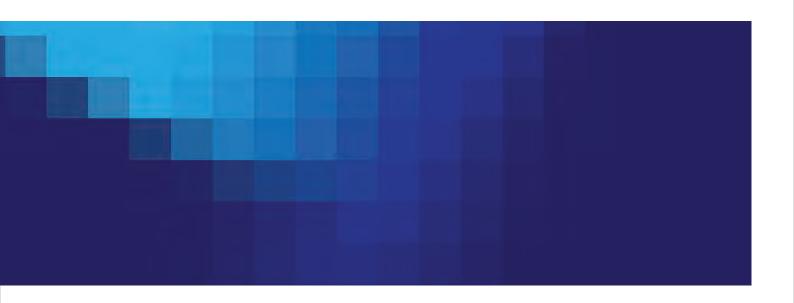


Annual Report 2010–11

2010-11 www.statesuper.nsw.gov.au



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## **Report to the Ministers**

October 2011

The Hon Mike Baird, MLC Treasurer Level 36, Governor Macquarie Tower 1 Farrer Place SYDNEY NSW 2000 The Hon Greg Pearce, MLC Minister for Finance and Services Minister for the Illawarra Level 36, Governor Macquarie Tower 1 Farrer Place SYDNEY NSW 2000

### **Dear Ministers**

We have pleasure in submitting to you for presentation to Parliament the Annual Report of the SAS Trustee Corporation, covering the period 1 July 2010 to 30 June 2011.

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.

Yours sincerely

Michael Carapiet Chairperson

SAS Trustee Corporation

lan Blair

Board Member and Chairperson of the Risk, Audit and Compliance Committee

SAS Trustee Corporation

### Part A – About the SAS Trustee Corporation

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### 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 Noncontributory 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**

STC's mission is to:

- support the future well-being of current STC scheme members and pensioners by the delivery of up to date superannuation benefits and high quality service;
- engage stakeholders in productive dialogue; and
- provide optimal investment returns to employers and members.

This Annual Report is available on our website, www.statesuper.nsw.gov.au

### 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 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

I am pleased to report that Investment returns for the Pooled Fund and its member investment options met their respective investment objectives for the year ending 30 June 2011 and were also above the median peer outcomes. Pleasingly positive returns were achieved for the second consecutive financial year and they occurred against a backdrop of heightened volatility in financial markets.

Financial markets were impacted by the mixed economic conditions during the financial year. Concerns regarding the unprecedented sovereign debt levels across developed Western economies were counterbalanced by the ongoing economic expansion of developing economies which collectively account for over half the world's GDP growth.

While STC is pleased to have generated solid investment returns in this challenging environment, in the medium term we remain cautious and vigilant in the face of continued difficult economic conditions. STC's portfolios include some defensive assets that offer a degree of protection in this economic environment.

Since the end of the 2011 financial year, investor sentiment has unfortunately become more fragile again. Investors are concerned about the shorter term prospects for global economic growth. We shall continue to monitor the important indicators and attempt to position the portfolio appropriately.

### **Personnel Changes**

In terms of our people, the past year has brought a period of significant change for STC.

My predecessor, Don Russell, departed in July 2011 after three and a half years as STC's Chairman to take up the position of Departmental Secretary for the Commonwealth Department of Industry, Innovation, Science and Research.

In March 2011, Sue Walsh, President of the Public Service Association of NSW, joined the Trustee Board and replaced Bob Lipscombe as the new employee representative.

I would like to thank Don and Bob for their contributions to the development of the Trustee Board's strategy, corporate governance and oversight of the State Super schemes.

Chris Durack, State Super's Chief Executive Officer, will be moving on in early October. Chris has been a very effective CEO for State Super and on behalf of the Trustee Board we wish him all the best for the future. The appointment of the new CEO is expected to be finalised shortly.

Kevin Dent commenced as General Manager of Member Services in June 2011. Kevin replaced Karen Faulconbridge and is leading STC's efforts in ensuring high quality administration and services for members.

### **Member services**

Important reforms to STC's processes continued over the past year. Among these, STC strengthened its risk and fraud prevention processes, investment governance arrangements and commenced a review of its administration services.

In early 2011, STC conducted a member survey with responses from over 4,000 of our members. The results overall continue to indicate high levels of satisfaction with services provided. Importantly, STC gained further insight into services members find valuable and their preferences for how services should be accessed.

In the year ahead, STC plans to roll out upgraded services to members including a review and upgrade of its website and enhancing the coordination of services provided by our scheme administrator, Pillar Administration, and our financial planning provider, State Super Financial Services Limited.

Michael Carapiet

Chairperson October 2011

### Board members' profiles

## Michael Carapiet (Chairperson from 1 August 2011)

As well as being Chairperson of State Super, Mr Carapiet is currently a Non-Executive Director of Southern Cross Media Limited, Deputy Chairman of Export Finance and Insurance Corporation (EFIC) and is also on the board of Macquarie Specialised Asset Management. Formerly with the Macquarie Group, Mr Carapiet held a number of senior roles including Global Head of Advisory and Specialised Funds, executive director of Macquarie Bank Limited and executive Chairman of Macquarie Capital and Macquarie Securities. Mr Carapiet has a Master of Business Administration from Macquarie University.

## Dr Don Russell (Chairperson up to 31 July 2011)

Dr Russell became Secretary of the Department of Innovation, Industry, Science and Research on 20 June 2011. Prior to that, he was the Independent Chair of the Investment Committee of LUCRF Super. Until March 2010, he was Global Investment Strategist at BNY Mellon Asset Management Australia. Dr Russell worked in New York for Sanford C. Bernstein during 1997 to 2000. Between 1985 and 1993 and again in 1996, he was Principal Adviser to the Right Hon. Paul Keating during his time as Treasurer and Prime Minister, Between 1993 and 1995 he served as Australia's Ambassador to the US in Washington. Dr Russell worked for the Commonwealth Treasury when he joined Paul Keating's Office in 1983 as Assistant Secretary, Economic Branch. Dr Russell was at various times a consultant to the World Bank, Bankers Trust, Westpac Bank and Counsellor in the Australian delegation to the OECD in Paris. Dr Russell has a PhD from the London School of Economics, a MEc from ANU and a BEc (Hons) from Flinders University. Dr Russell also holds the Chartered Financial Analyst designation (CFA) 2007.

### lan Blair (Employer Representative, Chair of the STC Risk, Audit & Compliance Committee)

Mr Blair is a chartered accountant and a company director. In 1997, Mr Blair completed a long career with accounting firm Deloitte Touche Tohmatsu, including a term as Chief Executive Officer of that firm. He is Chairperson of funds manager IOOF Holdings Ltd and is Chairperson of Bisley & Company Pty Ltd, a company involved in International trading of industrial products. Mr Blair is a board member and chairman of the Board Audit Committee of Capral Limited, a company involved in manufacturing and marketing of semi-fabricated aluminium projects. He was formerly a board member of the Sisters of Charity Health Service Ltd and Melbourne Business School Ltd.

### Anne De Salis (Employer Representative)

Ms De Salis is on the boards of the NSW TAFE Commission, the Superannuation Funds Management Corporation of South Australia, Industry Fund Holdings Pty Ltd and Members Equity Bank. Ms De Salis has a diverse career spanning the public and private sectors, which includes more than 10 years experience as a non executive director. In the private sector, she 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, the Right Hon. Paul Keating. She joined the Keating office from the Commonwealth Treasury, where she worked as an economic adviser in Canberra.

### Michael Lambert (Employer Representative)

Mr Lambert is a consultant to the global investment bank, Royal Bank of Scotland. Previously, Mr Lambert 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, he is also a non-executive Director of the Sax Institute and State Super Financial Services Australia Limited. Mr Lambert has a Bachelor of Economics (Honours) and Master of Economics from Sydney University.

## Board members' profiles continued

## Paul Scully (Employer Representative, Chair of the STC Actuarial Committee)

Mr Scully is the Managing 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. Mr Scully 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. He has also held executive positions in life insurance and retail funds management. He now maintains a portfolio of non-executive directorships, (including State Super Financial Services Australia Limited) and consulting assignments.

## Ron Davis (Employee Representative, Chair of the Police Superannuation Advisory Committee)

Mr Davis is the full-time employee representative on the Trustee Board, a position he has held since 1 January 2002. Mr Davis 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 the Unions NSW Public Sector Employees' Superannuation Committee. Mr Davis is a Fellow of the Australian Institute of Superannuation Trustees, a Fellow of the Association of Superannuation Funds of Australia (ASFA) and a member of ASFA's NSW Division Executive Committee. He is also a Director of State Super Financial Services Australia Limited.

## Rod Harty (Employee Representative, Chair of the STC Member Services Committee)

Mr Harty is an Advocate and Industrial Officer for the Police Association of NSW and a consultant to the Police Federation of Australia. He also represents Police as a delegate to the Unions NSW Public Sector Employees' Superannuation Committee and is also a non-executive Director of State Super Financial Services Australia Limited. He has post-graduate qualifications in Workplace Relations and Labor Law and has a broad public sector background in human resource management and business services.

### Nick Lewocki (Employee Representative, Chair of the STC Disputes Committee)

Mr Lewocki is the Retired Secretary of the Rail, Tram and Bus Union. Mr Lewocki 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. He is a Director of the NSW Trades Hall Association and the Transport and Logistic Centre Pty Ltd. As Secretary of the Union, he had overall responsibility for industrial agreements and their certification before the industrial tribunals which affect over 15,000 members.

### Bob Lipscombe (Employee Representative)

Mr Lipscombe is President of the NSW Teachers Federation and a member of the Federal Executive of the Australian Education Union. He is also a director of Teachers Federation Health Ltd, Federation Law Pty Ltd and a member of the NSW Institute of Teachers' Quality Teaching Council. Mr Lipscombe has had over 20 years experience as a teacher in NSW and has been a member of WorkCover's NSW Workplace Health and Safety Strategy Review Committee.

### Sue Walsh\* (Employee Representative)

Ms Walsh is the President of the Public Service Association of NSW and has held a number of senior delegate positions in the PSA over the years. She is also President of the NSW Branch of the Community and Public Sector Union and a member of that organisation's Federal Executive, Federal Council and Federal Education Industry Committee. Ms Walsh is also employed as an Administrative Manager with the Department of Education and Communities (formerly the Department of Education and Training). Ms Walsh is on the Executive of Unions NSW and is a delegate to the ACTU. Since 2000, Ms Walsh has been a Board Member of SGE Credit Union and is also a Member of the Audit and Risk Committee. Ms. Walsh is a Member of the Australasian Mutual Institute (AMI) formerly known as ACUI. Ms Walsh is a Director of State Super Financial Services and is also a member of their Audit and Compliance Committee.

\*Appointed to the Trustee Board as from 25 March 2011, following Mr Bob Lipscombe's resignation.

# Executive management team

### Chris Durack - Chief Executive Officer

As Chief Executive, Mr Durack's main focus is to ensure that the Trustee Board receives expert professional advice on which to make its decisions. This includes monitoring the performance of funds management, custody and administration service providers and managing a team of investment, finance, superannuation administration, legal and communication specialists. Mr Durack has a strong investment background and has held senior asset consulting roles and senior executive roles in funds management organisations.

#### Martin Drew - Chief Investment Officer

Mr Drew manages STC's investment 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. Mr Drew has a diverse career both in the public and private sectors spanning over 13 years.

## Lyn Collingridge – Strategic Project Manager and Chief Audit Executive

Ms Collingridge is responsible for strategic level projects affecting all business areas of State Super. She is a superannuation lawyer with extensive experience in both the public sector and private practice and has worked in the superannuation industry since 1989. Ms Collingridge has been with State Super since October 1998 as General Counsel and Company Secretary and was the Acting Chief Executive Officer from 1 January 2008 until 8 February 2009. She commenced her role as Strategic Project Manager in January 2010 and was appointed as Chief Audit Executive on 30 June 2010.

## Kevin Dent – General Manager, Member Services\*

Mr Dent commenced as General Manager, Member Services at State Super in June 2011. Before joining State Super, Mr Dent worked at APRA for seven years in superannuation supervision and technical services. From 1999 to 2004, Mr Dent was a senior executive at ComSuper, the administrator of the Commonwealth Government public sector and military superannuation schemes. Prior to ComSuper, Mr Dent worked in the Northern Territory Treasury managing NT Government superannuation schemes.

## Narelle Wooden – General Counsel and Company Secretary

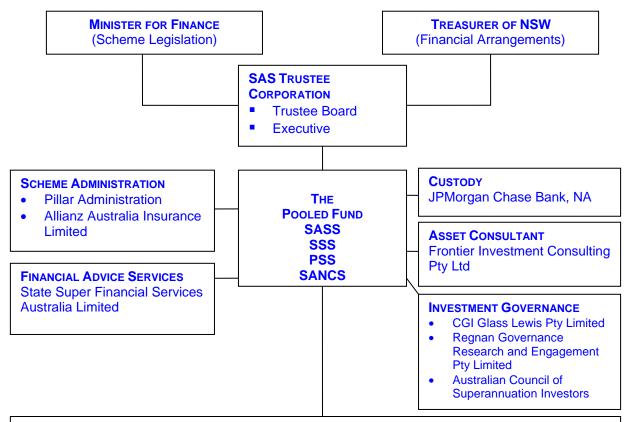
Ms Wooden joined STC in January 2010 as General Counsel and Company Secretary. Prior to her appointment at STC, Ms Wooden had extensive experience, over more than 15 years, as a lawyer, general counsel and company secretary in the financial services and funds management industry, including superannuation. She is responsible for providing the Trustee Board and the Executive with legal services and oversees the compliance, risk and secretariat services.

### **Andrew Grice - General Manager, Finance**

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, Mr Grice was an external auditor involved in the audit of several large entities, including superannuation funds.

\*Ms Karen Faulconbridge resigned from her position as General Manager, Member Services in February 2011. Ms Faulconbridge joined STC in March 2000 as Manager, Policy Advice.

### Organisational structure as at 30 June 2011



#### INVESTMENT MANAGERS

#### **Australian Equities**

AllianceBernstein Investment Management Australia Ltd BlackRock Investment Management (Australia) Limited BT Investment Management (RE) Limited Citigroup Global Markets Australia Pty Limited GMO Australia Limited

Lazard Asset Management Pacific Co

Macquarie Investment Management Limited

Maple-Brown Abbott Limited

Northcape Capital

Perennial Value Management Limited Platypus Asset Management Pty Ltd

State Street Global Advisors, Australia, Limited

Wallara Asset Management Pty Limited

### **Australian Fixed Interest and Cash**

Deutsche Asset Management (Australia) Limited State Street Global Advisors, Australia, Limited

#### Property

DEXUS Funds Management Limited EG Funds Management Pty Ltd Equity Trustees Limited Franklin Templeton Investments Australia Limited LaSalle Investment Management (Securities) L.P. Vanguard Investments Australia Ltd

### **International Equities (and Currency)**

AllianceBernstein Investment Management Australia Ltd Altrinsic Global Advisors LLC

AQR Capital Management, LLC

Arrowstreet Capital L.P.

AXA Rosenberg Investment Management Asia Pacific Ltd

Axiom International Investors LLC

BlackRock Investment Management (Australia) Limited

Capital International, Inc

Fidelity International Limited

Lazard Asset Management Pacific Co Pareto Investment Management Limited

State Street Global Advisors, Australia, Limited

Trilogy Global Advisors, LLC

#### **International Fixed Interest**

State Street Global Advisors, Australia, Limited

### **Alternative Assets**

Access Capital Advisors Pty Ltd

Deutsche Asset Management (Australia) Limited

**GMO** Australia Limited

Kaplan Funds Management Pty Limited Macquarie Investment Management Limited

New South Wales Treasury Corporation

Propel Investments Pty Ltd RARE Infrastructure Limited

Siguler Guff & Company

State Street Global Advisors, Australia, Limited

### **Review of 2010-11**

### 1. FUND SIZE

Net Asset Value

Year end	\$b
30 June 2009	28.848
30 June 2010	30.743
30 June 2011	32.179

In addition to movements from investment returns, changes in the Net Asset Value reflect net flows from contributions and benefit payments.

### 2. INVESTMENT OVERVIEW

### (a) Investment Environment for 2010-11

The global economy continued to experience an uneven recovery due to serious imbalances in the global economy, which manifested themselves in debt levels of unprecedented proportions across a number of European countries, the US and Japan. In contrast, China and its trading partners enjoyed robust economic conditions and generated more than half of global GDP growth for the year.

Investment markets reacted to these fundamental conditions by switching between hope and despair frequently and with tremendous speed. The first 6 months of fiscal 2010-11 was characterised by a strong sense of optimism that the global recovery was on track. Share markets did well; the Australian share market returned in excess of 12% over that period and international shares fully hedged generated almost 18% boosted by the strength in the Australian dollar. In comparison, both Australian and international bond returns were modest

However, sentiment changed abruptly during the last three months of the financial year with investor concerns centred around four issues:

- The level of debt in Greece and the consequences for the Euro Zone if Greece were to default have weakened business and consumer confidence and adversely affected financial markets.
   The real fear was that if Greece were to default on its debt, it would weaken the European banking system, creating a confidence crisis, which in turn could trigger a default by much bigger economies such as Spain or even Italy;
- High oil prices since the beginning of the year have had an adverse impact on consumer confidence across the US and Europe and resulted in slower growth than originally anticipated;
- 3. The Japanese disasters (earthquake, tsunami and nuclear energy crisis) have had significant ramifications for the production of a range of goods across the world. The supply chain disruptions have been felt across a broad range of industries such as the car industry, precision tools, electronics etc, all the sectors that relied on parts produced by Japanese companies; and
- 4. Tightening of policies in China to combat inflation and property speculation has produced concerns that this will further weaken global economic recovery. Food inflation in particular has grown faster than anticipated and when combined with rising property prices in some cities, have made it very difficult for ordinary people to buy property. The authorities have intervened with tightening monetary measures. The danger is that the economy could slow more than required and adversely affect the global recovery.

Despite the volatility, each of the diversified investment options generated returns above their respective return objective for the year ended June 2011.

### (b) Investment returns for STC

The returns based on declared rates for periods ending 30 June 2011 are set out below, together with information for earlier years. Median manager results from the Mercer survey of superannuation funds, are also shown.

Strategy				
Year	Growth	Median	Balanced*	Median
End	%	%	%	%
2011	8.7	8.2	7.7	7.5
2010	9.2	10.0	8.4	9.5
2009	-10.3	-12.2	-4.2	-8.1
2008	-7.2	-7.6	-3.2	-4.1
2007	14.9	14.9	11.6	11.5

### **Compound returns**

Years				
2	8.9	8.9	8.0	8.3
3	2.1	1.4	3.8	2.8
4	-0.3	-1.1	2.0	1.5
5	2.5	1.8	3.9	2.5
10	4.4	4.2	n/a	n/a

Past performance is no guarantee of future performance.

\*The Balanced Strategy was introduced in December 2003. Consequently, there are no declared returns for the 10 year period.

### Declared returns to 30 June 2011

			•
	St	rategy	
Year	Conservative	Median	Cash**
End	Growth**	%	%
	%		
2011	6.7	6.4	4.5
2010	7.1	8.3	3.4
2009	0.6	-3.4	4.7
2008	0.7	-0.7	6.1
2007	8.9	8.6	5.4

### Compound returns

2	6.9	7.2	4.0
3	4.8	3.5	4.2
4	3.7	2.6	4.7
5	4.7	3.6	4.8
10	n/a		n/a

Past performance is no guarantee of future performance.

\*\*The Conservative Growth and Cash strategies were introduced in December 2003. Consequently, there are no declared returns for the 10 year period.

### (c) Investment Returns against Objectives

For each of the available investment strategies, the following objectives are expressed as a margin above the rate of increase in the Consumer Price Index (CPI):

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

In each case, the measured return is the declared rate of return after tax and after fees.

Note: Employers also benefit from tax credits derived from STC's overall tax position. These credits reflect pension liabilities currently payable.

The table below shows the annual average returns for the investment strategies relative to their long term investment objectives.

Declared returns for the period ending 30 June 2011 against Objectives

Strategy	Period	Declared Return	Objective %pa*
Growth	10 years	<b>%pa</b> 4.4	7.4
Balanced	7 years	6.0	5.9
Conservative Growth	4 years	3.7	5.1
Cash	3 years	4.2	4.2

\*CPI measured to 30 June 2011.

While the Balanced and Cash Strategies have performed in line with their long term objective, the negative returns in 2008 and 2009, particularly from equity markets, have meant that the Growth and Conservative Growth Strategies have not met their long term objectives for the period to 30 June 2011.

### (d) Asset Allocation

Set out below is the Strategic Asset Allocation as apportioned between Growth Assets and Defensive Assets for each investment strategy:

Strategic asset allocation for Investment Strategies for 2010-11

Strategy	Growth Assets	Defensive Assets
	%	%
Growth	78.9%	21.1%
Balanced	51.8%	48.2%
Conservative Growth	30.1%	69.9%
Cash	0.0%	100.0%

The actual proportions allocated to growth versus defensive assets are within a margin of plus or minus 5% of the percentages shown.

However, the allocations that make up these broader categories may change. The Fund's asset allocations are reviewed formally at least once a year and are monitored throughout the year. The actual allocation at the end of the last two financial years is shown in the tables below.

Asset allocation as at 30 June

Sector	Gro	owth	Balanced	
	2011	2010	2011	2010
	%	%	%	%
Australian Shares	33.0	29.7	23.9	23.0
International Shares	29.4	26.8	18.6	16.5
Property	9.9	9.5	5.5	5.6
Alternative Assets*	13.8	14.2	7.8	7.7
Australian Fixed Interest	5.7	6.0	15.1	15.7
International Fixed Interest	3.1	4.2	8.5	8.9
Cash	5.1	9.5	20.6	22.7
	100.0	100.0	100.0	100.0

Sector	Conservative Growth		Ca	sh	
	<b>2011</b> %	<b>2010</b> %	<b>2011</b> %	<b>2010</b> %	
Australian Shares	12.8	13.6			
International Shares	9.7	8.3			
Property	5.5	5.4			
Alternative Assets*	5.1	5.0			
Australian Fixed Interest	15.5	15.5			
International Fixed Interest	12.1	12.2			
Cash	39.3	40.0	100.0	100.0	
	100.0	100.0	100.0	100.0	

\*N.B. The Alternative Assets category comprises allocations to assets with both growth and defensive characteristics.

### (e) Investment Expenses

Investment Management Expenses include fund management fees, asset consulting fees, custodial fees 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 periods ending June 2010 and 2011.

Strategy	Investment expenses as % of Average Total Assets for year end 30 June 2010	Investment expenses as % of Average Total Assets for year end 30 June 2011
Growth	0.29	0.33
Balanced	0.23	0.24
Conservative Growth	0.19	0.18
Cash	0.04	0.02

### (f) Asset Consultant

The Trustee Board's investment consultant, Frontier Investment Consulting Pty Ltd, advises the Board on strategic asset allocation and fund manager selection.

### (g) Investment Managers

As required by the *Superannuation*Administration Act 1996, all of the Pooled Fund's assets are managed by external fund managers who are appointed by the Trustee Board after receiving advice from the asset consultant. Each manager operates under a written agreement and investment mandate. The performance of the various fund managers is monitored throughout the year and managers may be added or replaced.

The Fund's investment managers as at 30 June 2011 are set out on page 7 of this Report.

### (h) Investment Policies

### (i) Investment Reserves

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

Members exiting the Pooled Fund schemes receive a daily interim rate applicable since the last monthly rate was determined.

### (ii) Derivatives

Derivatives, including futures and options, can be used by investment managers. However, each manager's investment mandate clearly states that derivatives may only be used to facilitate efficient cashflow management or to hedge the portfolio against market movements and cannot be used for speculative purposes or gearing the investment portfolio.

During the year to 30 June 2011, the managers made limited use of derivatives, except for the passive rebalancing program which makes extensive use of index futures.

### (iii) Currency Hedging

STC's policies in regard to currency hedging as at 30 June 2011 is as follows:

Hedging policy
International fixed interest
100% hedged into Australian dollars

### International equities

Specialist currency managers have been engaged to manage the currency exposure of international equities. During the year ended 30 June 2011, the level of hedging was able to vary from 0% up to 68%. Average hedging for the period was 30%. Developing economies equity is unhedged.

Other international assets and securities
During the year ended 30 June 2011, the level
of hedging was able to vary from 50% up to
100% with a benchmark hedge ratio of 100%
hedged. US and European credit portfolios
representing less than 2% of total Fund assets
were not hedged as at 30 June 2011, as these
portfolios are being strategically disinvested to
fund an alternative investments manager in US
dollars.

### (iv) Master Custodian

The Trustee Board has appointed JPMorgan Chase Bank, NA, as master custodian to hold the Pooled Fund's assets. The master custodian also values the Fund daily and monitors each investment manager's daily activity to ensure compliance with their investment mandate.

### (v) Passive Rebalancing

The Pooled Fund passively rebalances the tradeable asset classes in the portfolio in a disciplined manner to ensure consistency with the strategic asset allocation. 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 to within the agreed range. This rebalancing process may involve the use of derivatives.

### (vi) Large Investments

During the year, there was no individual investment directly held by the Pooled Fund that exceeded 5% of the Fund's total investments.

## (i) STC's Environmental, Social and Governance Policy (ESG)

As a long-term investor with a large and broadly based holding of corporate securities, including equities invested on an index basis, STC is aware that environmental, social and governance (ESG) issues may affect its investments. The STC Board is required to assess and manage all foreseeable risk factors effectively and therefore considers ESG as an investment-related risk.

STC believes that companies that best manage ESG risks, impacts and opportunities are likely to be more financially sustainable in the long term and to deliver better long-term financial performance.

Company performance on ESG issues can be first and foremost regarded as an indicator for overall management quality. Given that management quality ranks as the top factor taken into account by analysts and investors when judging companies, this is potentially a very strong driver of investment performance.

Inattention to ESG issues may give rise to unsustainable investment with long-term costs and consequential impacts on the long-term value of investments.

In these circumstances, attention to ESG issues by pension funds in formulating investment policy and asset allocation, and by fund managers in security analysis and portfolio construction, has the potential to enhance returns, or reduce risk, or both.

### **ACSI ESG Guidelines**

In formulating its policy position on ESG matters, STC has taken account of the document "A guide for superannuation trustees on the consideration of environmental, social and corporate governance risks in listed companies" published by the Australia Council of Super Investors (ACSI) in October 2009.

### Implementation of the STC's ESG Policy

STC's ESG Policy is implemented through a six part program which is set out below.

## 1 – Investment strategy development and research

STC believes that properly understanding and assessing the likely material risks and returns of its investments is an inherent requirement of fulfilling its fiduciary duties to its members and considers the ESG performance of companies in which STC invests to be relevant to the performance of STC's investment portfolio.

### 2 - Proxy voting

STC believes that informed, active voting of proxies provides the most effective way to encourage companies to adhere to the ASX corporate governance principles.

### 3 - Engagement with fund managers

STC considers the integration of ESG information throughout mainstream investment analysis to be essential, and therefore promotes integration of material issues into investment decision-making by its fund managers. STC expects its fund managers to exercise its ownership rights including proxy voting and communication with company management and to manage investments on behalf of STC with long-term investment performance in mind.

## 4 – Engagement and advocacy within the wider investment community

STC believes that collaborative engagement with other shareholders or stakeholders can lead to improvements in company behaviour, policies and financial systemic conditions.

### 5 - STC staff development and education

A practical understanding of ESG issues is essential if STC Board Members and staff are to effectively engage with fund managers and other investment service providers and to ensure that these parties discharge their agreed responsibilities.

### 6 - Communication with STC stakeholders

STC believes that it is important to communicate to stakeholders and other interested parties its beliefs and positions on ESG issues, and relevant actions taken or planned to be taken. This fulfils a responsibility to stakeholders and gives encouragement to other investors to address ESG issues.

### **UN Principles for Responsible Investment**

STC takes into account the UN Principles for Responsible Investment, which provide that pension funds should:

- Incorporate ESG issues into investment analysis and decision-making processes.
- 2. Be active owners and incorporate ESG issues into their ownership policies and practices.
- Seek appropriate disclosure on ESG issues by the entities in which they invest.
- 4. Promote acceptance and implementation of the Principles within the investment industry.
- 5. Work together to enhance their effectiveness in implementing the Principles.
- 6. Report on their activities and progress towards implementing the Principles.

It is important to note that the UN Principles suggest a policy of engagement with companies rather than screening or avoiding stocks based on ESG criteria (although this may be an appropriate approach for some investors). The Principles are generally designed for large investors like STC that are highly diversified and have large stakes in companies, often making divestment or avoidance impractical.

STC became a signatory to the Principles in August 2011.

### 3. SCHEME MEMBERSHIP

The STC schemes are all closed to new members and total membership numbers are declining as shown in the table below.

Scheme	As at	As at	%
Category	30 June	30 June	Movement
	2006	<b>2011</b>	in 5 years
Active memb	ers		
SSS	26,614	15,689	(41%)
SASS	<i>57,168</i>	41,264	(28%)
PSS	3,280	1,889	(42%)
Total	87,062	<i>58,84</i> 2	(32%)
Deferred mer	nbers		
SSS	4,347	3,022	(30%)
SASS	11,809	10,503	(11%)
PSS	179	166	(7%)
Total	16,335	13,691	(16%)
Pensioners			
SSS	39,795	47,506	19%
SASS	<i>4,569</i>	3,953	(13%)
PSS	5,697	6,434	13%
Total	50,061	57,893	16%
TOTAL	153,458	130,426	(15%)

Over the last five years, active membership has fallen by 28,220 (or 32%). Over the next five years, it is anticipated that active membership will continue to decline by about 6,000 per annum.

Conversely, 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 63,000 in approximately 8 years.

According to the 2009 STC triennial actuarial review, while the total number of members in the STC schemes is declining, total annual lump sum payments from the Pooled Fund are not expected to peak until around 2018.

### 4. MEMBER SERVICES

### (a) Member Contacts

STC continues to provide a range of services to enable members to obtain timely, accurate and useful information on the schemes and their personal benefit entitlements.

The trends in members' use of these services are shown in the table below.

	2008-09	2009-10	2010-11
Telephone calls	127,235	106,378	106,238
Personal interviews	3,077	2,777	2,459
Seminar attendance	5,066	5,064	4,189
Correspondence			
- postal	4,881	5,152	6,202
- email	8,598	9,438	10,680
- Gillali	3,000	3, 100	. 5,000

Telephone call volumes remained at a steady level despite the decline in total membership numbers. Postal and email correspondence increased by 20% and 13% respectively over the 12 month period. Email correspondence is still the preferred means of written communication.

### (b) SASS On-line Benefit Quotes

Online benefit quotes were made available to SASS members in September 2010. A substantial number of members have accessed the service with more than 150,000 quotes being generated.

### (c) 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. Concurrent Investment Choice was introduced for SASS members in April 2010.

This enables members to choose multiple options for their personal account balance and future contributions. Previously members could only choose one option for both.

The table below shows the allocation of member balances by investment option.

	Account Balances	
	30 June 2010	30 June 2011
	2010 \$m	2011 \$m
Growth	5,142.7	5,447.8
Balanced	158.6	191.3
Conservative Growth	88.6	120.6
Cash	167.7	169.8
Total	5,557.6	5,929.5

During 2010-11, a small minority of SASS members have switched out of the Growth strategy (default strategy), with only 8% of available funds being switched to the other options.

### (d) Salary Sacrifice Contributions

The percentage of members contributing by salary sacrifice as at 30 June 2011, with a breakdown for each scheme, is shown in the following table.

Percentage of members contributing via

Salary Sacrifice as at 30 June 2011		
SASS	SSS	PSS
48%	71%	51%

### (e) Retirement Planning Seminars

During 2010-11, there were a total of 66 retirement planning seminars conducted for SASS and SSS members, with 4,189 members attending these.

In addition, 18 "*Understanding Your Super*" seminars were attended by 588 SASS members.

### (f) Financial Planning Advice

STC has a 100% shareholding in State Super Financial Services Australia Limited (SSFS), which provides financial planning advice to members of the STC schemes and their relatives. STC has documented the required services to be provided to members via SSFS through an access agreement.

In 2009, STC reviewed the advice services it provides to its members and established the following principles for its advice model:

- All members of STC schemes should have access to information and advice in relation to investment decisions related to their super.
- STC outsources the provision of its advice services to SSFS – the quality of the advice provided is paramount and alignment of planners with the best interest of clients is critical.
- STC will offer proactively, and at no charge to members, access to seminars and other resources, including an expanded range of self-help tools, to assist in understanding their benefits and scheme rules. Seminars are offered through both STC and SSFS.
- SSFS is able to advise members to assist them to make decisions in relation to their overall needs. These include:
  - Comprehensive financial planning
  - Wealth management
  - Insurance
  - Contribution strategy
  - Retirement adequacy

## 5. STC'S PERFORMANCE AGAINST ITS OBJECTIVES IN THE 2010-11 CORPORATE PLAN

## (a) Achieve the long term "investment return objectives" of the Fund within an appropriate risk profile

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% per annum over ten year periods. For the ten year period ending 30 June 2011, the return achieved was 4.4% per annum which fell short of its target of 7.4% per annum, due to the impact of the global financial crisis and the subsequent economic recovery.

An Asset Liability Study conducted by STC confirmed that the current risk levels in the portfolio were appropriate to meet the long term investment objective. Furthermore, the Study confirmed that the growth asset allocation strategy was appropriate given the scheme liabilities, the expected funding profile and the expected long term returns from the markets.

Performance by STC's active managers in listed asset classes has been mixed. Asset weighted aggregate performance in both Australian shares and overseas shares sectors has been approximately in line with the benchmark over three and five year periods to 30 June 2011.

The absolute performance of property and alternatives managers collectively performed strongly and exceeded CPI+4.5% for the twelve months to 30 June 2011. Due to the effects of the global financial crisis, the three year return of these asset classes collectively remains below the overall fund performance target.

STC has continued to maintain prudent liquidity requirements to fund its liabilities. An increased focus on liquidity forecasting and planning has been implemented by STC's investment team.

## (b) Provide efficient management of outsourced contracts.

In order to efficiently manage its outsourced contracts, STC maintains strong working relationships with its key service providers namely its administrator, Pillar Administration, its master custodian, JPMorgan Chase, its Actuary, Mercer (Australia) Pty Ltd, its Asset Consultant, Frontier Investment Consulting and its investment managers.

STC's sign off processes for the appointment of investment managers were upgraded during the previous financial year and those processes have been followed throughout 2010-11 as new investment managers were added or deleted.

During the first half of 2011, STC benchmarked the services provided by its investment consultant, Frontier, and has now renewed that contract for a further 3 year period.

STC conducted a competitive tender for its actuarial service provider in 2010. An expert professional adviser assisted STC to ensure professional analysis and probity. A new contract was negotiated with the successful tenderer, Mercers.

STC has contracted for the external review of the services provided by its administrator, Pillar. Once that process is finalised, STC will negotiate both a new corporate and administration services contract with Pillar.

## (c) Provide relevant quality services to members on a cost effective basis.

STC provides the following services to members:

- annual benefit statements;
- a website, providing both general information on the schemes and secure access to a member's details;
- seminars targeted at members approaching retirement, which are run in both metropolitan and regional centres;
- personal interviews;

- Fact Sheets on the schemes' rules, which are available on the website or alternatively from Customer Service;
- SuperViews, which is a quarterly newsletter distributed to employers and unions;
- web based Salary Sacrifice calculators.
- access to Pillar Contact Centre and financial planning advice through State Super Financial Services (SSFS)

A new Access Agreement was executed with SSFS during 2010-11 which provides for ongoing access for STC members for advice services. General advice modules offered by STC through SSFS have been upgraded and made available to members on the SSFS website. In addition, STC is currently progressing the introduction of more efficient coordination of phone based services for members between Pillar and SSFS.

STC surveyed its membership in 2011 to obtain feedback on the quality and usage of services. The survey indicated a high level of satisfaction with STC services and confirmed the shift in member preferences towards online information and electronic communication. The survey responses also indicated that a large proportion of STC members are planning to retire in the next five to ten years.

STC expanded the level of disclosure on its key functions and documents to meet new Government Information Public Access (GIPA) legislative requirements during 2010. A set of frequently asked questions has also been added to the STC website to assist SASS and SSS members.

STC expanded the coverage of its seminar program in 2010 to include *understanding your* super seminars in addition to its successful preretirement seminars. The understanding your super seminars are directed at younger members not at or near retirement age.

In 2010, the SASS default investment options were reviewed. An increased program of communication around member investment options was implemented.

## (d) Maintain strong working relationships with key stakeholders.

STC continues to work with Treasury, the Department of Finance and Services and the Department of Premier and Cabinet (DPC) on key superannuation issues, as well as other legislative changes. STC also continues to maintain close working relationships with its key service providers.

During 2010-11, STC met with senior staff of DPC, Department of Finance & Services and Treasury staff to discuss STC's priorities.

STC also met with selected University employers during 2010 and 2011 to assist in resolving long standing funding plan issues in this sector.

## (e) Operate in accordance with "good practice" governance principles.

Although the STC schemes are technically "exempt" from Commonwealth superannuation regulatory requirements, STC endeavours to comply with appropriate Commonwealth legislation and implements and observes rigorous governance and compliance procedures.

STC carries out regular reviews of its various policies and plans. Following its biennial self assessment in November/December 2010, STC established a new Human Resources and Governance Committee which is responsible for reviewing, monitoring and reporting on Board and management governance frameworks. This includes the review of learning and development strategies for all staff and Board members.

Work has commenced on a major upgrade of records management for STC and all staff are being involved in the process.

Following the approval of a formal Environmental, Social and Governance (ESG) Policy in December 2009, the STC Board has recently become a signatory to the UN Principles for Responsible Investment.

The Board has also approved a Statement of Commitment to control fraud and corruption which is included on the STC website to make appropriate third parties aware of its commitment to values and behaviours of STC staff and service providers.

### **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.

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 trustees. STC conforms with the spirit of the Commonwealth regime 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 STC's Risk, Audit and Compliance Committee;
- A comprehensive risk management checklist that identifies STC's key risks is completed quarterly and annually and the results are reported to STC's Risk, Audit and Compliance Committee;
- Formal annual verification is obtained from STC's outsourced service providers confirming 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 are undertaken to ensure compliance with best practice measures.

### **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 providing 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.

#### **Investment Governance**

During 2010-11, the Board commissioned a review of the STC internal resources allocated to investment governance and investment operations. As a consequence of the review, the Board has approved an increase in the STC Executive staffing.

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 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.

In exceptional circumstances, STC can direct equity managers on how to vote where it is believed the issue is of sufficient importance to warrant such direction.

## 5 years at a glance - to 30 June

Member statistics	2007	2008	2009	2010	2011
Active Members — SASS	53,776	50,194	46,914	44,022	41,264
Active Members — SSS	24,419	22,033	19,938	17,855	15,689
Active Members — PSS	2,923	2,597	2,357	2,138	1,889
Total active members	81,118	74,824	69,209	64,015	58,842
Deferred Benefits — SASS	11,549	11,311	11,171	10,729	10,503
Deferred Benefits — SSS	4,161	3,831	3,575	3,322	3,022
Deferred Benefits — PSS	174	170	170	166	166
Total deferred benefits	15,884	15,312	14,916	14,217	13,691
Pensioners — SASS	4,381	4,233	4,062	4,438	3,953
Pensioners — SSS	41,151	42,596	44,501	46,786	47,506
Pensioners — PSS	5,880	5,994	6,347	6,566	6,434
Total pensioners	51,412	52,823	54,910	57,790	57,893
Gender ratios – active members					
Females — SASS	52%	52%	52%	52%	52%
Males — SASS	48%	48%	48%	48%	48%
Females — SSS	33%	34%	34%	34%	34%
Males — SSS	67%	66%	66%	66%	66%
Females — PSS	11%	11%	12%	12%	12%
Males — PSS	89%	89%	88%	88%	88%
Maics 1 CC	0070	0070	0070	0070	0070
Contributions — \$M					
Employer contributions	262	229	174	166	165
Employee contributions	516	564	546	540	522
Crown Contribution	7,176	902	978	1,567	1,330
Total contributions	7,954	1,695	1,698	2,273	2,017
Benefits Paid - \$M	2,759	3,075	3,021	3,258	3,384
Net Contributions - \$M	5,195	-1,380	-1,323	-985	-1,367
Investment Revenue - \$M	4,941	-3,062	-4,129	3,078	2,925
Assets/Liabilities — \$M					
Accrued Benefits — SASS	12,705	12,334	11,719	12,580	13,090
Net assets to pay benefits	9,282	8,590	7,854	8,559	9,102
Over/under funding	-3,423	-3,744	-3,865	-4,021	-3,988
Accrued Benefits — SSS	27,384	28,157	27,875	29,003	29,905
Net assets to pay benefits	24,031	20,975	17,214	18,025	18,758
Over/under funding	-3,353	-7,182	-10,661	-10,978	-11,147
Accrued Benefits — PSS	5,807	6,038	6,158	6,350	6,483
Net assets to pay benefits	4,107	3,463	2,750	2,913	3,046
Over/under funding	-1,700	-2,575	-3,408	-3,437	-3,437
Accrued Benefits — SANCS	2,531	2,564	2,483	2,653	2,700
Net assets to pay benefits	1,168	1,186	1,030	1,246	1,274
Over/under funding	-1,363	-1,378	-1,453	-1,407	-1,426
Total Accrued Benefits \$M	48,427	49,093	48,235	50,585	52,178
Total Net assets to pay benefits	38,588	34,214	28,848	30,743	32,180
Total Over/under funding	-9,839	-14,879	-19,387	-19,842	-19,998
Declared Returns – 1 year	14.9%	-7.2%	-10.3%	9.2%	8.7%

Employers are required by AASB119 *Employee Benefits* to report accrued benefits using a risk free discount rate. This rate is at variance to the assumed earning rate used by the scheme actuary to calculate the accrued benefits set out in the above table. The risk free rate results in a higher estimate of accrued benefits.

### PART B

# **SAS Trustee Corporation Statutory Information**

## **SAS Trustee Corporation Statutory Information**

The following information is provided in accordance with the *Annual Reports (Statutory Bodies) Regulation 2010.* 

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Note: The SAS Trustee Corporation has been granted an exemption by the New South Wales Treasurer from including an outline budget for the following year.

## Trustee Board Membership and **Frequency of Meetings**

The Trustee Board consists of a chairperson. four employer representatives and four employee representatives (nominated by Unions NSW). All Board members are appointed by the Minister on a part-time basis except for one employee representative who is full-time.

Trustee Board membership and the current term of appointment for each member are listed in the table below.

	Appointed	Termination date
Chairperson		
*Dr D Russell	1 Jan 2008	31 Dec 2012
Employer Repres	sentatives	
Mr I Blair	1 Sep 1998	31 May 2014
Mr P Scully	1 Feb 2004	31 Jan 2014
Mr M Lambert	1 Feb 2004	31 Jan 2014
Ms A De Salis	1 Feb 2006	31 Jan 2012
Employee Repres	sentatives	
Mr R Davis	1 Jul 1996	31 Dec 2013
Ms S Walsh	25 Mar 2011	24 Mar 2015
*Mr Lipscombe	25 Nov 2009	25 Mar 2011
**Mr R Harty	1 Jan 2002	31 Aug 2014
**Mr N Lewocki	1 Sep 1998	31 Aug 2012

The Trustee Board generally meets on a monthly basis. Ten meetings were held during the period from 1 July 2010 to 30 June 2011.

In line with the requirements of the Annual Reports (Statutory Bodies) Act 1984, Board meeting attendance during the reporting year is notified as follows:

	Meetings attended	Possible attendance
Chairperson		
Dr D Russell	10	10
<b>Employer Repres</b>	sentatives	
Mr I Blair	10	10
Mr P Scully	10	10
*Mr M Lambert	6	7
Ms A De Salis	10	10
*Leave of absence as	of March 2011	

Employee Represe	Meetings attended entatives	Possible attendance*
Mr R Davis	10	10
Mr R Harty	10	10
Ms S Walsh	3	3
Mr N Lewocki	9	10
Mr R Lipscombe	7	7

<sup>\*</sup> Board meetings include a Board planning meeting.

### **Trustee Board** Committees

The Committees and details of their functions and membership at 30 June 2011 are outlined below:

#### **Actuarial Committee**

#### **Members**

Messrs Scully (chairperson), Davis, Harty and Lambert; Dr Russell is an ex officio member; also attended by members of the Executive and the Scheme Actuary.

#### Role

- To issue tasks and projects to the scheme actuary and monitor their progress;
- to monitor the progress of the triennial review of the pooled fund;
- to conduct a tender, select and appoint a scheme actuary (when necessary);
- to monitor the performance of the scheme actuary against their contractual requirements;
- to monitor the compliance of the administrator in relation to actuarial requirements;
- to monitor any asset/liability matching issues that might affect the fund's investment strategies; and
- to identify any special projects that may require actuarial investigation and direct those projects as required.

<sup>\*</sup>Resigned prior to completion of term
\*\*Terms renewed during the last financial year

# Trustee Board Committees continued

### Risk, Audit and Compliance Committee

#### **Members**

Messrs Blair (chairperson), Davis and Ms De Salis; Dr Russell is an ex officio member; also attended by members of the Executive, the Audit Office of New South Wales and Pillar Administration.

#### Role

- To monitor and recommend ways of improving the effectiveness of STC's risk management and compliance system and ensure this is well documented;
- to assist the Board in promoting a culture of compliance within STC;
- to determine the timetable for the completion of the annual statutory accounts of STC and the pooled fund;
- to review and report on the annual statutory accounts and management accounts;
- to ensure that the external auditor is invited to attend each meeting and has the opportunity to address the Committee in camera;
- to review the fees, effectiveness and independence of the external auditor and investigate any disputes between STC management and the external auditor;
- to review and report on the scope of the audit functions performed for the Administrator and Custodian;
- · to review industry accounting changes;
- to monitor and report annually on internal management processes of STC and service providers, statutory compliance issues, third party contractual compliance issues, 'best practice' standards as determined by the relevant industry bodies and the risk management policies and processes of STC.

More information on STC's Risk Management Strategy and Plan are provided on page 28 of this Report.

### **Disputes Committee**

### **Members**

Messrs Lewocki (chairperson), Davis and Blair and Ms De Salis; Dr Russell is an ex officio member; also attended by members of the Executive and invited visitors.

#### Role

- To consider and make recommendations on disputes received from persons under section 67 of the Superannuation Administration Act 1996 (the Act);
- to monitor and authorise settlement of appeals under section 88 of the Act and report to the Trustee Board;
- to monitor death and disability benefit decisions made by the administrator; and
- to appoint and review medical consultants.

### **Member Services Committee**

#### **Members**

Messrs Harty (chairperson), Davis, Scully and Lambert; Dr Russell is an ex officio member; also attended by members of the Executive, Pillar Administration and invited visitors.

#### Role

- To review and monitor the performance of the Administrators (Pillar Administration and Allianz), including benchmarking,
- to review and make recommendations to the Board on administration contractual issues, such as Key Performance Indicators, contract amendments, other administration issues affecting the fund, and STC Schemes' Policies, and
- to review and monitor the performance of providers of advice services to STC scheme members.

### Trustee Board **Committees continued**

### **Remuneration Committee**

#### **Members**

Dr Russell (chairperson), Messrs Blair and Harty (the Chief Executive Officer of STC also attended, by invitation of the Committee).

#### Role

- To review the salary structure of the Executive of STC;
- to determine the salary structure of the contract staff and the Chief Executive having regard to appropriate benchmarks; and
- to review the performance of the Chief Executive Officer.

### **Statutory Committee — Police Superannuation Advisory Committee**

The Committee is a statutory committee established under Part 2H of the Police Regulation (Superannuation) Act 1906 to exercise certain powers delegated by the Trustee Board.

### **Members**

This Committee is comprised of the chairperson appointed by the Minister, three nominees of the Police Association of New South Wales. a nominee of the Commissioned Officers' Branch of the Police Association of New South Wales, a nominee of WorkCover NSW, a nominee of the Minister for Police and a nominee of STC. The STC nominee is currently a member of the STC Executive.

### **Functions**

- To determine entitlement to medical discharge for members of the NSW Police Force, and entitlement to 'hurt on duty' pension increases and other benefits under the Police Superannuation Scheme; and
- to advise STC on such matters relating to the Police Regulation (Superannuation) Act 1906 as are considered relevant.

## **Trustee Board Member** Attendance at STC **Committee Meetings**

Actuarial Committee	Meetings Attended	Possible Attendance
P Scully (Chair)	5	5
R Davis	5	5
*M Lambert	4	4
R Harty *Leave of absence	4	5
Risk, Audit and Comp	liance Comn	nittee
I Blair (Chair)	5	5
R Davis	5	5 5
A De Salis	5	5
<b>Disputes Committee</b>		
N Lewocki (Chair)	8	8
R Davis	8	8
A De Salis	7 5 2 1	8
I Blair	5	6
*P Scully	2	2
**R Lipscombe	•	_
*Deputy for Ms De Salis **Attended as a non me		
Member Services Con	nmittee	
R Harty (Chair)	4	4
R Davis	4	4
*M Lambert	1	3
P Scully	4	4
**R Lipscombe	1	
*Leave of absence		
**Attended as a non me	ember	
Remuneration Commi		
D Russell (Chair)	3 3 3	3 3 3
I Blair	3	3
R Harty	3	3
Police Superannuation		
R Davis (Chair)	13	13
*R Lipscombe	2	2
*Deputy for Ms Wooder	1, 510	

General Counsel

### Human Resource Management

Following the proclamation of the *Public Sector Employment Legislation Amendment Act 2006 (NSW)*, all executive staff, with the exception of the CEO, are employed by the SAS Trustee Corporation Division of the Government Service of NSW. The CEO's contract for employment is with STC, however all salary administration is conducted through the STC Division.

The administration of payroll and human resource services are provided by Pillar Administration. The table below shows the STC Executive, male, female and total staff numbers by salary band at 30 June 2011.

Salary Range	Men	Women	Total staff
< \$30,146	0	1	1
\$30,146 - \$39,592	0	0	0
\$39,593 - \$44,264	0	0	0
\$44,265 - \$56,012	0	0	0
\$56,013 - \$72,434	0	2	2
\$72,435 - \$90,543	1	3	4
> \$90,543 (non SES)	10	7	17
Totals	11 46%	13 54%	24

At 30 June 2011, STC employed 24 staff. Over the last financial year, two new staff members were employed.

### Salary movement

Salaries for contract staff are reviewed annually as part of a formal performance appraisal system. Award staff salary movement during the year was consistent with the *Crown Employees* (SAS Trustee Corporation) Award 2010. Salary movement for all contract staff during the year was in line with NSW Government salaries policy.

### Industrial relations

The Public Service Association of New South Wales provided industrial coverage for staff of the Executive. No time was lost during 2010-11 through industrial action.

### Training and development

The Trustee recognises the need for the ongoing development of staff and has developed a training program to enable all appropriate staff to meet ASIC's RG 146 training requirements.

During the financial year of 2010-11, STC has enhanced its training programme, with the implementation of an online service provider. In addition, staff may attend training designed by external providers and they keep up-to-date with changes in the superannuation industry by attending seminars, short courses and conferences.

### Occupational health and safety

During the reporting period, STC had no work related injuries, illnesses, or prosecutions under the *Occupational Health and Safety Act 2000*.

During the year, STC staff were again offered the opportunity to have influenza immunizations and 16 staff accepted.

# Code of Conduct and Ethics

The Codes of Conduct and Ethics for the Board members and Executive (the Codes) are periodically reviewed against policies and guidelines released by the NSW Government and various industry bodies.

The Codes of Conduct and Ethics were reviewed in May 2011. As a result of this review, the Board member and the Executive Codes were merged to create one Code of Conduct and Ethics, which all Board members and Executive staff must adhere to. The Code is available on the State Super website at <a href="https://www.statesuper.nsw.gov.au">www.statesuper.nsw.gov.au</a>.

### **Overseas Visits**

No STC funded overseas visits were undertaken by the Executive or Trustee Board Members of STC during the financial year 2010-11.

### **Disability Plan**

STC has developed a *Disability Plan* as part of a whole-of-government disability framework. The administrator of the STC schemes, Pillar Administration, also has a *Disability Plan* which covers the Fund's members.

STC ensures that clients with disabilities can access facilities, including requiring the Fund's property manager to provide building access for people with disabilities. STC also ensures that people with disabilities are considered for employment and are given training and development opportunities to suit their needs.

STC last reviewed its *Disability Plan* in the third quarter of the 2011 calendar year.

### Privacy and Use of Member Information

As a NSW Government body, STC must comply with relevant legislation, including the *Privacy and Personal Information Protection Act 1998* (the Privacy Act) and the *Health Records and Information Privacy Act 2002* (HRIP Act).

STC has developed a *Privacy Management Plan* (Plan) and, with the assistance of the scheme administrators, has implemented the policies and procedures set out in the Plan. A Privacy Statement is available to members which explains how STC deals with members' personal and health information collected and used in the course of administering the schemes.

The Privacy Statement details the action to be taken to ensure compliance with the requirements of the Privacy and HRIP Acts and is available both on request and on the State Super website at <a href="https://www.statesuper.nsw.gov.au">www.statesuper.nsw.gov.au</a>

During the year, STC reviewed and updated its Privacy Management Plan and revised the Privacy Statement.

During the year, the Administrator received four privacy complaints. The affected members were sent an apology letter and no further action was required.

# **Annual Report Production Details**

100 copies of this publication have been printed at an estimated maximum total cost of \$3,500. This cost includes artwork and print production costs. This publication is available on the State Super website at <a href="https://www.statesuper.nsw.gov.au">www.statesuper.nsw.gov.au</a> (see under *Publications*).

# Consumer Response — Disputes and Appeals

The superannuation schemes administered by the STC provide to members a two stage system of review of any decision made by a delegate of STC that they wish to dispute. The first stage is the STC Disputes Committee and the second stage is an appeal to the Industrial Court of NSW.

At 30 June 2010, 12 disputes were current. During the year ending 30 June 2011, the Trustee Corporation received 27 new disputes and 28 disputes were concluded (including disputes carried over from the previous year).

### Of those disputes:

Decided against the appellant	7
Decided in favour of the appellant	14
Withdrawn or discontinued	7
Outstanding at the end of the reporting year	11

**Appeals to the Industrial Court** from the STC Disputes Committee determinations resulted as follows:

Decided against the appellant	4
Decided in favour of the appellant	2
Withdrawn or discontinued	1
Settled	0
Outstanding at the end of the reporting year	5

The **Police Superannuation Scheme** provides for appeals in respect of hurt on duty related matters to the District Court of NSW from decisions of:

- the Police Superannuation Advisory Committee (PSAC), as delegate of STC on entitlements to pension increases; and
- Allianz Insurance Australia Limited, as delegate of the Trustee Corporation on entitlements to lump sum payments for duty related permanent impairments.

During the financial year 2010-11, these **appeals** resulted as follows:

	PSAC	Allianz
Decided against the appellant	7	0
Decided in favour of the appellant	2	1
Withdrawn or discontinued	3	1
Settled	31	7
Outstanding at the end of the reporting year	43	20

# Risk Management and Insurance

STC's Risk, Audit and Compliance Committee comprises members of the Trustee Board and its meetings are also attended by representatives of the NSW Audit Office and the primary scheme administrator, Pillar Administration.

The primary objective of the Risk, Audit and Compliance Committee is to advise and assist the Trustee Board on matters relating to auditing, risk management and compliance issues, taking into account best practice principles.

The Trustee Board is committed to managing the material risks presented by its environment and objectives. Risk must be effectively managed by the STC to enable:

- the Fund to operate in the best interests of the members for the security of their retirement benefits, and
- STC, as Trustee of the Fund, to operate in the best interests of the members for the security of their retirement benefits and for stakeholders to minimise their cost in funding members' benefits.

To enable STC to effectively manage these risks the Board has identified the material risks to the Fund and to the Trustee and the methods to aid in controlling those risks. These procedures are outlined in a combined Risk Management Strategy and Risk Management Plan.

## Risk Management Strategy and Risk Management Plan (RMS/RMP)

The combined RMS/RMP applies to all the STC funds and to STC as trustee of the STC funds. All the STC funds have similar risk factors. The combined RMS/RMP is published on the STC website.

The RMS/RMP aims to document:

- the actual risks that have been identified by the Board as material;
- the methods adopted to minimise these risks; and
- the way these risks are monitored on an ongoing basis.

On an annual basis, the Trustee Board and its Executive undertake a detailed analysis and assessment of the material risks in relation to the Trustee's objectives and Fund's activities and proposed activities. The Board also identifies risk on an ongoing basis, including reporting of breaches from the Executive and external service providers to the Risk, Audit and Compliance Committee.

In addition to the RMS/RMP, the risk management framework for the Trustee includes the following procedures:

- The management and monitoring arrangements in respect of adequate human, technical and financial resources to enable STC to carry out its obligations effectively.
- STC has arrangements in place to manage and control fraud and corruption.
- STC has appropriate insurance cover in the event of an unexpected occurrence affecting its operations or resources.
- STC has policies which set out a framework that encourages proactive risk management and compliance with regulatory obligations.

### Insurance

During the financial year 2010-11, insurance for STC was continued with the NSW Self Insurance Corporation (SI Corp), which covers all the NSW Government's insurable risks. SI Corp provides unlimited cover for the following classes of risk:

- workers' compensation;
- property (full replacement, new for old, including consequential loss);
- liability (including, but not limited to, professional indemnity, directors' and officers' liability); and
- miscellaneous (e.g. personal accident and protection for overseas travel).

## **Payments to Consultants**

Fees exceeding \$50,000						
Area	Project	Consultant	\$Total Cost			
<u>STC</u>						
Legal	Fraud Risk Review	KPMG	\$ 64,900			
Board	Actuarial Tender	Rice Warner Actuaries	\$ 53,829			
			\$118,729			
Pooled Fund Investments	Investment Resourcing Review	Mercer	\$155,216			
			\$155,216			

Fees less tha	n \$50,000		
Area	Project	Consultant	\$Total Cost
STC	-		
Board	Board Review	Boardroom Partners	\$ 31,350
Operations	Digital Record Keeping	Corporate Information Management Services	\$ 24,617
Operations	Review of Admin Services	KPMG	\$ 18,920
Legal	Compliance	Recordkeeping Innovations	\$ 18,373
Board	CEO Review	Mercer	\$ 5,544
Operations	Fraud Policy Review	KPMG	\$ 5,500
Board	CEO Review	Mercer	\$ 808
			\$105,112
Pooled Fund			
Investments	Advice Services Review	Chant West	\$ 32,968
			\$ 32,968

## **Account Payment Performance**

### Accounts paid on time within each quarter

Quarter	Т	Total amount paid		
	Target %	Actual %	\$	<b>\$</b>
Sep 2010	100%	100%	\$6,353,377	\$6,353,377
Dec 2010	100%	100%	\$7,966,409	\$7,966,409
Mar 2011	100%	100%	\$8,759,428	\$8,759,428
Jun 2011	100%	100%	\$8,516,171	\$8,516,171
Total				

### Government Information (Public Access) Act 2009 NSW

### Program for the release of information

Under the *Government Information (Public Access) Act 2009* (GIPA Act), STC must review, at least annually, its program for the release of information that should be made publicly available in the public interest without imposing unreasonable additional costs on STC. The Act has been in force for 12 months. The information that has been released on the website under "Access to information" is reviewed and updated on a regular basis. A detailed review is scheduled to be carried out in December 2011.

### Total number of access applications

STC has received no applications under the Act between 1 July 2010 and 30 June 2011. Requests in regards to member records were handled on behalf of STC by the scheme administrator, Pillar Administration (Pillar). Statistical information in regards to member's records under the GIPA Act is contained in Pillar's annual report.

### Applications refused under Schedule 1 of the Act

STC must report the total number of access applications it refused from those received during the reporting year. These refusals are either whole or partial, on the basis that the application related to the disclosure of information referred to in Schedule 1 of the Act (information for which there is conclusive presumption of overriding public interest against disclosure). STC has not refused any applications, either wholly or partially, on the grounds provided by Schedule 1 during the reporting period.

Table A: Number of applications by type of applicant and outcome								
	Access Granted in Full	Access Granted in Part	Access Refused	Information Not held	Information Already Available	Refusal to Deal With Application	Refusal to Confirm/ Deny Whether Information is Held	Application Withdrawn
Media	0	0	0	0	0	0	0	0
Member of Parliament	0	0	0	0	0	0	0	0
Private-sector Business	0	0	0	0	0	0	0	0
Not-for-profit Organisation or Community Group	0	0	0	0	0	0	0	0
Member of the Public (Application by Legal Representative)	0	0	0	0	0	0	0	0
Member of the Public (Other)	0	0	0	0	0	0	0	0

	Access Granted in Full	Access Granted in Part	Access Refused	Information Not held	Information Already Available	Refusal to Deal With Application	Refusal to Confirm/ Deny Whether Information is Held	Application Withdrawn
Personal Information Application*	0	0	0	0	0	0	0	0
Access Application (other than Personal Information Applications)	0	0	0	0	0	0	0	0
Access Applications that are Partly Personal Information and Partly Other	0	0	0	0	0	0	0	0

<sup>\*</sup>A **personal information application** is an access application for personal information (as defined in clause 4 of Schedule 4 to the Act) about the applicant (the applicant being an individual).

### Government Information (Public Access) Act 2009 NSW continued

Table C: Invalid Applications	
Reason for Invalidity	No of applications
Application does not comply with formal requirements (section 41 of the Act)	0
Application is for excluded information of the agency (section 43 of the Act)	0
Application contravenes restraint order (section 110 of the Act)	0
Total number of invalid applications received	0
Invalid applications that subsequently became valid applications	0

<b>Table D:</b> Conclusive presumption of overriding public inte 1 of Act	rest against disclosure: matters listed in Schedule
	Number of times consideration used*
Overriding secrecy laws	0
Cabinet information	0
Executive Council information	0
Contempt	0
Legal professional privilege	0
Excluded information	0
Documents affecting law enforcement and public safety	0
Transport safety	0
Adoption	0
Care and protection of children	0
Ministerial code of conduct	0
Aboriginal and environmental heritage	0

<sup>\*</sup> More than one public interest consideration may apply in relation to a particular access application and, if so, each such consideration is to be recorded (but only once per application). This also applies in relation to Table E.

Table E: Other public interest considerations against disclosure: matters listed in table to section 14 of Act				
	Number of occasions when application not			
	successful			
Responsible and effective government	0			
Law enforcement and security	0			
Individual rights, judicial processes and natural justice	0			
Business interests of agencies and other persons	0			
Environment, culture, economy and general matters	0			
Secrecy provisions	0			
Exempt documents under interstate Freedom of	0			
Information legislation				

Table F: Timeliness				
	Number of applications			
Decided within the statutory timeframe (20 days plus any	0			
extensions)				
Decided after 35 days (by agreement with applicant)	0			
Not decided within time (deemed refusal)	0			
Total	0			

### Government Information (Public Access) Act 2009 NSW continued

Table G: Number of applications reviewed under Part 5 of the Act (by type of review and outcome)			
	Decision varied	Decision upheld	Total
Internal review	0	0	0
Review by Information Commissioner*	0	0	0
Internal review following recommendation under section 93 of Act	0	0	0
Review by ADT	0	0	0
Total	0	0	0

<sup>\*</sup> The Information Commissioner does not have the authority to vary decisions, but can make recommendations to the original decision-maker. The data in this case indicates that a recommendation to vary or uphold the original decision has been made by the Information Commissioner.

Table H: Applications for review under Part 5 of the Act (by type of applicant)			
Number of applications			
	for review		
Applications by access applicants	0		
Applications by persons to whom information the subject	0		
of access application relates (see section 54 of the Act)			

# PART C Triennial Actuarial Valuation

The triennial actuarial valuation of the Pooled Fund and each of the individual schemes at 30 June 2009 was carried out by Martin Stevenson, FIA, FIAA of Mercer (Australia) Pty Ltd. A summary of this valuation is provided as follows:

### **Triennial Actuarial Valuation**

### Introduction

As requested by the SAS Trustee Corporation (the Corporation) I have carried out an actuarial valuation of the following Schemes as at 30 June 2009 in accordance with the relevant legislation governing each of the Schemes:

- the State Authorities Superannuation Scheme (SASS)
- the State Authorities Non-Contributory Superannuation Scheme (SANCS)
- the State Superannuation Scheme (SSS)
- the Police Superannuation Scheme (PSS).

The previous actuarial investigation of SASS, SANCS, SSS and PSS was carried out by myself as at 30 June 2006 and the results were set out in a report dated December 2006.

This report conforms to the requirements of Professional Standard 400 of the Institute of Actuaries of Australia.

For funding purposes and in accordance with legislation, distinctions are made between groups of employers as set out in the following table.

Scheme	Employers
SASS	Employers are separated into Parts 1 and 3 in accordance with legislation.  Part 1 includes the Crown and other employers, Part 3 includes Hospitals and other bodies.
SANCS	Employers are subdivided in the same manner as SASS above.
SSS	Employers under SSS are essentially equivalent to Part 1 employers under SASS.
PSS	No subdivision necessary.

As at the date of the previous investigation certain assets were held in the General Government Liability Management Fund (GGLMF). The assets were transferred to the Pooled Fund during the interinvestigation period. Where appropriate the effect of the GGLMF has been noted.

The **number of contributors** in each of the Schemes at the current and previous investigation dates is set out below:

Contributors	SASS	SANCS	SSS	PSS	Total
30 June 2009	46,741	68,979	19,903	2,352	137,975
30 June 2006	56,986	86,875	26,616	3,297	173,774
Pensioners	SASS	SANCS	SSS	PSS	Total
30 June 2009	4,099	n/a	44,516	6,190	54,805
30 June 2006	4,653	n/a	39,754	5,697	50,104

The **Pooled Fund assets** at 30 June 2009 totalled \$28,847.7 million compared to \$28,578.1 million at the last valuation. The assets were allocated to each Scheme as follows:

Assets (\$millions)	SASS	SANCS	SSS	PSS	Total
30 June 2009	7,854	1,030	17,214	2,750	28,848
30 June 2006	8.590	1.145	17.881	962	28,578

### **Triennial Actuarial Valuation continued**

The assets of the GGLMF amounted to \$6,729 million as at 30 June 2006 (and are not included in the above table).

The Employer Reserves as at 30 June 2009 in respect of each Scheme are as follows:

\$millions	SASS	SANCS	SSS	PSS	Total
Assets	7,854	1,030	17,214	2,750	28,848
<ul><li>Less,</li><li>Member Reserves (including SASS and SANCS deferreds)</li></ul>	4,985	253	3,627	314	9,179
Death/ Disability Reserves	2	-	-	-	2
Adjustments	19	-40	79	-12	46
Employer Reserve	2,886	737	13,666	2,424	19,713

The adjustments noted above represent differences between the employer records (which are required for subdivision by Scheme, Part and employer) and the accounts. In addition co-contributions in SANCS have been removed from the SANCS Employer Reserve.

For all Schemes the key **long term economic assumptions** are as follows:

Long-term assumptions	This valuation % per annum	Last valuation % per annum
Rate of investment return	8.3% for pensioners,	7.7% for current pensioners,
	7.3% other members	7.0% other members
Rate of general salary escalation	4.0%	4.0%
Rate of increase in CPI	2.5%	2.5%

The investment return assumption for assets backing the liabilities of non pensioners has been increased from 7.0% at the previous valuation to 7.3% per annum and the rate of return for assets backing the liabilities of pensioners from 7.7% to 8.3% per annum. The rate of investment return assumption is higher for pensioners because no tax is payable in respect of assets backing Current Pension Liabilities. Note that the higher investment return assumption applies for all pensioners, not just current pensioners, as was assumed at the previous investigation.

The main reasons for the increase in the investment return assumptions are that the tax position was comprehensively investigated in the inter valuation period and was found to be more favourable than previously assumed; and the outlook by investment consultants is slightly more positive than previously (taking into account relatively depressed asset values).

No special short term assumptions have been adopted with the long term assumptions applying over all time periods.

A comprehensive analysis was carried out in respect of all demographic assumptions used in the investigations of the Pooled Fund Schemes. The analysis related mainly to the three years 1 July 2005 to 30 June 2008.

This analysis led to changes in relation to the rates of resignation, preservation, mortality, disability, retirement and early retirement and proportions choosing lump sums or pensions on retirement.

Changes in contributor decrements and deferral of retirement in SASS and SANCS have provided only a small offset to the effect of improvements in pensioner mortality, increased disability rates in respect of the PSS and the assumed rate of people taking pensions with the result that the demographic basis changes have produced a strengthening of the basis and hence a source of deficiency to the Schemes overall.

#### Results

Excluding the GGLMF, the unfunded liability for the Pooled Fund has increased from \$17,164.7 million to \$19,871.2 million over the three years to 30 June 2009. Including the GGLMF, the unfunded liability has increased from \$10,435.7 million to \$19,871.2 million over the three years.

The unfunded liabilities of each of the Schemes or sub-divisions within schemes are as follows:

\$millions	SASS	SANCS	SSS	PSS	Total
Employer Accrued Benefits					
Contributors	6,479.0	2,268.7	5,829.9	1,862.6	16,440.2
Deferreds	-		627.5	21.7	649.2
Pensioners	427.2		17,951.0	4,116.4	22,494.6
Total Employer Accrued					
Liability	6,906.2	2,268.7	24,408.4	6,000.7	39,584.0
Less,					
Employer Reserve Account	2,886.1	737.0	13,665.7	2,424.0	19,712.8
Employer Unfunded Liability					
as at 30 June 2009	4,020.1	1,531.7	10,742.7	3,576.6	19,871.2
Unfunded Liability at 30 June					
2006 before taking into					
account the GGLMF	3,088.0	1,231.9	8,152.1	4,692.7	17,164.7
GGLMF					(6,729.0)
Unfunded Liability at 30 June					
2006 after taking into					
account GGLMF					10,435.7

The employer unfunded liabilities shown above have not been grossed up for contributions tax.

Employer contributions towards meeting unfunded liabilities must be grossed up to allow for tax on contributions. Wherever employer contribution rates have been calculated in this report, the contribution rates have been grossed up accordingly.

Sensitivity runs were carried out, and the results are set out in the following table:

	Unfunded	liability un	der varying as	ssumptions	(\$million)
Basis	SASS	SANCS	SSS	PSS	Total
Standard	4,020.1	1,531.7	10,742.7	3,576.6	19,871.2
Investment return plus					
1%	3,534.8	1,388.1	8,041.4	2,963.3	15,927.7
Investment return					
minus 1%	4,577.1	1,693.5	14,007.4	4,324.5	24,602.5
Salary increases					
plus 1%	4,495.8	1,694.5	11,053.4	3,684.9	20,928.5
Salary increases					
minus1%	3,592.7	1,384.8	10,450.7	3,481.0	18,909.2
CPI increases					
plus 1%	4,103.2	1,531.7	13,789.8	4,248.8	23,673.5
CPI increases					
minus 1%	3,948.7	1,531.7	8,156.4	3,014.4	16,651.3
Rate of salary increase					
3.5% per annum	3,800.7	1,456.4	10,594.4	3,526.5	19,378.0

The above table demonstrates that the rate of investment return has the major impact on the financial condition of the Pooled Fund. The table also shows that a worsening of an economic parameter by 1% per annum has a greater dollar effect than a favourable change of 1% per annum.

In addition, the effect of a short term "shock" to investment return was quantified.

Unfunded	liability und	der varying as	ssumptions	(\$million)
SASS	SANCS	SSS	PSS	Total
4,020.1	1,531.7	10,742.7	3,576.6	19,871.2
4.510.5	1 661 2	12 692 0	4.065.0	23.928.7
	SASS	SASS SANCS 4,020.1 1,531.7	SASS         SANCS         SSS           4,020.1         1,531.7         10,742.7	4,020.1 1,531.7 10,742.7 3,576.6

# Major items contributing to current results

The major items of surplus and deficiency which have affected the Schemes over the period since the last actuarial investigation are as follows:

Item	Comment		Amount of deficiency /surplus (-) \$ billion
Unfunded liability as at 1 July 2006			17.2
Investment Earnings	Investment Earnings of the Pooled Fund were significantly lower than assumed and this resulted in an item of deficiency.		8.3
Contributions	Contributions to the Crown funded employer reserves in SSS and PSS were less than the accruals over the period but offsetting funding transfers and past service funding in SASS and SANCS resulted in an overall surplus.		-0.5
Effect of GGLMF	The GGLMF balance, transferred in 2006-7, together with assumed interest reduced the unfunded liability.		-9.0
Change of actuarial basis	Pensioner assumptions  Lower commutation  PSS higher disability  Expenses allocated to accrued liability  Discount rate  Other net effects  The overall impact of the changes in the	1.1 0.3 0.2 0.4 -3.4 0.1	-1.3
Impact of disability experience in PSS	valuation basis was an item of surplus.  The impact of the higher actual than expected disabilities in the PSS was an item of deficiency.		0.1
Other exits	Generally fewer other exits and lower commutation rates was a further item of deficiency.		0.1
Salary increases	Higher than expected salary increases led to a deficiency.		0.4
CPI increases	Higher than anticipated CPI increases led to a deficiency.		0.5
Interest on the previous unfunded liability	Interest on the previous unfunded liability at 1 July 2006 resulted in a deficiency.		4.1
Other			0.0
Unfunded liability as at 30 June 2009			19.9

The major items of surplus were the transfer from the GGLMF, the change in the actuarial basis and higher contributions overall than benefit accruals; while investment earnings being lower than anticipated, interest on the opening unfunded liability and higher than anticipated salary and CPI increases were the major items of deficiency.

# **Funding plans**

The financial positions as at 30 June 2009 of the main funding groups are:

	Present value of employer financed past service benefits \$ million	Value of assets \$ million	Unfunded liability \$ million
General Government Sector	32,460	14,688	17,772
Universities	3,285	1,434	1,851
PTEs and others	3,839	3,591	248
Total	39,584	19,713	19,871

This compares with the position as at 30 June 2006:

	Present value of employer financed past service benefits \$ million	Value of assets \$ million	Unfunded liability \$ million
General Government Sector	28,074.0	11,721.0	16,353.0
Universities	2,913.7	1,837.9	1,075.8
PTEs and others	3,564.2	3,828.4	-264.2
Subtotal	34,551.9	17,387.2	17,164.7
GGLMF	0.0	6,729.0	-6,729.0
Total	34,551.9	24,116.2	10,435.7

#### General Government Sector:

The 2009-10 Budget Statement outlined the NSW Government's funding plan for the General Government Sector. The plan is re-evaluated each year and adjusted for the actual experience in the preceding year.

The Non-Crown General Government Sector employers are assumed to continue to contribute at recent levels of contributions as a percentage of salaries of members.

The contributions for the Crown are determined to fully fund the General Government Sector by 30 June 2030.

The approach to the methods and assumptions used by Treasury is identical to the approach to the methods and assumptions used in this report except that the rate of general salary increase used by Treasury is 3.5% per annum whereas the assumption adopted for this report is 4.0% per annum. This difference is non material and well within the range of acceptable assumptions.

Hence this investigation confirms NSW Treasury's funding plan is expected to result in the General Government Sector being fully funded by 30 June 2030. That is, the assets at that date are expected to exceed the value of past service liabilities.

#### Universities

The combined deficit of the sub-funds relating to Universities on the funding basis is \$1.8 billion. On the current level of contributions individual University sub-funds are expected to exhaust their employer reserves over the period 2014/15 to 2021/22.

Legal advice obtained by the Trustee states that the Trustee cannot pay benefits once a University employer sub-fund is exhausted. That is, other Pooled Fund assets are not available for a University employer sub-fund in deficit.

Recently the NSW Government approached the Commonwealth Government highlighting concern about the funding shortfall of the Universities sector. However, negotiations between the Commonwealth Government and the New South Wales Government in respect of the responsibility for the Universities' superannuation deficit have been continuing for a very long time without resolution. If these negotiations are not resolved by 2014/15 then it is expected that the Trustee will not be able to meet the benefit payment obligation in respect of members of the affected University sub-funds.

I recommend that the Trustee urge the Commonwealth and New South Wales governments to reach agreement in respect of the funding of the Universities within a reasonable timeframe and to formally advise the Trustee of the decision reached.

PTEs and other employers

As a group, Public Trading Enterprises (PTEs) and other employees have a deficiency on the funding basis of \$0.2 billion. Possible individual funding plans for each employer were set out in a separate report.

...

MA Stevenson
Fellow of the Institute of Actuaries of Australia

# **PART D**

# Financial Statements of the SAS Trustee Corporation



GPO BOX 12 Sydney NSW 2001

#### SAS Trustee Corporation

#### To Members of the New South Wales Parliament

I have audited the accompanying financial statements of SAS Trustee Corporation (STC), which comprise the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information for both the STC and the consolidated entity. The consolidated entity comprises the STC and the entity it controlled at the year's end or from time to time during the financial year.

#### Auditor's Opinion

In my opinion, the financial statements:

- give a true and fair view of the financial position of the STC and the consolidated entity as at 30 June 2011, and of their financial performance for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2010.

My opinion should be read in conjunction with the rest of this report.

#### The Board's Responsibility for the Financial Statements

The Board of STC is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of STC, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does not provide assurance:

- about the future viability of the STC or consolidated entity
- that it has carried out its activities effectively, efficiently and economically
- about the effectiveness of its internal control
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

# Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and other relevant ethical pronouncements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their role by the possibility of losing clients or income.

Peter Achterstraat Auditor General

September 2011 SYDNEY

#### ABN 29 239 066 746

#### Statement by Members of the Trustee Board for the year ended 30 June 2011

Pursuant to the Public Finance and Audit Act 1983 and in accordance with a resolution of the Board of the SAS Trustee Corporation, we declare on behalf of the Board that in our opinion:

- the financial statements present a true and fair view of the financial position of the SAS Trustee Corporation as at 30 June 2011 and transactions for the year then ended, and
- the financial statements have been prepared in accordance with the provisions of the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2010, the Treasurer's Directions and applicable Accounting Standards in Australia.

Further, we are not aware of any circumstances, which would render any particulars included in the financial statements to be misleading or inaccurate.

Signed at Sydney this 28th day of September 2011.

Michael Carapiet

Chairperson

SAS Trustee Corporation

Ian Blair

Board Member and Chairperson of the Risk, Audit and Compliance Committee

SAS Trustee Corporation

# Consolidated Statement of Comprehensive Income for the year ended 30 June 2011

	NOTE	Economic Entity 2011 \$'000	Economic Entity 2010 \$'000	Statutory Corporation 2011 \$'000	Statutory Corporation 2010 \$'000
Continuing Operations Operating Revenue	3	33,519	33,959	32,526	33,089
Operating Expenses	3	(33,766)	(33,668)	(32,526)	(33,089)
Operating Result		(247)	291	-	-
Other Comprehensive Income					
Superannuation actuarial gains/(losses)		247	(291)	-	-
Total Comprehensive Income		-	<u>-</u>	<b>—</b>	-

The accompanying notes form an integral part of the above Statement of Comprehensive Income

# **Consolidated Statement of Financial Position**

as at 30 June 2011

	NOTE	Economic Entity 2011 \$'000	Economic Entity 2010 \$'000	Statutory Corporation 2011 \$'000	Statutory Corporation 2010 \$'000
Current Assets					
Cash and cash equivalents	11(a)	958	2,970	958	2,970
Receivables	4	4,876	2,596	4,722	2,384
Other Current Assets		106	59	106	59
Total Current Assets		5,940	5,625	5,786	5,413
Total Assets		5,940	5,625	5,786	5,413
Current Liabilities Payables Provisions	5 6	3,882 1,246	3,521 1,404	5,786	5,413 -
Total Current Liabilities		5,128	4,925	5,786	5,413
Non-Current Liabilities Provisions Total Non-current Liabilities	6	812 812	700 700		<del>-</del>
Total Liabilities	•	5,940	5,625	5,786	5,413
Net Assets		-	-	-	-
Total Equity		•	-	<b>*</b>	

The accompanying notes form an integral part of the above Statement of Financial Position

# **Consolidated Statement of Cash Flows**

for the year ended 30 June 2011

	NOTE	Economic Entity 2011 \$'000	Economic Entity 2010 \$'000	Statutory Corporation 2011 \$'000	Statutory Corporation 2010 \$'000
Cash Flows from Operating Activities Receipts from Associated Schemes Interest Received Payments to Suppliers and Employees Net Operating Cash Flows	11(b)	31,035 83 (33,130) (2,012)	34,668 88 . (34,108) 648	30,042 83 (32,137) (2,012)	33,799 88 (33,239) 648
Net Increase/(Decrease) in Cash & Cash Equivalents		(2,012)	648	(2,012)	648
Cash & Cash Equivalents at the Beginning of the Financial Year		2,970	2,322	2,970	2,322
Cash & Cash Equivalents at the End of the Financial Year	11(a)	958	2,970	958	2,970

The accompanying notes form an integral part of the above Consolidated Statement of Cash Flows

# Consolidated Statement of Changes in Equity for the year ended 30 June 2011

	Economic Entity 2011 \$'000	Economic Entity 2010 \$'000	Statutory Corporation 2011 \$'000	Statutory Corporation 2010 \$'000
Balance at 1 July		_	-	-
Operating Result	(247)	291	-	-
Other Comprehensive Income				
Superannuation actuarial gains/(losses)	247	(291)	•	<u>-</u>
Total Comprehensive income	-	-	-	-
Balance at 30 June		<del>-</del>	•	-

The accompanying notes form an integral part of the above Statement of Changes in Equity

#### Notes to the financial statements

for the year ended 30 June 2011

#### 1. OPERATIONS

Under the terms of the *Superannuation Administration Act 1996* (the Act), the SAS Trustee Corporation (STC) acts as trustee and holds in trust all assets of the SAS Trustee Corporation Pooled Fund ("the Pooled Fund"). STC is economically dependent on the Pooled Fund.

STC is, for the purpose of any Acts, a statutory body. It is domiciled in NSW Australia. Its registered address is Level 17, 83 Clarence Street, Sydney, NSW, 2000.

Scheme administration services for the Pooled Fund are carried out by the Superannuation Administration Corporation trading as Pillar Administration (Pillar). Pillar charges fees for the services it provides.

Investment custodial activities for the Pooled Fund are performed by JPMorgan Chase Bank NA.

The Pooled Fund is a separate reporting entity for accounting and taxation purposes.

The Economic Entity comprises -

- The SAS Trustee Corporation Division of the Government Service of NSW, as the controlled entity ("the STC Division"), and
- STC as the parent entity of the STC Division (referred to as the "Statutory Corporation" in the above statements).

The principles of consolidation of these entities are described at note 2(b) below.

#### 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

#### a) Statement of Compliance

The financial statements form are general purpose financial statements and are prepared in accordance with –

- the Public Finance and Audit Act 1983
- the Public Finance and Audit Regulation 2010
- the Treasurer's Directions
- applicable Australian Accounting Standards including Australian Accounting Interpretations.

Both the Economic Entity and the Parent Entity are not-for-profit entities.

The financial statements have been prepared on an historical cost basis using the accrual method of accounting and do not reflect the changing money values of assets. Interest and fee income is accounted for on an accrual basis.

The accounting policies adopted in preparing the financial statements have been consistently applied during the year, unless otherwise stated.

All amounts are expressed in Australian dollars.

The financial statements were authorised for issue by the Trustee Board on 28 September 2011.

# Notes to the financial statements

for the year ended 30 June 2011

#### 2. STATEMENT OF ACCOUNTING POLICIES (Continued)

#### b) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of the Statutory Corporation and its controlled entity, the STC Division, as at 30 June and the results of the Statutory Corporation and its controlled entity for the year then ended. The Statutory Corporation and its controlled entity is referred to in these financial statements as the "Economic Entity". The effects of all transactions within the Economic Entity are eliminated in full. There are no outside equity interests.

The accounting policies adopted in preparing the financial statements are consistently applied.

The STC Division also prepares separate financial statements. These financial statements are audited by the Auditor-General of NSW.

#### c) Administration Expenses and Revenue

All costs relating to scheme administration and executive management of the Pooled Fund are incurred by the Statutory Corporation and comprise the direct expenses of the Statutory Corporation and administration fees from Pillar.

Under the terms of the Act, the Statutory Corporation must recover the costs it incurs from the Pooled Fund. Consequently it recognises an amount equal to the costs incurred at the time the services are delivered.

Lease expenses are recognised on a straight line basis over the lease term, including incentives and contingent rentals.

# d) Employee Benefits

Wages, salaries and annual leave

The provision for employee benefits relating to wages, salaries and annual leave represents the amount which the Economic Entity has a present obligation to pay resulting from employees' services provided up to the balance date. These provisions are expected to be settled within 12 months and are measured at their nominal values using the remuneration rates expected to apply at the time of settlement. Such measurement provides a reliable estimate of the liability. All amounts include the salary of STC's Chief Executive Officer, whose contract is direct with STC.

Long service leave

The liability for employee benefits relating to long service leave is measured at their discounted value using the risk free rate mandated by NSW Treasury. Such measurement provides a reliable estimate of the liability.

#### Notes to the financial statements

for the year ended 30 June 2011

# 2. STATEMENT OF ACCOUNTING POLICIES (Continued)

#### d) Employee Benefits (Continued)

Superannuation

Any unfunded superannuation liability is recognised as a liability in the Statement of Financial Position and amounts representing pre-paid superannuation contributions are recognised as an asset. The Economic Entity is meeting in full the total superannuation liabilities for its employees. The contributions made to superannuation funds are charged against the operating result. Any actuarial gains and losses are recognised in comprehensive income in the year in which the gain or loss occurs.

#### e) Roundings

All values reported in the financial statements have been rounded to the nearest thousand dollars, except where otherwise stated.

#### f) Cash Flows

Under current funding arrangements all cash payments to external parties with the exception of investment management and custody fees incurred on behalf of the Statutory Corporation are transacted through the Statutory Corporation's bank account and recovered from the Pooled Fund. Investment management and custody fees are disbursed directly by the Custodian from the Fund's pool of assets.

All transactions of the STC Division are conducted through the Statutory Corporation's bank account.

#### g) Financial Instruments

Financial instruments give rise to positions that are financial assets or liabilities. The instruments include cash at bank, receivables and payables. All classes of instruments are initially recorded at cost and with receivables and payables being subsequently carried at amortised cost. As such, inputs for valuing the receivables and payables are not based on observable market data. Such measurement provides a reliable estimate of the instrument. Any impairment loss occurring on financial instruments is treated as an expense in the period in which it occurs.

#### h) Accounting standards applicable issued but not yet effective

AASB 9 Financial Instruments as issued in December 2009 will be implemented for the year ended 30 June 2014. No material change to these financial statements is anticipated.

AASB 2010-4 Further Amendments to Australian Accounting Standards Arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] will be implemented for the year ended 30 June 2012. No material change to these financial statements is anticipated.

# Notes to the financial statements

for the year ended 30 June 2011

# 2. STATEMENT OF ACCOUNTING POLICIES (Continued)

# i) Comparative Figures

Where there have been changes in presentation in the current financial year, the comparative figures for the previous year have been adjusted to conform to these changes.

# j) Use of Judgements and Estimates

The preparation of the financial statements require management to make judgements, estimates and assumptions that affect the amounts recognised in the financial statements. However, uncertainty implicit in these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying value of the affected asset or liability in the future.

# Notes to the financial statements

for the year ended 30 June 2011

# 3. RESULT

,	Economic	Economic	Statutory	Statutory
	Entity	Entity	Corporation	Corporation
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
The result includes the following items of revenue and expense:				
Management Fees	33,134	33,751	32,141	32,881
Interest Income	83	88	83	88
Other Income	302	120	302	120
Total Revenue	33,519	33,959	32,526	33,089
Trustee Expenses Board Member Fees Other Administration Expenses Total Trustee Expenses	600	580	600	580
	87	56	87	56
	687	636	687	636
Executive Expenses Employee Related Expenses Superannuation Personnel Services Expenses Accommodation Other Administration Expenses Total Executive Expenses	3,478 546 439 376 4,839	3,055 412 - 453 368 4,288	2,784 439 376 3,599	2,888 453 368 3,709
Fund Expenses Fees for Services Other Administration Expenses Pillar Administration Fees Total Fund Expenses	2,318	1,928	2,318	1,928
	342	536	342	536
	25,580	26,280	25,580	26,280
	28,240	28,744	28,240	28,744
Total Administration Expenses Result	33,766	33,668 291	32,526	33,089

Contained within other Administration Expenses are fees paid to consultants of \$223,842 (2010: \$235,849) and audit fees of \$12,100 (2010: \$12,100) for the Statutory Corporation and \$3,300 (2010: \$3,300) for the STC Division (for both entities, audit of the financial statements and no other services).

# Notes to the financial statements

for the year ended 30 June 2011

# 3. RESULT (Continued)

Lease payments made during the year comprised -

	Economic Entity 2011 \$'000	Economic Entity 2010 \$'000	Statutory Corporation 2011 \$'000	Statutory Corporation 2010 \$'000
Minimum lease payments Contingent rentals	365	355	365	355 -
	365	355	365	355

The Statutory Corporation uses operating leases to provide its office space and a motor vehicle. Contingent rentals and the existence of renewal options are applicable only to office space. Contingent rentals have been included to the extent the amounts are calculable.

# 4. RECEIVABLES

	Economic Entity 2011 \$'000	Economic Entity 2010 \$'000	Statutory Corporation 2011 \$'000	Statutory Corporation 2010 \$'000
Current Amounts Receivable Pooled Fund	3,948	1,545	3,948	1,545
Other Receivables Superannuation (refer Note 9) SASS	774 103	839 106	774 -	839
SANCS	<u>51</u> 4,876	106 2,596	4.722	2.384

# 5. PAYABLES

	Economic Entity 2011 \$'000	Economic Entity 2010 \$'000	Statutory Corporation 2011 \$'000	Statutory Corporation 2010 \$'000
Current				
Amount Payable – Pillar (Administration				
Fees)	2,265	2,290	2,265	2,290
Other Payables	1,617	1,231	1,617	1,231
Amounts Payable – STC Division		-	1,904	1,892
-	3,882	3,521	5,786	5,413

All payables are within agreed trading terms.

# **Notes to the financial statements** for the year ended 30 June 2011

#### 6. **PROVISIONS**

	Economic Entity 2011 \$'000	Economic Entity 2010 \$'000	Statutory Corporation 2011 \$'000	Statutory Corporation 2010 \$'000
Current				
Employee Benefits Superannuation (refer Note 9)	353	260	-	-
SSS	893	1,144	-	-
- -	1,246	1,404	<b>i</b>	
Non-current				
Employee Benefits	812	700	-	_
_	812	700	-	-

# Notes to the financial statements for the year ended 30 June 2011

# 7. FINANCIAL RISKS

#### Market Risk

Market risk is the risk that changes in factors such as interest rates will affect revenue or the value of financial instruments. Market risk is accepted on financial instruments. As STC's governing legislation requires it to recover all its costs from the Pooled Fund, a change in market prices will have no effect on STC's result or net assets.

#### Credit Risk

Credit (or counterparty) risk is the risk that a counterparty will fail to perform contractual obligations to a financial instrument and cause STC to experience a financial loss. In respect of STC's cash holdings, all are lodged with one of Australia's largest trading banks. In respect of STC's receivables, its only counterparty is the Pooled Fund. The Pooled Fund is obliged by its governing legislation to fund STC. STC is exposed to minimal credit risk. STC's maximum credit risk exposure is the balance of the cash and receivables.

#### Liquidity Risk

Liquidity risk is the risk that financial obligations cannot be met as they fall due. As noted under the section *Credit Risk* above, the Pooled Fund is obliged by its governing legislation to fund STC. STC recovers its costs monthly from the Pooled Fund. Consequently STC is exposed to negligible liquidity risk.

#### Notes to the financial statements

for the year ended 30 June 2011

#### 8. KEY MANAGEMENT PERSONNEL AND KEY MANAGEMENT PERSONNEL COMPENSATION

The following were key management personnel of the STC Economic Entity and STC Statutory Corporation during the year.

Non-executive Trustees

Mr I Blair

Mr M Carapiet

(term commenced 2 August 2011)

Mr R Davis

Ms A De Salis

Mr R Harty

Mr M Lambert

Mr N Lewocki

Mr R Lipscombe

(term commenced 25 November 2009 and ended 2 March 2011)

Ms M O'Halloran

(resigned 31 August 2009)

Dr D Russell

(resigned 31 July 2011)

Mr P Scully

Ms S Walsh

(term commenced 25 March 2011)

Executive Officers Mr C Durack Ms L Collingridge

Mr K Dent (appointed June 2011)

Mr M Drew

Ms K Faulconbridge (resigned December 2010)

Mr A Grice Ms N Wooden

#### Notes to the financial statements

for the year ended 30 June 2011

# 8. KEY MANAGEMENT PERSONNEL AND KEY MANAGEMENT PERSONNEL COMPENSATION (Continued)

The key management personnel compensation in relation to services to STC is as follows -

	Economic	Economic	Statutory	Statutory
	Entity	Entity	Corporation	Corporation
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Short-term employee benefits	2,065	1,835	2,065	1,835
Post-employment benefits	-	-	-	=
Other long term employee benefits	17	43	17	43
	2,082	1,878	2,082	1,878
The number of executive officers				
whose base compensation is				
\$100,000 or more are shown below				
in their relevant income bands:				
Base compensation (including				
superannuation contributions) of:				
\$100,000 - \$109,999	-	2	+	-
\$110,000 - \$119,999	2	-	-	-
\$120,000 - \$129,999	2	-	•	_
\$130,000 - \$139,999	-	1	-	-
\$140,000 - \$149,999	2	2	_	-
\$150,000 - \$159,999	2	-		_
\$160,000 - \$169,999	-	-	-	
\$170,000 - \$179,999	-	2		_
\$180,000 - \$189,999	<b>=</b>	-	-	-
\$190,000 - \$199,999	2	1	-	
\$200,000 - \$209,999	1	-	-	-
\$210,000 - \$219,999	-	-		-
\$230,000 - \$239,999	-	-	•	-
\$290,000 - \$299,999	-	_	-	_
\$300,000 - \$309,999	-	1	-	_
\$320,000 - \$329,999	1	-		-
\$470,000 - \$479,999	-	1	•	_
\$490,000 - \$499,999 <sup>(1)</sup>	1	-	•	_
	13	10	-	-

<sup>&</sup>lt;sup>(1)</sup> In respect of the Chief Executive Officer of STC, the Board determined a performance bonus of \$112,500 was also applicable (2010 \$nil).

#### Notes to the financial statements

for the year ended 30 June 2011

#### 9. SUPERANNUATION

The Economic Entity participates in the following closed defined benefit superannuation schemes for some of its staff –

- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- State Authorities Non-contributory Superannuation Scheme (SANCS).

The following information has been prepared by the Scheme actuary.

Reconciliation of the present value of the defined benefit obligation:

As at 30 June 2011	SASS \$'000	SANCS \$'000	SSS \$'000
Present value of partly funded defined benefit			
obligation at beginning of year	703	190	5,403
Current service cost	18	8	90
Interest cost	33	8	272
Contributions by fund participants	10	-	39
Actuarial (gains)/losses	67	-	92
Benefits paid	(48)	3	(574)
Past service cost	•	-	•
Curtailments	-	-	-
Settlements	-	-	-
Exchange rate changes		-	-
Present value of partly funded defined benefit		-	
obligation at end of year	783	209	5,322

# Notes to the financial statements

for the year ended 30 June 2011

# 9. SUPERANNUATION (Continued)

Reconciliation of the present value of the defined benefit obligation (Continued):

As at 30 June 2010	SASS \$'000	SANCS \$'000	SSS \$'000
Present value of partly funded defined benefit			
obligation at beginning of year	618	166	4,926
Current service cost	26	8	46
Interest cost	33	9	269
Contributions by fund participants	15	_	21
Actuarial (gains)/losses	32	7	441
Benefits paid	(21)	_	(300)
Past service cost	· -	-	-
Curtailments	-	-	-
Settlements	-	-	_
Exchange rate changes	-	-	<del>-</del>
Present value of partly funded defined benefit			
obligation at end of year	703	190	5,403

# Notes to the financial statements

for the year ended 30 June 2011

# 9. SUPERANNUATION (Continued)

Reconciliation of the fair value of fund assets:

As at 30 June 2011	\$A\$\$ \$'000	\$ANC\$ \$'000	\$\$\$ \$'000
Fair value of fund assets at beginning of the year	809	296	4,259
Expected return on fund assets	63	23	353
Actuarial gains/(losses)	52	2	352
Employer contributions		(64)	-
Contributions by fund participants	10	(0.)	39
Benefits paid	(48)	3	(574)
Settlements		•	(-· -)
Business combinations	-	-	-
Exchange rate changes	-	-	-
Fair value of fund assets at end of the year	886	260	4,429
Economic Entity			
As at 30 June 2010	SASS	SANCS	SSS
7.6 2.7 6 6 6 6 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7	\$,000	\$'000	\$'000
Fair value of fund assets at beginning of the year	736	271	4,031
Expected return on fund assets	61	23	337
Actuarial gains/(losses)	19	2	169
Employer contributions	_	-	-
Contributions by fund participants	14	-	22
Benefits paid	(21)	-	(300)
Settlements	· -	-	` _
Business combinations	-	_	-
Exchange rate changes	-	-	-
Fair value of fund assets at end of the year	809	296	4,259

# Notes to the financial statements for the year ended 30 June 2011

# 9. SUPERANNUATION (Continued)

Reconciliation of the assets and liabilities recognised in the Statement of Financial Position:

As at 30 June 2011	SASS \$'000	SANCS \$'000	\$\$\$ \$'000
Present value of funded defined benefit obligations at end of the year Fair value of fund assets at end of the year	783 (886)	209 (260)	5,322 (4,429)
Subtotal	(103)	(51)	893
Unrecognised past service cost	-	-	-
Unrecognised gain/(loss) Adjustment for limitation on net asset	-	-	-
Net liability/(asset) recognised in the Statement of Financial Position at end of the year	(103)	(51)	893
Economic Entity			
As at 30 June 2010	SASS \$'000	SANCS \$'000	SSS \$'000
Present value of funded defined benefit obligations at end of the year	703	190	5,403
Fair value of fund assets at end of the year	(809)	(296)	(4,259)
Subtotal	(106)	(106)	1,144
Unrecognised past service cost	-	-	-
Unrecognised gain/(loss)	-	-	-
Adjustment for limitation on net asset  Net liability/(asset) recognised in the Statement of  Financial Position at end of the year	(106)	(106)	1,144

Notes to the financial statements for the year ended 30 June 2011

# 9. SUPERANNUATION (Continued)

Components recognised in the operating result:

Economic Entity	SASS \$'000	SANCS \$'000	SSS \$'000
As at 30 June 2011	<del>- + + + + + + + + + + + + + + + + + + +</del>	<del>- +</del>	<u> </u>
Current Service Cost Interest cost Expected return on fund assets (net of expenses) Past service cost Curtailments or settlement (gain)/loss Expense/(income) recognised	18 33 (63)	8 8 (23)	90 272 (354)
	(12)	(7)	8
Economic Entity	SASS \$'000	SANCS \$'000	SSS \$'000
As at 30 June 2010			
Current Service Cost Interest cost Expected return on fund assets (net of expenses) Past service cost Curtailments or settlement (gain)/loss	26 33 (61) -	8 9 (23) -	46 269 (337)
Expense/(income) recognised	(2)	(6)	(22)

# Notes to the financial statements

for the year ended 30 June 2011

# 9. SUPERANNUATION (Continued)

Amounts recognised in comprehensive income:

Economic Entity	SASS \$'000	SANCS \$'000	SSS \$'000
As at 30 June 2011		<del>- + + + + + + + + + + + + + + + + + + +</del>	+ 000
Actuarial (gains)/losses Adjustment for limit on net asset	15	(2)	(260)
Economic Entity	SASS \$'000	SANCS \$'000	SSS \$'000
As at 30 June 2010			
Actuarial (gains)/losses Adjustment for limit on net asset	14	5	272 -

Cumulative amount of the actuarial gains and losses recognised in comprehensive income:

Economic Entity	SASS	SANCS	SSS
	\$'000	\$'000	\$'000
As at 30 June 2011 As at 30 June 2010 As at 30 June 2009 As at 30 June 2008 As at 30 June 2007	165	<b>61</b>	(47)
	150	63	213
	137	58	(59)
	(1)	1	(1,708)
	(110)	4	(1,816)
Statutory Corporation	\$A\$\$	SANCS	SSS
	\$'000	\$'000	\$'000
As at 30 June 2011 As at 30 June 2010 As at 30 June 2009 As at 30 June 2008 As at 30 June 2007	(47)	(17)	203
	(47)	(17)	203
	(47)	(17)	203
	(47)	(17)	203
	(47)	(17)	203

# Notes to the financial statements

for the year ended 30 June 2011

# 9. SUPERANNUATION (Continued)

. The percentage of fund assets invested in each asset class at 30 June:

Economic Entity	2011	2010
Australian equities	33%	31%
Overseas equities	29%	27%
Australian fixed interest securities	6%	6%
Overseas fixed interest securities	3%	4%
Property	10%	9%
Cash	6%	10%
Other	13%	13%

#### Expected rate of return on assets:

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class. The returns used for each class are net of investment taxes and investment fees.

Actual return on fund assets:

As at 30 June 2011	\$ASS \$'000	SANCS \$'000	SSS \$'000
Actual return on fund assets	67	25	340_
Economic Entity			
As at 30 June 2010	\$A\$\$ \$'000	SANCS \$'000	SSS \$'000
Actual return on fund assets	68	24	362

#### Notes to the financial statements

for the year ended 30 June 2011

# 9. SUPERANNUATION (Continued)

Valuation method and principal actuarial assumptions at 30 June:

# (a) Valuation Method

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

#### (b) Economic Assumptions

	<u>2011</u>	<u>2010</u>
Salary increase rate	3.5%	3.5%
Rate of CPI increase	2,5%	2.5%
Expected rate of return on assets backing current		
· · · · · · · · · · · · · · · · · · ·	8.3%	8.3%
Expected rate of return on assets backing other		
liabilities	7.3%	<b>7</b> .3%
Discount rate	5.3%	5.2%

#### (c) Demographic Assumptions

Demographic assumptions reflect those adopted by the Scheme actuary in his 30 June 2009 triennial review of the schemes.

# Notes to the financial statements

for the year ended 30 June 2011

# 9. SUPERANNUATION (Continued)

Historical Information:

Economic Entity			
As at 30 June 2011	SASS \$'000	SANCS \$'000	SSS \$'000
		,	
Present value of defined benefit obligation  Fair value of fund assets	783 (886)	209 (260)	5,322 (4,429)
(Surplus)/Deficit in fund	(103)	(51)	893
Experience adjustments – fund liabilities Experience adjustments – fund assets	67 ( <b>52</b> )	(2)	92 (352)
As at 30 June 2010	SASS \$'000	SANCS \$'000	SSS \$'000
	<u> </u>	φ 000	<u> </u>
Present value of defined benefit obligation	703	190	5,403
Fair value of fund assets (Surplus)/Deficit in fund	(809) (106)	(296) (106)	(4,259) 1,144
Experience adjustments – fund liabilities	32	7	441
Experience adjustments – fund assets	(19)	(2)	(169)
As at 30 June 2009	SASS	SANCS	SSS
As at 50 band 2000	\$'000	\$'000	\$'000
Present value of defined benefit obligation Fair value of fund assets	618 (736)	166 (271)	<b>4</b> ,926 (4,031)
(Surplus)/Deficit in fund	(118)	(105)	895
Experience adjustments – fund liabilities	(105) 243	- 56	878 771
Experience adjustments – fund assets	243	50	771
As at 30 June 2008	SASS	SANCS	sss
	\$'000	\$'000	\$'000
Present value of defined benefit obligation	859	184	4,059
Fair value of fund assets	(1,114)	(340)	(4,726)
(Surplus)/Deficit in fund Experience adjustments – fund liabilities	(255) (10)	(156) (50)	(667) (959)
Experience adjustments – fund assets	119	47	1,067
As at 30 June 2007	SASS	SANCS	SSS
	\$'000	\$'000	\$'000
Present value of defined benefit obligation	818	248	4,966
Fair value of fund assets (Surplus)/Deficit in fund	(959)	(256) (8)	(5,958) (992)
Experience adjustments – fund liabilities	(141)	(6) 46	(854)
Experience adjustments – fund assets	(85)	(19)	(650)

# Notes to the financial statements

for the year ended 30 June 2011

# 9. SUPERANNUATION (Continued)

Expected contributions:

Economic Entity	SASS \$'000	SANCS \$'000	SSS \$'000	_
Expected contributions for year to 30 June 2011	-	-	-	
Expected contributions for year to 30 June 2010	-	-	-	

Funding arrangements for employer contributions – surplus/deficit:

The following is a summary of the 30 June financial position of the schemes calculated in accordance with AAS25 – Financial Reporting by Superannuation Plans.

Economic Entity			
•	SASS	SANCS	SSS
30 June 2011	\$'000	\$'000	\$'000
Accrued benefits Net market value of fund assets	748 (886)	198 (260)	3,841 (4,429)
Net (surplus)/deficit	(138)	(62)	(588)
Economic Entity			
	SASS	SANCS	SSS
30 June 2010	\$'000	\$'000	\$'000
Accrued benefits	668	179	3,817
Net market value of fund assets	(809)	(296)	(4,259)
Net (surplus)/deficit	(141)	(117)	(442)

Notes to the financial statements for the year ended 30 June 2011

#### 9. SUPERANNUATION (Continued)

Funding arrangements for employer contributions – Recommended contribution rates:

#### **Economic Entity**

As at 30 June 2011	SASS	SANCS	SSS
	Multiple of member contributions	% member salaries	Multiple of member contributions
Economic Entity			
As at 30 June 2010	SASS	SANCS	SSS
	Multiple of member contributions	% member salaries	Multiple of member contributions
	<u>-</u>	-	_

Funding arrangements for employer contributions – Funding Method:

The method used to determine employer contribution recommendations at the last actuarial review was the *Aggregate Funding* method. The method adopted affects the timing of the cost to the employer.

Under the *Aggregate Funding* method, the employer contribution rate is determined so that sufficient assets will be available to meet benefit payments to existing members, taking into account the current value of assets and future contributions.

#### Notes to the financial statements

for the year ended 30 June 2011

#### 9. SUPERANNUATION (Continued)

Funding arrangements for employer contributions – Economic Assumptions:

Weighted average assumptions -

	2009 and following
Expected rate of return on fund assets backing current pension liabilities	8.3%
Expected rate of return on fund assets backing other liabilities	7.3%
Expected salary increase rate	4.0%
Expected rate of CPI increase	2.5%

Funding arrangements for employer contributions - Nature of asset/liability:

If a surplus exists in the Economic Entity's interest in the fund, the Economic Entity may be able to take advantage of it in the form of a reduction in required contribution rate. The Statutory Corporation in its capacity as the schemes' trustee and NSW Treasury must approve such a reduction.

If a deficiency exists the Economic Entity is responsible for any difference between its share of scheme assets and the defined benefit obligation.

#### 10. RELATED PARTY INFORMATION

 Transactions entered into during the year with Key Management Personnel and their Related Entities:

	2011 \$'000	2010 \$'000	
Fees paid to the Statutory Corporation or relevant Trustee Board Member by State Super Financial Services Australia Limited (SSFSAL), a company in which Mr R Harty, Mr R Davis, Mr M Lambert, Mr D Russell and Mr P Scully are directors, on normal commercial terms and conditions.	214	184	
Rental payments and outgoings received by the Pooled Fund from SSFSAL on normal commercial terms and conditions.	1,124	1,140	

b) On 17 March 2006 the NSW Government created the SAS Trustee Corporation Division of the Government Service of NSW. This entity is a special purpose entity providing personnel services to the Statutory Corporation. Its activities are conducted on behalf of the Statutory Corporation according to the Statutory Corporation's specific business needs. Day to day control of this entity is vested in the CEO of the Statutory Corporation.

# Notes to the financial statements

for the year ended 30 June 2011

#### 11. CASH FLOW INFORMATION

# a) Reconciliation of Cash

	Economic	Econ <b>om</b> ic	Statutory	Statutory
	Entity	Entity	Corporation	Corporation
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Cash and Cash Equivalents	958	2,970	958	2,970

Cash flows reflect cash movements resulting from transactions with suppliers and employees including Pillar and the Pooled Fund. Under current funding arrangements all cash payments to external parties on behalf of Economic Entity are recovered from the Pooled Fund.

The Economic Entity's cash at bank attracts a floating interest rate which is subject to change at the discretion of the bank. At 30 June 2011 the rate was 3.85% (2010: 3.85%).

# SAS TRUSTEE CORPORATION

# Notes to the financial statements

for the year ended 30 June 2011

# 11. CASH FLOW INFORMATION (Continued)

# b) Reconciliation of Comprehensive Income to Net Cash Used in Operating Activities

	Economic Entity 2011 \$'000 Inflows/ (Outflows)	Economic Entity 2010 \$'000 Inflows/ (Outflows)	Statutory Corporation 2011 \$'000 Inflows/ (Outflows)	Statutory Corporation 2010 \$'000 Inflows/ (Outflows)
Comprehensive Income	-	-	-	
Changes in Assets and Liabilities:				
(Increase)/Decrease in Assets				
Other Current Assets Receivables -	(47)	7	(47)	7
Pooled Fund Other	(2,403) 123	1,022 (266)	(2,403) 65	1,022 (266)
Increase/(Decrease) in Liabilities				
Payables - Pillar Other Provisions	(25) 386 (46)	(176) (400) 461	(25) 398	(176) 61 -
Net Cash From/(Used) in Operating Activities	(2,012)	648	(2,012)	648

#### SAS TRUSTEE CORPORATION

#### Notes to the financial statements

for the year ended 30 June 2011

#### 12. COMMITMENTS FOR EXPENDITURE

	Economic Entity 2011 \$'000	Economic Entity 2010 \$'000	Statutory Corporation 2011 \$'000	Statutory Corporation 2010 \$'000
Lease Commitments				
Commitments in relation to non-cancellable operating leases contracted for at balance date but not provided for in the accounts, including goods and services tax:				
Payable not later than 1 year Payable later than 1 year and not later than 5 years Payable greater than 5 years	385 183	373 582	385 183	373 582
January Grand Williams Cyclin C	568	955	568	955
Administration Expenses				
Commitments in relation to fixed administration fees for the Pooled Fund payable to Pillar included in the services contract dated 1 October 2005 but not provided for in the accounts, including goods and services tax:				
Payable not later than 1 year Payable later than 1 year and not later than 5 years	2,102	· 2,075	2,102	2,075
	2,102	2,075	2,102	2,075

The terms of the contract allow for the fixed costs to be adjusted annually in line with an index stated in the contract.

The administration expenses noted above qualify for a reduced input tax credit of 75% of the goods and services tax included therein.

# 13. CONTINGENT LIABILITIES

Broadly, two classes of contingent liabilities potentially exist in relation to either the Trustee in its capacity as Trustee of the Pooled Fund, or the Fund itself:

- (i) Legal costs and additional benefit amounts in relation to member benefit entitlement disputes, notified, but not resolved.
- (ii) Legal costs and damages arising from claims relating to the ownership and operation of physical assets.

In both cases it is impractical to estimate the financial effect or the amount of any possible recovery from third parties relating to these contingent liabilities. The Trustee is indemnified out of the assets of the Fund.

#### **End of Audited Financial Statements**

# **PART D**

Financial Statements
of the
SAS Trustee Corporation Division
of the Government Service of NSW



GPO BOX 12 Sydney NSW 2001

### INDEPENDENT AUDITOR'S REPORT

#### SAS Trustee Corporation Division of the Government Service of NSW

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of SAS Trustee Corporation Division of the Government Service of NSW (the STC Division), which comprise the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

#### Auditor's Opinion

In my opinion, the financial statements:

- give a true and fair view of the financial position of the STC Division as at 30 June 2011, and of its financial performance for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2010.

My opinion should be read in conjunction with the rest of this report.

#### The Chief Executive Officer's Responsibility for the Financial Statements

The Chief Executive Officer of the STC Division is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Chief Executive Officer of the STC Division, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does not provide assurance:

- about the future viability of the STC Division
- that it has carried out its activities effectively, efficiently and economically
- about the effectiveness of its internal control
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

# Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and other relevant ethical pronouncements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their role by the possibility of losing clients or income.

A Dyetunji

Director, Financial Audit Services

27 September 2011 SYDNEY

#### ABN 31 683 571 255

# Statement by Chief Executive Officer

for the year ended 30 June 2011

Pursuant to the Public Finance and Audit Act 1983 I declare that in my opinion:

- the financial statements present a true and fair view of the financial position of the SAS
   Trustee Corporation Division of the Government Service of NSW as at 30 June 2011 and
   transactions for the period then ended, and
- 2. the financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2010*, the Treasurer's Directions and applicable Accounting standards in Australia.

Further, I am not aware of any circumstances, which would render any particulars included in the financial statements to be misleading or inaccurate.

Signed at Sydney this 27th day of September 2011.

**Chris Durack** 

Chief Executive Officer

# **Statement of Comprehensive Income** for the year ended 30 June 2011

	NOTE	2011 \$'000	2010 \$'000
Continuing Operations Operating Revenue Personnel Services		3,776	3,758
Operating Expenses Salaries Defined contribution superannuation Defined benefit superannuation Annual and long service leave Other payroll related		2,746 557 (11) 397 334 4,023	2,430 442 (30) 363 262 3,467
Operating Result	2	(247)	291
Other Comprehensive Income			
Superannuation actuarial gains/(losses)		247	(291)
Total Comprehensive Income			_

The accompanying notes form an integral part of the above Statement of Comprehensive Income

# Statement of Financial Position

as at 30 June 2011

•	NOTE _	2011 \$'000	2010 \$'000
Current Assets Receivables Total Current Assets	3 -	2,058 2,058	2,104 2,104
Total Assets	<del>-</del>	2,058	2,104
Current Liabilities Provisions Total Current Liabilities	4	1,246 1,246	1,404 1,404
Non-Current Liabilities Provisions Total Non-Current Liabilities	4	812 812	700 700
Total Liabilities	•	2,058	2,104
Net Assets	-		<del>-</del>
Total Equity	-		

The accompanying notes form an integral part of the above Statement of Financial Position

Statement of Cash Flows for the year ended 30 June 2011

	NOTE	2011 \$'000 Inflows/ (Outflows)	2010 \$'000 Inflows/ (Outflows)
Cash Flows from Operating Activities			
Receipts Interest Received		3,776	3,758
Payments to Suppliers and Employees		(3,776)	(3,758)
Net Operating Cash Flows	8(b)		<del>-</del>
Net Increase/(Decrease) in Cash & Cash Equivalents		-	-
Cash & Cash Equivalents at the Beginning of the Financial Year		-	-
Cash & Cash Equivalents at the End of the Financial Year	8(a)	<u>-</u>	

The accompanying notes form an integral part of the above Statement of Cash Flows

# Statement of Changes in Equity for the year ended 30 June 2011

	2011 \$'000	2010 \$'000
Balance at 1 July	<b>W</b>	
Operating Result	(247)	291
Other Comprehensive income		
Superannuation actuarial gains/(losses)	247	(291)
Total Comprehensive income	-	-
Balance at 30 June	γ	_

The accompanying notes form an integral part of the above Statement of Changes in Equity

#### Notes to the financial statements

for the year ended 30 June 2011

#### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting entity

The SAS Trustee Corporation Division of the Government Service of NSW ("the STC Division") is a Division of the Government Service, established pursuant to Part 2 of Schedule 1 to the *Public Sector Employment and Management Act 2002*. It is a not-for-profit entity as profit is not its principal objective. It is consolidated as part of the NSW Total State Sector Accounts. It is domiciled in NSW Australia and its office is at Level 17, 83 Clarence Street, Sydney.

The objective of the STC Division is to provide personnel services to the SAS Trustee Corporation (STC) and the SAS Trustee Corporation Pooled Fund. The expense and revenue amounts include the salary of STC's Chief Executive Officer whose contract for employment is with STC but whose salary administration is conducted through the STC Division.

These financial statements were authorised for issue by the Chief Executive Officer of STC on 27 September 2011. These financial statements will not be amended and reissued as it has been audited.

#### B. Basis for preparation

These are general purpose financial statements in accordance with the requirements of Australian Accounting Standards including Australian Accounting Interpretations, the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2010* and specific directions issued by the Treasurer.

Generally, the historical cost basis of accounting has been adopted and the financial statements do not take into account changing money values or current valuations. However, certain provisions are measured at fair value (see note 1 G).

The accrual basis of accounting has been adopted in the preparation of the financial statements, except for cash flow information.

Management's judgements, key assumptions and estimates are disclosed in the relevant notes to the financial statements.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

#### C. Comparative information

Where there have been changes in presentation in the current financial year, the comparative figures for the previous year have been adjusted to conform to these changes.

#### Notes to the financial statements

for the year ended 30 June 2011

#### 1. STATEMENT OF ACCOUNTING POLICIES (Continued)

#### D. Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue from the rendering of personnel services is recognised when the service is provided and only to the extent that the associated recoverable expenses are recognised.

#### E. Receivables

A receivable is recognised when it is probable that the future cash inflows associated with it will be realised and it has a value that can be measured reliably. It is derecognised when the contractual or other rights to future cash flows from it expire or are transferred.

A receivable is measured initially at fair value and subsequently at amortised cost using the effective interest rate method, less any allowance for doubtful debts. A short-term receivable with no stated interest rate is measured at the original invoice amount where the effect of discounting is immaterial. An invoiced receivable is due for settlement within thirty days of invoicing.

If there is objective evidence at period end that a receivable may not be collectable, its carrying amount is reduced by means of an allowance for doubtful debts and the resulting loss is recognised in the operating result. Receivables are monitored during the period and bad debts written off against the allowance when they are determined to be irrecoverable. Any other loss or gain arising when a receivable is derecognised is also recognised in the operating result.

#### F. Payables

Payables include accrued wages, salaries and related on costs (such as payroll tax, fringe benefits tax and workers' compensation insurance) where there is certainty as to the amount and timing of settlement.

A payable is recognised when a present obligation arises under a contract or otherwise. It is derecognised when the obligation expires or is discharged, cancelled or substituted.

A short-term payable with no stated interest rate is measured at historical cost as the effect of discounting is immaterial.

#### G. Employee benefit provisions and expenses

Provisions are made for liabilities of uncertain amount or uncertain timing of settlement.

Employee benefit provisions represent expected amounts payable in the future in respect of unused entitlements accumulated as at the reporting date. Liabilities associated with, but that are not, employee benefits (such as payroll tax) are recognised separately.

Superannuation and leave liabilities are recognised as expenses and provision when the obligations arise, which is usually through the rendering of service by employees.

#### Notes to the financial statements

for the year ended 30 June 2011

#### 1. STATEMENT OF ACCOUNTING POLICIES (Continued)

### G. Employee benefit provision and expenses (Continued):

Superannuation and long service leave provisions are actuarially assessed prior to each reporting date and are measured at the present value of expected future payments.

All other employee benefit liabilities (i.e. for benefits falling due wholly within twelve months after reporting date) are assessed by management and are measured at the undiscounted amount of expected future payments.

The amount recognised for superannuation and long service leave provisions is the net total of the present value of the defined benefit obligation at the reporting date, minus the fair value at that date of any plan assets out of which the obligations are to be settled directly.

The amount recognised in the operating result for superannuation and long service leave is the net total of current service cost, interest cost and the expected return on plan assets. Actuarial gains or losses are recognised in the Statement of Comprehensive Income in the year they occur.

# H. Accounting standards applicable but not yet effective

AASB 9 Financial Instruments as issued in December 2009 will be implemented for the year ended 30 June 2014. No material change to these financial statements is anticipated.

AASB 2010-4 Further Amendments to Australian Accounting Standards Arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] will be implemented for the year ended 30 June 2012. No material change to these financial statements is anticipated.

# I. Use of Judgements and Estimates

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts recognised in the financial statements. However, uncertainty implicit in these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying value of the affected asset or liability in the future.

#### Notes to the financial statements

for the year ended 30 June 2011

# 1. STATEMENT OF ACCOUNTING POLICIES (Continued)

#### J. Financial instruments

Financial instruments give rise to positions that are financial assets or liabilities. The instruments include cash at bank, receivables and payables. All classes of instruments are initially recorded at cost and with receivables and payables being subsequently carried at amortised cost. As such, inputs for valuing the receivables and payables are not based on observable market data. Such measurement provides a reliable estimate of the instrument. Any impairment loss occurring on financial instruments is treated as an expense in the period in which it occurs.

#### 2. RESULT

The STC Division did not make any payments to consultants in the year ended 30 June 2011 or the year ended 30 June 2010.

The audit fee for the entity of \$3,300 (2010: \$3,300) is met by STC. The auditor provided no other services other than the audit of these financial statements.

# 3. RECEIVABLES

	2011 \$'000	2010 \$'000
Current		
Amounts Receivable – STC	1,904	1,892
Superannuation (refer Note 7) SASS SANCS	103 51	106 106
	2,058	2,104
4. PROVISIONS	2011 \$'000	2010 \$'000
Current	<u> </u>	Ψ 000
Employee Benefits Superannuation (refer Note 7)	353	260
SSS	893 1,246	1,144 1,404
Non-current		
Employee Benefits	812	700
	812	700

#### Notes to the financial statements

for the year ended 30 June 2011

#### 5. FINANCIAL RISKS

#### Market Risk

Market risk is the risk that changes in factors such as interest rates will affect revenue or the value of financial instruments. Market risk is accepted on financial instruments. As STC Division recovers all its costs from STC, a change in market prices will have no effect on STC Division's result or net assets.

### Credit Risk

Credit (or counterparty) risk is the risk that a counterparty will fail to perform contractual obligations to a financial instrument and cause the STC Division to experience a financial loss. In respect of the STC Division's financial assets, its only counterparty is its parent entity, STC. As STC makes good its obligations to the STC Division on demand, the STC Division is exposed to minimal credit risk. The STC Division's maximum credit risk exposure is the balance of the receivable from STC.

# Liquidity Risk

Liquidity risk is the risk that the STC Division will not be able to meet its financial obligations as they fall due. As stated at Note 8 the STC Division does not have a bank account. All transactions are transacted through the bank account of STC. STC has a legislative right to recover all costs from the SAS Trustee Corporation Pooled Fund and does so monthly. Consequently the STC Division is exposed to negligible liquidity risk.

### Notes to the financial statements

for the year ended 30 June 2011

# 6. KEY MANAGEMENT PERSONNEL AND KEY MANAGEMENT PERSONNEL COMPENSATION

The following were key management personnel of the STC Economic Entity and STC Statutory Corporation during the year.

Executive Officers
Mr C Durack
Ms L Collingridge
Mr K Dent
(appointed June 2011)
Mr M Drew
Ms K Faulconbridge
(resigned December 2010)
Mr A Grice
Ms N Wooden

The key management personnel compensation in relation to services to STC is as follows -

	2011 \$'000	2010 \$'000
Short-term employee benefits	1,667	1,446
Post-employment benefits	17	43
Other long term employee benefits		43
	1,684	1,489

# Notes to the financial statements

for the year ended 30 June 2011

# 7. SUPERANNUATION

The STC Division participates in the following closed defined benefit superannuation schemes for some of its staff –

- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- State Authorities Non-contributory Superannuation Scheme (SANCS).

The following information has been prepared by the Scheme actuary.

Reconciliation of the present value of the defined benefit obligation:

As at 30 June 2011	SASS \$'000	\$ANC\$ \$'000	\$\$\$ \$'000
Present value of partly funded defined benefit obligation at beginning of year	703	190	5,403
Current service cost	18	8	90
Interest cost	33	8	<b>2</b> 72
Contributions by fund participants	10	-	39
Actuarial (gains)/losses	<b>6</b> 7	-	92
Benefits paid	(48)	3	(574)
Past service cost	•	-	-
Curtailments	-	-	-
Settlements	-	-	-
Exchange rate changes		-	-
Present value of partly funded defined benefit obligation at end of year	783	209	5,322
As at 30 June 2010	SASS \$'000	SANCS \$'000	\$\$\$ \$'000_
Present value of partly funded defined benefit obligation at beginning of year	618	166	4,926
Current service cost	26	8	46
Interest cost	33	9	269
Contributions by fund participants	15	-	21
Actuarial (gains)/losses	32	7	441
Benefits paid	(21)	-	(300)
Past service cost	` <u>-</u>	-	` -
Curtailments	-	-	_
Settlements	-	-	-
Exchange rate changes	-	_	_
Present value of partly funded defined benefit obligation at end of year	703	190	5,403

# Notes to the financial statements

for the year ended 30 June 2011

# 7. SUPERANNUATION (Continued)

Reconciliation of the fair value of fund assets:

As at 30 June 2011	\$ASS \$'000	SANCS \$'000	\$\$\$ \$'000
Fair value of fund assets at beginning of the year Expected return on fund assets	809 63	296 23	4,259 353
Actuarial gains/(losses)	52	2 (64)	352
Employer contributions Contributions by fund participants	10	(64)	39
Benefits paid	(48)	3	(574)
Settlements	(40)	-	(374)
Business combinations		-	-
Exchange rate changes	-	**	-
Fair value of fund assets at end of the year	886	260	4,429
As at 30 June 2010	SASS \$'000	SANCS \$'000	SSS \$'000
Fair value of fund assets at beginning of the year	736	271	4,031
Expected return on fund assets	61	23	337
Actuarial gains/(losses)	19	2	169
Employer contributions	-	-	-
Contributions by fund participants	14	-	22
Benefits paid	(21)	-	(300)
Settlements	<del>-</del>	-	-
Business combinations	-	-	-
Exchange rate changes		<u></u>	
Fair value of fund assets at end of the year	809	296	4,259

# Notes to the financial statements

for the year ended 30 June 2011

# 7. SUPERANNUATION (Continued)

Reconciliation of the assets and liabilities recognised in the Statement of Financial Position:

As at 30 June 2011	SASS \$'000	SANCS \$'000	SSS \$'000
Present value of funded defined benefit obligations at end of the year	783	209	5,322
Fair value of fund assets at end of the year	(886)	(260)	(4,429)
Subtotal	(103)	(51)	893
Unrecognised past service cost	-	` ·	
Unrecognised gain/(loss)	-	•	
Adjustment for limitation on net asset	_	-	<b>=</b>
Net liability/(asset) recognised in the Statement of Financial Position at end of the year	(103)	(51)	893
As at 30 June 2010	SASS \$'000	SANCS \$'000	SSS \$'000
Present value of funded defined benefit obligations at end of the year	<b>7</b> 03	190	5,403
Fair value of fund assets at end of the year	(809)	(296)	(4,259)
Subtotal	(106)	(106)	1,144
Unrecognised past service cost	-	-	<del>-</del> .
Unrecognised gain/(loss)	-	-	-
Adjustment for limitation on net asset		-	
Net liability/(asset) recognised in the Statement of Financial Position at end of the year	(106)	(106)	1,144

# Notes to the financial statements

for the year ended 30 June 2011

# 7. SUPERANNUATION (Continued)

Components recognised in the operating result:

As at 30 June 2011	\$ASS \$'000	\$ANCS \$'000	\$\$\$ \$'000
Current Service Cost Interest cost Expected return on fund assets (net of expenses) Past service cost Curtailments or settlement (gain)/loss	18 33 (63)	8 8 (23) -	90 272 (354) -
Expense/(income) recognised	(12)	(7)	8
As at 30 June 2010	SASS \$'000	SANCS \$'000	\$\$\$ \$'000
Current Service Cost Interest cost Expected return on fund assets (net of expenses) Past service cost Curtailments or settlement (gain)/loss	26 33 (61) -	8 9 (23)	46 269 (33 <b>7</b> )
Expense/(income) recognised	(2)	(6)	(22)

### Notes to the financial statements

for the year ended 30 June 2011

# 7. SUPERANNUATION (Continued)

Amounts recognised in comprehensive income:

As at 30 June 2011	SASS	SANCS	SSS
	\$'000	\$'000	\$'000
Actuarial (gains)/losses Adjustment for limit on net asset	15	(2)	(260)
As at 30 June 2010	SASS	SANCS	\$\$\$
	\$'000	\$'000	\$'000
Actuarial (gains)/losses Adjustment for limit on net asset	14	5	2 <b>7</b> 2

Cumulative amount of the actuarial gains and losses recognised in comprehensive income:

	SASS	SANCS	SSS
	\$'000	\$'000	\$'000
As at 30 June 2011	214	77	174
As at 30 June 2010	199	79	434
As at 30 June 2009	186	74	162
As at 30 June 2008	48	17	(1,487)
As at 30 June 2007	(61)	20	(1,595)

The percentage of fund assets invested in each asset class at 30 June:

	2011	2010
Australian equities	33%	31%
Overseas equities	29%	27%
Australian fixed interest securities	6%	6%
Overseas fixed interest securities	3%	4%
Property	10%	9%
Cash	6%	10%
Other	13%	13%

#### Notes to the financial statements

for the year ended 30 June 2011

# 7. SUPERANNUATION (Continued)

Expected rate of return on assets:

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class. The returns used for each class are net of investment taxes and investment fees.

Actual return on fund assets:

As at 30 June 2011	SASS	SANCS	\$8\$
	\$'000	\$'000	\$'000
Actual return on fund assets	67	25	340
As at 30 June 2010	SASS	SANCS	SSS
	\$'000	\$'000	\$'000
Actual return on fund assets	68	24	362

Valuation method and principal actuarial assumptions at 30 June:

#### (a) Valuation Method

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

#### (b) Economic Assumptions

	<u>2011</u>	<u>2010</u>
Salary increase rate	3.5%	3.5%
Rate of CPI increase	2.5%	2.5%
Expected rate of return on assets backing current		
pension liabilities	8.3%	8.3%
Expected rate of return on assets backing other liabilities	7.3%	7.3%
Discount rate	5.3%	5.2%

#### (c) Demographic Assumptions

Demographic assumptions reflect those adopted by the Scheme actuary in his 2009 triennial review of the schemes.

# Notes to the financial statements

for the year ended 30 June 2011

# 7. SUPERANNUATION (Continued)

Historical Information:

As at 30 June 2011	\$ASS	SANCS	\$\$\$
	\$'000	\$'000	\$'000
Present value of defined benefit obligation Fair value of fund assets (Surplus)/Deficit in fund	783	209	5,322
	(886)	(260)	(4,429)
	(103)	(51)	893
Experience adjustments – fund liabilities Experience adjustments – fund assets	67 (52)	(2)	92 (352)
As at 30 June 2010	\$AS\$	SANCS	\$\$\$
	\$'000	\$'000	\$'000
Present value of defined benefit obligation Fair value of fund assets (Surplus)/Deficit in fund	703	190	5,403
	(809)	(296)	(4,259)
	(106)	(106)	1,144
Experience adjustments – fund liabilities Experience adjustments – fund assets	32	7	441
	(19)	(2)	(169)
As at 30 June 2009	SASS	SANCS	SSS
	\$'000	\$'000	\$'000
Present value of defined benefit obligation Fair value of fund assets	618	166	4,926
	(736)	(271)	(4,031)
(Surplus)/Deficit in fund Experience adjustments – fund liabilities Experience adjustments – fund assets	(118)	(105)	895
	(105)	-	878
	243	56	771
As at 30 June 2008	\$ASS	SANCS	\$\$\$
	\$'000	\$'000	\$'000
Present value of defined benefit obligation	859	184	4,059
Fair value of fund assets	(1,114)	(340)	(4,726)
(Surplus)/Deficit in fund	(255)	(156)	(667)
Experience adjustments – fund liabilities	(10)	(50)	(959)
Experience adjustments – fund assets	119	47	1,067
As at 30 June 2007	SASS	SANCS	SSS
	\$'000	\$'000	\$'000
Present value of defined benefit obligation	818	248	4,966
Fair value of fund assets	(959)	(256)	(5,958)
(Surplus)/Deficit in fund	(141)	(8)	(992)
Experience adjustments – fund liabilities	44	46	(854)
Experience adjustments – fund assets	(85)	(19)	(650)

# Notes to the financial statements

for the year ended 30 June 2011

# 7. SUPERANNUATION (Continued)

Expected contributions:

	SASS \$'000	SANCS \$'000	SSS \$'000
Expected contributions for year to 30 June 2011	-	-	-
Expected contributions for year to 30 June 2010	-	-	-

Funding arrangements for employer contributions - surplus/deficit:

The following is a summary of the 30 June financial position of the schemes calculated in accordance with AAS25- Financial Reporting by Superannuation Plans.

30 June 2011	\$A\$\$ \$'000	SANCS \$'000	\$\$\$ \$'000
Accrued benefits Net market value of fund assets	748 (886)	198 (260)	3,841 (4,429)
Net (surplus)/deficit	(138)	(62)	(588)
	SASS	SANCS	SSS
30 June 2010	\$'000	\$'000	\$'000
Accrued benefits	668	179	3,817
Net market value of fund assets	(809)	(296)	(4,259)
Net (surplus)/deficit	(141)	(117)	(442)

#### Notes to the financial statements

for the year ended 30 June 2011

# 7. SUPERANNUATION (Continued)

Funding arrangements for employer contributions – Recommended contribution rates:

As at 30 June 2011	SASS	SANCS	SSS
	Multiple of member contributions	% member salaries	Multiple of member contributions
		-	<u>-</u>
As at 30 June 2010	SASS	SANCS	SSS
	Multiple of member contributions	% member salaries	Multiple of member contributions
		-	-

Funding arrangements for employer contributions – Funding Method:

The method used to determine employer contribution recommendations at the last actuarial review was the *Aggregate Funding* method. The method adopted affects the timing of the cost to the employer.

Under the Aggregate Funding method, the employer contribution rate is determined so that sufficient assets will be available to meet benefit payments to existing members, taking into account the current value of assets and future contributions.

Funding arrangements for employer contributions - Economic Assumptions:

Weighted average assumptions -

	2009 and following
Expected rate of return on fund assets backing current pension liabilities	8.3%
Expected rate of return on fund assets backing other liabilities	7.3%
Expected salary increase rate	4.0%
Expected rate of CPI increase	2.5%

Funding arrangements for employer contributions – Nature of asset/liability:

If a surplus exists in the STC Division's interest in the fund, the STC Division may be able to take advantage of it in the form of a reduction in required contribution rate. STC in its capacity as the schemes' trustee and NSW Treasury must approve such a reduction.

If a deficiency exists the STC Division is responsible for any difference between its share of scheme assets and the defined benefit obligation.

# Notes to the financial statements for the year ended 30 June 2011

#### **CASH FLOW INFORMATION** 8.

a) Reconciliation of Cash	2011 \$'000	2010 \$'000
Cash at Bank	-	_
The STC Division does not have a bank account. All transactions are transabank account of STC.	acted through the	
The STC Division does not have any credit standby arrangements or loan faciliti	es.	
b) Reconciliation of Comprehensive Income to Net Cash Used in Operating Activities	2011 \$'000 Inflows/ (Outflows)	2010 \$'000 Inflows/ (Outflows)
Comprehensive Income	-	
Changes in Assets and Liabilities		
(Increase)/Decrease in Assets Receivables	46	(461)
Increase/(Decrease) in Liabilities Provisions	(46)	461
Net Cash From/(Used) in Operating Activities	и	-

# Notes to the financial statements

for the year ended 30 June 2011

# 9. COMMITMENTS FOR EXPENDITURE

There are no commitments for expenditure at 30 June 2011 or at 30 June 2010.

### 10. CONTINGENT LIABILITIES

There are no contingent liabilities at 30 June 2011 or at 30 June 2010.

**End of Audited Financial Statements** 

# **PART D**

Financial Statements
of the
SAS Trustee Corporation
Pooled Fund

The accounts of the Pooled Fund's Controlled Entities have been separately tabled in the NSW Parliament and may be obtained on request from STC.

See outside back cover for contact details.



GPO BOX 12 Sydney NSW 2001

#### INDEPENDENT AUDITOR'S REPORT

## SAS Trustee Corporation Pooled Fund

#### To Members of the New South Wales Parliament

I have audited the accompanying financial statements of SAS Trustee Corporation Pooled Fund (the Fund), which comprise the statement of net assets as at 30 June 2011, the statement of changes in net assets for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

#### Auditor's Opinion

In my opinion, the financial statements:

- give a true and fair view of the net assets of the Fund as at 30 June 2011, and of its changes in net assets for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2010.

My opinion should be read in conjunction with the rest of this report.

### The Trustee's Responsibility for the Financial Statements

The members of the Board of the SAS Trustee Corporation, as trustee of the Fund, are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Trustee Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does not provide assurance:

- about the future viability of the Fund
- that it has carried out its activities effectively, efficiently and economically
- about the effectiveness of its internal control
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

# Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and other relevant ethical pronouncements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their role by the possibility of losing clients or income.

Peter Achterstraat Auditor-General

September 2011 SYDNEY

#### ABN 29 239 066 746

Statement by Members of the Trustee Board for the year ended 30 June 2011

Pursuant to the *Public Finance and Audit Act 1983* and in accordance with a resolution of the Board of the SAS Trustee Corporation, we declare on behalf of the Board that in our opinion:

- the financial statements present a true and fair view of the financial position of the Pooled Fund as at 30 June 2011 and changes in net assets for the year then ended, and
- 2. the financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2010*, the Treasurer's directions and applicable Accounting Standards in Australia.

Further, we are not aware of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

Signed at Sydney this 28th day of September 2011.

Michael Carapiet
Chairperson

SAS Trustee Corporation

Ian Blair

Board Member and Chairperson of the Risk, Audit and Compliance Committee

SAS Trustee Corporation

# **Statement of Changes in Net Assets** for the year ended 30 June 2011

	Note -	2011 \$'m	2010 \$'m
Net Assets Available to Pay Benefits at Beginning of Financial Year	_	30,743.2	28,847.7
Contribution Revenue Employer Contributions Salary Sacrifice Member Contributions Member Contributions	_	1,494.7 312.4 210.0	1,733.6 307.0 233.1
	3	2,017.1	2,273.7
Transfers Scheme Mobility Transfer Refunds to Employers	5 _	2.3	(0.2) (0.1)
		2.3	(0.3)
Investment Revenue Short Term Securities Australian Fixed Interest International Fixed Interest Australian Equities International Equities Property Alternatives	_	4.6 107.0 29.4 457.4 247.2 158.6 226.9	34.0 115.2 35.2 449.0 192.3 157.7 247.8
Change in Net Market Value of Investments	_	1,231.1 1,780.1	1,231.2 1,936.8
Investment Expenses	6	3,011.2 (86.4)	3,168.0 (90.4)
Net Investment Revenue		2,924.8	3,077.6
Other Revenue	_	2.0	2.8
Total Revenue		4,946.2	5,353.8
Benefits Paid Scheme Administration Expenses Superannuation Contribution Surcharge Other Expenses	13(b) 7	(3,384.1) (32.1) 5.9 (0.5)	(3,258.2) (32.9) 7.0 (0.2)
Total Expenses		(3,410.8)	(3,284.3)
Change in Net Assets Before Income Tax Income Tax (Expense)/Benefit	8(a)	1,535.4 (99.2)	2,069.5 (174.0)
Change in Net Assets Available to Pay Benefits After Income Tax	_	1,436.2	1,895.5
Net Assets Available to Pay Benefits at End of Financial Year	9 _	32,179.4	30,743.2

The accompanying notes form an integral part of the above Statement of Changes in Net Assets

# **Statement of Net Assets**

as at 30 June 2011

	Note -	2011 \$'m	2010 \$'m
INVESTMENTS Short Term Securities Australian Fixed Interest International Fixed Interest Australian Equities International Equities Property Alternatives	-	2,789.1 2,678.5 1,382.2 10,171.2 8,201.5 3,105.6 3,665.4	2,945.2 2,772.2 2,588.5 9,329.8 6,905.9 2,717.3 3,421.1
OTHER ASSETS Cash and Cash Equivalents Receivables Plant and Equipment Current Tax Asset Deferred Tax Asset	10 8(a) 8(b) _	31,993.5 1.5 400.0 0.2 6.4 40.9	30,680.0 4.0 354.0 0.3 - 59.9
TOTAL ASSETS	-	449.0 32,442.5	418.2 31,098.2
LIABILITIES Reserve Units Payables Current Tax Liability	11 12 8(a) _	1.9 261.2	2.3 279.0 73.7
TOTAL LIABILITIES	-	263.1	355.0
NET ASSETS AVAILABLE TO PAY BENEFITS	9 _	32,179.4	30,743.2

The accompanying notes form an integral part of the above Statement of Net Assets

# Notes to and forming part of the financial statements for the year ended 30 June 2011

#### 1. OPERATION OF THE FUND

These financial statements are general purpose financial statements for the SAS Trustee Corporation Pooled Fund (the Fund) reporting entity that consists of the State Authorities Superannuation Scheme (SASS), the State Authorities Non-contributory Superannuation Scheme (SANCS), the State Superannuation Scheme (SSS) and the Police Superannuation Scheme (PSS). These are the superannuation schemes administered by the SAS Trustee Corporation (STC) under the Superannuation Administration Act 1996 (the Act). STC acts as trustee and holds in trust all assets of the Fund.

The Schemes of the Fund were established under and are governed by various Acts of the New South Wales Parliament. SANCS, SSS and PSS are defined benefit plans, while SASS comprises both of a defined benefit component and a defined contribution component. All Schemes in the Fund are closed to new members. The Fund is domiciled in NSW Australia. Its registered address is Level 17, 83 Clarence Street Sydney, NSW, 2000.

Scheme administration services for the Fund are carried out by the Superannuation Administration Corporation trading as Pillar Administration (Pillar). The Fund's investment custodial activities are performed by JP Morgan Chase Bank, NA. The Fund's administration custody activities (operation and management of the Fund's benefit and contribution bank accounts) are performed by Pillar. Independent actuarial services are provided by Martin Stevenson of Mercer (Australia) Pty Ltd.

Investment managers of the Fund during the year ended 30 June 2011 are:

- Access Capital Advisers Pty Ltd
- AllianceBernstein Investment Management Australia Ltd
- Altrinsic Global Advisors LLC
- AQR Capital Management, LLC
- Arrowstreet Capital LP (via Macquarie Investment Management Limited)
- AXA Rosenberg Investment Management Asia Pacific Ltd
- Axiom International Investors LLC
- BlackRock Investment Management (Australia) Limited
- BT Investment Management (RE) Limited
- Capital International, Inc
- Citigroup Global Markets Australia Pty Ltd
- DEXUS Funds Management Limited (formerly DB RREEF Funds Management Limited)
- Deutsche Asset Management (Australia) Limited
- EG Funds Management Pty Ltd
- Fidelity International Limited
- Franklin Templeton Investments Australia Limited
- GMO Australia Limited

### Notes to and forming part of the financial statements for the year ended 30 June 2011

OPERATION OF THE FUND (Continued)

- Goldman Sachs and Partners Australia Ptv Ltd
- Kaplan Funds Management Pty Limited
- LaSalle Investment Management (via Equity Trustees Limited)
- LaSalle Investment Management (Securities) LP
- Lazard Asset Management Pacific Co
- Macquarie Investment Management Limited
- Maple-Brown Abbott Limited
- New South Wales Treasury Corporation
- Northcape Capital
- Pareto Investment Management Limited
- Perennial Value Management Limited
- Platypus Asset Management Pty Ltd
- Propel Investments Pty Ltd
- RARE Infrastructure Limited
- Siguler Guff DOF III GP LLC
- Siguler Guff DOF IV GP LLC
- State Street Global Advisors, Australia, Limited
- Trilogy Global Advisors, LLC (via Orion Asset Management Services Pty Limited)
- Trilogy Global Advisors, LLC
- Vanguard Investments Australia Ltd
- Wallara Asset Management Pty Limited

Each manager is required to invest the assets managed by it in accordance with the provisions set out in an Investment Management Agreement either directly with STC, or in the case of a trust, with the trustee of the trust. The investment managers and custodian charge fees for the services provided.

Notes to and forming part of the financial statements for the year ended 30 June 2011

#### 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

#### a) Statement of Compliance

The financial statements are prepared in accordance with -

- the Public Finance and Audit Act 1983
- the Public Finance and Audit Regulation 2010
- the Treasurer's Directions
- applicable Australian Accounting Standards and other professional reporting requirements (for example, Australian Accounting Interpretations).

The financial statements have been drawn up in accordance with Australian Accounting Standard AAS 25 – Financial Reporting by Superannuation Plans (AAS 25) and relevant legislative requirements.

The Fund is a not-for-profit entity.

The financial statements were authorised for issue by the Trustee Board on 28 September 2011.

The accrual method of accounting is used and the financial statements are also prepared in accordance with the historic cost convention, except for assets stated in Note 2(b).

In accordance with the criteria set out in the Australian Accounting Standard AASB 3 – Business Combinations and AASB 127 – Consolidated and Separate Financial Statements, the Fund is the parent entity within the economic entity. Entities in the economic entity are shown in Note 15. Consolidated financial statements have not been prepared in accordance with these standards on the grounds that the controlled entities are not material to these financial statements. Investments in subsidiaries are carried at net market value.

All amounts are presented in Australian Dollars unless otherwise stated.

Unless otherwise stated, all accounting policies were also adopted in the corresponding preceding reporting period.

More detailed information on accounting policies for financial instruments is contained at Note 19.

#### b) Assets and Liabilities

Assets and liabilities of the Fund are valued at reporting date at net market values. Net market values comprise market values less estimated costs of disposal. Changes in net market values, representing gains or losses, are recognised in the Statement of Changes in Net Assets in the period in which they occur.

The valuation of each class of asset at 30 June is determined as follows:

Short Term Securities: Market rates (refer note 19 for greater detail).

Fixed Interest: Relevant fixed interest securities markets.

Equities, Unit Trusts: Relevant stock exchange official quotation or if unlisted,

and Unlisted Assets independent or manager valuation.

#### Notes to and forming part of the financial statements

for the year ended 30 June 2011

#### 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### b) Assets and Liabilities (Continued)

Property: Current market value determined individually by independent

registered valuers on the basis of an exchange between knowledgeable and willing parties in an arm's length transaction.

Plant and Equipment: Valued at net fair values; where assets are not material and for

which fair values are not readily available, the assets are shown at their written down values. During the year the fair value of plant and equipment decreased by \$65,772 (2010: decreased by

\$54,807).

Others: e.g. Sundry Assets and Receivables, where net market values

are not applicable, the assets are shown at net fair values. Assets are reviewed annually to ensure they are not recognised at amounts exceeding the value of the economic benefits to be

provided by continued use.

The transactions relating to financial instruments are accounted for using trade date accounting.

The Trustees have concluded that the above measurement bases are appropriate. The nature of the assets and liabilities is that measurement amounts may change over time. Particularly for unlisted assets, measurement amounts may be at variance from amounts realised should the assets be disposed of.

Assets and liabilities are recognised when STC becomes party to the instrument's contractual provisions.

Assets are derecognised when the contractual rights to cash flows from the asset expire or are transferred to another party.

Liabilities are derecognised when the contractual obligation relating to the liability is discharged, cancelled or expires.

#### c) Foreign Currency Transactions

Foreign currency transactions during the year are converted to Australian dollars at the rate of exchange applicable at the date of the transaction. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date. Resulting exchange differences are recognised in the Statement of Changes in Net Assets in the period in which they arise.

#### d) Use of Judgements and Estimates

The preparation of the Fund's financial statements require management to make judgements, estimates and assumptions that affect the amounts recognised in the financial statements. However, uncertainty implicit in these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying value of the affected asset or liability in the future. In valuing assets for which there is no observable market STC is guided on appropriate valuation techniques by its Valuation Policy. The valuation techniques generally involve the judgement of independent valuers.

### Notes to and forming part of the financial statements

for the year ended 30 June 2011

#### STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued) 2.

#### e) Income Tax

The Fund is a complying superannuation fund within the provisions of the Income Tax Assessment Act 1936. Accordingly, the concessional tax rate of 15% has been applied.

Income tax on the Change in Net Assets for the year comprises current and deferred tax. Income tax is reflected in the Statement of Changes in Net Assets.

Current Tax is the expected tax payable or recoverable on the taxable income for the year using the concessional tax rate of 15% and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax provided uses the tax rate expected to apply when the benefit or liability is realised.

A deferred tax asset is only recognised to the extent it is probable that future taxable surpluses will be available against which the asset can be used.

#### Management Expenses

Management expenses charged to the Fund comprise:

Investment expenses are recognised on an accruals Investment Expenses:

basis

Scheme Administration Expenses: The expenses were allocated in accordance with

Trustee policy during the year. The basis for the allocation was number of members and the administrative complexity of each individual Scheme.

#### g) Superannuation Contributions Surcharge Tax

The Superannuation Contributions Surcharge tax is levied on surchargeable contributions on the basis of the individual member's adjusted taxable income. Surcharge assessments which are received and paid by the Fund are charged to the relevant members' surcharge debt accounts.

No provision has been made in these financial statements for the amount of the superannuation contributions surcharge tax which may be payable by the Fund under the Superannuation Contributions Tax (Assessment and Collections) Act 1997 as the assessments received to date are not considered to be indicative of future assessments. The liability shown in the Statement of Net Assets is calculated using assessments received up to 30 June 2011 from the ATO advising of surcharge accrued before abolition of the Superannuation Contributions Tax (Assessment and Collections) Act 1997, effective 1 July 2005.

#### h) Rounding

All values reported in the financial statements have been rounded to the nearest million dollars taken to one decimal place, except where otherwise stated.

#### Notes to and forming part of the financial statements

for the year ended 30 June 2011

#### 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### i) Comparative Figures

Where there have been changes in presentation in the current financial year, the comparative figures for the previous year have been adjusted to conform to these changes.

#### j) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

#### Contributions and Transfers in

Contributions and transfers in are recognised when control of the asset has been attained and are recorded in the period to which they relate.

#### Interest Revenue

Interest is recognised when control of a right to receive consideration for the provision of, or investment in, assets has been attained. If interest is not received at 30 June the amount is recognised as a receivable in the Statement of Net Assets.

#### Dividend Revenue

Dividends are recognised on the ex-date. If a dividend is not received at 30 June the amount is recognised as a receivable in the Statement of Net Assets.

#### k) Benefit Payments

Benefit payments are recognised when the payment becomes due under scheme legislation and a benefit application has been received.

#### Standards Issued applicable but not yet effective

AASB 9 Financial Instruments as issued in December 2009 will be implemented for the year ended 30 June 2014. No material change to these financial statements is anticipated.

AASB 2010-4 Further Amendments to Australian Accounting Standards Arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] will be implemented for the year ended 30 June 2012. No material change to these financial statements is anticipated.

Notes to and forming part of the financial statements for the year ended 30 June 2011

#### 3. EMPLOYER AND MEMBER CONTRIBUTIONS

			2011		
	SASS \$'m	SANCS \$'m	SSS \$'m	PSS \$'m	Total \$'m
Employer Contributions Salary Sacrifice Contributions Member Contributions	553.0 129.6 99.7	194.8 - 3.6	527.1 174.9 100.9	219.8 7.9 5.8	1,494.7 312.4 210.0
Total Contributions	782.3	198.4	802.9	233.5	2,017.1
			2010		
•	SASS	SANCS	SSS	PSS	Total
	\$'m	\$'m	\$'m	\$'m	\$'m
Employer Contributions Salary Sacrifice Contributions	837.6 123.1	413.0	259.3 1 <b>7</b> 5.9	223.7 8.0	1,733.6 307.0
Member Contributions	112.6	7.3	106.5	6.7	233.1
Total Contributions	1,073.3	420.3	541.7	238.4	2,273.7

The payment of all benefits under the Schemes associated with the Fund is provided for by New South Wales Government statute and the liability is funded, as a minimum, as the benefits become payable.

Member and Employer contributions for each of the Schemes are determined on the bases described below. The bases for the current year remain unchanged from the previous year. Member contributions for the SANCS represent the co-contributions received from the Commonwealth Government.

Contributions made by the Crown vary from year to year depending upon government liability management priorities.

The New South Wales Government's objective is to fully fund its superannuation liabilities by 2030. This objective requires that employer contributions be periodically reassessed to ensure that they remain sufficient to achieve full funding by 2030. STC conducts this periodic reassessment at 31 December each year.

#### a) State Authorities Superannuation Schemes (SASS)

#### **Member Contributions**

Each member elects to contribute between 1% and 9% of salary.

#### **Employer Contributions**

Under the provisions of the *State Authorities Superannuation Act 1987* employers are grouped into the two categories below and the bases of contribution are as follows:

- Part 1 Consolidated Fund or supported Government employers and self-financing Semigovernment and non-government employers are billed monthly and generally contribute at a multiple of the contributions payable by employees. The respective multiples are set by STC, with the concurrence of the NSW Treasurer, at a rate to part fund future liabilities and to fully fund emerging benefits.
- Part 3 Hospitals, and associated employers not part of the Crown's contribution, contribute at a multiple of 1.9 of employee contributions for SASS and 2.5% of employee salaries for SANCS. Should any shortfall occur the funding deficit is guaranteed to be met from the Consolidated Fund of the NSW Government.

Contributions made by the Crown vary from year to year depending upon government liability management priorities.

### Notes to and forming part of the financial statements for the year ended 30 June 2011

#### 3. EMPLOYER AND MEMBER CONTRIBUTIONS (Continued)

#### b) State Authorities Non-contributory Superannuation Scheme (SANCS)

#### **Member Contributions**

As the Scheme is 100% employer funded, there are no member contributions. Any member contribution recognised represents co-contributions received from the Commonwealth Government in respect of a member.

#### **Employer Contributions**

Employers are billed at a percentage of employees' salaries, set for each employer by STC with the concurrence of the NSW Treasurer. The current contribution rates for employers range from 0% to 3%. Some employers also contribute lump sum contributions to meet past service deficiencies. The lump sum contribution amount is set by STC with concurrence of the NSW Treasurer.

Contributions made by the Crown vary from year to year depending upon government liability management priorities.

#### c) State Superannuation Scheme (SSS)

#### **Member Contributions**

Each member contributes on a rate for age basis for individual pension units which become available with salary increases. Members may elect to abandon units where total contributions payable would exceed 6% of salary.

#### **Employer Contributions**

Each employer contributes at a rate equal to a multiple of relevant employee contributions. The rate is set by STC with the concurrence of the NSW Treasurer. The multiple of employee contributions is estimated to at least meet the cost of emerging benefits. Some employers also contribute lump sum contributions to meet past service deficiencies. The lump sum contribution amount is set by STC with concurrence of the NSW Treasurer.

Contributions made by the Crown vary from year to year depending upon government liability management priorities.

#### d) Police Superannuation Scheme (PSS)

#### **Member Contributions**

Members contribute 6% of their salary.

#### **Employer Contributions**

Employer contributions are made by the Crown and vary from year to year depending upon government liability management priorities.

#### 4. SASS – MEMBER INVESTMENT CHOICE

SASS members have the option to choose the investment strategy for his or her member contributions. The option is also offered to SASS members who have deferred their benefits. Any election by a SASS deferred member applies to the member's contributor financed benefit and also to his or her employer financed benefit.

Notes to and forming part of the financial statements for the year ended 30 June 2011

#### 5. SCHEME MOBILITY TRANSFER

During the year some members of Fund schemes elected to transfer to the Local Government Superannuation Scheme (LGSS) or to the Energy Industries Superannuation Scheme (EISS) following transfer of their employment to a relevant employer covered by either of those schemes. The total amount transferred out was \$0.9 million (2010: \$1.2 million).

Also, a number of LGSS and/or EISS members who had undergone a change in employment elected to transfer to a Fund scheme. The total amount transferred in was \$3.2 million (2010: \$1.0 million).

The net amount transferred was \$2.3 million (2010: -\$0.2 million).

The mobility provisions governing these optional, employment-related scheme transfers are contained in the Superannuation Administration (Local Government Superannuation Scheme Transitional Provisions) Regulations 1997 and the Superannuation Administration (Electricity Superannuation Scheme Transitional Provisions) Regulations 1997.

### Notes to and forming part of the financial statements for the year ended 30 June 2011

#### 6. INVESTMENT REVENUE

	2011					
	Change in Net Market Value					
	Income	Held at	Realised	Total		
		Reporting	During the			
		Date	Year			
		Unrealised	Gain/(Loss)			
		Gain/(Loss)				
	\$'m	\$'m	\$'m	\$'m		
Short Term Securities	4.6	17.1	110.2	131.9		
Australian Fixed Interest	107.0	(11.0)	(5.3)	90.7		
International Fixed Interest	29.4	(135.6)	170.5	64.3		
Australian Equities	457.4	332.7	299.4	1,089.5		
International Equities	247.2	40.8	389.6	677.6		
Property	158.6	89.5	196.4	444.5		
Alternatives	226.9	70.2	215.6	512.7		
Total Investment Revenue	1,231.1	403.7	1,376.4	3,011.2		

		2010				
		Change in Net Market Value				
	Income	Held at Reporting Date	Realised During the Year	Total ·		
		Unrealised Gain/(Loss)	Gain/(Loss)			
	\$'m	\$'m	\$'m	\$'m		
Short Term Securities	34.0	16.5	69.2	119.7		
Australian Fixed Interest	115.2	32.6	(8.8)	139.0		
International Fixed Interest	35.2	(75.1)	150.8	110.9		
Australian Equities	449.1	213.6	556.4	1,219.1		
International Equities	192.3	51.7	466.2	710.2		
Property	157.7	10.6	119.5	287.8		
Alternatives	247.8	(58.9)	392.4	581.3		
Total Investment Revenue	1,231.3	191.0	1,745.7	3,168.0		

#### Interest Revenue

Within Short Term Securities, Australian Fixed Interest and International Fixed Interest is interest revenue received of \$136.5 million (2010: \$150.3 million).

#### Royalty Revenue

Within Australian Equities is royalty revenue received of \$24.6 million (2010: \$18.5 million).

#### Dividend Revenue

Within Australian Equities and International Equities is dividend revenue of \$610.1 million (2010: \$580.8 million).

#### Notes to and forming part of the financial statements

for the year ended 30 June 2011

#### 6. INVESTMENT REVENUE (Continued)

#### **Property Lease Revenue**

The Fund's property portfolio comprises interests in property trusts and several directly owned properties. These properties are leased commercially to various tenants.

The Fund engaged in the following transactions -

_	2011 \$'m	2010 \$'m
Rental income derived	188.7	183.2
Direct property operating expenses	(54.0)	(51.2)
Contractual obligations to renovate properties  Contractual obligations for repairs, maintenance or enhancements to	(6.5) (0.2)	(3.1) (0.1)
properties	, ,	• ,

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The future minimum lease payments receivable by the Fund are -

	2011 \$'m	2010 \$'m
No later than one year Later than one year but not later than five years Later than five years	136.4 365.5 102.0	133.4 400.6 99.0
	603.9	633.0

#### 7. SCHEME ADMINISTRATION EXPENSES

Included in Scheme Administration Expenses are the following items:

	2011 \$'m	2010 \$'m
Audit Fees - The Auditor-General of New South Wales (audit of the		
financial statements and no other services)	0.4	0.4
Scheme Administration Fees	25.6	26.3

The Fund also incurred \$188,184 expenditure on consultants (2010: \$534,966)

### Notes to and forming part of the financial statements for the year ended 30 June 2011

#### 8. INCOME TAX

Income tax expenses and assets and liabilities arising from the levying of income tax (including capital gains tax) on the Fund have been determined in accordance with the provisions of Australian Accounting Standard AASB 112 – *Income Taxes*.

a) Income Tax recognised in the Statement of Changes in Net Assets	2011 \$'m	2010 \$'m
Current tax expense/(benefit) Provision attributable to current year PAYG instalments paid Adjustments for prior year	(6.4) 86.2 0.4	73.7 49.4 0.5
Deferred tax benefit Decrease/(increase) in deferred tax benefit	80.2 19.0	123.6 50.4
Total income tax expense/(benefit) in Statement of Changes in Net Assets	99.2	174.0
Reconciliation between tax (benefit)/expense and pre-tax Change in Net Assets before Tax		
Change in Net Assets before income tax	1,535.4	2,069.5
Income tax expense/(benefit) using the superannuation fund tax rate of 15%	230.3	310.4
Increase in tax expense/Decrease in tax benefit due to: Non-deductible benefit payments, CGT concession and investment expense Pension related investment (gains) losses	435.3 (331.2)	4 <b>21</b> .9 (331.4)
Decrease in tax expense/Increase in tax benefit due to: Tax credits Notional death and disability insurance premium and anti-detriment	(154.8) (80.8)	(142.4) (85.0)
Over provision of tax benefit in prior year	0.4	0.5
Income Tax Expense/(Benefit) on Change in Net Assets Before Tax	99.2	174.0
b) Deferred Tax Asset	2011 \$'m	2010 \$'m
Unrealised Capital Losses Dividends Receivable Contributions Receivable Unrealised Losses on Traditional Securities and Foreign Exchange Unrealised Franking Credits	18.7 1.0 (0.6) (2.3) 24.1	42.5 (2.9) (0.5) (1.4) 22.2
Deferred Tax Asset	40.9	59.9

# Notes to and forming part of the financial statements for the year ended 30 June 2011

#### **NET ASSETS**

9. NETASSETS			2011		
	SASS	SANCS	SSS	PSS	Total
	\$'m	\$'m	\$'m	\$'m	\$'m_
Member Reserves (1) Balance at Beginning of Financial					
Year	4,105.4	,	3,635.0	323.2	8,063.6
Increase/(Decrease) in Net Assets	249.5	-	(99.8)	(2.0)	147.7
Balance at End of Financial Year	4,354.9	•	3,535.2	321.2	8,211.3
Employer Reserves (2)					
Balance at Beginning of Financial					
Year	3,270.5	973.7	14,390.3	2,590.1	21,224.6
Increase/(Decrease) in Net Assets Balance at End of Financial Year	193.6 3,464.1	7.3 981.0	832.6 15,222.9	134.2 2,724.3	1,167.7 22,392.3
Bulariot at Eria of Financial Feat	0,404.1	501.5	IU,LLL.U	2,124.0	21,001.0
Death or Invalidity Reserves (3)					
Balance at Beginning of Financial Year	2.8				2.8
Increase/(Decrease) in Net Assets	(1.6)	-	-	-	(1.6)
Balance at End of Financial Year	1.2	-	-	-	1.2
D-f					
Deferred Benefits Reserves (4) Balance at Beginning of Financial					
Year	1,179.8	272.4	-	•	1,452.2
Increase/(Decrease) in Net Assets	101.5	20.9	-	-	122.4
Balance at End of Financial Year	1,281.3	293.3	-	-	1,574.6
Net Assets Available to Pay Benefits	9,101.5	1,274.3	18,758.1	3,045.5	32,179.4
			2010		
	SASS	SANCS	SSS	PSS	Total
	\$'m	\$'m_	\$'m	\$'m	\$'m
Member Reserves (1)					
Balance at Beginning of Financial Year	3,859.4	_	3,626.6	314.2	7,800.2
Increase/(Decrease) in Net Assets	246.0	-	8.4	9.0	263.4
Balance at End of Financial Year	<b>4</b> ,105.4	=	3,635.0	323.2	8,063.6
Employer Reserves (2)					
Balance at Beginning of Financial					
Year	2,866.7	776.7	13,587.7	2,435.5	19,666.6
Increase/(Decrease) in Net Assets	403.8	197.0	802.6	154.6	1,558.0
Balance at End of Financial Year	3,270.5	973.7	14,390.3	2,590.1	21,22 <b>4</b> .6
Death or Invalidity Reserves (3)					
Balance at Beginning of Financial					
Voor					
Year	2.1	-	_	<del>-</del>	2.1
Increase/(Decrease) in Net Assets	0.7		-	- -	0.7
Increase/(Decrease) in Net Assets Balance at End of Financial Year		_ 		- -	
Increase/(Decrease) in Net Assets Balance at End of Financial Year  Deferred Benefits Reserves (4)	0.7		- - -	- -	0.7
Increase/(Decrease) in Net Assets Balance at End of Financial Year  Deferred Benefits Reserves (4) Balance at Beginning of Financial	0.7 2.8	253.3	-		2.8
Increase/(Decrease) in Net Assets Balance at End of Financial Year  Deferred Benefits Reserves (4)	0.7	253.3 19.1	-	- - - - -	0.7
Increase/(Decrease) in Net Assets Balance at End of Financial Year  Deferred Benefits Reserves (4) Balance at Beginning of Financial Year	0.7 2.8 1,125.5		- - -	- - - -	0.7 2.8 1,378.8
Increase/(Decrease) in Net Assets Balance at End of Financial Year  Deferred Benefits Reserves (4) Balance at Beginning of Financial Year Increase/(Decrease) in Net Assets	0.7 2.8 1,125.5 54.3	19.1		- - - - 2,913.3	1,378.8 73.4

#### Notes to and forming part of the financial statements

for the year ended 30 June 2011

#### 9. NET ASSETS (Continued)

- The Member Reserve represents members' accounts that comprise the balance of members' contributions and net investment income earned less benefits paid that are attributed to contributor-financed benefits. Only the contributors under the State Authorities Superannuation Scheme are required to pay scheme administration fees.
- The Employer Reserve represents employers' accounts that comprise the balance of employers' contributions and net investment income earned less benefits paid and scheme administration fees. In addition, the employers are also responsible for the tax liabilities levied on the employers' contributions.
- The Death or Invalidity Reserve represents accumulated funds available to provide death or invalidity cover to members for the months during which they have public sector employment. The reserve balance is the excess of member premiums over benefits paid.
- 4. The Deferred Benefit Reserve represents member account balances that, on the election of the member or by default, are to remain with the Fund following the member's exit from employment in the public sector. The deferred benefit of SSS and PSS members has been included in the employer reserve of the respective Schemes.

As described at Note 4 SASS and SASS Deferred members are able to elect an investment strategy for his or her member contributed balance and employer financed benefit respectively.

Balances of the SASS Member Reserve and the Deferred Benefit Reserve in the various investment strategies at the reporting date are:

			2011		
_	Conservative				
_	Growth \$'m	Growth \$'m	Balanced \$'m	Cash \$'m	Total \$'m
SASS Member	3,999.0	89.3	138.2	128.4	4,354.9
Deferred Benefit _	1,448.8	31.3	53.1	41.4	1,574.6
	5,447.8	120.6	191.3	169.8	5,929.5

			2010		
·	(	Conservative			
	Growth	Growth	Balanced	Cash	Total
	\$'m	\$'m	\$'m	\$'m	\$'m
SASS Member	3,787.2	71.7	117.7	128.8	4,105.4
Deferred Benefit	1,355.5	16.9	40.9	38.9	1,452.2
	5,142.7	88.6	158.6	167.7	5,557.6

#### Notes to and forming part of the financial statements

for the year ended 30 June 2011

#### 10. RECEIVABLES

	2011 \$'m	2010 <u>\$'m</u>
Contributions Receivable	31.9	35.4
Accrued Income	114.5	84.3
Margin Call Deposits	129.1	69.8
Investment Sales	117.4	135.7
Other Receivables	7.1	28.8
	400.0	354.0

Within receivables is an impairment allowance of \$56,381 (2010: \$1,110). This allowance relates to amounts due from members or the estates of members where it has been assessed that prospect of the Fund recovering the amount due is reduced.

#### 11. RESERVE UNITS

Reserve Units are units held by certain SSS members. They represent units purchased in advance with an option to convert to full rate units in SSS at any future date. On conversion they are no longer recognised as a liability but as a part of member reserves.

#### 12. PAYABLES

	2011 \$'m	2010 \$'m
·	· · · · · · · · · · · · · · · · · · ·	
Superannuation Benefits	10.0	9.2
Investment Purchases	14 <b>1.</b> 8	150.3
Investment – Other Creditors	28.0	33.4
Provision for Contribution Surcharge	76.8	82.9
Amount Payable – SAS Trustee Corporation	3.9	1.5
Other Payables	0.7	1.7
· -	261.2	279.0

All payables are within agreed trading terms.

#### Movements in the Provision for Contribution Surcharge were as follows -

	2011 \$'m	2010 <b>\$</b> 'm
Opening Balance Add -	82.9	90.1
Assessment Received Annual indexation Less -	(0.1) 3.9	0.3 4.1
Payments made to the Australian Taxation Office	(9.9)	(11.6)
Closing Balance	76.8	82.9

#### Notes to and forming part of the financial statements

for the year ended 30 June 2011

#### 13. ACCRUED BENEFITS

#### a) Liability for Accrued Benefits

The amount of accrued benefits has been determined on the basis of the present value of expected future payments which arise from membership of the Fund up to the measurement date. The figure reported has been determined by reference to expected future salary levels and by application of a market-based, risk-adjusted discount rate and relevant actuarial assumptions. The valuation of accrued benefits was undertaken by the independent Scheme actuary as part of the statutorily required triennial actuarial review undertaken as at 30 June 2009. The financial assumptions applied for the calculations were:

Accrued Benefits 2009 and following years % pa.

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# Valuation Assumptions Investment Return Rate - asset backing current pension liabilities - other Salary Increase Rate CPI Increase Rate 2.5

The review as at 30 June 2009 indicated that the unfunded liability of the Fund was \$19,871.2 million.

In addition to the triennial actuarial review referred to above, the actuary also provides yearly estimates at the reporting date.

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### Notes to and forming part of the financial statements for the year ended 30 June 2011

#### 13. ACCRUED BENEFITS (Continued)

#### a) Liability for Accrued Benefits (Continued)

The relevant statutes require that all benefits be paid in full as and when they fall due.

#### b) Movement in the Liability for Accrued Benefits

Accrued benefits increase due to the cost of accruing benefits and the imputed cost of interest, and reduce as benefits are paid, and may vary due to changes in valuation bases and changes in experience from previous assumptions. Based on current estimates, the value of Accrued Benefits will not start to decline until after 2015.

			2011		
	SASS	SANCS	SSS	PSS	Total
	\$'m	\$'m	\$'m	\$'m	\$'m
Balance at Beginning of Financial Year	12,579.5	2,653.3	29,002.8	6,349.7	50,585.3
Benefits Paid	(891.8)	(262.6)	(1,823.5)	(406.2)	(3,384.1)
	11,687.7	2,390.7	27,179.3	5,943.5	47,201.2
Increase in Accrued Benefits	1,401.8	309.6	2,725.9	539.7	4,977.0
Balance at End of Financial Year	13,089.5	2,700.3	29,905.2	6,483.2	52,178.2
			2010	·	
	SASS	SANCS	SSS	PSS	Total
	\$'m	\$'m	\$'m	\$'m	\$'m
Balance at Beginning of Financial Year	11,718.9	2,482.9	27,875.3	6,158.2	48,235.3
Benefits Paid	(915.7)	(243.6)	(1,708.7)	(390.2)	(3,258.2)
		3		······	
	10,803.2	2,239.3	26,166.6	5,768.0	44,97 <b>7</b> .1
Increase in Accrued Benefits	1,776.3	414.0	2,836.2	581. <b>7</b>	5,608.2
Balance at End of Financial Year	12,579.5	2,653.3	29,002.8	6,349.7	50,585.3

Notes to and forming part of the financial statements for the year ended 30 June 2011

#### 14. VESTED BENEFITS

Vested benefits are benefits which are not conditional upon continued membership of the Fund (or any factor other than resignation from the Fund) and include benefits which members were entitled to receive had they terminated their Fund membership at the reporting date.

		2011			2010	
		Net			Net	
		Assets			Assets	
		Available	Over/		Available	Over/
	Vested	To Pay	(Under)	Vested	To Pay	(Under)
	Benefits \$'m	Benefits \$'m	Funded \$'m	Benefits \$'m	Benefits \$'m	Funded \$'m
State Authorities	7 7		* ***			
Superannuation						
Scheme	10,385.7	9,101.5	(1,284.2)	9,783.4	8,558.5	(1,224.9)
State Authorities						
Non-contributory						
Superannuation	2 242 0	4 074 0	(4 020 E)	0.404.0	4 046 4	(4.045.0)
Scheme State	3,213.8	1,274.3	(1,939.5)	3,191.3	1,246.1	(1,945.2)
Superannuation						
Scheme	28,680.0	18,758.1	(9,921.9)	27,494.5	18,025.3	(9,469.2)
Police	_0,000.0	,	(0,0=100)		. •, •====	(5):/
Superannuation						
Scheme	5,089.9	3,045.5	(2,044.4)	4,848.2	2,913.3	(1,934.9)
	47,369.4	32,179.4	(15,190.0)	45,317.4	30,743.2	(14,574.2)

Vested benefits exceed net assets at 30 June 2011 and 30 June 2010. STC is working with the NSW Treasury and the Scheme actuary to facilitate the Government's stated objective to fully fund the schemes by 2030.

#### Notes to and forming part of the financial statements

for the year ended 30 June 2011

#### 15. CONTROLLED ENTITIES

The entities that comprise the SAS Trustee Corporation Pooled Fund economic entity are the entities as detailed below:

#### **Parent Entity**

SAS Trustee Corporation Pooled Fund

		Ownership	Interest
	Activity	2011 %	2010 %
Controlled Entities State Super Financial Services Australia Limited (SSFSAL) [incorporated in Australia]	Financial planning and funds management	100.0	100.0
The following entities are managed by Deutsche Asset Management (Australia) Limited –			
Valley Commerce Pty Limited [incorporated in Australia]	Dormant	100.0	100.0
Buroba Pty Limited [incorporated in Australia]	Dormant	100.0	100.0
State Infrastructure Trust [established in Australia in July 2011]	Dormant	100.0	N/A
State Infrastructure Holdings (Sea Gas) Pty Ltd [established in Australia in August 2011]	Dormant	100.0	N/A

Voting power held in the above entities is the same as the ownership interest.

During the year the Controlled Entities paid dividends and trust distributions to the Parent Entity of \$27.6 million (2010: \$20.5 million).

The controlled entities are all audited by the NSW Auditor-General.

#### 16. TRUSTEE BOARD INFORMATION

The Trustee of the Fund is STC. The names of the Board members of STC in office during the year ended 30 June 2011 and up to date of signing these accounts are as follows:

Mr I Blair

Mr M Carapiet (term commenced 2 August 2011)

Mr R Davis

Ms A De Salis

Mr R Harty

Mr M Lambert

M N Lewocki

Mr R Lipscombe (term commenced 25 November 2009 and ended 2 March 2011)

Dr D Russell (term ended 31 July 2011)

Mr P Scully

Ms S Walsh (term commenced 25 March 2011)

#### Notes to and forming part of the financial statements

for the year ended 30 June 2011

#### 16. TRUSTEE BOARD INFORMATION (Continued)

#### a) Board Members' Compensation

All income received or due and receivable by Board members is disclosed in the financial statements of STC.

b) Remuneration received or due and receivable by Board Members and Directors of the Economic Entity from Controlled Entities (refer Note 15 Controlled Entities)

All income received is disclosed in the financial statements of each controlled entity.

c) Transactions entered into during the year with Board Members and their Related Entities

All transactions entered into during the year with Board members and their related entities are disclosed in the financial statements of STC.

#### 17. CONTINGENT LIABILITIES

In managing the investment portfolio the investment managers enter into various types of investment contracts that can give rise to contingent liabilities. Investment contracts are detailed in Note 19.

Two other classes of contingent liabilities potentially exist in relation to either the Trustee in its capacity as Trustee of the Fund, or the Fund itself:

- (i) Legal Costs in relation to member benefit entitlement disputes, notified, but not resolved.
- (ii) Legal Costs and damages arising from claims relating to the ownership and operation of physical assets.

In both cases it is impractical to estimate the financial effect or the amount of any possible recovery from third parties relating to these contingent liabilities. The Trustee is indemnified out of the assets of the Fund.

#### Notes to and forming part of the financial statements

for the year ended 30 June 2011

#### 18. SECURITIES LENDING PROGRAM

The Fund participates in a Securities Lending Program managed by the custodian. The Fund received \$6.2 million (2010: \$6.9 million) fee income from this program, which adds to the Fund's overall yearly return.

At 30 June 2011, the total value of the lent securities was \$2.2 billion (2010: \$2.6 billion) while the total value of the collateral was \$2.2 billion (2010: \$2.7 billion). The lent securities represented about 6.9% of the Fund's total investments (2010 about 8.5%), which was within the allowable limit of 25%.

The collateral comprised foreign sovereign securities of \$237.6 million (2010: \$327.9 million) and cash of \$1.9 billion (2010: \$2.3 billion). The collateral is invested in a fund managed by the custodian.

The collateral may only be accessed in the event of default by the borrower of lent securities.

#### 19. FINANCIAL INSTRUMENTS

The Fund is exposed to a variety of financial risks as a result of its investment activities. These risks include —

- (a) market risk, including -
  - 1. currency risk
  - 2. interest rate risk
  - 3. price risk
- (b) credit risk
- (c) liquidity risk.

The Fund's risk management and investment policies are designed to minimise the potential adverse effects of these risks on the Fund's financial performance.

STC has developed, implemented and maintains a Risk Management Strategy (RMS), Risk Management Plan (RMP) and an anti money laundering and counter terrorism financing program (AML/CTF). The RMS, RMP and AML/CTF identify the policies, procedures, processes and controls that comprise the risk management and control systems. These systems address material risks, both financial and non-financial that could potentially be faced by the Fund.

The Fund's assets are invested in accordance with the Fund's investment strategy. STC regularly reviews the investment strategy to ensure the strategy's continued relevance to the Fund's objectives given prevailing investment markets. An objective of the investment strategy is to avoid undue concentrations of risk. STC ensures that the portfolio is diversified across asset classes, investment managers, countries and asset types.

As required by its governing legislation, the investments of the Fund are managed by specialist fund managers. The activities of the fund managers are governed by investment instructions and investment constraints as set out in documented agreements with the fund managers or, in the case of a unit trust, a trust deed. STC constantly monitors its investment managers to ensure compliance with investment instructions and investment constraints.

For the purpose of these financial statements, a financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments include both primary instruments (such as receivables, payables and equity securities) and derivative instruments (such as financial options, foreign exchange transactions, forward rate agreements and interest rate and currency swaps). Such derivative instruments are used for hedging purposes and to efficiently implement asset allocation changes and typically expose the Fund to credit risk and market risk.

# Notes to and forming part of the financial statements for the year ended 30 June 2011

#### 19. FINANCIAL INSTRUMENTS (Continued)

Accounting policies in respect of the Fund's financial instruments are shown below.

#### **Accounting Policies**

Rec	ognised instruments	Accounting policies	Terms and conditions
1.	Receivables	Receivables include income receivable and unsettled sales of securities. They are carried at nominal amounts.	Sales of securities are made on various terms for different securities and in different countries. Income receivable is also settled on varying terms depending on the security and country.
2.	Futures	Futures are stated at market value using the daily closing price.	The futures are equity futures.
3.	Unlisted Trusts	The Net Market Value of Unlisted Trusts is determined on the basis of the withdrawal unit prices as advised by the relevant fund manager.	The terms and conditions are set out in the applicable trust constitution.
4.	Listed Shares	Listed shares are carried at market value, less an amount for selling costs which would be incurred if the investments were sold. The basis for valuation of listed securities is the last sale price quoted at close of business on the last day of the period on the relevant securities exchange. Certain costs incurred in acquiring the investment, such as brokerage and stamp duty, are capitalised in the cost of the investments. Dividend income is recognised on the ex-date.	N/A
5.	Bills of exchange and other discount securities	Carried at net market value using market rates as at 30 June.	Average maturity of 26 days with effective interest rates in the range of 4.82% to 4.92%.
6.	Promissory Notes	Carried at net market value.	Average maturity of 20 days with effective interest rates in the range of 4.86% to 5.18%.
7.	Mortgages	Mortgages are stated at net market value. Interest income is recognised in the Statement of Changes in Net Assets when earned.	N/A
8.	Bank Deposits	Stated at net market value. Interest income is recognised in the Statement of Changes in Net Assets when earned.	Bank deposits represent 11AM call deposits and uninvested cash and has no fixed maturity dates. Deposits have effective interest rates in the range of 5.43% to 6.00%.
9.	Government Bonds	Carried at net market value based on discounted cash flow.	Government bonds on average mature on 07/09/2022 and have effective interest rates in the range of 0.16% to 12.03%.
10.	Semi Government Bonds	Carried at net market value based on discounted cash flow.	Semi Government bonds on average mature on 05/08/2015 and have effective interest rates in the range of 1.87% to 6.05%.

# Notes to and forming part of the financial statements for the year ended 30 June 2011

#### 19. FINANCIAL INSTRUMENTS (Continued)

#### **Accounting Policies (Continued)**

Recognised instruments	Accounting policies	Terms and conditions
11. International Bonds	Carried at net market value based on discounted cash flow.	International Bonds on average mature on 14/02/2020 and have effective interest rates in the range of 0.22% to 14.06%.
12. Leasehold Property Investments	Carried at net market value based on discounted cash flow.	N/A
13. Direct Property	Reported at net market value based on independent valuations.	N/A
14. Options	Options are stated at market value using the daily closing price.	The options are all Australian Exchange Traded options.
15. Investment Purchases	Liabilities are recognised for amounts to be paid for under investment commitments.	Settlement for securities is made in accordance with investment agreements between counterparties.
16. Foreign exchange forward contracts	Foreign exchange contracts are undertaken to hedge against adverse foreign exchange movements. Gains or losses on these contracts are recognised through the translation of underlying transactions and/or instruments at hedge rates.	At the end of the reporting period, the Fund had various forward exchange contracts open in its international portfolios.
17. Payables	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Fund.	Liabilities are settled on receipt of invoices in accordance with terms thereof.

### Notes to and forming part of the financial statements for the year ended 30 June 2011

#### 19. FINANCIAL INSTRUMENTS (Continued)

#### a) Market Risk

Market risk is the risk that changes in factors such as foreign currency exchange rates, interest rates and equity prices will affect the Fund's income or the value of its financial instruments. Market risk comprises currency risk, interest rate risk and price risk. Through its management of market risk STC seeks to manage and control its market risk exposures to within acceptable parameters while optimising risk adjusted returns.

In managing market risk, STC's fund managers trade in derivatives and securities. The fund managers also incur liabilities in the ordinary course of business. All such transactions are within the investment management mandates granted by STC to its managers.

#### a.1) Currency Risk

Currency risk is the risk that the net market value of offshore assets and future cash flows derived from existing offshore financial instruments will fluctuate because of changes in foreign exchange rates.

The Fund is exposed to currency risk on financial instruments, receivables and liabilities that are denominated in currencies other than Australian Dollars. The main currencies to which the Fund is exposed are —

- US Dollar (USD)
- Japanese Yen (JPY)
- Euro (EUR)
- Great Britain Pound (GBP)

The Fund's currency risk is managed in accordance with strict parameters as set out in its investment policy. Under the policy, investments are hedged as follows –

- listed international equities are hedged in the range of 0% to 70%
- listed international property and infrastructure are 100% hedged
- international bonds are 100% hedged
- international credit was 100% hedged until December 2010 and after this date is not hedged
- unlisted international property and infrastructure equities are hedged in the range of 50% to 100%.

If a counter party failed to satisfy its contractual obligation to deliver on a currency hedging contract the Fund would remain exposed to the currency risk being hedged.

The hedging policy has been reviewed but not changed during 2010-11.

The Fund's total net exposure to fluctuations in foreign currency exchange rates as at the financial year end is —

#### Notes to and forming part of the financial statements

for the year ended 30 June 2011

#### 19. FINANCIAL INSTRUMENTS (Continued)

#### a) Market Risk (Continued)

#### a.1) Currency Risk (Continued)

#### YEAR ENDED 30 JUNE 2011 NET MARKET VALUE

Financial assets and liabilities at net market value through profit and loss Receivables Payables Plant & Equipment Tax Assets Tax Liabilities

AUD A\$'m USD JPY EUR GBP Other TOTAL A\$'m A\$'m A\$'m A\$'m A\$'m A\$'m 4,781.0 1,001.0 1,751.0 887.0 22,545.0 1,030.0 31,995.0 38.0 14.0 25.0 13.0 299.0 11.0 400.0 (29.0)(11.0)(14.0)(10.0)(191.1)(8.0)(263.1)Ó.2 0.2 47.3 47.3 4,790.0 1,004.0 1,762.0 890.0 22,700.4 1,033.0 32,179.4

**Net Assets** 

#### YEAR ENDED 30 JUNE 2010 NET MARKET VALUE

Financial assets and liabilities at net market value through profit and loss Receivables Payables Plant & Equipment Tax Assets Tax Liabilities

Net Assets

USD A\$'m	JPY A\$'m	EUR A\$'m	GBP <b>A\$</b> 'm	AUD A\$'m	Other A\$'m	TOTAL A\$'m
4,476.0	1,290.0	1,809.0	877.0	21,373.0	873.0	30,698.0
41.0 (39.0)	17.0 (13.0)	34.0 (25.0)	11.0 (4.0)	225. <b>5</b> (192.8)	15.0 (11.0)	343.5 (284.8)
-	-	-	-	0.3 59.9	-	0.3 59.9
	-		-	(73.7)	-	(73.7)
4,478.0	1,294.0	1,818.0	884.0	21,392.2	877.0	30,743.2

### Notes to and forming part of the financial statements for the year ended 30 June 2011

#### 19. FINANCIAL INSTRUMENTS (Continued)

#### a) Market Risk (Continued)

#### a.1) Currency Risk (Continued)

The currency risk disclosure reflects the Fund's assets that are subject to active currency management. These assets comprise both directly held investments and most of the assets held indirectly through unit trusts.

A 15 per cent strengthening of the Australian Dollar against the following currencies at financial year end would have increased (decreased) the Fund's Net Assets and Change in Net Assets by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. In practice, STC partially hedges against the adverse effects of currency movements. The analysis is calculated on the same basis for 2011 and 2010 –

All amounts are in Australian Dollars	Net Assets 30-Jun-11 \$'m	Change in Net Assets 30-Jun-11 \$'m
USD JPY EUR GBP Other	(84) (47) (73) (10) (6) (220)	(84) (47) (73) (10) (6)
	Net Assets 30-Jun-10 \$'m	Change in Net Assets 30-Jun-10 \$'m
USD JPY EUR GBP Other	(138) (105) (121) (22) (13) (399)	(138) (105) (121) (22) (13) (399)

A 15 per cent weakening of the Australian Dollar against the above currencies at financial year end would have the equal but opposite effect on the above currencies to the amounts shown above, assuming that all other variables remain constant.

### Notes to and forming part of the financial statements for the year ended 30 June 2011

- 19. FINANCIAL INSTRUMENTS (Continued)
- a) Market Risk (Continued)
- a.2) Interest Rate Risk

The Fund's investments in debt and short term money market instruments are subject to interest rate risk and the return on these investments will fluctuate in accordance with movements in the interest rates.

The Fund's exposure to interest rate risk, including contractual repricing or maturity dates (whichever dates are earlier) associated with these financial instruments as at 30 June, are shown in the tables below. All other financial assets and liabilities are non-interest bearing.

# Notes to and forming part of the financial statements for the year ended 30 June 2011

#### FINANCIAL INSTRUMENTS (Continued) 19.

- Market Risk (Continued) a)
- a.2) Interest Rate Risk (Continued)

#### YEAR ENDED 30 JUNE 2011 - INTEREST RATE RISK DISCLOSURE

	Floating Interest A\$'m	Fixed Interest  A\$'m	Non Interest Bearing A\$'m	Total (per Statement of Net Assets) A\$'m
Assets				
Short Term Securities	2,790.6	-		2,790.6
Australian Fixed Interest		2,678.5	-	2,678.5
International Fixed Interest		1,382.2	-	1,382.2
Australian Equities	-	-	10,171.2	10,171.2
International Equities	-	-	8,201.5	8,201.5
Property	-	-	3,105.6	3,105.6
Alternatives	-	121.0	3,544.4	3,665.4
Receivables	•	-	400.0	400.0
Plant and Equipment	-	•	0.2	0.2
Current Tax Asset	•	-	6.4	6.4
Deferred Tax Asset	-	-	40.9	40.9
Total Assets	2,790.6	4,181.7	25,470.2	32,442.5
Liabilities				
Reserve Units		-	1.9	1.9
Payables	-	-	261.2	261.2
Current Tax Liability		-	-	-
Total Liabilities	-	-	263.1	263.1
Net Assets	2,790.6	4,181.7	25,207.1	32,179.4

YEAR ENDED 30 JUNE 2010 - INTEREST RATE RISK DISCLOSURE

	Floating Interest	Fixed Interest	Non Interest	Total (per Statement
	1 - 1		Bearing	of Net Assets)
	1			
	A\$'m	A\$'m	A\$'m	A\$'m
Assets			1.4	
Short Term Securities	2,949.2	_	-	2,949.2
Australian Fixed Interest	- 1	2,772,2	- 1	2,772.2
International Fixed Interest		2,588.5	_	2,588.5
Australian Equities		2,000.0	9,329.8	9,329.8
	· - 1	-		, 1
International Equities	-	-	6,905.9	6,905.9
Property	-	-	2,717.3	2,717.3
Alternatives	- 1	12.6	3,408.5	3,421.1
Receivables	- 1	-	354.0	354.0
Plant and Equipment	_	-	0.3	0.3
Current Tax Asset	_	_		- 1
Deferred Tax Asset			59.9	59.9
Deterred Tax Asset		5.070.0		
	2,949.2	5,373.3	22,775.7	31,098.2
Total Assets				
1 / - r- 11/e1				
Liabilities				-
Reserve Units	- 1	-	2.3	2.3
Payables	-	-	279.0	779.0
Deferred Tax Liability	-	-	73.7	73.7
•	-	-	355.0	355.0
Total Liabilities		1	4	
	2,949.2	5,373.3	22,420.7	30,743.2
Net Assets	_,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	5,510.0	32,12017	30,. (3.2
·				

#### Notes to and forming part of the financial statements

for the year ended 30 June 2011

#### 19. FINANCIAL INSTRUMENTS (Continued)

#### a) Market Risk (Continued)

#### a.2) Interest Rate Risk (Continued)

The effect of a 175 Basis point increase in interest rates for variable rate financial assets and liabilities and a 175 Basis point increase in interest rates for fixed interest securities is as follows. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is calculated on the same basis for 2011 and 2010 –

All amounts are in Australian Dollars	Net Assets 30-Jun-11 \$'m	Change in Net Assets 30-Jun-11 \$'m
Fixed Interest Floating Interest	(66) 56	(66) 56
	(10)	(10)
	Net Assets	Change in Net Assets
	30-Jun-10 \$'m	30-Jun-10 \$'m
Fixed Interest Floating Interest	(469) 53	(469) 53
ricating interest	(416)	(416)

A 175 Basis point decrease in interest rates at financial year end would have the equal but opposite effect on the above amounts shown above, assuming that all other variables remain constant.

#### Notes to and forming part of the financial statements

for the year ended 30 June 2011

#### 19. FINANCIAL INSTRUMENTS (Continued)

#### a) Market Risk (Continued)

#### a.3) Price Risk

Price risk is the risk that the total value of investments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment and/or its issuer or all factors affecting all instruments traded in the market.

As the majority of the Fund's financial instruments are carried at net market value in the Statement of Net Assets and all changes in net market value are recognised in the Statement of Changes in Net Assets, all changes in market conditions will directly affect net assets and changes in net assets.

Price risk is mitigated by the Fund having a formal investment strategy which diversifies the Fund's investments across various asset classes and countries.

The following table illustrates the effect from possible changes in price risk that were reasonably possible based on the risk to which the Fund was exposed. The sensitivity factors were developed by the Fund asset consultant. The analysis is calculated on the same basis for 2011 and 2010 –

All amounts are in Australian Dollars	Change in Price Risk Variable +	Net Assets 30-Jun-11 \$'m	Change in Not Assets 30-Jun-11 \$'m
Australia International Foreign exchange derivatives	39% 39% 15%	6,663 3,126 (628) 9,161	6,663 3,126 (628) 9,161
All amounts are in Australian Dollars	Change in Price Risk Variable	Net Assets 30-Jun-11 \$'m	Change in Net Assets 30-Jun-11 \$'m
Australia International Foreign exchange derivatives	22% 22% 15%	(3,759) (1,763) 628 (4,894)	(3,759) (1,763) 628 (4,894)
	Change in Price Risk Variable	Net Assets	Change in Net Assets
	+	30-Jun-10 \$'m	30-Jun-10 \$'m
Australia International Foreign exchange derivatives	39% 39% 15%	6,044 2,665 (814) 7,895	6,044 2,665 (814) 7,895
	Change in Price Risk Variable	Net Assets	Change in Net Assets
	-	30-Jun-10 \$'m	30-Jun-10 \$'m
Australia International Foreign exchange derivatives	21% 21% 15%	(3.255) (1,435) 814 (3,876)	(3,255) (1,435) 814 (3,876)

### Notes to and forming part of the financial statements for the year ended 30 June 2011

#### 19. FINANCIAL INSTRUMENTS (Continued)

#### b) Credit Risk

Credit (or counterparty) risk is the risk that a counterparty will fail to perform contractual obligations to a financial instrument and cause the Fund to incur a financial loss.

The Fund is exposed to credit risk in the following areas -

- the holding of non-equity securities (i.e. short term securities, Australian fixed interest securities, international fixed interest securities and cash)
- · contributions receivable
- accrued income
- margin call deposits
- investment sales.

The Fund's maximum exposure to credit risk at balance date in relation to each of the above listed items is the carrying amount of those assets as stated in the Statement of Net Assets.

For short term securities, Australian fixed interest securities, international fixed interest securities and cash, STC controls credit risk by explicitly setting out in its investment instructions the assets that fund managers may invest in. The restrictions are based around rating agency assessments and/or the securities that make up the relevant industry bench mark for the sector being invested in. For forward foreign exchange contracts, investment managers must deal only with counterparties that have greater than nominated rating agency assessment and are also limited to relative dollar limits with any particular counterparty to ensure that credit risk is well diversified.

Credit risk associated with contributions receivable, margin call deposits and investment sales is minimal as all have a short settlement period and —

- for contributions receivable, employer sponsors are compelled by legislation to make the payments with STC following up instances of non or late payment
- for margin call deposits STC transacts only deal with counterparties rated as credit worthy by credit rating agencies
- for investment sales, in line with market practice the Fund's custodian does not release
  the sold assets until full payment has been received from the purchaser.

STC accepts the credit risk for accrued income.

The Fund does not have significant concentrations of credit risk that arises from an exposure to a single counterparty or group of counterparties having similar characteristics. No individual investment exceeded five percent of the Fund's net assets during the years ended 30 June 2011 or 30 June 2010. Also, STC ensures that in its hedging activities it diversifies its exposure to individual counterparties.

### Notes to and forming part of the financial statements for the year ended 30 June 2011

#### 19. FINANCIAL INSTRUMENTS (Continued)

#### c) Liquidity Risk

Liquidity risk is risk that the Fund will not be able to meet its financial obligations as they fall due.

The relevant statutes require that all benefits be paid in full when they fall due.

In managing liquidity risk STC continuously monitors forecast and actual cash flows, including amounts required to fund its scheme and investment transactions and amounts expected from the Crown. Forecast Fund cash flows are based around the triennial actuarial assessment of the Fund, adjusted for actual cash flows. STC is able to estimate benefit outflows because most members cannot roll out of the Fund at will, but rather must satisfy a condition of release. The Fund maintains banking facilities adequate to allow the payment of its obligations as they fall due.

The Fund's investment strategy requires that approximately eight percent of assets be maintained as cash. Further, with the exception of alternative investments and unlisted property (approximately 19.0% of the Fund) all other assets are readily convertible to cash.

With the exception of reserve units the Fund's financial liabilities will all be settled within 12 months of 30 June. The ability of the Fund to pay benefits that emerge in the future is part of the Trustee's ongoing discussions with employer sponsors.

#### d) Net Fair Value Disclosures

The Statement of Net Assets is prepared in accordance with AAS 25 – Financial Reporting by Superannuation Plans. All investment assets are valued at net market values at 30 June. All other assets and other liabilities are recorded at historical cost which, in the opinion of the Trustees, approximates their net market value.

The following table states the net market values and fair values of assets and liabilities at 30 June.

#### Disclosure of Financial Assets held at Fair Value Comparable to Net Market Value

Assets	Fair Value 30-Jun-11 \$'m	Net Market Value 30-Jun-11 \$'m	Fair Valu <b>e</b> 30-Jun-10 \$'m	Net Market Value 30-Jun-10 \$'m
Hedging Instruments	•			
Derivative Financial Instruments	•			
Futures and Options	45	45	20	20
Swaps	-	-	-	-
FFX	201	201	125	125
Total hedging instruments	246	246	145	145
Assets at fair value through profit or loss				
Equities	16,934	16,894	14.798	14,772
Unlisted Unit Trusts	7,820	7,820	7,185	7,185
Short Term Securities	2,153	2,153	2,024	2,024
Fixed Interest Securities	4,146	4,146	5,378	5,378
Direct Property	345	345	407	405
Total assets through profit or loss	31,398	31,358	29,792	29,764
Total financial assets held at fair value				
through profit or loss	31,644	31,604	29,937	29,909

# Notes to and forming part of the financial statements for the year ended 30 June 2011

#### FINANCIAL INSTRUMENTS (Continued)

#### d) Net Fair Value Disclosures (Continued)

#### Disclosure of Financial Liabilities held at Fair Value Comparable to Net Market Value

Liabilities	Fair Value	Net Market Value	Fair Value	Net Market Value
	30-Jun-11 \$'m	30-Jun-11 \$'m	30-Jun-10 \$'m	30-Jun-10 \$'m
Hedging Instruments				
Derivative Financial Instruments				
Futures and Options	4	4	64	64
Swaps	-	-	-	-
FFX	121	121	161	161
Total hedging instruments	125	125	225	225
Liabilities at fair value through profit or loss				
Equities	•	-	_	-
Unlisted Unit Trusts	-		-	-
Short Term Securities	-	-	-	-
Fixed Interest Securities	•	-	-	-
Direct Property	-	-	-	_
Total liabilities through profit or loss	·-	•	_	<del></del>
Total financial liabilities held at fair value				
through profit or loss	125	125	225	225

Notes to and forming part of the financial statements for the year ended 30 June 2011

#### 19. FINANCIAL INSTRUMENTS (Continued)

#### e) Assets and Liabilities by Measurement Hierarchy

The valuation of assets and liabilities may be obtained from the following sources -

- Level 1 quoted prices in active markets for identical assets or liabilities. The assets in this level are listed shares; listed unit trusts.
- Level 2 inputs other than quoted prices observable for the asset or liability either directly or indirectly. The assets in this level are cash; notes; government, semi-government and corporate bonds; unlisted trusts containing where quoted prices are available in active markets for identical assets or liabilities.
- Level 3 inputs for the asset or liability that are not based on observable market data. The
  assets in this level are unlisted property; unlisted shares; unlisted infrastructure; distressed
  debt; hedge funds.

All disclosures in the following tables use net market value as a materially correct estimate of fair value.

There were no assets transferred between the above levels, including levels one and two, during the year ended 30 June 2011 or the year ended 30 June 2010.

While alternative assets are subject to valuation assumptions, the values quoted are assessed by independent valuers as the most appropriate to the asset.

The following tables categorise the Scheme's assets and liabilities using the above valuation hierarchy.

#### YEAR ENDED 30 JUNE 2011

Assets
Short Term Securities
Australian Fixed Interest
International Fixed Interest
Australian Equities
International Equities
Property
Alternatives

Level 1	Level 2	Level 3	Total (per Statement of Net Assets)
A\$'m	A\$'m	A\$'m	A\$'m
	2,789.1		2 700 4
	2,709.1	-	2,789.1 2,678,5
	1,382,2	** : -	1,382.2
9,705.3	465.9	•	10,171,2
6,401.2	1,800.3	-	8,201.5
844.2		2,261.4	3,105.6
473.1	-	3,192.3	3,665.4
17,423.8	9,116.0	5,453.7	31,993.5

#### YEAR ENDED 30 JUNE 2010

Assets
Short Term Securities
Australian Fixed Interest
International Fixed Interest
Australian Equities
International Equities
Property
Alternatives

Level 1	Level 2	Level 3	Total (per Statement of Net Assets)
A\$'m	A\$'m	A\$'m	A\$'m
- - - 8,829.9 5,191.5 633.9 560.6	2,945.2 2,772.2 2,588.5 499.9 1,714.4	2,083.4 2,860.5	2,945.2 <b>2</b> ,772.2 2,588.5 9,329.8 6,905.9 2,717.3 3,421.1
15,215.9	10,520.2	4,943.9	30,680.0

### Notes to and forming part of the financial statements

for the year ended 30 June 2011

#### 19. FINANCIAL INSTRUMENTS (Continued)

#### e) Assets and Liabilities by Measurement Hierarchy (Continued)

The following tables present the changes in assets and liabilities classified as Level 3 instruments for the year ended 30 June.

	2011	2010
	A\$'m	A\$'m
Balance at 1 July	4,943.9	5,151.8
Transfers in/(out)	37.6	(667.8)
Investment income	368.0	`318.í
Investment expenses	(39.7)	(90.4)
Realised gains/(losses)	22.5	391.1
Unrealised gains/(losses)	121.3	(158.9)
Balance at 30 June	5,453.6	4,943.9

The following table presents the gains and losses on assets and liabilities classified as Level 3 instruments for the year ended 30 June.

	2011	2010
	A\$'m	A\$'m
Assets and liabilities realised during the year	22.5	391.1
Assets and liabilities still held during the year	121.3	(158.9)
Total	143.8	232.2

These items are reflected in the Statement of Changes in Net Assets under Investment Revenue.

#### 20. EVENT AFTER REPORTING DATE

The Fund's custodian has advised that as at 31 August 2011 the net investment assets of the Fund were \$31,031.4 million. Since 30 June 2011 the Fund's investments have made a return of approximately—

•	Growth	-3.8%
•	Conservative Growth	-0.3%
•	Balanced	-1.9%
•	Cash	0.6%

#### **End of Audited Financial Statements**

## Internal Audit and Risk Management Statement for the 2010-2011 Financial Year for the SAS Trustee Corporation

The members of the Board of the SAS Trustee Corporation (**STC**) are of the opinion that STC has internal audit and risk management processes in operation that are, in all material respects, compliant with the core requirements set out in Treasury Circular NSW TC 09/08 *Internal Audit and Risk Management Policy* 

The members of the STC Board are of the opinion that the Risk, Audit and Compliance Committee for STC is constituted and operates in accordance with the independence and governance requirements of Treasury Circular NSW TC 09/08. The Chair and Members of the Risk, Audit and Compliance Committee are:

- Independent Chair Ian Blair (term of appointment: 1 July 2010 to 31 May 2014)
- Independent Member Anne De Salis (term of appointment: 1 July 2010 to 31 January 2012)
- Non-independent Member Ron Davis (term of appointment: 1 July 2010 to 31 December 2013)

These processes provide a level of assurance that enables the senior management of STC to understand, manage and satisfactorily control risk exposures.

This DECLARATION was executed on of the STC Board on 27 July 2011.	27 July 2011	, following a resolution
The COMMON SEAL of the SAS Trustee Corporation was hereto affixed in the presence of:  Chris Durack  Witness  Name: L. COLLING RIGGE	ecutive Officer	Commen Steal

### **Compliance index for disclosure requirements**

In accordance with the *Annual Reports (Statutory Bodies) Regulation 2010*, this index has been prepared to facilitate identification of compliance with statutory disclosure requirements.

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# How to contact State Super:



ABN: 29 239 066 746



ABN: 80 976 223 967

### Complaints and Disputes

If you have a question about your account or benefits, initially contact Customer Service. If you are dissatisfied with an administrative action, you may lodge a complaint with the scheme administrator (Pillar Administration).

If you feel you have been unfairly treated or are disadvantaged by a decision of the scheme administrator relating to a benefit entitlement, you may lodge a notice of dispute with the Trustee Board. A notice of dispute must be served on STC within 2 years after you have been notified in writing of the right to dispute the decision. Send the notice to the Manager Disputes and Appeals, SAS Trustee Corporation (STC), PO Box N259, Grosvenor Place NSW 1220.

You may then be requested to clarify certain details relating to your dispute and to provide additional supporting evidence. Your dispute will then be referred to the Trustee's Disputes Committee for consideration.

You will be notified of the outcome of the Disputes Committee review.

If you are dissatisfied with the Trustee Board's review of that decision, you may lodge an appeal with the Industrial Court of NSW within 6 months of being notified of the outcome of the review, or within a further time allowed by the Court.

(The Commonwealth Superannuation Complaints Tribunal does not action STC member complaints.)

#### **Customer Service**

8.30 am to 5.30 pm, Monday to Friday for the cost of a local call (except from a mobile or pay phone)

State Authorities Superannuation Scheme (SASS)	1300 130 095
State Superannuation Scheme (SSS)	1300 130 096
Police Superannuation Scheme (PSS)	1300 130 097
Pensioners	1300 652 113
Deferred Benefits	1300 130 094

#### Personal interview service

For an interview appointment in Sydney, call (02) 9238 5540.

You can also arrange interviews at: Newcastle (telephone: 1800 807 855) Parramatta (telephone: 1800 626 000) Port Macquarie (telephone: 1800 676 839) Wollongong (telephone: 1800 060 166)



#### Fax service

(02) 4253 1688

#### Internet

www.statesuper.nsw.gov.au

#### **Email**

enquiries@stc.nsw.gov.au

#### Mailing address

For Customer Service and Pillar Administration: PO Box 1229 Wollongong NSW 2500

For SAS Trustee Corporation (the Trustee Board) and the Office of the Full-time Board member: PO Box N259. Grosvenor Place NSW 1220

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