

Financial Year ending 30 June 2018

Message from the CEO



We're delighted to let you know that we've opened two new offices in Sydney, at Chatswood and Gymea.

In this issue of Your Fund Update, we bring you a review of investment markets in the last financial year, and important updates from our business.

What's ahead for investment markets

The year to 30 June 2018 was generally a good year for investors. The S&P 500 returned 14.4% (in USD) and in Australia, the ASX 300 was up 13.2%. History tells us that the good times can't last forever, and after periods of exceptionally strong performance, there are often episodes of greater volatility and lower returns.

In the current environment, following the daily media headlines could well cause some anxiety – the falling Australian dollar, a financial crisis in Turkey, housing prices on the slide and the China-America trade war.

So at a time like this, we can't overemphasise how important it is to have a clear and well-diversified investment strategy, ongoing communication with your financial planner and to stick to your long-term objectives. On page 3, our investment experts share their insights on what to look for on the horizon.

We're growing to serve you better

We're delighted to let you know that we've opened two new offices in Sydney, at Chatswood and Gymea. The offices have modern new facilities, and are also open for walk-in visits from clients.

We want to be part of local communities and this is part of our longer-term plan to service you in more locations, closer to where you live.

As you know, First State Super became the new owner of StatePlus in June 2016. Since then our focus has been on combining the strengths of both organisations to deliver on our promise to you – to help you plan for a fulfilling retirement. You'll continue to receive the same high-quality advice and service that you've come to expect from us.

In some regions, we're bringing our teams together into one office so you'll be seeing both the StatePlus and First State Super logos alongside one another in some locations as our teams come together.

The Royal Commission

The Royal Commission into the banking, superannuation and financial services industry has been a talking point for many Australians throughout the year. The Commission's Round 5 hearings started on 6 August, focusing on superannuation.

We will continue to engage openly to assist the Royal Commission enquiry. We believe the Royal Commission will help build greater certainty across the banking, superannuation and financial services industry – something that will benefit all Australians.

At StatePlus, we support any initiative that leads to greater transparency, confidence and security for our clients. I will personally be leading our organisation in the process of identifying opportunities for us to improve your experience with us.

Advice solutions that suit you

We have different solutions available to help you invest your retirement savings. Research¹ has shown that people who get financial advice feel more confident about meeting their retirement goals and have a better standard of living in retirement.

At the same time, we acknowledge that some people may only want financial advice when they need it. Our flexible product solutions give you more choice in how you pay for advice. You can find out more on page 7.

Please enjoy this edition and as always, if you have any questions, just get in touch with us.

Graeme Arnott

Chief Executive Officer

Contents

2. Market update – the year in review
5. Our new offices at Chatswood and Gymea
6. Downsizers get a super break
7. Retirement options to suit your different needs
8. Finding the right balance in retirement

¹ A summary of the findings from the Australian Retirement Vision Survey, Rice Warner, August 2015

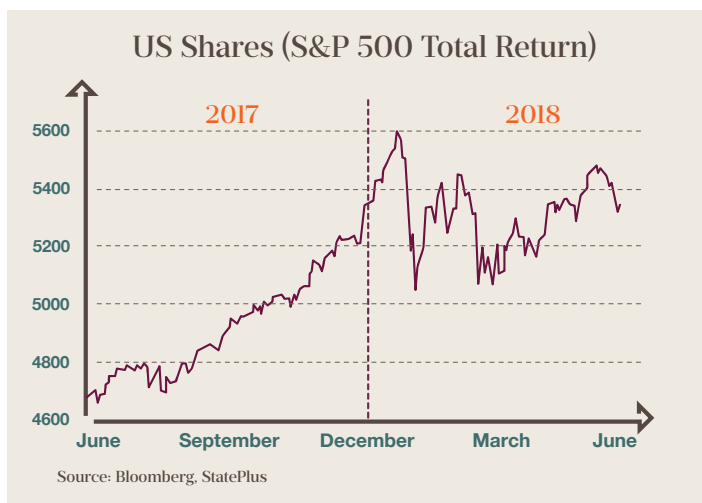
Market update — the year in review

Global financial markets experienced a rollercoaster ride over the past year. The first six months were smooth, as economic growth hummed along across all major regions, generating strong investment returns. As we entered 2018 though, markets became more volatile as rising geopolitical tensions, trade wars and central bank tightening made investors less confident.

Shares

Global

Global share markets produced positive returns over the year. In the US, the S&P 500 was up 14.4% (USD) as tax cuts and rising capital expenditure helped to lift company earnings. Looking ahead, continued economic expansion should help sustain earnings but concerns about trade wars and higher interest rates could slightly reduce growth.



Europe & Japan

In Europe, the European Central Bank went ahead with its plan to reduce purchases of government securities, but softer economic activity and concerns about Italian political stability slowed the pace of reforms.

The Eurostoxx index was up 1.3% (EUR) which underperformed global shares. Japanese shares benefited from a lift in domestic investment and export growth, resulting in a 9.7% gain (JPY).

Emerging markets

Emerging markets underperformed developed markets to return 8.2% (USD). This was because most countries in this sector rely on borrowing US dollars, so they were vulnerable to the combination of a stronger US dollar and higher interest rates. Earnings were also weighed down by escalating trade tensions between the US and China.

Australia

In Australia, the ASX 300 was up 13.2%. Much of this improvement was driven by the resources sector, where stronger demand for commodities (particularly oil) increased production and earnings.

We expect earnings growth to continue in the mid single-digits for the remainder of the year.

The industrials sector also benefited, especially those companies with offshore earnings, while bank shares were weighed down by poor sentiment. We expect earnings growth to continue in the mid single-digits for the remainder of the year.

Fixed Income and Cash

Fixed income markets returned 3.1% in Australia, and 2.5% globally. Bond yields rose for most of the year, then declined due to concerns over global growth caused by rising trade tensions and higher interest rates.

Fixed income markets returned 3.1% in Australia, and 2.5% globally.

In Australia, the RBA held the cash rate steady at 1.5%. We expect the RBA to keep rates on hold for an extended period to provide a financial buffer against low inflation and a slowdown in the housing market. That said, the rise in costs of short-term wholesale funding could result in higher mortgage rates.

The US Federal Reserve has raised rates three times in the past year, and is expected to raise them twice more in the next 12 months. This made short-end rates rise quickly, which weighed on corporates and emerging markets with high debt burdens.

We expect bond yields will rise gradually over time, and while there will likely be more volatility, we don't expect negative annual returns in this asset class.

The Australian dollar

The Australian dollar (AUD) has been weighed down by a narrowing of the difference in interest rates against the US. Over the past 12 months the AUD declined 3.7% against the USD, 5.8% against the Euro and 5.1% against the Yen. With the RBA likely to keep interest rates on hold for the next 12 months, we expect the AUD to remain around the low 70-cent range.

We expect the AUD to remain around the low 70-cent range.

What to look for on the horizon

Investment returns were positive over the year, but we're beginning to see a slowing of that cyclical upswing. The investment cycle is not over, but after a period of rising momentum, markets tend to adjust back to trend, and this can make markets more volatile.

Over a longer horizon, we expect economic growth to be below the levels of the past 50 years. There are several reasons, but primarily these are the slower rate of population growth in developed and emerging countries, and the generally lower rate of productivity. As all asset classes are tied to growth, this suggests future returns are likely to be lower than in the past.

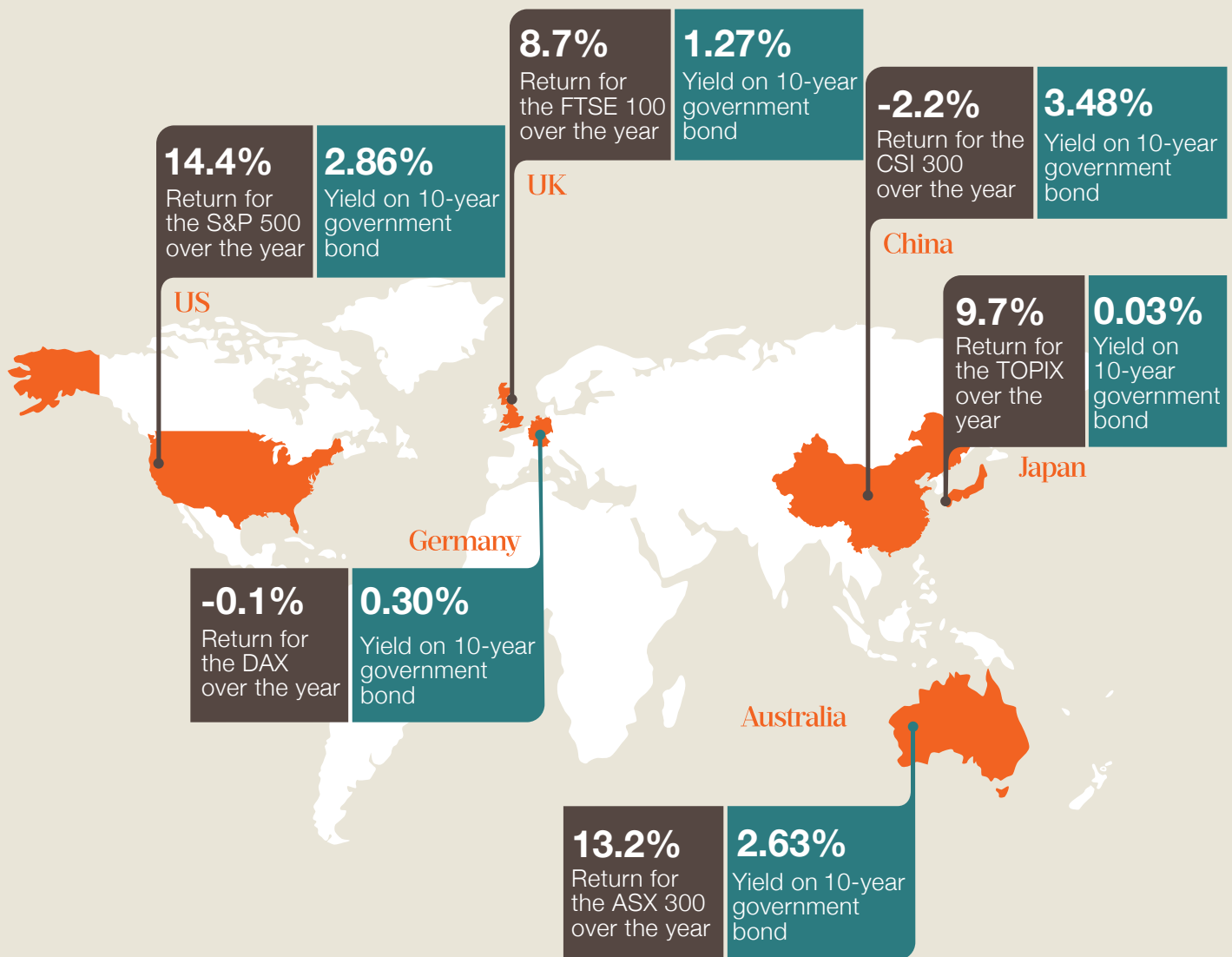
We should always remember our long-term goals in retirement, and stay focused on investing for income through retirement.

We believe a diversified balanced portfolio that has been structured with your financial planner is the best way to help you meet your goals.



Investment market performance from around the globe

30 June 2017 – 30 June 2018



Australian dollar vs US dollar

US\$0.7689

30 June 2017

US\$0.7405

30 June 2018

Source: Bloomberg, all returns are inclusive of dividends.

Annual returns on commodities

One year investment return
(30 June 2017 to 30 June 2018)



Gold

0.9%



Oil

61.1%



Copper

11.6%



Iron ore

0.8%



Our Chatswood office is conveniently located at the corner of Anderson and Help Street.

Our new offices at Chatswood and Gymea

We're excited to announce that we're expanding in the Sydney region and have opened two new offices in Chatswood and Gymea. We've selected these two locations so we can better service our clients in more locations in Sydney, closer to where they live.

Our Chatswood and Gymea offices have modern new facilities and are close to amenities and public transport.

They also allow for walk-in visits from clients, who can enjoy facilities such as a dedicated work area with a computer and printer.

These new offices are in addition to our current offices in Liverpool, Parramatta, Penrith and Clarence Street, Sydney, as well as Canberra, Melbourne, Brisbane, Perth and regional NSW.

At the same time, we recently closed our Pitt Street office due to its lease expiring.

As a result of these changes, some of our financial planners have moved to Chatswood and Gymea from our other offices. Over the past few months we've been contacting all our clients whose planner has moved offices.

We'd like to reassure you that all clients will continue to receive the same professional service and quality advice you've been receiving, regardless of office or planner.



Our two new offices are located at:

28 Anderson St, Chatswood NSW 2067

748-750 Kingsway, Gymea NSW 2227

Our new offices at Gymea (above) and Chatswood (right) have modern facilities with a dedicated work area for clients to use.



Downsizers get a super break

Recent changes to super rules should help older downsizers



You can now use your home to fund your retirement

From 1 July 2018, if you're aged 65 or over, you may be eligible to make a downsizer contribution into your super of up to \$300,000 from the proceeds of selling your home.

How it works

If you sell¹ your primary residence after 1 July 2018, you may be able to make a downsizer contribution to your super of up to \$300,000 from the sale. You must be aged 65 or over when you make the contribution.

Your downsizer contribution won't count towards your annual non-concessional contribution cap.

It's also not counted towards your total super balance, until after you've made

the contribution into the fund. Once a downsizer contribution is in your fund, it will count towards your total super balance.

Also, provided you are over 65, you can make this contribution even if you are not working or would otherwise fail the work test.

If you have a partner, you can both take advantage of this measure, which means together, you could contribute up to \$600,000 to super.

Although it's known as a downsizer contribution, you don't have to buy a smaller house or even purchase another property.

Am I eligible to make a downsizer contribution?

- You must be 65 or older at the time you make a downsizer contribution.
- You must not have previously made a downsizer contribution to your super from the sale of another home.
- You or your spouse must have owned your home for 10 years or more prior to the sale.
- The capital gain or loss from the sale of your home must be either exempt or partially exempt from capital gains tax (CGT) under the main residence exemption (or would be entitled to such an exemption).
- Your home must be in Australia and it cannot be a caravan, houseboat or other mobile home.

How do I make the contribution?

- If you decide to make a downsizer contribution, you must complete a *Downsizer contribution into superannuation* form either before or at the time of making your contribution. This form is available on the [ATO website](#).
- You must make your downsizer contribution within 90 days of receiving your sale proceeds.
- Any downsizer contributions you make will be counted for the assets and income test applied by Centrelink so they could affect your eligibility for the age pension.

How much difference can it make?

See how much your retirement income could increase each year for 20 years.

Contribution	Extra income ²
\$100,000	\$8,200
\$300,000	\$24,700
\$600,000	\$49,500

Super contributions for downsizers



Selling your home



I'm over 65 and want to downsize



¹ For the purpose of a 'downsizer' contribution, 'sell' means an exchange of contracts, not settlement.

² Based on earnings of 5.51% and tax-free income payments over 20 years.

We recommend you seek financial advice before deciding whether to make a downsizer contribution, to make sure it's right for you.

Retirement options to suit your different needs

We provide a range of product solutions to help you invest your retirement savings and fund the lifestyle you want in retirement.

Our heritage products

Allocated Pension Fund
Personal Retirement Plan
Investment Fund – Class A

Heritage product solutions

**Allocated
Pension**

**Personal
Retirement Plan**

**Investment
Fund – Class A**

For investors in our heritage products, the product fees you pay include financial advice. These advice services include an annual review, which is a meeting with your financial planner to make sure your retirement plans remain on track.

However, it also means that if you don't need financial advice or haven't accessed it for a while, you're still paying for it. If this is the case, you may be interested in some of our flexible product solutions that don't include advice as part of the product fee.

Before making any decisions on your investments, you should consult your planner as there may be implications for you when changing products, for example this may affect your Centrelink entitlements. Your planner can help you decide what options are best for you.

Our flexible products

Flexible Income Plan
Tailored Super Plan
Investment Fund – Class B

Flexible product solutions

**Flexible
Income Plan**

**Tailored
Super Plan**

**Investment
Fund – Class B**

Our range of flexible products was launched in 2013. When you're invested in one of these products, you have more flexibility in how you pay for financial advice.

If you choose not to receive financial advice, you will not be charged any advice fees.

If you opt in to financial advice, you can either:

- enter into an ongoing arrangement and pay for advice through regular deductions from your account
- pay for advice each time only when you need it.

So with our flexible products, you can choose the type of product or advice arrangement that best suits your needs and goals.



If you have any questions about our products or would like to find out what options may be right for you, please call us on 1800 620 305.

Finding the right balance in retirement

We all like being generous with our time and money, especially when it comes to our children. So how do you get the balance right between helping others and looking after your own finances and wellbeing?



While many retirees are making travel plans and following their interests, there are many others experiencing demands on their time and finances from family and loved ones. It's not uncommon for retirees to take on significant caring roles, especially when they have responsibilities for both grandchildren and elderly parents at the same time.

Some are also giving children substantial financial support. Many retirees decide to help their children financially, by preserving wealth for their inheritance, helping with money for holidays and grandchildren's school fees as well as home buying.

However you may be helping your family or loved ones, it's important to make sure you also look after yourself. If you want to be there for your dependents for longer, it's essential to put your own finances and wellbeing first. Here are our top tips for getting a healthy balance between serving your needs and theirs.

1. Have a plan

Taking time to really think through what your retirement looks like can help you determine your priorities. Once you've come up with a plan, be sure to share your intentions with family and loved ones. It'll be easier for all of you if they know what to expect as your lifestyle changes in retirement.

2. Manage expectations

If you're planning to support your family in some way, clear boundaries and communication can help you take a balanced approach. If you're caring for grandchildren, for example, it could be too much for you to take them for five days when three may work better with your other commitments. A trial period can be a good way to make sure the arrangement works for everyone.

Being clear about any financial support you're giving is just as important. If it's a one-off contribution, you'll need to arrange terms for repayment, unless it's a gift. For regular payments, agree on how long you'll be providing these for, particularly if it could have an impact on your own income.

3. Understand your finances

You may be eager to contribute to your family, but can you really afford it? If you're left short, it can put pressure on you and the very people you're trying to help. Before dipping in to your savings, it makes sense to understand your own financial position and help your children research other ways of getting extra income, including Centrelink payments they may be eligible for.



Let us know what you think

We'd love to hear from you about Your Fund Update, so please give us a call or go to stateplus.com.au/contact to send us your feedback.



stateplus.com.au



call 1800 620 305



face to face

Connect with us



Important information

State Super Financial Services Australia Limited trading as StatePlus (ABN 86 003 742 756 | AFSL 238430) is wholly owned by FSS Trustee Corporation (ABN 11 118 202 672 and AFSL 293340) as trustee of the First State Superannuation Scheme (ABN 53 226 460 365). This information is of a general nature only and is not specific to your personal circumstances or needs. Before making any decisions based on this information you should consider its appropriateness to you. Every effort has been made to ensure the information contained in it is accurate. We strongly recommend that you consult a financial planner before taking action based on this information. Past performance is not an indicator of future performance.

Neither the SAS Trustee Corporation nor the New South Wales Government take any responsibility for this information or the services offered by StatePlus, and nor do they, FSS Trustee Corporation or StatePlus guarantee the performance of any product provided by StatePlus. All information is correct as of 30 June 2018.

© Copyright 2018 State Super Financial Services Australia Limited, trading as StatePlus.