



STATE SUPER

SAS Trustee Corporation

ABN: 29 239 066 746

ANNUAL REPORT

2012–13

Mission

STC's mission is to:

- support the future wellbeing of current STC scheme members and pension members by delivering up-to-date superannuation benefits and high-quality service
- engage stakeholders in productive dialogue
- provide optimal investment returns to employers and members.

GLOSSARY

Executive means the executive staff of the SAS Trustee Corporation.

Pooled Fund or **Fund** means the Pooled Fund of the STC schemes referred to in section 81 of the *Superannuation Administration Act 1996*.

STC means SAS Trustee Corporation.

Trustee Board means the Board of the SAS Trustee Corporation, appointed under section 69 of the *Superannuation Administration Act 1996* and comprising an independent Chairperson, four employee representatives and four employer representatives.

Highlights for 2012–13

- The Fund increased to \$38.2 billion at 30 June 2013 and remains one of the largest superannuation funds in Australia
- The Fund's net investment revenue for 2012–13 exceeded \$6.1 billion
- The Growth Strategy — the default investment option — earned 17.1% over the year
- At 30 June 2013, Fund assets covered 70% of accrued liabilities (actuarially measured using the assumed earning rate of the Fund)
- The triennial actuarial review of the STC schemes as at 30 June 2012 was tabled in Parliament on 14 March 2013 and published on the STC website
- The Commonwealth and NSW governments provided assurances for university superannuation funding for 2013–14 pending settlement of final funding arrangements
- Three new members were appointed to the Trustee Board in 2012–13
- STC continues to review opportunities for greater collaboration with other organisations
- During the year STC undertook a major redevelopment of its website to provide members with more information and better accessibility
- Member publications were revised to better meet the needs of the different membership categories
- An annual Pension Newsletter was introduced for the 60,000 lifetime pension members in the STC schemes
- State Super Financial Services, a wholly owned subsidiary, conducted more than 18,000 financial planning interviews with STC members or their relatives.
- STC staff presented 79 retirement planning seminars across NSW
- The employer guides were comprehensively reviewed to assist NSW government employers

ANNUAL REPORT

2012–13

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Report to the Ministers

October 2013

The Hon Andrew Constance, MP
Minister for Finance and Services
Level 36, Governor Macquarie Tower
1 Farrer Place
SYDNEY NSW 2000

The Hon Mike Baird, MP
Treasurer
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 from 1 July 2012 to 30 June 2013.

The Annual Report contains the reports for:

- SAS Trustee Corporation,
- SAS Trustee Corporation Division of the Government Service of NSW,
- SAS Trustee Corporation Pooled Fund; and
- controlled entities of the SAS Trustee Corporation Pooled Fund, being:
 - o State Super Financial Services Australia Limited
 - o Southern Way Unit Trust
 - o Pisco STC Funds Unit Trust No.1
 - o Pisco STC Funds Unit Trust No.2
 - o Valley Commerce Pty Limited
 - o Buroba Pty Limited
 - o State Infrastructure Trust

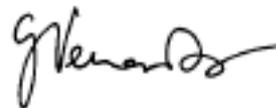
These have been prepared in accordance with the provisions of the *Annual Reports (Statutory Bodies) Act 1984*, the *Public Finance and Audit Act 1983*, associated regulations and the Treasurer's directions.

We look forward to working with you during the coming year.

Yours sincerely



Michael Carapiet
Chairperson
SAS Trustee Corporation



George Venardos
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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Chairperson's report

The Fund

Positive domestic and international equity markets and our enhanced internal capabilities following the changes that we outlined in last year's Annual Report resulted in a pleasing investment performance for the year ending 30 June 2013.

The Growth Strategy produced an annual after-tax return of 17.1% for crediting to member reserves. Employer reserves invested in the Growth Strategy have a higher effective return because their income is tax free to the extent that it is attributable to assets supporting current pension liabilities. The estimated return on employer reserves taking into account their tax exempt pension income was 19.2% for 2012–13.

The financial year returns compare well with the returns of other comparable funds but, more importantly, it has helped the Growth Strategy perform broadly in line with its investment objective of achieving an average annual return of CPI plus 4.5% over rolling 10-year periods.

SASS members have the option of investing in the Growth Strategy, or one or more of three other strategies. For 2012–13, the Balanced and Conservative Strategies returned 13.7% and 9.2% respectively and the Cash Strategy provided a return of 3.2%.

During 2012–13, the assets of the STC Pooled Fund increased by \$3.8 billion to \$38.2 billion, placing STC in the top ten superannuation funds in Australia.

Investment markets

During the financial year investment markets fluctuated sharply in line with changing views on the outlook for the global economy, but equity markets in developed economies were well up on last year. Accordingly, the overall results for most superannuation funds were positive, especially those that have a significant exposure to growth assets such as Australian and international shares.

A cautious recovery in the United States economy had a positive impact on global investment markets. European economies remain weak even with the reduction in concerns about the stability of the banking system.

Overall, Australian share market returns were good, with the S&P/ASX 200 (Accumulation Index) up over 22% for the year. This was the best financial year return for the Australian sharemarket since 2007.

Governance

The Fund's investment performance reflects both positive market trends as well as the ongoing refinement of STC's investment strategies, processes and risk management.

STC is also reviewing opportunities for greater collaboration with other organisations, including NSW government investment agencies, in order to enhance the effectiveness and efficiency of STC's investment and governance functions.

Actuarial review

This Annual Report includes a summary of the actuary's three-yearly review of the Fund as at 30 June 2012. The actuary's report notes a small reduction in the unfunded liability from \$19.9 billion at 30 June 2009 to \$19.0 billion at 30 June 2012. The increase in fund assets over 2012–13 has further reduced the unfunded liability to an estimated \$16.5 billion at 30 June 2013. The actuary notes that the NSW and Commonwealth governments continue to work on the final funding arrangements for university superannuation liabilities. STC is closely monitoring university liabilities and has received an assurance from both governments that they will fund any shortfall of member benefits in 2013–14 pending a permanent resolution.

Board changes

Two new Board members were appointed in late 2012 — Alex Claassens, the State Secretary of the NSW Branch of the Rail, Tram and Bus Union, and George Venardos who has wide experience in financial services and is a director on various ASX listed companies.

The other new Board member is Tony O'Grady, a manager with the NSW Nurses and Midwives' Association, appointed to replace Rod Harty who ceased as a Board member in May 2013. The Board thanks Rod for his valuable contribution to STC over the past 11 years and welcomes Tony.

I would also like to acknowledge Ron Davis who will be retiring in December 2013 after 18 years service as the full-time employee representative on the STC Board. Ron has shown great dedication and commitment in promoting the interests of scheme members and we wish him well in his retirement.



Chairperson
October 2013

Chief Executive Officer's report

Corporate governance and management

As mentioned in the Chairperson's report, the investment results for 2012–13 were strongly positive, with the default Growth Strategy returning 17.1%. The net investment income of the Fund exceeded \$6.1 billion. STC achieved this result largely due to the strong performance of Australian and international sharemarkets supported by significant enhancements to our investment management and processes.

In 2012–13, STC continued to build on staff skills and our technical infrastructure. We recruited staff into senior investment, finance, human resources and legal roles which allowed STC to improve its capabilities across a range of areas, including our oversight and management of service providers and to reflect the industry's response to changes in regulation.

STC strengthened its risk and compliance capabilities to better align with recent Australian Prudential Regulation Authority (APRA) prudential standards and guidance. As part of this, STC has reviewed a wide range of policies and implemented new processes to assist with the monitoring of risk and compliance.

Member services

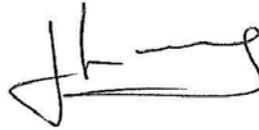
STC is committed to delivering high-quality services to help members understand and maximise their benefits. STC continues to work with its scheme administrator, Pillar Administration, and its financial advice provider, State Super Financial Services (SSFS), to ensure service delivery that is focused on the needs of members.

During the year, STC and SSFS worked together on several joint initiatives to increase members' understanding of the schemes and to build awareness of the role of financial advice in developing effective contributions and investment strategies and planning for retirement. These initiatives included targeted mail outs to SASS contributory and deferred benefit members.

STC implemented tailored, scheme-based publications – the six monthly *SuperViews* newsletter and the annual *Report to Members*. The scheme-specific *Employer Reference Guides* were also comprehensively reviewed to assist employers manage their administrative obligations.

In July 2013 STC launched a new website to assist members make the most of their scheme entitlements. The website now has an online booking facility for retirement planning seminars, which continue to be an integral part of the STC's member education services.

In the next 12 months, one of our key objectives is to increase our understanding of members' needs and expectations, so that we can continue to improve our services. This will be achieved through a number of member research initiatives.



John Livanas
Chief Executive Officer
October 2013

Overview of STC

SAS Trustee Corporation (STC), otherwise known as State Super, operates to invest, support and administer defined benefit superannuation schemes on behalf of the NSW government and associated employers.

STC was established under the *Superannuation Administration Act* in 1996, and is the Trustee of the following defined benefit schemes:

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

Assets

The STC Pooled Fund, which comprises the assets of all four schemes, had net assets of \$38.2 billion at 30 June 2013.

Membership

The STC schemes had 121,979 members at 30 June 2013. All schemes are closed to new members, and a large portion of the membership have reached or are approaching retirement age.

The following table contains a summary of each scheme.

State Authorities Superannuation Scheme (SASS)

Commencement	1 April 1988 under the <i>State Authorities Superannuation Act 1987</i> .
Scheme eligibility	New employees in the NSW public sector were eligible to join the scheme and members of the Public Authorities Superannuation Scheme (PASS) were transferred to SASS from 1 April 1988. By 1990, a number of other public sector superannuation schemes were closed and members of these schemes were transferred to SASS. These schemes included, amongst others, the State Public Services Superannuation Fund (SPSSF), the Transport Gratuity Scheme and the Government Railways Superannuation Fund.
Closed to new members	19 December 1992
Members as at 30 June 2013	Contributing members: 34,978 Deferred benefit members: 10,540 Pension members: 3,894 Total members: 49,412
Financial position as at 30 June 2013	Net assets: \$11,301.7 million Accrued benefits*: \$13,652.8 million Unfunded liabilities: \$2,351.1 million
Member benefits	Lump sum of employee contributions accumulated with earnings; plus an employer-financed lump sum defined benefit based on final average salary, membership period and level of employee contributions.

State Superannuation Scheme (SSS)

Commencement	1 July 1919 under the <i>Superannuation Act 1916 (NSW)</i> .
Scheme eligibility	Salaried employees of the NSW public service and teaching service, and a number of statutory authorities scheduled in the <i>Superannuation Act 1916 (NSW)</i> , were eligible to join SSS.
Closed to new members	1 July 1985
Members as at 30 June 2013	Contributing members: 11,060 Deferred benefit members: 2,490 Pension members: 50,840 Total members: 64,390

*Accrued benefits as measured by the actuary using the assumed earning rate of the Fund as the discount rate. Accounting standards require employers to report accrued benefits using a risk-free discount rate which results in a higher estimate of accrued benefits.

State Superannuation Scheme (SSS) continued

Financial position as at 30 June 2013	<p>Net assets: \$20,910.8 million</p> <p>Accrued benefits*: \$31,651.5 million</p> <p>Unfunded liabilities: \$10,740.7 million</p>
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Member benefits	<p>On retirement a defined benefit (pension or lump sum), the level of which depends on the number of units purchased. Members contribute towards units of fortnightly pension throughout their membership. The number of units that members are entitled to contribute is determined by their salary.</p> <p>Contributions that members make depend on: their age; when the units were granted; the member's gender; and if female, whether they elected 55 or 60 years of age for retirement.</p>
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Police Superannuation Scheme (PSS)

Commencement	1 February 1907 under the <i>Police Regulation (Superannuation) Act 1906 (NSW)</i> .
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Scheme eligibility	Members of the NSW Police Service employed prior to 1 April 1988.
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Closed to new members	1 April 1988
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Members as at 30 June 2013	<p>Contributing members: 1,532</p> <p>Deferred benefit members: 128</p> <p>Pension members: 6,517</p> <p>Total members: 8,177</p>
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Financial position as at 30 June 2013	<p>Net assets: \$4,178.6 million</p> <p>Accrued benefits*: \$6,852.0 million</p> <p>Unfunded liabilities: \$2,673.4 million</p>
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Member benefits	On retirement a defined benefit (pension or lump sum) the level of which depends on the member's final average salary and membership period.
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State Authorities Non-contributory Scheme (SANCS)

Commencement	1 April 1988 under the <i>State Authorities Non-contributory Superannuation Act 1987 (NSW)</i> .
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Scheme eligibility	Members of SASS, SSS and PSS.
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Closed to new members	19 December 1992
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Members as at 30 June 2013	<p>Current active members: 47,559</p> <p>Deferred benefit members: 12,234</p> <p>Total members: 59,793</p>
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Financial position as at 30 June 2013	<p>Net assets: \$1,817.9 million</p> <p>Accrued benefits*: \$2,527.4 million</p> <p>Unfunded liabilities: \$709.5 million</p>
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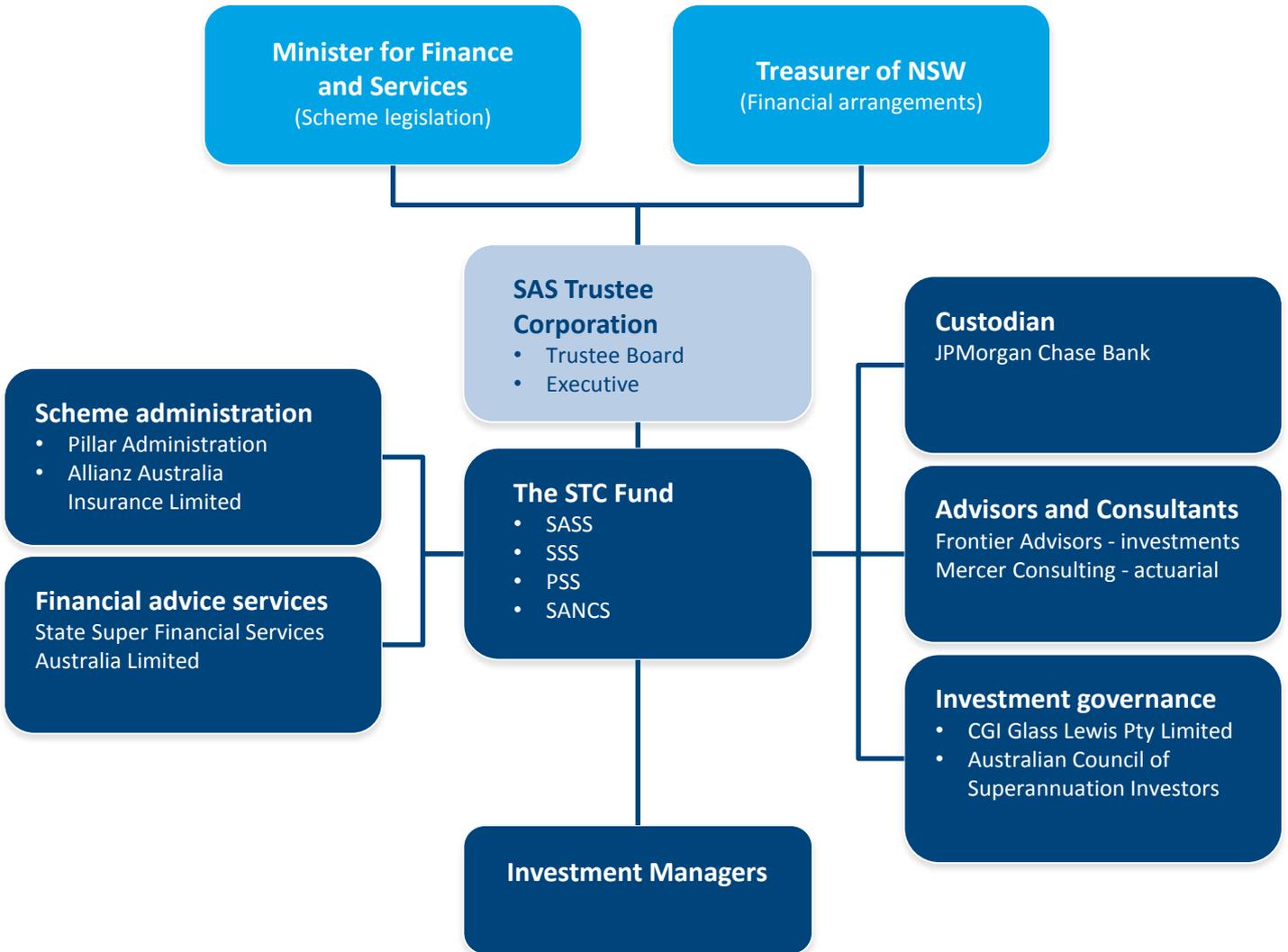
Member benefits	<p>SASS, SSS and PSS members receive the SANCS benefit in addition to their main scheme benefit.</p> <p>The SANCS benefit is 100% employer-funded. The benefit is generally a lump sum of up to 3% of members' final salary or final average salary, for each year of service from 1 April 1988 (or if later, the employment commencement date).</p>
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*Accrued benefits as measured by the actuary using the assumed earning rate of the Fund as the discount rate. Accounting standards require employers to report accrued benefits using a risk-free discount rate which results in a higher estimate of accrued benefits.

Organisational structure

STC operates under the *Superannuation Administration Act 1996 (NSW)* (SA Act) which sets out its functions, duties, powers and obligations. The SA Act also specifies the requirements for Trustee Board composition and appointments. The Minister responsible for the administration of the SA is the Minister of Finance and Services, who also has powers to monitor the operations of STC.

STC's operational arrangements as at 30 June 2013 are set out below:



Function and role of the Trustee Board

The principal functions of the Trustee Board as set out in section 50(1) of the SA Act are to:

- administer the STC schemes
- invest and manage the Pooled Fund
- provide for the custody of the assets and securities of the STC schemes
- ensure that benefits payable to the persons entitled to receive benefits under the STC schemes are paid in accordance with the Acts under which the schemes are established or constituted
- determine disputes under those Acts
- exercise such other functions with respect to the STC schemes and the Pooled Fund as the Minister may from time to time approve by order in writing.

STC is required to outsource its principal functions of administration, investment and custody under sections 64(1), 59(1) and 61(1) of the SA Act, respectively.

The role of the Trustee Board extends to strategy, corporate governance, risk management, policy making and monitoring. Accordingly, the Trustee Board is responsible for:

- monitoring of the STC schemes and the Pooled Fund, including its control and accountability systems
- appointing and removing the Chief Executive

- input into, and final approval of the long-term strategy for the STC schemes and annual Corporate Plan
- approving and monitoring the annual budget and any extraordinary expenditure
- approving and monitoring of STC's systems of risk management, compliance and control
- approving and monitoring policies and procedures for the management of the Fund, including:
 - risk management and compliance policies
 - business plans, policies and processes for the operation of the Fund necessary for proper direction, control and performance measurement
 - standards which can be used to assess the performance of the Fund's operations and provide a basis for continuous improvement.
- setting the objectives, strategies and risk approval of the investments, approving major investment decision and monitoring and assessing performance
- approving and monitoring of STC's governance procedures, including work, health and safety, and the Code of Conduct and Ethics for the Trustee Board and the staff of STC
- monitoring the performance of the Pooled Fund, the Trustee Board, STC management and service providers.

Trustee Board members' profiles

Michael Carapiet

Chairperson Appointed August 2011

As well as being Chairperson of STC, Mr Carapiet is Chairperson of the Safety, Return to Work and Support Board that comprises the WorkCover Authority of NSW, the Lifetime Care and Support and Motor Accidents Authority. He is a Director of Southern Cross Media Limited, State Super Financial Services Australia Limited and Clean Energy Finance Corporation and is on the Advisory Boards of Norton Rose Australia and Transfield Holdings.

Mr Carapiet has more than 30 years experience in the financial sector and has held a number of senior roles with the Macquarie Group, where he was a member of Macquarie's Executive Committee from 2005. Prior to his retirement in July 2011, his roles included Global Head of Advisory and Specialised Funds, and Executive Chairman of Macquarie Capital and Macquarie Securities. Mr Carapiet has a Master of Business Administration from Macquarie University.

Paul Scully

Employer Representative Company Director Appointed February 2004

Mr Scully is the Managing Director of Decision Horizons, a consulting enterprise through which he offers his services based on 30 years experience in financial services and investment management.

Mr Scully is an actuary by training, holds a Bachelor of Arts in Actuarial Studies and is a Fellow of the Institute of Actuaries of Australia and the Australian Institute of Company Directors. He 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.

Michael Lambert

Employer Representative Company Director Appointed February 2004

Mr Lambert is a consultant to the Asia-Pacific investment bank CIMB. Previously, Mr Lambert was a managing director in the investment banking industry and prior to that, the Secretary of the New South Wales Treasury, as well as holding various other senior positions in the NSW public sector. He has extensive experience and expertise in financial analysis, and in advising governments and clients on financial and strategic issues. He is also a Non-Executive Director of the Sax Institute and State Super Financial Services Australia Limited, chair of the Heavy Vehicle Charging and Investment Reform Board and chair of the External Advisory Committee of the Department of Government and International Relations, University of Sydney.

Mr Lambert has a Bachelor of Economics (Honours) and a Master of Economics from the University of Sydney.

Karen Moses

Employer Representative Company Director Appointed March 2012

Ms Moses is currently Executive Director, Finance and Strategy at Origin Energy Limited. She was appointed a Director of Origin Energy Limited in 2009, Australia Pacific LNG Pty Limited in 2005, Contact Energy Limited in New Zealand, 2004, Sydney Dance Company in 2012 and Energia Andina S.A. incorporated in Chile, April 2013.

Ms Moses has over 30 years experience in the energy industry spanning oil, gas, electricity and coal commodities, and upstream production, supply and downstream marketing operations within Australia and overseas. She is a former Director of Australian Energy Market Operator Limited (2008 to 2012), Energy and Water Ombudsman (Victoria) Limited (2005 to 2010) and VENCORP (2004 to 2009). Ms Moses holds a Bachelor of Economics and a Diploma of Education from the University of Sydney.

George Venardos

Employer Representative Company Director Appointed November 2012

Mr Venardos is an experienced Non-Executive Director with more than 30 years experience in finance, accounting, insurance and funds management.

He is currently a Director of IOOF Holdings Ltd, Perennial Investment Partners Ltd, Ardent Leisure Ltd and Territory Insurance Office, and is the Non-Executive Chairman of BluGlass Ltd and Guild Group Holdings Ltd.

His former positions include Group Chief Financial Officer of Insurance Australia Group, and for 10 years Chairman of the Finance and Accounting Committee of the Insurance Council of Australia. He also held the position of Finance Director of Legal and General Group in Australia. Mr Venardos has a Bachelor of Commerce from the University of New South Wales and is a Chartered Accountant.

Ron Davis

Employee Representative
Chairperson of the Police Superannuation Advisory Committee
Appointed July 1996

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 the Branch Assistant Secretary of the SPSF NSW Sub Branch and the 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.

Sue Walsh

Employee Representative
President of the Public Service Association of NSW
Appointed March 2011

Ms Walsh is the President of the Public Service Association (PSA) of NSW and over the years has held a number of senior delegate positions in the PSA. She is also President of the NSW Branch of the Community and Public Sector Union and Vice President of that organisation's Federal Executive, Federal Council and is a member of the Federal Education Industry Committee.

Ms Walsh is 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 Australian Council of Trade Unions.

Ms Walsh is a Director of State Super Financial Services Australia Limited and a member of its Audit and Compliance Committee and its Due Diligence Committee.

Alex Claassens

Employee Representative
NSW Rail, Tram and Bus Union
Appointed November 2012

Mr Claassens is currently the NSW State Secretary of the NSW Rail, Tram and Bus Union. He has a passion for the transport industry, having started his career driving trains on the NSW rail network. Mr Claassens has long been an advocate for the rights of transport workers, joining the union as a delegate in 1992 and working through various positions until being elected to the highest position in the NSW branch in 2010. He is also an Executive Member of the National Rail, Tram and Bus Union and a Director of Encompass Credit Union.

Mr Claassens still drives passenger trains in NSW, as well as driving heritage steam locomotives on a regular basis.

Tony O'Grady

Employee Representative
NSW Nurses and Midwives' Association
Appointed June 2013

Mr O'Grady is the Manager, Projects and Compliance for the New South Wales Nurses and Midwives' Association. He began his registered nurse training in 1982 and worked as a nurse until joining the NSW Nurses and Midwives' Association in November 1987. He worked as an organiser, industrial officer, team manager and projects manager for the Association, before commencing his current role in 2006.

As the Manager, Projects and Compliance, Mr O'Grady is responsible for the Association's finance, information technology and records departments, as well as managing insurance and a variety of compliance-related areas.

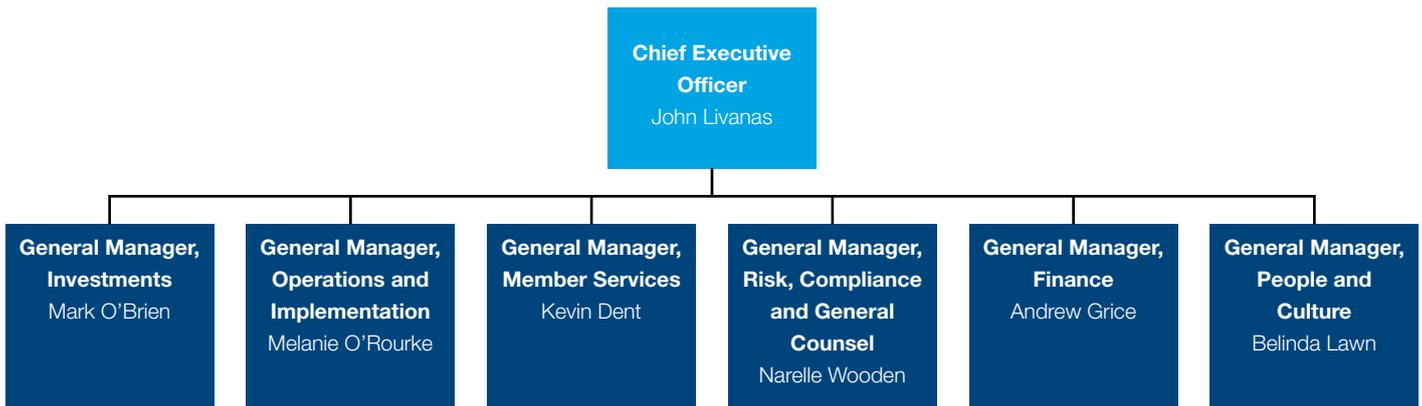
He served as a Director for Private Hospitals Superannuation Pty Limited – the Trustee for the Health Industry Plan (HIP) – between 2005 and 2010.

Mr O'Grady holds a Graduate Diploma in Employment Relations from the University of Technology, Sydney and a Certificate in Nursing, which he completed at Royal North Shore Hospital.

STC Executive team

The STC Executive team consists of the Chief Executive Officer and six General Managers. This team is responsible for implementing STC's corporate strategies and the management of the organisation's day-to-day operational activities. Senior managers within the organisation support the organisation to achieve its objective.

The STC Executive as at 30 June 2013 is as follows:



Executive team profiles

John Livanas

Chief Executive Officer

Mr Livanas leads a team of experienced senior executives managing the provisions of member services and the investment of \$38 billion worth of assets in State Super.

Mr Livanas has over 25 years industry experience and has worked in organisations including Deloitte; the South African Government Employees Pension Fund — the precursor to the country's sovereign fund, and several Australian superannuation funds.

Prior to his appointment in October 2011, Mr Livanas was the Chief Executive Officer of AMIST Super (2008 to 2011) and the General Manager of FuturePlus Financial Services (2002 to 2008). He was also a Director of ISPT and ISPT Grosvenor International Property Trust from 2010 to 2012. In August 2013, he was appointed to the Board of the Australian Council of Superannuation Investors.

Mr Livanas holds a Bachelor of Science in Engineering, an MBA from the University of Witwatersrand and a Graduate Diploma of Finance and Investments from the Financial Services Institute of Australia.

Mark O'Brien

General Manager, Investments

Mr O'Brien joined STC in February 2013 to develop the investment capacity of the STC Executive. He leads a team of investment professionals tasked with ensuring the Fund meets the Trustee's return and risk objectives.

His responsibilities include portfolio construction, the design and development of STC's investment strategy, and managing assets and manager evaluation processes in line with the overall risk and liability profile of the funds.

He has had a long career in investment management. He spent close to 10 years with ANZ Funds Management running Australian Equities portfolios before moving to AMP Capital Investors for 19 years where he held a variety of roles including Head of Australian Equities, Head of Strategy, Head of Investor Relations (for AMP Ltd), Head of International and Multi Manager Funds, and Chief Investment Officer.

Mr O'Brien holds an Agricultural Science degree and an MBA from the University of Melbourne.

Melanie O'Rourke

General Manager, Operations and Implementation

Ms O'Rourke joined STC in February 2012 and is responsible for the operational aspects of the scheme's investments. This includes implementing investment decisions, monitoring the Fund's managers and custodians, and reporting on the Fund's investments to management, the Trustee Board and associated Board Committees.

Prior to her appointment, Ms O'Rourke worked at WorkCover Authority of NSW for over four years within the Investment Division in the Investment Operations team for the Workers Compensation Insurance Fund. Prior to that, Ms O'Rourke managed the transition team for master custody clients at BNP Paribas, after moving from Mercer, where she spent five years in the custody consulting and asset transition team.

Ms O'Rourke holds a Bachelor of Business (Accounting and Finance) and is also a CPA.

Kevin Dent

General Manager, Member Services

Mr Dent is responsible for all member services, including scheme administration, communications, advice and member education services.

Prior to joining STC in June 2011, Mr Dent was a senior manager at the Australian Prudential Regulation Authority and a senior executive at ComSuper, the administrator of the Commonwealth Government's public sector and military superannuation schemes.

Mr Dent has an MBA, a Master's degree in Accounting and a Graduate Diploma in Applied Finance and Investment.

Narelle Wooden

General Manager, Risk, Compliance and General Counsel

Ms Wooden is responsible for providing the Trustee Board and the Executive with legal services, and oversees the Fund's compliance, risk, internal audit and secretariat services.

Prior to her appointment at STC in January 2010, Ms Wooden worked for more than 15 years as a lawyer, general counsel and company secretary in financial services, funds management and superannuation. Ms Wooden is also a member of the Police Superannuation Advisory Committee.

Ms Wooden holds a Bachelor of Commerce and Laws and a Masters of Laws.

Andrew Grice

General Manager, Finance

Mr Grice is responsible for the management accounting, financial accounting, financial statements, external audits, direct taxation, indirect taxation and actuarial aspects of STC and the Fund. This involves providing support and expert advice in these areas within STC, and also managing STC's external relationships with suppliers, peers and regulators.

Prior to his appointment in September 2004, Mr Grice was an external auditor with more than a decade of experience auditing some of Australia's largest superannuation organisations.

Mr Grice is a Chartered Accountant and holds Bachelor and Master's Degrees in Accounting.

Belinda Lawn

General Manager, People and Culture

Ms Lawn joined STC in July 2012 and is responsible for all employment-related activities, as well as facilitating the Project Management and Strategic Planning processes.

Ms Lawn brings to STC over 20 years experience in human resources-related fields within the financial services sector, including time with Macquarie Bank, the Australian Financial Markets Association, AMP and the Australian Securities and Investments Commission.

Ms Lawn holds a Bachelor of Economics (Honours), a Master of Economics, a Diploma of Education, and a Certificate IV in Workplace Assessment and Training.

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Part B – Corporate Performance

STC's performance against its objectives in the 2012–13 Corporate Plan

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STC's performance against its objectives in the 2012–13 Corporate plan

STC's 2012–13 Corporate Plan identified five key objectives for the financial year:

1. To achieve the long-term investment return objectives of the Fund within an appropriate risk profile
2. To provide efficient management of outsourced contracts
3. To provide relevant, quality services to members on a cost effective basis
4. To maintain a strong working relationships with key stakeholders
5. To operate in accordance with "good practice" governance principles.

Each objective has key performance indicators to achieve these objectives.

1. To achieve the long-term investment return objectives of the Fund within an appropriate risk profile.

Key performance indicator: Exceed CPI + 4.5% after tax and fees per annum over rolling 10-year periods.

The investment return objective set for the Fund by STC, in combination with the Government's funding contributions, aims to achieve the Government's objective of full funding by 2030.

Meeting the long-term goal requires the investments to be actively managed to avoid downside exposure. Given the nature of the cash flow of the Fund, STC will reallocate assets as it deems necessary to maintain the probability of achieving full funding.

STC has achieved an average annual return for the Growth Strategy of 7.1% p.a. over the last 10 years which is broadly in line with the benchmark return of 7.2% p.a. over this period.

STC implements its investment objectives through fund managers, and over the course of 2012–13, STC has been varying the apportionment between its active managers and passive managers, as part of the process for allocating the investments appropriately for the longer term.

STC has continued to maintain prudent liquidity requirements to fund its liabilities. An increased focus on liquidity management remains a priority for the investment team.

STC reviews the risk and asset allocation settings of the Fund regularly. The asset allocation process is well diversified across asset classes and risk premia. The aim is to generate equity like returns with substantially reduced volatility. Risk management plays a crucial role in this process. STC's portfolio is well diversified across risk premiums, asset classes, investment managers and individual securities. STC believes that the current strategies in place for managing the investments of the Fund are likely to achieve the long-term investment objectives.

2. To provide efficient management of outsourced contracts.

Key performance indicator: All service providers have met Service Level Agreements and are operating under contracts that are appropriate for the level of risk and extent of service that they provide.

The scheme administration services for STC are provided by Pillar Administration, a NSW State Owned Corporation, under an administration agreement. The agreement details the administration services and contains service standards by which the performance of Pillar is measured and monitored. Pillar reports quarterly on their performance, which is measured against an aggregate performance index. Pillar's administration contract was last renewed in September 2005. STC benchmarked Pillar's services in 2011 and Pillar and STC are currently negotiating a revised contract.

From 2007, Allianz Australia Insurance Limited (Allianz) commenced administering PSS member claims for medical expenses and administering payments of PSS permanent impairment lump sum benefits. These claims were formerly undertaken by the NSW Police Force and Pillar. Allianz reports monthly on agreed performance indicators.

State Super Financial Services Australia Limited (SSFS) provides a range of financial planning and information services to STC members. STC has documented the services offered to members by SSFS through an access agreement. SSFS provides monthly reporting on the services provided to STC members and annual compliance and service quality reports.

JPMorgan Chase has been STC's custodian since 1998 and the contracts between STC and JPMorgan Chase were renewed in December 2009.

The investments of the Pooled Fund are managed by specialist fund managers. Each manager is required to invest the assets managed by it in accordance with the provisions set out in an Investment Management Agreement. The list of investment managers as at 30 June 2013 is included on page 27.

Independent actuarial services are provided by Mercer Consulting (Australia) Pty Ltd.

3. To provide relevant quality services to members on a cost-effective basis.

Key performance indicator: Member satisfaction levels achieve required targets set.

Members have access to a range of information and advice services to assist them to make informed decisions about their scheme entitlements and options.

These services include:

- a contact centre and personal interview service, which provides members with general advice about their schemes
- information seminars for members in both metropolitan and regional centres
- financial planning advice through State Super Financial Services Australia Limited (SSFS)
- a website, providing detailed information about the STC schemes, a salary sacrifice calculator and online account access
- tailored scheme specific communication to members, including the six-monthly *SuperViews* newsletter, the annual *Report to Members* and the annual *Pension Newsletter*.
- annual benefit statements.

STC has recently redeveloped its website to enhance the functionality and accessibility of information available to members and other stakeholders.

The website features separate microsites for each of STC's schemes – SASS, SSS and PSS, which can be accessed via the website homepage. Each microsite has been specifically designed to include detailed information about each scheme's rules and benefits, as well as tailored information for each of the member segments including contributing members, deferred benefit members and pension members.

The design of the website allows for key information to be easily communicated to members via a latest news section and other information areas on the scheme microsite homepages.

During the next 12 months, STC will continue to develop the functionality of the website to further enhance the services available to members online.

STC has segmented its printed member communications to tailor scheme information and articles of interest specific to each scheme. This included producing a SASS and a SSS/PSS version of the annual *Report to Members* and three versions of the *SuperViews* newsletter.

STC also published the first edition of an annual *Pension Newsletter* in September 2012. This pension newsletter has been developed to assist pension members stay informed about their pension entitlements and scheme rules. It also includes information about administrative processes and articles of interest.

During 2012–13, STC also commenced its annual member research project. A member satisfaction survey was undertaken in 2013 to measure the satisfaction of the services provided by Pillar Administration, SSFS and STC. A number of other research initiatives will be undertaken during the 2013–14 period to enhance our understanding of members' needs and expectations so that we can continue to provide appropriate services.

SSFS provides advice services to STC members and during 2012–13, STC and SSFS collaborated on a number of joint communications initiatives. These initiatives included:

- a notification to members of the increase to the concessional contribution cap for those aged 50 years and over
- a mail out to SASS active members about the benefits of increasing their rate of contribution
- a mail out to SASS deferred benefit members about choosing an investment strategy to suit the member's individual circumstances
- information to pension members about the availability of advice services.

STC and SSFS will continue to work on a number of initiatives in the coming year to increase members' awareness of their scheme and how SSFS services may assist members with the decisions they face.

STC offers information seminars for members in both metropolitan and regional centres. The seminars are conducted by STC staff and approximately 3,200 members attended the 79 seminars held in 2012–13.

4. To maintain strong working relationships with key stakeholders.

Key performance indicator: Relationships with key government stakeholders are maintained at a high level with constructive and consistent dialogue.

Key stakeholders are the relevant NSW Government Ministers (the Minister for Finance and Services and the Treasurer) and their departmental staff with responsibility for superannuation and investment matters.

During 2012–13, STC met regularly with senior staff of the Department of Finance and Services, and Treasury. STC also met with the senior management of the universities to discuss the individual circumstances and funding position of each university.

University funding

The most recent actuarial review of the State Super schemes dated 4 December 2012 has confirmed that, without additional contributions, the employer reserves in the State Super fund for each university are likely to become exhausted over the period from 2014–15 to 2021–22. A copy of the 2012 actuarial review can be found on the State Super website at www.statesuper.nsw.gov.au/news-and-publications

STC has written to each university to obtain agreement to a funding plan for additional employer contributions. The universities, however, have not been in a position to provide the funding plans, due to ongoing negotiations between the Commonwealth and NSW governments over each government's share of the superannuation funding required from the universities.

The NSW Government advised in its Budget Papers released on 18 June 2013 that the negotiations over university superannuation are at an advanced stage. The budget papers indicated that NSW is prepared to fund a share that reflects a fair estimate of the State's funding responsibilities for university superannuation and that, together with the Commonwealth funding, this will ensure that the university employer reserves are not depleted.

STC has received an assurance from the NSW and Commonwealth governments that they will fund any shortfall of member benefits in 2013–14 pending a permanent resolution. STC is closely monitoring this issue and will inform members when a funding agreement is finalised. As further information becomes available, STC will provide updates on the State Super website at www.statesuper.nsw.gov.au

5. To operate in accordance with 'good practice' governance principles.

Key performance indicator: Effective decision making, with recognised robust processes embedded in the organisation.

The STC schemes are exempt public sector superannuation schemes under the Commonwealth *Superannuation Industry (Supervision) Act 1993* (SIS Act) and as such are complying superannuation funds for concessional taxation and Superannuation Guarantee purposes. Under the 1996 Heads of Government Agreement governing the operation of exempt public sector superannuation schemes, the NSW Government undertakes to ensure that the STC schemes comply with the principles of the Commonwealth government's retirement incomes, including preservation, vesting and reporting to members. The *Superannuation Administration Act 1996* requires STC, in exercising its functions, to have regard to the Heads of Government Agreement.

As part of the Commonwealth Government's Stronger Super changes, the SIS legislation has been amended to provide for the Australian Prudential Regulation Authority (APRA) to make prudential standards for APRA regulated superannuation trustees.

During the year, STC undertook a significant review of its policies and procedures to ensure that they are consistent in all material respects with the prudential standards applicable to STC if it were regulated by APRA. The review was substantially completed by the end of the financial year.

Part C – Operations Overview

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Operations overview

This section provides an overview of STC's investment performance and management activities during 2012–13. It also includes information about STC's member services and the trends in STC's membership.

Investments

Global environment for 2012–13

Despite the investment market fluctuations, the end of financial year results were positive for investment funds, especially those with a high exposure to growth assets such as Australian and international shares.

United States recovery

By the end of June 2013, the forecast for the United States, the world's largest economy, was much brighter. The economy was boosted by improved financial markets liquidity and solid company earnings. In addition, the booming shale oil/ gas industry which some experts believe could make the United States energy self-sufficient by 2035, was a standout.

The prospects for the economy had also been improved by a long-awaited recovery in the residential property market and a gradual improvement in employment.

Change in China

While investors have been influenced by events in the United States, they have been closely watching China as the new government there tries to rein in excessive debt. At the same time, the government is trying to move the Chinese economy from a reliance on exports to one where consumer spending makes up a larger proportion of the economy. This is a long-term project but markets have been reassured by the recent economic growth numbers. The OECD expects China's economy to grow by more than 8% in 2014.

Stability in Europe

Over the past few years, Europe has been a source of much concern for the global economy. While the 2012–13 financial year was not without turmoil, the European economic crises had less of an impact on global markets this year. The Eurozone economy is still very weak, recording its seventh successive quarter of negative economic growth in June. Negotiations towards closer economic co-operation have slowed and debt problems still weigh on the big economies of France, Italy and Spain. Europe continues to weigh down the global economy and the impact of austerity policies, high unemployment and the difficulty of pan-European economic reform will have a dampening effect on growth.

Effects on the Australian market

During the 2012–13 financial year, Australian investment markets were again influenced by international trends. Slowing Chinese growth had the greatest impact, pushing down the prices of Australian commodities and the share prices of Australia's big mining companies. With this source of economic growth slowing down, the Reserve Bank continued to reduce local interest rates making high-yielding investments, including shares, more attractive.

Impact on financial markets

International shares delivered strong returns for investors over the 2012–13 financial year. The overall global market was up over 30% (according to the MSCI World Ex-Australia Unhedged Index) and the United States S&P500 (Accum Index) up 20.6%.

In Australia, overall market returns were strong, with the S&P/ASX 200 Accumulation Index up over 22%, making this the best financial year return for the Australian sharemarket since 2006–07.

STC's performance

STC was well positioned to benefit from the lift in global share markets that flowed from improved investor confidence.

As the year progressed, a number of changes were made to the portfolio composition to improve the blend of managers and strategy diversification. The Fund benefited from the improved returns flowing from its holdings in property and infrastructure and increased holdings of cash when the markets corrected in the last quarter of the year.

The Fund also moved from a position of being relatively fully hedged on the Australian dollar through the year to unhedged in the last quarter, through the active currency overlays program in place. This added to returns as the dollar weakened against global currencies and share markets corrected in May and June of 2013.

Investment returns for each strategy

SASS is a hybrid scheme with the member financed benefit component being an accumulation of member contributions with investment earnings and the employer-financed benefit component being a defined benefit. On deferral, both the member and employer-financed components are accumulated with investment earnings from the investment strategy or strategies selected by the member.

SASS members have a choice of four investment strategies – Growth, Balanced, Conservative and Cash. The Growth Strategy is the default strategy that applies if a member does not make an investment choice.

The crediting rates for the four investment strategies, along with the median manager results from the Mercer survey of superannuation funds, are shown below.

The crediting rates shown below have been rounded to one decimal point and shown as an annual rate. Actual crediting rates are declared monthly to four decimal places. The annual rate is the compounded monthly rates.

Growth Strategy		
Year ending	Crediting rate (% p.a.)	Median manager ¹ %
2013	17.1	15.4
2012	0.4	0.5
2011	8.7	8.2
2010	9.2	10.0
2009	-10.3	-12.2
Average annual compound rate (% p.a.)		
Over 3 years	8.5	7.8
Over 5 years	4.6	4.1
Over 10 years	7.1	6.6

Balanced Strategy		
Year ending	Crediting rate (% p.a.)	Median manager ² %
2013	13.7	11.3
2012	2.6	2.5
2011	7.7	7.5
2010	8.4	9.5
2009	-4.2	-8.1
Average annual compound rate (% p.a.)		
Over 3 years	7.9	7.1
Over 5 years	5.5	4.5
Since Dec 2003	6.8	5.4

¹Growth- Mercer Investment Performance Survey of Employer Super Balanced Growth (60-80)

²Balanced - Mercer Investment Performance Survey of Employer Super Moderate Growth (40-60)

Conservative Strategy		
Year ending	Crediting rate (% p.a.)	Median manager ³ %
2013	9.2	8.2
2012	4.6	4.0
2011	6.7	6.4
2010	7.1	8.3
2009	0.6	-3.4
Average annual compound rate (% p.a.)		
Over 3 years	6.8	6.2
Over 5 years	5.6	4.7
Since Dec 2003	6.3	5.0

Cash Strategy		
Year ending	Crediting rate (% p.a.)	Median manager %
2013	3.2	n/a
2012	4.2	n/a
2011	4.5	n/a
2010	3.4	n/a
2009	4.7	n/a
Average annual compound rate (% p.a.)		
Over 3 years	4.0	n/a
Over 5 years	4.0	n/a
Since Dec 2003	4.6	n/a

³Conservative - Mercer Investment Performance Survey of Employer Super Conservative (20-40)

Investment returns against objectives

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 2013 against the investment objectives

Strategy	Period	Declared return % p.a.	Objective % p.a.
Growth (Objective: CPI + 4.5%)	10 years	7.1	7.2
Balanced (Objective: CPI + 3.0%)	7 years	5.0	5.6
Conservative (Objective: CPI + 2.0%)	4 years	6.9	4.6
Cash (Objective: CPI + 1.5%)	3 years	4.0	3.9

Strategic asset allocation

Effective 1 July 2012, the Trustee has adopted a different classification within the asset allocation. Rather than allocating asset classes into two categories (growth and defensive), the Trustee now allocates the asset classes into three categories — liquid defensive, liquid growth and alternatives — to more closely reflect the role of each category within the portfolio.

The liquid growth category of assets consists of Australian and international listed equities. The liquid defensive category consists of Australian and international fixed interest and cash. Property, infrastructure, corporate debt, inflation linked bonds, absolute return strategies and private equity comprise the alternatives category.

Liquid growth is expected to make a large contribution to long-term returns, but returns are likely to be highly volatile. The allocation to liquid growth, as well as the allocation between Australian equities and international equities within the liquid growth category, may be changed from time to time depending on market opportunities.

Alternatives serve a dual purpose. Some of the asset classes in this category are expected to generate returns in line with or higher than CPI+4.5%, which is the objective for the Growth Strategy. Other asset classes within the alternatives category are expected to have a dual objective of providing CPI+4.5%, but with the ability to provide downside protection when markets are turbulent.

Liquid defensive represents asset classes that tend to do well when markets are turbulent. These asset classes provide capital protection when most other strategies are not performing well, but they are not expected to generate CPI+4.5% over the long term.

STC can dynamically allocate assets between liquid defensives and liquid growth based on changes in the investment environment, whereas the allocation to alternatives is strategic in nature. Alternatives are generally illiquid and investments are held over the medium to long term.

Passive rebalancing

The Pooled Fund passively rebalances the tradeable asset classes in the portfolio in a disciplined manner in order to ensure the portfolio conforms to the target asset allocation. For the Balanced and Conservative strategies, if an asset class has deviated away from the target asset allocation, the manager trades against the Growth Strategy, to return allocations back to the target asset allocation. For the Growth Strategy, if an asset class has deviated outside a set range relative to the target asset allocation, the manager reallocates funds between asset classes to return allocations within the agreed range. This rebalancing process may involve the use of derivatives.

Growth Strategy

Investment objective: The objective of the Growth Strategy is to maximise the earnings rate subject to a greater than 50% probability of exceeding CPI+4.5% p.a. over rolling 10-year periods.

Risk: Medium to high (Risk band 5: from 3 to less than 4 negative annual returns estimated over any 20-year period).

Net assets at 30 June 2013: \$37,186.9 million

Asset allocation as at 30 June 2013:

	Strategic %	Actual %
Liquid growth	54.0	56.5
Australian equities	31.0	30.4
International equities	23.0	26.1
Alternatives	30.5	21.3
Property	8.0	8.3
Infrastructure	9.0	7.6
Other alternatives	13.5	5.4
Liquid defensive	15.5	22.2
Australian fixed interest	5.5	6.9
International fixed interest	2.5	2.2
Cash	7.5	13.1
TOTAL	100.0	100.0

During 2012–13 the strategic allocation to alternatives was increased significantly to facilitate new investments in direct infrastructure, direct property, and multi-asset strategies. It was expected to take time to find the right assets and build the targeted exposures across the relevant strategies. The process is well underway and the gap between the actual asset allocation and the strategic target will be narrowed substantially during the next twelve months. In the meantime, cash levels have been held at higher than long-term levels which has dampened the impact of short-term volatility on the Fund.

Balanced Strategy

Investment objective: The objective of the Balanced Strategy is to maximise the earnings rate subject to a greater than 60% probability of exceeding CPI+3.0% p.a. over rolling 7-year periods.

Risk: Medium (Risk band 4: from 2 to less than 3 negative annual returns estimated over any 20-year period).

Net assets at 30 June 2013: \$335.4 million

Asset allocation as at 30 June 2013:

	Strategic %	Actual %
Liquid growth	38.0	37.8
Australian equities	22.0	21.6
International equities	16.0	16.2
Alternatives	20.0	20.2
Property	6.0	6.0
Infrastructure	5.0	8.3
Other alternatives	9.0	5.9
Liquid defensive	42.0	42.0
Australian fixed interest	13.5	13.5
International fixed interest	6.5	6.5
Cash	22.0	22.0
TOTAL	100.0	100.0

Conservative Strategy

Investment objective: The objective of the Conservative Strategy is to maximise the earnings rate subject to a greater than 70% probability of exceeding CPI+2.0% p.a. over rolling 4-year periods.

Risk: Low (Risk band 2: from 0.5 to less than 1 negative annual returns estimated over any 20-year period).

Net assets at 30 June 2013: \$386.5 million

Asset allocation as at 30 June 2013:

	Strategic %	Actual %
Liquid growth	20.0	19.7
Australian equities	12.0	11.7
International equities	8.0	8.0
Alternatives	17.2	17.2
Property	5.4	5.4
Infrastructure	4.0	6.9
Other alternatives	7.8	4.9
Liquid defensive	62.8	63.1
Australian fixed interest	13.8	13.6
International fixed interest	9.0	8.9
Cash	40.0	40.6
TOTAL	100.0	100.0

Cash Strategy

Investment objective: The objective of the Cash Strategy is to maximise the earnings rate subject to a greater than 80% probability of exceeding the CPI+1.5% p.a. over rolling 3-year periods.

Risk: Very low (Risk band 1: from less than 0.5 negative annual returns estimated over any 20-year period).

Net assets at 30 June 2013: \$300.2 million

Asset allocation as at 30 June 2013:

	Strategic %	Actual %
Liquid growth	0.0	0.0
Australian equities	0.0	0.0
International equities	0.0	0.0
Alternatives	0.0	0.0
Property	0.0	0.0
Infrastructure	0.0	0.0
Other alternatives	0.0	0.0
Liquid defensive	0.0	0.0
Australian fixed interest	0.0	0.0
International fixed interest	0.0	0.0
Cash	100.0	100.0
TOTAL	100.0	100.0

Management of investments

STC undertook its annual review of the investment strategy for the Pooled Fund in June 2013 and made the following changes effective 1 July 2013.

A change to the return objective for the Cash Strategy

STC has revised the return objective for the Cash Strategy, from CPI+1.5% p.a. over rolling three-year periods to CPI+0.75% p.a. over rolling three-year periods. This change reflects official cash rates being significantly lower than they were at same time last year, and STC's view is that it is unlikely the Cash Strategy would be able to deliver a real return in excess of 0.75% over the next three years, given that the strategy is invested only in short-term cash instruments.

Strategic asset allocation of the Growth Strategy

Effective from 1 July 2013, the strategic asset allocation of the Growth Strategy was revised to:

Growth Strategy	Strategic asset allocation %	Dynamic asset allocation range %
Liquid growth	54.0	38.0 - 70.0
Australian equities	30.0	
International equities	24.0	
Alternatives	32.5	22.5 - 40.5
Property	9.0	
Infrastructure	10.0	
Other alternatives	13.5	
Liquid defensive	13.5	10.0 - 29.5
Australian fixed interest	4.0	
International fixed interest	2.0	
Cash	7.5	
TOTAL	100.0	100.0

Strategic asset allocation of the Balanced and Conservative Strategies

STC has decided to reduce the strategic asset allocations to Australian and international fixed interest assets in the Balanced and Conservative strategies by 10.6% in favour of investments in infrastructure and property. The asset allocation changes to the Balanced and Conservative Strategies do not adversely affect their risk and return profiles (Standard Risk Measures) over their respective time horizons.

Strategic asset allocation of the Balanced Strategy

Effective from 1 July 2013, the strategic asset allocation of the Balanced Strategy was revised to:

Balanced Strategy	Strategic asset allocation %	Dynamic asset allocation range %
Liquid growth	38.0	28.0 - 48.0
Australian equities	22.0	
International equities	16.0	
Alternatives	30.6	25.6 - 35.6
Property	10.0	
Infrastructure	10.0	
Other alternatives	10.6	
Liquid defensive	31.4	21.4 - 41.4
Australian fixed interest	10.0	
International fixed interest	4.3	
Cash	17.1	
TOTAL	100.0	100.0

Strategic asset allocation of the Conservative Strategy

Effective from 1 July 2013, the strategic asset allocation of the Conservative Strategy was revised to:

Conservative Strategy	Strategic asset allocation %	Dynamic asset allocation range %
Liquid growth	20.0	12.5 - 27.5
Australian equities	12.0	
International equities	8.0	
Alternatives	27.8	22.8 - 32.8
Property	10.0	
Infrastructure	10.0	
Other alternatives	7.8	
Liquid defensive	52.2	44.7 - 59.7
Australian fixed interest	8.0	
International fixed interest	4.2	
Cash	40.0	
TOTAL	100.0	100.0

Introduction of ranges

In addition to changing the asset allocation of the Balanced and Conservative strategies, STC has implemented dynamic asset allocation (DAA) ranges for the two strategies. This change means that the allocation to liquid defensive asset classes (fixed interest and cash) and liquid growth asset classes (essentially bonds and equities) can be altered relative to their strategic asset allocation weighting. This allows STC to respond to medium-term relative valuation opportunities, and protect against shorter-term market risks.

STC does not expect that using the DAA ranges for the Balanced and Conservative strategies will change the strategies' overall risk and return profiles. The ranges were introduced to enhance and protect the strategies, given that the investment environment is likely to be challenging for these strategies over the next three to five years.

Divestment of investments in tobacco product manufacturers

The Trustee Board has reviewed the ESG (environmental, social and governance) merits of investment in tobacco securities and has decided to divest its holdings in tobacco product manufacturers. STC has instructed its managers accordingly and STC's ESG policy is being updated to reflect the decision.

Investment governance

The Trustee Board established an Investment Committee in February 2012 to support the Board in determining and effecting the investment strategy; to conduct the process of appointing and replacing investment managers and other investment service providers; and to ensure that asset and liability matching is taken into account in investment management decisions. The Investment Committee met on 14 occasions in 2012–13. Prior to the establishment of the Investment Committee, all of its functions, policies and processes were undertaken by the Board itself.

Crediting rate policies and processes

The crediting rate policy of the Trustee Board is that all available investment earnings or losses, after providing for tax and investment expenses, are distributed to employers and members, based on a declared crediting rate that is determined monthly. Members exiting the Pooled Fund schemes receive a daily interim rate applicable since the last monthly rate was determined.

During the year, STC commenced a review of its crediting rate processes, in particular the roles performed by its administrator and its custodian. The review is expected to be completed in 2013–14.

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 2013, the managers made limited use of derivatives, except for the passive rebalancing program, which makes extensive use of index futures.

Currency hedging policy

The Trustee's policy for currency hedging at 30 June 2013 was:

- international equities are hedged from 0% to 64% into Australian dollars
- international property, infrastructure and alternative assets are hedged from 0% to 100% into Australian dollars
- international fixed interest assets (sovereign and corporate debt) are hedged 100% into Australian dollars.

The Trustee is considering implementing an active overlay program in 2013–14 to assist manage currency risk.

Large investments

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

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 its investment mandate.

Investment managers

As required by the *Superannuation Administration Act 1996*, all of the Pooled Fund's assets are managed by external fund managers appointed by STC. Each manager operates under a written agreement and investment mandate. The performance of the various fund managers is monitored throughout the year and new managers may be added or existing managers replaced. The investment managers as at 30 June 2013 are:

Australian Equities

BlackRock Investment Management (Australia) Limited
BT Investment Management (RE) Limited
Ellerston Capital 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

International Equities (and currency)

Altrinsic Global Advisors LLC
AQR Capital Management, LLC
Arrowstreet Capital L.P.
AXA Rosenberg Investment Management Asia Pacific Ltd
Axiom International Investors LLC
Capital International, Inc
Genesis Asset Managers LLP
Hexavest Inc.
Lazard Asset Management Pacific Co
Pareto Investment Management Limited
RealIndex Investments Pty Limited
State Street Global Advisors, Australia, Limited
Trilogy Global Advisors, LLC
Trilogy Global Advisors, LP (via Orion Asset Management Services Pty Ltd)

Property

DEXUS Funds Management Limited
EG Funds Management Pty Ltd
Franklin Templeton Investments Australia Limited
LaSalle Investment Management (via Equity Trustees Limited)
SG Hiscock & Company Limited
State Street Global Advisors, Australia, Limited
Vanguard Investments Australia Ltd

International Fixed Interest

State Street Global Advisors, Australia, Limited

Australian Fixed Interest & Cash

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

Alternative Assets

Access Capital Advisers Pty Ltd
AMP Capital Investors Limited
Challenger Management Services Limited
Deutsche Asset Management (Australia) Limited
GMO Australia Limited
Hasting Investment Management Pty Limited
Kaplan Funds Management Pty Limited
Macquarie Investment Management Limited
New South Wales Treasury Corporation
Pareto Investment Management Limited
RARE Infrastructure Limited
Schroder Investment Management Australia Limited
Siguler Guff DOF III GP LLC
Siguler Guff DOF IV GP LLC
State Street Global Advisors, Australia, Limited

Investment expenses

The indirect cost percentage for an investment strategy is the investment management expenses incurred by the strategy expressed as a percentage of the average net asset value of the strategy. The indirect cost percentages for the four investment strategies are shown below.

Strategy	% of average total assets	
	Actual 2012–13	Estimated 2013–14
Growth	0.33	0.36
Balanced	0.29	0.35
Conservative	0.21	0.27
Cash	0.05	0.05

The actual indirect cost percentages for the Balanced and Conservative investment strategies in 2012–13 were higher than expected due to the larger than estimated performance fees as a result of the returns achieved.

The indirect cost percentages for 2013–14 are estimates and may change due to market circumstances or changes in the structure of the asset sectors as the year unfolds. These estimates are slightly higher in 2013–14 due to:

- increasing the allocations to the alternatives category (the investment related costs for unlisted assets are higher than those for listed investments such as Australian equities)
- a restructure of investment managers to a mix of managers with complementary strategies.

Member services

Overview of scheme membership

The membership of the STC schemes as at 30 June 2013 are set out below.

Scheme	As at 30 June 2008	As at 30 June 2013	% movement in 5 years
Active members			
SASS	50,194	34,978	(30%)
SSS	22,033	11,060	(50%)
PSS	2,597	1,532	(41%)
Total	74,824	47,570	(36%)
Deferred benefit members			
SASS	11,311	10,540	(7%)
SSS	3,831	2,490	(35%)
PSS	170	128	(25%)
Total	15,312	13,158	(14%)
Pension members			
SASS	4,233	3,894	(8%)
SSS	42,596	50,840	19%
PSS	5,994	6,517	9%
Total	52,823	61,251	16%
TOTAL	142,959	121,979	(15%)

Please refer to page 49 for the membership statistics for the past five years.

The STC schemes are closed to new members and, over the past five years, the number of active members fell by 27,254 while the number of pension members increased by 8,428.

Over the coming five year period to 30 June 2018 the membership of the STC schemes will continue to fall to a projected 93,147 members. During this period the contributory or active membership will more than halve to 20,439 members. The rapid reduction in contributors reflects the age profile of the membership as well as the SSS benefit design which encourages retirement by age 60.

Over the period to 2018, the deferred benefit membership is projected to fall to 6,783 members, as these members reach the age when they can claim their benefit.

In contrast to the reduction in contributory and deferred benefit members, the number of pension members is projected to continue to steadily increase from 61,251 to reach its peak number of 65,925 in 2018. In the longer term, pension members will be the only members in the STC schemes.

Services for members

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.

Website

During 2012–13, STC undertook a major redevelopment of the website. To improve members' experience when accessing scheme specific information, the website has been restructured to include separate sections for the SASS, SSS and PSS schemes. The online content has also been revised to enhance members' understanding about their benefit entitlements.

In addition, an online booking facility has been implemented to allow members to register for a retirement planning seminar. In the next 12 months, STC will review relevant feedback to further enhance the information on the website and to develop more tools to assist members with their ongoing knowledge of their scheme.

Retirement planning seminars

During 2012–13, STC staff conducted 72 retirement planning seminars which were attended by 3,012 SASS and SSS members. Of these, 22 seminars were held in the Sydney CBD, 18 in the metropolitan area and 32 in regional centres. In addition to the retirement planning seminars, STC conducted seven Understanding Your Super seminars for SASS members with a total of 253 members attending.

Staff from State Super Financial Services attend all STC seminars and conduct a presentation on retirement planning to supplement the scheme information provided by STC staff.

Personal interview service

Personal interviews are available for current and deferred STC members. Members are provided with general advice about their scheme and general superannuation information. During 2012–13, Pillar staff conducted 1,832 interviews, most at their Sydney CBD office, with the remainder at regional offices of State Super Financial Services.

Financial planning advice

STC's 100% owned subsidiary State Super Financial Services Australia Limited provides financial planning advice to members of the STC schemes and their relatives. STC has documented the services offered to members by SSFS through an access agreement.

STC and SSFS liaise closely to ensure that the members of the STC schemes have access to high quality information and advice about their scheme entitlements and financial planning.

During 2012–13, SSFS made 18,673 financial planner appointments in respect of STC members or relatives of STC members. SSFS also provided 561 telephone advisory service calls (208 for general information and advice and 353 for limited personal advice).

Members' use of services

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

	2010-11	2011-12	2012-13
Telephone calls	106,238	111,242	109,050
Personal interviews	2,459	2,143	1,832
Seminar attendance	4,189	3,834	3,265
Letters	6,202	8,486	7,109
Emails	10,680	10,373	13,916

The decline in members' use of services can be attributed to the steady reduction in membership.

SASS member investment choice

SASS members are able to choose single or multiple investment strategies for their personal account balance and future contributions.

The table below shows the allocation of member account balances by investment strategy. The account balances in this table cover both contributory and deferred SASS members, are net of surcharge tax liabilities and include deferred SANCS benefits invested in the Growth Strategy.

	Account balances			
	30 June 2012 \$ million	%	30 June 2013 \$ million	%
Growth	5,133.9	87	5,627.7	85
Balanced	211.7	4	335.4	5
Conservative	219.4	4	386.5	5
Cash	313.0	5	300.2	5
Total	5,878.0	100	6,649.8	100

The large majority of account balances continue to be invested in the Growth Strategy (the default strategy). Over the course of 2012-13, the amount invested in each strategy increased other than in the Cash Strategy where there was a small reduction.

Salary-sacrifice contributions

All members have the option of contributing their compulsory member contributions on a post-tax or a pre-tax (salary sacrifice) basis. The majority of members in all schemes make salary sacrifice contributions. The percentage of members contributing by salary sacrifice from 30 June 2011 to 30 June 2013, with a breakdown for each scheme, is shown in the following table.

Percentage of members contributing via salary sacrifice over the last three years

	30 June 2011	30 June 2012	30 June 2013
SASS	48%	50%	60%
SSS	71%	74%	77%
PSS	51%	53%	58%

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Part D – Corporate Governance

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.

Corporate Governance

Compliance framework

STC has a formal compliance framework, which includes the documentation of its plans and policies. The Trustee Board receives ongoing reporting and actively participates in the monitoring process to ensure the adequacy of the plans and policies both directly and through its Committees.

STC's compliance processes include:

- the review and maintenance of plans and policies required by NSW legislation for public sector agencies
- the review and maintenance (to the extent reasonably practicable) of plans and policies that comply with the *Superannuation Industry (Supervision) Act 1993* (SIS), APRA and ASIC requirements for regulated and licensed superannuation trustees
- the review and maintenance of a compliance checklist that identifies STC's legislative and contractual obligations quarterly and annually with the results reported to the Risk, Audit and Compliance Committee
- the review and maintenance of a risk management checklist that identifies STC's key risks (quarterly and annually with the results reported to STC's Risk, Audit and Compliance Committee)
- formal annual verification being 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 internal audits of compliance with relevant plans and policies.

Prudential governance

STC schemes are exempt public sector superannuation schemes under the SIS. The SIS legislation treats exempt public sector superannuation schemes as complying funds for concessional taxation and Superannuation Guarantee purposes.

Under a Heads of Government Agreement, the NSW Government undertakes to ensure that STC schemes conform with the principles of the Commonwealth Government's retirement incomes policy relating to preservation, vesting, reporting to members, and adequate protection of members' benefits.

The *Superannuation Administration Act 1996 (NSW)* requires STC in exercising its functions to have regard to the Heads of Government Agreement. The legislation enables the NSW Government to prudentially monitor and audit the STC schemes and Trustee Board.

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 Trustee 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 during the 2012–13 period are listed in the table below.

	Appointed	Term end date	Meetings attended during 2012–13 (actual / possible)
Mr M Carapiet (Chairperson)	1 Aug 2011	31 Jul 2015	11/11
Employer representatives			
Mr I Blair ¹	1 Sep 1998	31 Oct 2012	4/4
Mr P Scully	1 Feb 2004	31 Jan 2014	11/11
Mr M Lambert	1 Feb 2004	31 Jan 2014	11/11
Ms K Moses	19 Mar 2012	18 Mar 2016	11/11
Mr G Venardos	5 Nov 2012	4 Nov 2016	6/7
Employee representatives			
Mr R Davis	1 Jul 1996	31 Dec 2013	11/11
Ms S Walsh	25 Mar 2011	24 Mar 2015	9/11
Mr R Harty ²	1 Jan 2002	2 May 2013	9/9
Mr N Lewocki ³	1 Sep 1998	31 Aug 2012	1/2
Mr A Claassens	5 Nov 2012	5 Nov 2016	7/7
Mr T O'Grady	24 June 2013	24 June 2017	0/0

¹ Resigned 31 October 2012

² Resigned 2 May 2013

³ Term expired 31 August 2012

Trustee Board and other Committees

Investment Committee

Members

Messrs Carapiet (Chairperson), Davis, Lambert and Scully. Members of the Executive and invited visitors attend committee meetings.

Purpose

The purpose of the Investment Committee is to:

- support the Trustee Board in determining and effecting the investment strategy
- conduct the process of appointing and replacing investment managers and other service providers
- receive other information as may be required in order to improve the investment management decisions of STC
- ensure that asset and liability matching is taken into account in investment management decisions.

Risk, Audit and Compliance Committee

Members

Messrs Venardos* (Chairperson), Blair*, Davis and Lambert. The meeting is also attended by members of the Executive, the Audit Office of New South Wales, the internal auditor (as appropriate), Pillar Administration, and other invited visitors.

**Mr Blair resigned part way through the reporting period and Mr Venardos was appointed part way through the reporting period.*

Purpose

The purpose of the Risk, Audit and Compliance Committee is to provide independent assistance to the Trustee Board by reviewing and monitoring STC's governance, risk and control frameworks and its external accountability requirements.

Member Services Committee

Members

Messrs Davis (Acting Chairperson), Harty*, Lambert, Scully and Ms Walsh. The meeting is also attended by members of the Executive, Pillar Administration and invited visitors.

**Mr Harty resigned from this Committee part way through the reporting period.*

Purpose

The purpose of the Member Services Committee is to make recommendations to the Trustee Board on matters affecting the administration of the STC schemes and policies affecting stakeholders.

Actuarial Committee

Members

Messrs Scully (Chairperson), Davis, Harty* and Lambert. The meeting is also attended by members of the Executive, the scheme actuary, and invited visitors.

**Mr Harty resigned part way through the reporting period.*

Purpose

The purpose of the Actuarial Committee is to exercise functions delegated to it in relation to actuaries providing services to the STC schemes and to advise and assist the Trustee Board on matters relating to the triennial actuarial review and other actuarial matters as directed by the Board.

Disputes Committee

Members

Messrs Claassens* (Chairperson), Blair*, Davis, Lewocki*, Scully (alternate) and Venardos, and Ms Moses*. The meeting is also attended by members of the Executive and invited visitors.

**Mr Lewocki's term ended part way through the reporting period; Mr Blair resigned part way through the reporting period and Ms Moses, Mr Claassens and Mr Venardos were appointed part way through the reporting period.*

Purpose

The purpose of the Disputes Committee is to exercise the discretions of the Trustee Board in relation to disputes involving the STC schemes and to advise and assist the Board on other matters or functions in relation to disputes.

Human Resources and Nominations Committee

Members

Mr Carapiet (Chairperson), Mr Blair*, Mr Harty*, Ms Walsh and Ms Moses*. The meeting is also attended by members of the Executive and invited visitors.

**Mr Harty and Mr Blair resigned part way through the reporting period and Ms Moses was appointed part way through the reporting period.*

The purpose of the Human Resources and Nominations Committee is to review, monitor and report to the Trustee Board on the management of the human resource governance frameworks and on human resource obligations under relevant policies including the *Code of Conduct and Ethics* and *Protected Disclosures Reporting Policy*. The committee determines the remuneration structure and levels of STC staff; performance criteria for the CEO and direct reports to the CEO.

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 consists of a 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 a member of the STC Executive.

Purpose

The purpose of the Police Superannuation Advisory Committee is 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 advise STC on matters relating to administration of the *Police Regulation (Superannuation) Act 1906* that are referred to it by the Trustee Board.

Trustee Board member attendance at STC Committee meetings

Meetings attended during 2012–13 (actual / possible)

Investment Committee	
Mr M Carapiet (<i>Chairperson</i>)	14/14
Mr M Lambert	13/14
Mr P Scully	14/14
Mr R Davis	14/14

Risk, Audit and Compliance Committee

Mr G Venardos (<i>Chairperson</i>)	4/4
Mr I Blair ¹	1/1
Mr R Davis	5/5
Mr M Lambert	5/5

Member Services Committee

Mr R Davis (<i>Acting Chairperson</i>)	4/4
Mr R Harty ²	3/3
Mr M Lambert	4/4
Mr P Scully	3/4
Ms S Walsh	4/4

Actuarial Committee

Mr P Scully (<i>Chairperson</i>)	6/6
Mr R Davis	5/6
Mr M Lambert	5/6
Mr R Harty ²	4/4

Meetings attended during 2012–13 (actual / possible)

Disputes Committee	
Mr A Claassens (<i>Chairperson</i>)	4/4
Mr I Blair ¹	2/2
Mr R Davis	7/7
Mr N Lewocki ³	2/2
Ms K Moses	5/5
Mr P Scully (alternate)	4/4
Mr G Venardos	1/2

Human Resources and Nominations Committee

Mr M Carapiet (<i>Chairperson</i>)	3/3
Mr I Blair ¹	2/2
Mr R Harty ²	3/3
Ms K Moses	1/1
Ms S Walsh	1/3

Police Superannuation Advisory Committee

Mr R Davis (<i>Chairperson</i>)	12/12
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¹ Resigned 31 October 2012

² Resigned 2 May 2013

³ Term expired 31 August 2012

Risk management and insurance

While the primary responsibility for risk management rests with STC, the Risk Management Framework is monitored and reviewed by the Risk Audit and Compliance Committee (RACC). The RACC meetings are held quarterly and are also attended by members of the Executive, and representatives of the NSW Audit Office and the scheme administrator, Pillar Administration.

The Trustee Board is responsible for ensuring that its Risk Management Framework is effective in managing the material risks presented by its environment and objectives. To enable STC to effectively manage these risks, the Trustee Board has identified the material risks, both financial and non-financial, to the Fund and to its business operations and the methods to assist in controlling those risks.

Risk Management Strategy

STC's Risk Management Framework is the totality of its systems, structures, policies, processes and people within STC's business operations that identify, assess, manage, mitigate and monitor all internal and external sources of inherent risk that could have a material impact on STC's business operations or the interests of beneficiaries.

STC's Risk Management Framework has been developed having regard to the APRA Prudential Standard SPS 220 *Risk Management* (SPS 220). The Risk Management Framework includes a Risk Appetite Statement (including Risk Tolerances), the Risk Management Strategy and a Risk Register.

STC's Risk Appetite Statement articulates the acceptable risk limits within which personnel at all levels of STC business operations, whether internal or external, must operate.

The material risks, methods to control these risks and the ongoing monitoring procedures are set out in STC's Risk Management Strategy.

STC's Risk Register details the following:

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

The Risk Register is reviewed on an ongoing basis, however once a year, the Executive reports on this to the RACC, providing a detailed analysis and assessment of the material risks in relation to STC's objectives and the schemes activities and proposed activities, for review by the RACC and the Trustee Board.

The Executive also provides breach reports to the RACC which includes both internal and external breaches reported by the services providers.

In addition to the Risk Management Framework, STC also has procedures in relation to:

- the management and monitoring arrangements in respect of adequate human, technical and financial resources to enable STC to carry out its obligations effectively
- the management and control of fraud and corruption
- insurance cover in the event of an unexpected occurrence affecting its operations or resources.

Moreover, STC also has policies which deal with risk mitigation, including the *Code of Conduct and Ethics* and *Protected Disclosures Reporting Policy*, which encourage proactive risk management and compliance with regulatory obligations.

Insurance

During the 2012–13 financial year, insurance for STC was maintained with the NSW Self Insurance Corporation (SI Corp), which covers the NSW Government's insurable risks. SI Corp provides 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, and directors' and officers' liability)
- miscellaneous (e.g. personal accident).

Internal Audit and Risk Management Statement for the 2012 – 2013 Financial Year for the SAS Trustee Corporation

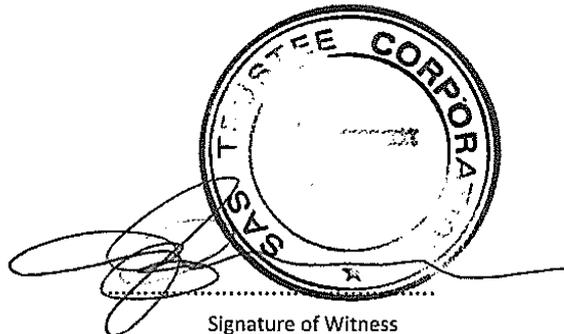
The members of the Board of the SAS Trustee Corporation (STC) are of the opinion that STC has internal audit and risk management processes in operation that are, in all material respects, compliant with the core requirements set out in Treasury Circular NSW TC 09/08 *Internal Audit and Risk Management Policy*. These processes provide a level of assurance that enables the senior management of STC to understand, manage and satisfactorily control risk exposures.

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 for the 2012 – 2013 period are:

- Independent Chair – Ian Blair (term of appointment: 1 June 2010 to 31 May 2014; resignation was effective from 31 October 2012).
- Independent Chair – George Venardos (term of appointment: 5 November 2012 to 4 November 2016).
- Independent Member - Michael Lambert (term of appointment: 1 February 2010 to 31 January 2014).
- Non-independent Member – Ron Davis (term of appointment: 1 July 2010 to 31 December 2013).

This ATTESTATION was executed on 29 August 2013, following a resolution of the STC Board on 28 August, 2013.

The COMMON SEAL of the)
 SAS Trustee Corporation was)
 hereto affixed in the presence of:)




 Signature of John Livanas

John Livanas
 Name of CEO


 Name of Witness

Public interest disclosures

There was one public interest disclosure (PID) made to STC during the reporting period.

STC has established the *Protected Disclosures Reporting Policy* which governs STC's processes to comply with the *Public Interests Disclosures Act 1994 (NSW)*. STC facilitates staff awareness of the STC Policy and the relevant protections under the *Public Interests Disclosures Act 1994 (NSW)* in a number of ways including facilitating staff access to STC's Policy and conducting awareness training to staff.

Significant judicial decisions

Woollard V STC (IRC)

This case involved the decision of the Chief Executive Officer to decline to issue a certificate under s.10B(2) of the *Police Regulation (Superannuation) Act 1906* in respect of Mr Woollard's claim of post traumatic stress disorder and depression, on the basis that Mr Woollard failed to comply with the notification provisions of the s.10B(2)(a). This decision was confirmed by the Trustee Board's Disputes Committee and an appeal to the Industrial Court was filed.

The Full Bench of the Court delivered an interim judgment on 8 March 2013 and found that recorded complaints prior to resignation were consistent with the onset of PTSD.

However, the Court has in effect created an exceptional category of mental diseases of gradual onset. The Court found that a member who suffers a psychological illness in the form of a disease of gradual onset must be taken to be, as a matter of construction, 'hurt on duty' for the purposes of the PRS Act.

The problem with this is that the words 'hurt on duty' do not appear in s.10B(2)(a) but in s.10B(3)(a) which says the Commissioner of Police determines if an infirmity is 'hurt on duty'. An appeal from the Commissioner's decision lies to the District Court and not the Industrial Court. For STC to determine 'hurt on duty', it would be considering issues of causation and thereby trespassing on the statutory role of the Commissioner of Police.

For this reason, the CEO has authorised an appeal to the Court of Appeal of the Supreme Court. The appeal is listed for hearing on 1 October 2013 for the purpose of reviewing the Full Bench decision.

Picker V STC (IRC)

This case involved the Chief Executive Officer's decision not to accept Mr Picker's application for a s.10B(2) certificate on the basis that it was well outside the statutory time limit for making such applications. The Chief Executive Officer declined to accept the late application pursuant to the discretion in s.16A of the *Police Regulation (Superannuation) Act 1906*. That decision was confirmed by the Disputes Committee and an appeal was filed by Mr Picker in the Industrial Court.

On 4 July 2012, Walton J President, gave judgment in favour of Mr Picker. His Honour considered whether it was desirable that the late application be considered, the tests to be applied, the reasons for delay in making the application, prejudice to STC, and the merits of the substantive application.

His Honour expressed reservations about the desirability because of the delay and the difficulty he had in determining Mr Picker's degree of fault or lack of diligence in not pressing the claim earlier. He acknowledged that there was a degree of prejudice to STC. However, having in mind the need to strike a balance, he was of the opinion that it was desirable in all the circumstances for STC to entertain the late application.

Cox V STC (District Court)

This case involved an appeal from a decision of the Court of Appeal. The Court of Appeal upheld STC's appeal against the decision of Ashford DCJ on 20 December 2011 and referred it back to Ashford J for final determination 'according to law'.

On 3 July 2012, Mr Cox's claim for backdating the commencement of his pension was dismissed in the District Court.

Consumer response – disputes and appeals

The superannuation schemes administered by STC provide members with 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 2012, a total of 18 disputes were current. During the year ending 30 June 2013, 43 new disputes were lodged and 20 disputes were concluded (including disputes carried over from the previous year).

Disputes on hand	18
Disputes lodged in 2012–13	43
Disputes determined in 2012–13	
Decided against the appellant	9
Decided in favour of the appellant	11
Disputes withdrawn or discontinued	20
Disputes on hand at 30 June 2013	21

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

Decided against the appellant	2
Decided in favour of the appellant	1
Withdrawn or discontinued	1
Settled	1
Outstanding at the end of the reporting year	6

The **Police Superannuation Scheme** provides for appeals in respect to '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
- Allianz Insurance Australia Limited, as delegate of STC on entitlements to lump-sum payments for duty-related permanent impairments.

During the financial year 2012–13, these **appeals** resulted as follows:

	PSAC	Allianz
Decided against the appellant	5	0
Decided in favour of the appellant	5	0
Withdrawn or discontinued	4	0
Settled	31	5
Outstanding at the end of the reporting year	40	7

Privacy and use of member information

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

STC has developed a Privacy Management Plan (Plan) and implements the Plan with the assistance of Pillar Administration.

The Privacy Statement:

- details how STC complies with the requirements of the Privacy and HRIP Acts
- explains how STC deals with members' personal and health information that may be collected and used in the course of administering the Fund
- summarises the circumstances where STC may provide a members' personal and health information to third parties.

STC endeavors to ensure its records of members' personal details are up to date and accurate. Members may contact Pillar Administration to advise of changes to their personal and health details.

STC takes steps to ensure there is no unauthorised use or disclosure of members' information. The Privacy Statement is available on request and from the State Super website at www.statesuper.nsw.gov.au

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 information that has been released on the website at www.statesuper.nsw.gov.au/corporate-governance/access-to-information-gipa is reviewed and updated on a regular basis.

Total number of access applications received by STC

During 2012–13, STC did not receive any applications under the GIPA Act. Requests in regards to member records were handled on behalf of STC by the Fund 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 GIPA 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 GIPA Act (information for which there is conclusive presumption of overriding public interest against disclosure). During 2012–13, STC has not refused any applications as there were no applications received in 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

Table B: Number of applications by type of application 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
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

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

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

Table C: Invalid applications

Reason for invalidity	Number of applications
Application does not comply with formal requirements (section 41 of the GIPA Act)	0
Application is for excluded information of the agency (section 43 of the GIPA Act)	0
Application contravenes restraint order (section 110 of the GIPA Act)	0
Total number of invalid applications received	0
Invalid applications that subsequently became valid applications	0

Table D: Conclusive presumption of overriding public interest against disclosure – matters listed in Schedule 1 of the GIPA Act

	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

* 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 the GIPA 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 Information legislation	0

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

Table F: Timeliness

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

Table G: Number of applications reviewed under Part 5 of the GIPA Act (by type of review and outcome)

	Decision varied	Decision upheld	Total
Internal review	0	1	0
Review by Information Commissioner*	0	0	0
Internal review following recommendation under section 93 of the Act	0	0	0
Review by ADT	0	0	0
Total	0	0	0

* 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 GIPA Act (by type of applicant)

	Number of applications for review
Applications by access applicants	1
Applications by persons to whom information the subject of access application relates (see section 54 of the Act)	0

Human resource management

Following the proclamation of the *Public Sector Employment Legislation Amendment Act 2006* (NSW), all STC Executive staff, with the exception of the Chief Executive Officer, are employed by the SAS Trustee Corporation Division of the Government Service of NSW. The Chief Executive Officer'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 is provided by Pillar Administration. The table below shows the STC Executive staff (male and female) and the total staff numbers by salary band as at 30 June.

Salary range	2010			2011			2012			2013		
	Men	Women	Total staff									
< \$39,670	0	0	0	0	0	0	0	0	0	0	0	0
\$39,670 – \$52,103	0	0	0	0	0	0	0	0	0	0	0	0
\$52,104 – \$58,248	0	0	0	0	0	0	0	0	0	0	0	0
\$58,249 – \$73,708	0	3	3	0	3	3	2	1	3	1	0	1
\$73,709 – \$95,318	2	3	5	2	3	5	2	3	5	2	3	5
\$95,319 – \$119,149	0	3	3	0	3	3	0	2	2	1	4	5
> \$119,149 (non-SES)	8	5	13	9	4	13	8	7	15	12	10	22
Totals	10	14	24	11	13	24	12	13	25	16	17	33
	42%	58%		46%	54%		48%	52%		48%	52%	

Salary movement

Salaries for contract staff are reviewed annually as part of a remuneration review process. 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 Wages Policy.

Industrial relations

The Public Service Association of New South Wales provided industrial coverage for staff of the Executive. No time was lost during 2012–13 through industrial action.

Training and development

The Trustee recognises the need for the ongoing development of staff and has in place an online continuing professional development program that is available to all staff. In addition, staff may attend training designed by external providers where appropriate; and can 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* or the *Work Health and Safety Act 2011*.

During the year, STC staff were again offered the opportunity to have influenza immunisations and 23 staff members accepted.

Equal Employment Opportunity (EEO) Policy

STC is an equal opportunity employer that has integrated EEO practices into all areas of the workplace to create an environment where staff are valued and have the opportunity to contribute and develop. The merit principle is applied to all recruitment, selection, promotion, training and other employment-related opportunities. EEO data is requested from all STC staff on commencement of employment.

Table A: Trends in the representation of EEO groups¹

EEO group	Benchmark or target	% of total staff ²			
		2010	2011	2012	2013
Women	50%	58	54	54	52
Aboriginal people and Torres Strait Islanders	2.6%	0	0	0	0
People whose first language was not English	19%	21	17	12	27
People with a disability	N/A ³	0	0	0	9
People with a disability requiring work-related adjustment	1.1% (2011) 1.3% (2012) 1.4% (2013)	0	0	0	0

Table B: Trends in the distribution of EEO groups

EEO group	Benchmark or target	Distribution Index ⁴			
		2010	2011	2012	2013
Women	100%	n/a	n/a	n/a	n/a
Aboriginal people and Torres Strait Islanders	100%	n/a	n/a	n/a	n/a
People whose first language was not English	100%	21	17	12	27
People with a disability	100%	n/a	n/a	n/a	n/a
People with a disability requiring work-related adjustment	100%	n/a	n/a	n/a	n/a

Notes

¹ Staff numbers as at 30 June 2013.

² Excludes casual employees.

³ Per cent employment levels are reported but a benchmark level has not been set.

⁴ A Distribution Index of 100 indicates that the centre of the distribution of the EEO group across salary levels is equivalent to that of other staff. Values less than 100 mean that the EEO group tends to be more concentrated at lower salary levels than is the case for other staff. The more pronounced this tendency is, the lower the index will be. In some cases the index may be more than 100, indicating that the EEO group is less concentrated at lower salary levels. The Distribution Index is not calculated where EEO group or non-EEO group numbers are less than 20.

Expenditure disclosure information

Overseas visits

Name	Date of travel	Destination	Comments
John Livanas	15 – 22 January 2013	London, United Kingdom	Meeting with bid consortium on potential investment
Ron Davis	4 – 5 March 2013	Milan, Italy	International Corporate Governance Network
Ron Davis	8 – 12 April 2013	Jakarta, Indonesia Hong Kong, China Singapore	Global research and Investment Program Asia for institutional investors
Lisbeth Rasmussen	12 – 17 May 2013	Copenhagen, Denmark Paris, France London, United Kingdom	Global research and Investment Program UK/Europe for institutional investors
Peter Laity	19 – 24 May 2013	New York, Miami, United States	Global research and Investment Program USA for institutional investors
Lisbeth Rasmussen	22 – 23 May 2013	London, United Kingdom	Meeting with fund managers in London
John Livanas	3 – 5 June 2013	Beijing, China	JP Morgan China Summit

Land disposal

Address details	Purchaser	Settlement date	Contract price
112 – 118 Talavera Road, Macquarie Park	Goodman Industrial Funds Management Limited	12 December 2012	\$50,500,000

Credit card certification

STC's policy for the use of corporate credit cards by Executive staff is in accordance with the Premier's memorandum 99–05 and the Treasurer's Directions 205.01 to 08. No irregularities in the use of corporate credit cards were recorded during the year.

Annual report production details

The production of this report including writing, editing, typesetting and printing was undertaken internally and as such no costs were incurred. This publication is available online at www.statesuper.nsw.gov.au

Payments to consultants

Fees equal to or exceeding \$50,000

Area	Project	Consultant	\$ Total cost
STC			
Legal	Risk management advice	Mercer Consulting (Australia) Pty Ltd	\$50,000.00
			\$50,000.00
Pooled Fund			
Investments	STC crediting rate advice	Russell Investments	\$148,000.00
Investments	Advice on unlisted assets structures	KPMG Investment Consulting	\$75,000.00
			\$223,500.00

Fees less than \$50,000

Area	Project	Consultant	Total number of engagements	\$ Total cost
STC				
Member Services	Communications advice	P&L Corporate Communications	1	\$15,125.00
Member Services	Ensure compliance with <i>NSW State Records Act 1998</i>	Record Keeping Innovation Pty Ltd	1	\$38,912.50
				\$54,037.50

Account payment performance

Accounts paid on time within each quarter

Quarter	Total accounts paid on time		Total amount paid	
	Target %	Actual %	\$	\$
Sep 2012	100%	100%	\$8,767,163	\$8,767,163
Dec 2012	100%	100%	\$8,578,944	\$8,578,944
Mar 2013	100%	100%	\$9,041,560	\$9,041,560
Jun 2013	100%	100%	\$10,168,426	\$10,168,426
Total				\$36,556,093

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Part E – Five year membership and financial statistical tables

Five years at a glance – to 30 June 2013

Member statistics	2009	2010	2011	2012	2013
Active members – SASS	46,914	44,022	41,264	38,224	34,978
Active members – SSS	19,938	17,855	15,689	13,420	11,060
Active members – PSS	2,357	2,138	1,889	1,673	1,532
Total active members	69,209	64,015	58,842	53,317	47,570
Deferred benefit members – SASS	11,171	10,729	10,503	10,530	10,540
Deferred benefit members – SSS	3,575	3,322	3,022	2,749	2,490
Deferred benefit members – PSS	170	166	166	141	128
Total deferred benefit members	14,916	14,217	13,691	13,420	13,158
Pension members – SASS	4,062	4,438	3,953	3,869	3,894
Pension members – SSS	44,501	46,786	47,506	49,048	50,840
Pension members – PSS	6,347	6,566	6,434	6,521	6,517
Total pension members	54,910	57,790	57,893	59,438	61,251
Gender ratios – active members					
Females – SASS	52%	52%	52%	51%	51%
Males – SASS	48%	48%	48%	49%	49%
Females – SSS	34%	34%	34%	34%	34%
Males – SSS	66%	66%	66%	66%	66%
Females – PSS	12%	12%	12%	12%	12%
Males – PSS	88%	88%	88%	88%	88%
Contributions – \$ million					
Employer contributions	174	166	165	139	155
Employee contributions	546	540	522	504	456
Crown contributions	978	1,567	1,330	6,005	1,280
Total contributions	1,698	2,273	2,017	6,648	1,891
Benefits paid – \$ million	3,021	3,258	3,384	3,689	4,051
Net contributions – \$ million	-1,323	-985	-1,367	2,959	-3,840
Investment revenue – \$ million	-4,129	3,078	2,925	-37	6,166

Five years at a glance – to 30 June 2013 (continued)

Assets/liabilities – \$ million	2009	2010	2011	2012	2013
Accrued benefits – SASS	11,719	12,580	13,090	13,184	13,653
Net assets to pay benefits	7,854	8,559	9,102	10,128	11,302
Over (under) funding – SASS	-3,865	-4,021	-3,988	-3,056	-2,351
Accrued benefits – SSS	27,875	29,003	29,905	30,843	31,652
Net assets to pay benefits	17,214	18,025	18,758	18,910	20,911
Over (under) funding – SSS	-10,661	-10,978	-11,147	-11,933	-10,741
Accrued benefits – PSS	6,158	6,350	6,483	6,661	6,852
Net assets to pay benefits	2,750	2,913	3,046	3,645	4,179
Over (under) funding – PSS	-3,408	-3,437	-3,437	-3,016	-2,673
Accrued benefits – SANCS	2,483	2,653	2,700	2,674	2,527
Net assets to pay benefits	1,030	1,246	1,274	1,669	1,818
Over (under) funding – SANCS	-1,453	-1,407	-1,426	-1,005	-710
Total accrued benefits – \$ million	48,235	50,585	52,178	53,362	54,684
Total net assets to pay benefits	28,848	30,743	32,180	34,352	38,209
Total over (under) funding	-19,387	-19,842	-19,998	-19,010	-16,475

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

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Part F – Triennial Actuarial Valuation Report

The triennial actuarial valuation of the Pooled Fund and each of the individual schemes at 30 June 2012 was carried out by Martin Stevenson, FIA, FIAA of Mercer (Australia) Pty Ltd. A summary of this valuation is provided. A full version of the Actuarial Valuation Report is available on the State Super website, www.statesuper.nsw.gov.au

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 2012 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 2009 and the results were set out in a report dated December 2009.

This report conforms to the requirements of *Professional Standard 400* of the Institute of Actuaries of Australia (PS 400).

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. Refer Section 6 Volume II for a full listing of the employers.
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.

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

Contributors	SASS	SANCS	SSS	PSS	Total
30 June 2012	38,004	53,064	13,405	1,666	106,139
30 June 2009	46,741	68,979	19,903	2,352	137,975

Pensioners	SASS	SANCS	SSS	PSS	Total
30 June 2012	3,888	n/a	49,068	6,522	59,478
30 June 2009	4,099	n/a	44,516	6,190	54,805

The Pooled Fund assets at 30 June 2012 totalled \$34,351.9 million compared to \$28,847.7 million at the last valuation. The assets were allocated to each scheme as follows.

Assets (\$ millions)	SASS	SANCS	SSS	PSS	Total
30 June 2012	10,128	1,669	18,910	3,645	34,352
30 June 2009	7,854	1,030	17,214	2,750	28,848

The asset levels of all schemes have increased significantly over the three years to 30 June 2012. This reflects large Crown Contributions received in 2011–2012.

The employer reserves as at 30 June 2012 in respect of each scheme are as follows.

\$millions	SASS	SANCS	SSS	PSS	Total
Assets	10,128	1,669	18,910	3,645	34,352
Less,					
– member reserves (including co-contributions and SASS and SANCS deferreds)	5,578	346	3,000	296	9,220
– death/disability reserves	1	–	–	–	1
Adjustments	1	50	13	3	67
Employer reserve	4,550	1,373	15,923	3,352	25,198

The adjustments noted above represent differences between the employer records (which are required for subdivision by scheme, part and employer) and the accounts.

For all schemes the key long-term economic assumptions for the funding valuation are as follows.

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

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.

The following special short-term assumptions have been adopted for the 6 years following 30 June 2012, with the long-term assumption applying thereafter:

SASS, SANCS and SSS : 2.7% per annum for 6 years

PSS : 3.5% per annum for 6 years

There were no short-term assumptions for the 2009 investigation.

Triennial Actuarial Valuation (continued)

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 2008 to 30 June 2011.

This analysis led to changes in relation to the rates of mortality (both contributor and pensioner), hurt on duty disability, retirement and early retirement, proportions married and proportions choosing lump sums or pensions on retirement.

Short term redundancies were also assumed to reflect retrenchments in the public sector foreshadowed by the NSW Government. The rates adopted for the 4 years following 30 June 2012 were as specified by NSW Treasury and used for the latest Crown Financial Statements.

Changes in contributor decrements and deferral of retirement in SASS and SANCS and reduced hurt on duty disability rates in respect of the PSS have provided only a small offset to the effect of improvements in pensioner mortality, the assumed rate of people taking pensions, proportions married and short term redundancies, 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

The unfunded liability for the Pooled Fund has reduced from \$19,871.2 million to \$18,978.8 million over the three years to 30 June 2012.

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	6,893.6	2,202.5	4,711.4	1,314.9	15,122.4
• deferred members	–	–	503.0	17.9	520.9
• pensioners	665.9	–	22,802.1	5,065.4	28,533.4
Total employer-accrued liability	7,559.5	2,202.5	28,016.5	6,398.2	44,176.7
Less					
Employer reserve account	4,550.2	1,373.3	15,922.7	3,351.7	25,197.9
Employer unfunded liability as at 30 June 2012	3,009.3	829.2	12,093.8	3,046.5	18,978.9
Employer unfunded liability as at 30 June 2009	4,020.1	1,531.7	10,742.7	3,576.6	19,871.2

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 under varying assumptions (\$ million)					
Basis	SASS	SANCS	SSS	PSS	Total
Standard	3,009.3	829.2	12,093.8	3,046.5	18,978.8
Investment return plus 1%	2,551.5	711.0	9,317.8	2,359.4	14,939.7
Investment return minus 1%	3,532.6	961.3	15,403.2	3,883.6	23,780.8
Salary increases plus 1%	3,404.0	961.6	12,260.2	3,120.1	19,745.9
Salary increases minus 1%	2,649.2	708.9	11,935.3	2,977.1	18,270.6
CPI increases plus 1%	3,137.8	829.2	15,405.1	3,849.1	23,221.2
CPI increases minus 1%	2,898.8	829.2	9,280.7	2,377.1	15,385.8
Pensioner mortality higher*	3,003.6	829.2	11,860.7	2,997.6	18,691.1
Pensioner mortality lower**	3,021.4	829.2	12,176.3	3,063.3	19,090.3

*Decreasing the rate of mortality improvements by applying the 100 year mortality improvement trend from the Australian Life Tables 2005-07 from 1 July 2011, rather than applying the 25 year mortality trend (faster) for seven years and the 100 year mortality trend (slower) thereafter results in higher pensioner mortality.

**Increasing the rate of mortality improvement by extending the application of the 25 year mortality trend (faster) to cover the period 1 July 2011 to 30 June 2021 (10 years), rather than over seven years. The 100 year mortality improvement trend (slower) is applied thereafter. This results in lower pensioner mortality.

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.

Triennial Actuarial Valuation (continued)

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 2009		19.9
Investment earnings	Investment earnings of the Pooled Fund were somewhat lower than assumed and this resulted in an item of deficiency.	1.0
Contributions	Contributions to the Crown funded employer reserves exceeded accruals over the period, resulting in an overall surplus.	-7.0
Change of actuarial basis	Pensioner assumptions	0.6
	Lower commutation	0.3
	PSS higher disability	-0.1
	Short-term redundancies	0.2
	Short-term salary increase rate	-0.7
	Other net effects	-0.1
	The overall impact of the changes in the valuation basis was an item of deficiency.	0.2
Impact of disability experience in PSS	The impact of the lower actual than expected disabilities in the PSS was an item of surplus.	-0.1
Other exits	Generally fewer other exits and lower commutation rates were compensating surpluses and deficiencies over the Fund.	-0.0
Salary increases	Higher than expected salary increases led to a deficiency.	0.1
CPI increases	Higher than anticipated CPI increases led to a deficiency.	0.1
Interest on the previous unfunded liability	Interest on the previous unfunded liability at 1 July 2009 resulted in a deficiency.	4.8
Other	(Less than \$0.1 billion)	0.0
Unfunded liability as at 30 June 2012		19.0

The major items of surplus were higher contributions overall than benefit accruals and lower than expected PSS disability; while the change in the actuarial basis, 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 2012 of the main funding groups are set out below.

	Present value of employer financed past service benefits \$ million	Value of assets \$ million	Unfunded liability \$ million
General government sector	36,703	20,670	16,033
Universities	3,514	1,142	2,372
PTEs and others	3,959	3,385	574
Total	44,177	25,198	18,979

This compares with the position as at 30 June 2009:

	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

General government sector

The 2012–13 Budget Statement included the comment “Funding arrangements are reviewed every three years following the release of the triennial actuarial review, and will be reviewed following completion of the current triennial review in December 2012.”

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 current funding plan for the General Government sector is to determine the contributions which, when increased at 5% per annum, will fully fund the sector by 30 June 2030. This is an appropriate strategy. At the present time this funding strategy results in relatively stable contributions from year to year, but in the years close to 2030 there is the potential for significant variation in the contribution level unless the investment strategy has relatively low volatility.

It is recommended that the government’s review of the funding arrangements incorporate the demographic assumptions adopted in this report.

Triennial Actuarial Valuation (continued)

Universities

The combined deficit of the sub-funds relating to universities on the funding basis is \$2.4 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. That is, the funding position of the Universities needs to be resolved by 2014-15; otherwise at least one of the University sub funds will not be able to meet benefit payments. It is noted that the first instance of sub fund depletion is expected to occur before the effective date of the next actuarial triennial investigation.

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.

Since March 2012, senior government officials from NSW and the Commonwealth have been actively considering the funding position of the NSW universities in the Pooled Fund. The Australian Government Actuary, and myself, are actively working with Government officials on this issue. The respective governments have made a commitment to resolve the matter as soon as possible.

It is expected that the university sub-funds will be jointly funded by the NSW Government, the Commonwealth and the universities themselves. Without knowledge of the details, it is not appropriate to comment on the possible outcome of the final funding arrangements.

However in principle, my contribution recommendations for the purposes of this report are:

- where funding is the responsibility of the universities, then contributions should be at least at the level required if the superannuation arrangements were regulated by the Australian Prudential Regulation Authority (APRA).
- where funding is the responsibility of the NSW Government / Commonwealth, the contribution strategy must be evidenced in writing to the Trustee, and must be at least of the level of “pay as you go” funding.

Public Trading Enterprises and other employers

As a group, Public Trading Enterprises (PTEs) and other employers have a deficiency on the funding basis of \$0.6 billion. Recommended individual funding plans for each employer are set out in another section of my report.

It is further recommended that:

- those employers that are not State backed be identified
- the relevant legislation be altered so that contribution levels for non State backed employers be determined by the Trustee; that is, there is no involvement of NSW Treasury in setting the contributions.
- for non State backed entities the contribution recommendations should be adjusted (where necessary) to at least the level required if the superannuation arrangements were regulated by APRA.



MA Stevenson
Fellow of the Institute of Actuaries of Australia