



STATE SUPER
SAS Trustee Corporation

SuperViews

From the office of the Employee Representative SAS Trustee Corporation Board

2008/2009 Investment Update

In this issue of SuperViews, we look at State Super's investment performance for the 2008/2009 financial year. For the Growth Strategy the declared rate was -10.3%.

Even though in relative terms, STC has weathered the downturn in markets better than most, it is always disappointing to experience negative returns.

In the 2009/2010 year we have seen some early signs of improved market conditions. The declared rates for the Pooled Fund for July and August 2009 are included in the following table:

DECLARED RATES

	Growth	Balanced	Conservative Growth	Cash
July 2009	3.1%	2.6%	1.5%	0.2%
August 2009	3.0%	2.2%	1.5%	0.2%

How did the investment markets perform in 2008/2009?

Virtually all investment markets posted negative returns over the 12 months to 30 June 2009. The Global Financial Crisis was fundamentally a crisis of liquidity. When major financial institutions lose the confidence to lend to one another and the market more broadly, the sources of credit – the lifeblood of the financial system and economy – dry up. Where funding sources evaporate, this hits asset markets almost universally. The exceptions were the highly liquid cash and sovereign fixed interest markets which behaved as truly defensive sectors during the crisis. A very high demand for capital protected and liquid assets ensured good returns from these asset classes. STC tended to hold above average allocations to these assets.

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Why would State Super's performance be affected by the recent market behaviour?

The 2008/2009 year was difficult for the market and for any Australian superannuation fund (including State Super) with a bias to growth assets. This asset class includes shares and property, which performed poorly in 2008/2009.

However, you shouldn't only focus on this year's returns. **Table A** below shows asset class returns over various periods.

How is State Super money invested?

There are four investment strategies in the Pooled Fund: Growth, Balanced, Conservative Growth and Cash. Details of the asset classes and weightings in each strategy will be provided in the 2008/2009 Report to Members and can be found in the Investment section of the State Super website.

Investment Choice is only available to SASS members (with the Growth Strategy as the default strategy where members do not make an investment choice). For other members, all member and employer contributions are invested in the Growth strategy to provide the defined benefit specified by the scheme rules. The defined benefit is not affected by investment results.

How did State Super perform in 2008/2009?

The summary is very well in a relative sense given that we have come through the last twelve months, three year and five year periods in the top quartile of peer group funds. Although in an absolute sense, returns have been disappointing over this period, we have seen some early signs of improved market conditions.

The Growth strategy accounts for 98.4% of funds under management for the Pooled Fund. For the 2008/2009 year, the declared rate is negative 10.3% (the fourth time a negative return has occurred in 20 years.)

The declared rates for all strategies are as follows:

- **Growth:** **-10.3%**
- **Balanced:** **-4.2%**
- **Conservative Growth:** **0.6%**
- **Cash:** **4.7%**

However, as superannuation is a long term investment, you need to view this year's returns in the context of performance over a longer time horizon.

Table B below shows the short term and compound State Super member returns.

Table A

	1 year returns (% pa)	3 year returns (% pa)	5 year returns (% pa)
Australian shares	-20.1	-3.8	6.9
International shares (unhedged)	-16.2	-10.8	-3.1
International shares (hedged)	-26.6	-9.1	-1.0
Australian listed property	-42.3	-22.7	-8.4
Australian Fixed Interest	10.8	6.4	6.0
International Fixed Interest (hedged)	11.5	8.5	7.7
Cash	5.5	6.4	6.1

Returns quoted are before allowance for tax and fees and taken from commonly reported indices.

Table B

DECLARED RATES Year Ended	Growth % pa	Balanced % pa	Conservative Growth % pa	Cash % pa
30 June				
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
2008	-7.2	-3.2	0.7	6.1
2009	-10.3	-4.2	0.6	4.7
Compound rate:				
Over 2 years	-8.8	-3.7	0.6	5.4
Over 3 years	-1.5	1.2	3.3	5.4
Over 4 years	2.6	3.6	4.5	5.3
Over 5 years	4.6	5.2	5.4	5.2
Over 10 years	4.6			

These strategies were introduced in December 2003. Therefore there are no crediting rates for the 10 year period.

Note: The figures above are after allowance for tax and investment management expenses. Past returns are no guarantee of future returns. The value of Personal Account balances, Commonwealth government Co-contributions accounts and deferred benefits are not guaranteed and can go up or down with investment gains or losses. SASS members are encouraged to seek professional financial advice to help them select an investment strategy that best suits their personal circumstances.

Visit us on the web at:

www.statesuper.nsw.gov.au

Are other superannuation funds posting similar returns?

Yes, other superannuation funds have been experiencing similar challenges to State Super.

The table below shows the investment return that the Growth Strategy has achieved compared to the median return of a wide selection of other superannuation funds.

This illustrates that the Pooled Fund Growth Strategy compares favourably with many other superannuation funds.

	12 months to 30 June 2009
Growth Strategy return**	-10.4%
Intech Median return*	-13.3%

**The investment return is -10.4%. The declared rate is -10.3% after taking into account administrative factors such as cash in bank.

*The Intech Growth survey covers a wide selection of Australian superannuation funds. At 31 August 2009, 56 out of 61 funds had reported their returns.

How is my benefit affected?

Some members have a Co-contribution account (which is an accumulation account invested in SANCS). The Co-contribution account is invested in the Growth strategy.

For SSS and PSS members, your scheme benefits (other than the cash resignation benefit) are not affected by investment returns as they are defined benefits under the scheme rules.

If you are an active SASS member, in addition to your employer-financed defined benefit, you receive an accumulation benefit of your compulsory personal contributions plus investment gains or losses at the declared rate based on your chosen investment strategy. (Personal Account balance.)

If you are a deferred SASS member, your entire benefit is an accumulation benefit and is directly affected by fluctuations in investment returns and therefore dependent on your chosen investment strategy.

I am a member of SASS and am concerned about how the markets are performing. Is there anything I should be doing?

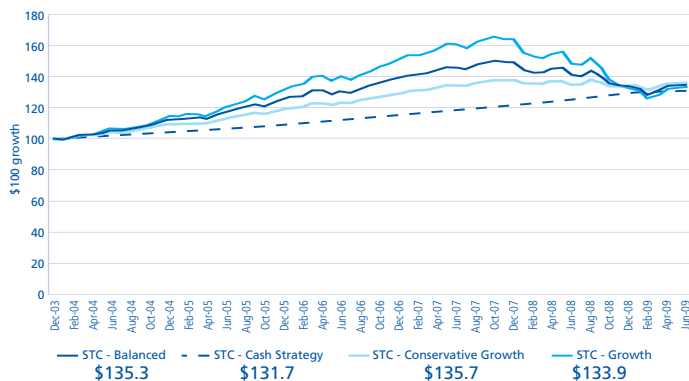
Active Member

While you may notice a reduction in your Personal Account balance when you receive your 2009 Benefit Statement in October, you need to also consider how much it may have increased over the longer term. Remember that this represents about one third of your benefit and that your defined employer-financed benefit

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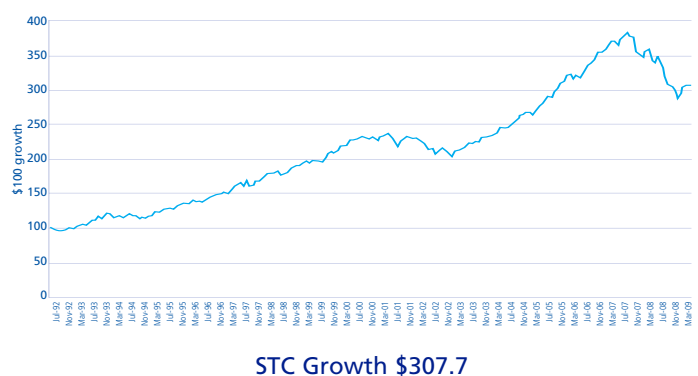
Graph A

Value of \$100 invested 31 December 2003 to 30 June 2009



Graph B

STC - Growth Value of \$100 invested 31 July 1992 to 30 June 2009



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continued

(about two thirds) is protected from downturns in investment returns.

Deferred Member

While you may notice a reduction in your benefit when you receive your 2009 Benefit Statement in October, you should consider how much it may have increased over the longer term.

If you look at **Graph A** on page 3, you will see how \$100 invested in the various Pooled Fund investment strategies has increased since investment choice was introduced for SASS members on 31 December 2003.

Graph B on page 3 shows the movement in a \$100 investment in the Growth Strategy from 31 July 1992 (around the time SASS closed to new members) to 30 June 2009.

If you are still concerned about the potential impact of the markets on your superannuation benefit, we recommend that you seek professional financial advice.

Should I alter my SASS contribution?

When investment returns are disappointing, it is tempting to consider lowering your contribution rate. Before considering this action, please think carefully and make sure you obtain professional financial advice. As a member of SASS every time you contribute 1% of your annual salary for one year, your employer provides a further 2.5% (or in some cases 3%) of your Final Average Salary at retirement.

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.

Again, we recommend you obtain professional financial advice to ensure that you maximise your benefit entitlements in SASS.

What is expected in the markets in 2009/2010?

The new financial year has started more positively; however no one can predict the future. Up to date investment returns are included on the State Super website.

However, investment markets are cyclical in nature – poor returns in some years are often offset by positive returns in future years. Remember over a 20 year period, the Growth Strategy return has been negative 4 times.

The challenge for the Trustee (STC) is to remain disciplined and to continue to invest in keeping with its long-term investment objectives. In doing so, STC, with the assistance of its asset consultant closely monitors the global and domestic investment markets and reviews the investment strategy on an ongoing basis.

The performance of fund managers is also monitored throughout the year and managers may be added or replaced.

Keep track of your benefits on the web at:

www.statesuper.nsw.gov.au

Register as a user and view the updated 'Member Services' area

- Use the Salary Sacrifice calculators to work out what's best for you
- SASS members – check your benefit points and contribution rate
- SSS, PSS and Deferred SSS and PSS – request a quote or benefit estimate
- See the salary used to calculate your benefit estimate
- Look up your last Benefit Statement
- Download Fact Sheets, SuperViews newsletters, forms and the latest investment information

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