
Total Investments — \$M	22,092	24,231	25,980	28,699	38,938
Net Returns – 1 year	-1.7%	13.5%	13.0%	15.8%	14.9%