

Half Year ending 31 December 2017

## Message from the CEO



*You've entrusted us with your money, and our primary objective is the security of income in retirement for you.*

It's been an extraordinary year for financial markets and for StatePlus. As we start 2018, I wanted to take this opportunity to share with you some exciting developments at our organisation, and to talk about our focus when it comes to investing your money.

### **It's now easy to stay on top of your investments**

2017 marked a milestone in our history. We launched a new system based on the very latest in digital capability and technology, and a new secure website that brings you more services and even higher levels of security.

All this means less paperwork, faster response times and more flexibility. For example, you can now choose to receive your pension payments fortnightly, monthly or six-monthly and on the date of your choice.

Those of you who have registered for the new secure website will find that managing your accounts and investments has never been easier, with a lot more options on what you can do directly.

So if you haven't registered yet, we encourage you to do so. But as always, your interests always come first. So if you prefer to interact with us as you have in the past, such as face-to-face or on the phone, you can continue to do so.

### **Remember that investing for retirement is different**

Based on share market performance in 2017, the investment markets seem to be in pretty good shape. In fact, over the whole year there were only nine days where the Australian share market fell by more than -1%. That's quite remarkable, actually. It's the least volatile year since 2004 (the average over the last 30 years is close to three times as many).

Of course, investing for your retirement is much more than chasing investment returns, and we know that markets won't always be so kind.

You've entrusted us with your money, and our primary objective is the security of income in retirement for you, our clients. We recognise that capital preservation of your assets over time is very important to you, and we manage our portfolios in a way that's best suited to people who are retired, or approaching retirement.

So remember that during a time of strong market performance, it can be tempting to lose focus and chase returns. We encourage you to work with your financial planner who can help you ensure your investments are aligned to your long-term goals.

### **Exciting new capabilities and changes in the coming year**

Following the sale of StatePlus to First State Super in June 2016, we're now focusing on how the two organisations can work together in partnership in a way that combines the best of both.

We have a new combined investment team headed by Damian Graham, previously the Chief Investment Officer of StatePlus. The team manages over \$86 billion in superannuation and retirement funds. On page 6 you can read more about their new specialisations and what it means for your investments.

As we change and grow as one team, we'll be communicating any new developments and changes to you.

We hope you enjoy this edition of Your Fund Update and of course, just call us if you have any questions.

### **Graeme Arnott**

Chief Executive Officer

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# Market update — the year in review

*Global growth was solid across all economic sectors for most of 2017, and this positive environment led to strong returns for investors. In 2018, we expect central banks will start reducing some of the stimulus programmes they introduced when the economy was weaker. While we don't expect this to have drastic effects, it will create challenges for some assets that are over-valued. As ever, a diversified investment strategy is the best approach.*

## Shares

### Global

Global share markets benefited from the 2017 recovery in global growth. In the US, the S&P 500 was up 21.8% (total return in USD) as the recovery in global manufacturing helped to lift industrial earnings. US technology firms – including Apple, Google, Amazon and Facebook – continue to grow their revenue base from their innovative and highly disruptive business models. Looking ahead, the recent corporate tax reforms in the US are likely to provide a strong base for earnings growth in 2018.

### Europe & Asia

In Europe, the European Central Bank's ongoing efforts to maintain negative interest rates and quantitative easing finally lifted consumption and investment. The EURO STOXX 50 index was up 9.2% (EUR) and we expect the recovery to continue into 2018. Japanese shares were up 22.2% (Yen) on the back of a weaker currency and strong export growth.

*Chinese shares also benefited from continuing increases in the rate of consumption of the middle class.*

Emerging market shares benefited from the lift in global trade and commodity prices. Authorities in China cut excess capacity at a time when external demand rose which resulted in higher margins and profits for industrials. Chinese shares also benefited from continuing increases in the rate of consumption of the middle class.

### Australia

In Australia, the ASX 300 was up 11.9%, and the resources sector rose sharply as commodity prices benefited from the capacity reductions in China. Iron ore rose from its 2016 trough of \$40 to \$74 by the end of 2017. Banks also delivered reasonable earnings growth by returning to core business models and cutting costs. That said, we expect this growth to reduce slightly in 2018 to due to concerns about household indebtedness and low-income growth.

## Fixed Income and Cash

Fixed income markets returned 3.7% both in Australia and globally. Bond yields generally flattened, because measures of core inflation remained low, despite the strong lift in global growth and tight labour markets. Returns were higher in credit markets, with price gains driven by a combination of strong issuing and tight demand.

*We expect the RBA to keep rates on hold for an extended period to help the economy move towards non-mining sectors.*

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 help the economy transition towards non-mining sectors, which will eventually support higher wages and interest rates.

In the US, where interest rates have been at historic lows, the Fed lifted interest rates three times. This continuing normalisation of interest rates will complement the Fed's policy of selling assets acquired during the global financial crisis to stabilise the economy (such as treasury bonds and mortgage-backed securities). While this is likely to put pressure on bond yields and credit markets in 2018, we don't expect negative returns in these asset classes.

## The Australian dollar

The Australian dollar tends to appreciate in an environment of strong global growth. In 2017, the AUD was up 8.3% against the USD and 4.4% against the Yen, but down 5.0% against the EUR. As the difference in interest rates between Australia and the US increases in 2018, we expect that the Australian dollar is more likely to move sideways or head lower. A weaker AUD may give some relief to the economy by lifting competitiveness and driving up inflation.

*Strong global growth tends to make the Australian dollar appreciate.*

## Property

Property prices in Australia have risen sharply over the past six years because of low interest rates and strong foreign demand. In 2017, policy changes in borrowing and higher interest rates on investors helped to reduce speculative demand and moderate prices.

Construction is also tipped to slow as new supply comes to market.

Over the long term, strong population growth will support housing demand and prevent a hard landing in prices, contrary to recent sensational commentary in the media that allude to an imminent collapse.

As interest rates remain at historic lows, the reduction in speculative demand suggests modest growth in future prices.

## What to keep in mind for 2018

Overall, 2017 was a positive year for investors. Share values rose consistently worldwide, while fixed income and cash stayed fairly steady. The relatively large rises in the Australian dollar we saw in 2017 are likely to slow in the year ahead.

We expect the momentum of 2017 to continue into 2018 as the global economy continues to expand. With stronger growth and lower unemployment, central banks may withdraw stimulus more quickly which may put pressure on asset prices. As long as inflation stays at around 2%, we can expect a gradual pace of policy tightening to support returns and investor expectations.

During periods of strong market performance such as in 2017, it can be easy to lose focus on long-term investment goals. In times like these it's important to stay focused on investing for income in retirement through a balanced portfolio that's been structured with your financial planner to meet your life goals.

## Investment market performance in key markets

31 December 2016 – 31 December 2017

United States	United Kingdom	Germany	Japan	China	Australia
<b>21.83%</b> Return for the S&P 500 over the year	<b>11.95%</b> Return for the FTSE100 over the year	<b>12.51%</b> Return for the DAX over the year	<b>22.23%</b> Return for the Topix over the year	<b>24.25%</b> Return for the China CSI 300 over the year	<b>11.93%</b> Return for the ASX 300 over the year
Yield on 10-year government bond					
<b>2.41%</b>	<b>1.19%</b>	<b>0.43%</b>	<b>0.05%</b>	<b>3.90%</b>	<b>2.63%</b>

### Australian dollar vs US dollar

US\$0.7208

31 December 2016

US\$0.7809

31 December 2017

## Annual returns on commodities

One year investment return  
(1 January 2017 to 31 December 2017)



Gold

-13.5%



Oil

-12.5%



Copper

30.9%



Iron ore

-7.5%

Source for all data: Bloomberg

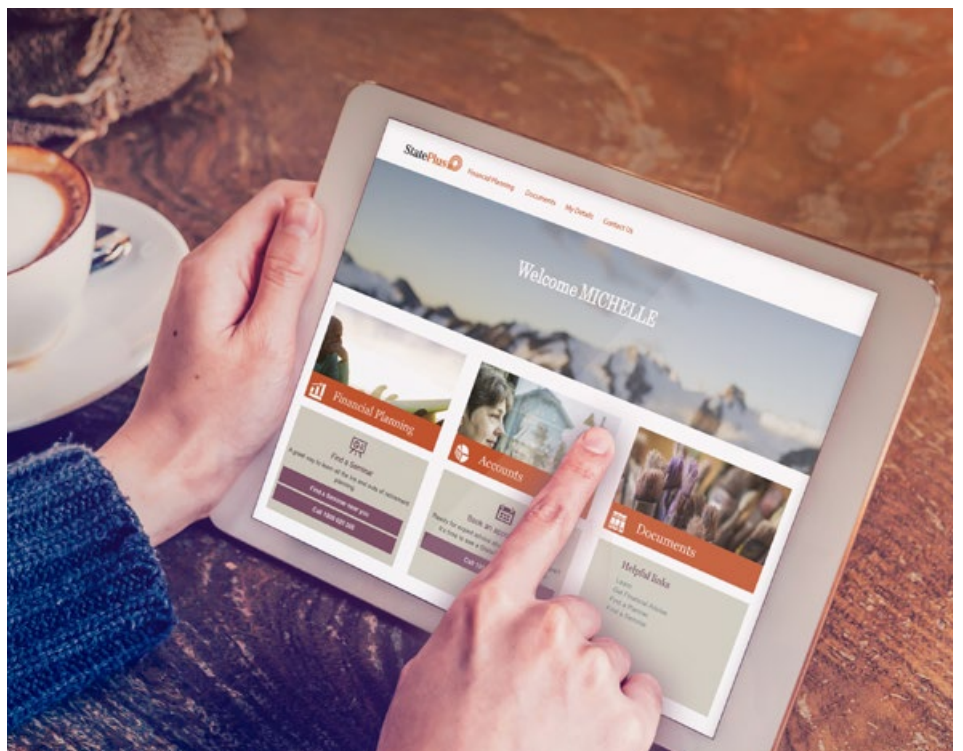


## Experience a personalised portfolio of services

*We've launched our new secure website which makes it easy to keep track of your money and your investments when it suits you. You can log in anywhere, anytime and from any device (mobile, tablet or computer).*

We want to make managing your money as easy as possible. In the StatePlus secure website it's easy to keep track of your finances. You can securely transact on your investments and change your details. You can switch, withdraw or invest in a fixed fund, as well as manage the frequency of your pension payments.

It means less paperwork and quicker response times so that you can get back to what you enjoy doing in retirement.





## Register for our secure website today if you haven't done so

To experience the benefits of our new secure website, register now by visiting [stateplus.com.au/registration](https://stateplus.com.au/registration). You'll need to follow the steps closely to ensure that your information is protected, encrypted and securely stored.

If you'd like help with registration or navigating the new secure website, you'll find useful FAQs, videos and instructions online at [stateplus.com.au/help](https://stateplus.com.au/help). Or just give us a call on **1800 620 305**.

## What you can now do online

Previously you could view your account balance, investment portfolio and receive annual statements online. With the new secure website you can now:

### Securely transact on your StatePlus investments

For example, change the asset allocation of your StatePlus investments, or make a withdrawal from them.

### Manage your pension payments online

You can now set up fortnightly pension payments in addition to monthly, quarterly, half yearly and annual. You can choose the date of your payments and change payment details easily and securely.

### Use a digital e-signature

Our digital technology now allows you to use an electronic signature to provide authorisation for advice documents and transactions.

### Securely view your StatePlus correspondence

These include advice documents, statements and transaction advices.

### Access Centrelink schedules on demand.

### Generate reports anytime you want.

**Michelle Brown**  
Allocated Pension Fund - 123456

Account	Pension details																				
<ul style="list-style-type: none"> <li>Account summary</li> <li>Transactions</li> <li>Account balance</li> <li>Benefit details</li> <li>Asset allocation</li> </ul>	<div> <div>1</div> <div>Pension details</div> </div> <div> <div>2</div> <div>Pre-submit documentation</div> </div>																				
<b>Manage</b> <ul style="list-style-type: none"> <li>Mailing address</li> <li>Pension details</li> <li>Reversionary details</li> <li>Nominated beneficiaries</li> </ul>	<p><b>Pension details for the financial year ending 30 Jun 2018</b></p> <table> <tr> <td>Pension type</td> <td>Allocated Pension</td> </tr> <tr> <td>Account balance as at 01 Jul 2017</td> <td>\$103,698.09</td> </tr> <tr> <td>Minimum pension</td> <td>\$5,180.00</td> </tr> </table> <p><b>Payment Details</b></p> <table> <tr> <td>Payment options *</td> <td>Pension amount</td> </tr> <tr> <td>Amount and review options *</td> <td>Amount no CPI increase</td> </tr> <tr> <td>Payment amount *</td> <td>\$507.00</td> </tr> <tr> <td>Frequency *</td> <td>Monthly</td> </tr> <tr> <td>Day</td> <td> <input type="radio"/> Last day of month           <input checked="" type="radio"/> Select day         </td> </tr> <tr> <td>Next payment date *</td> <td>15/02/2018</td> </tr> <tr> <td>Payment</td> <td> <input checked="" type="radio"/> Bank Account           <input type="radio"/> StatePlus Account         </td> </tr> </table>	Pension type	Allocated Pension	Account balance as at 01 Jul 2017	\$103,698.09	Minimum pension	\$5,180.00	Payment options *	Pension amount	Amount and review options *	Amount no CPI increase	Payment amount *	\$507.00	Frequency *	Monthly	Day	<input type="radio"/> Last day of month <input checked="" type="radio"/> Select day	Next payment date *	15/02/2018	Payment	<input checked="" type="radio"/> Bank Account <input type="radio"/> StatePlus Account
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Payment	<input checked="" type="radio"/> Bank Account <input type="radio"/> StatePlus Account																				
<b>Transact</b> <ul style="list-style-type: none"> <li>Switch investments</li> <li>Invest in a Fixed Fund</li> <li>Withdrawal or rollover request</li> </ul>																					

*In the StatePlus secure website you can now choose the date and change the frequency of your pension payments.*

## We value what's important to you

We know that online services can make life easier. However we also know they can never replace the value of relationships. That's why our online services are designed to work alongside, and support, the face-to-face interactions you have with your StatePlus planner. Rest assured that if you prefer not to use our online services, you can always continue to engage with us on the phone, by mail or in person.



## Electronic communications

When you register for the secure website your communications preferences will automatically change to electronic. You can access your transaction confirmations, statements and other communications by logging in to the secure website.

You'll be notified by email whenever there's a new communication to view.

However if you prefer to receive communications by post, you can change your preference by calling us. Your communications will still be available in your account on the secure website.



## Getting the best investment outcomes for you

*The investment teams of StatePlus and First State Super were merged in late 2017, providing us with more opportunities to tailor solutions specifically for your retirement needs. The combined strengths of both organisations means we have the resources to bring you the highest-quality professional advice, supported by leading technology and a specialised investment approach.*

### A unified team

Following the acquisition of StatePlus by First State Super in June 2016, we undertook an in-depth consultation and planning process to arrive at the best possible investment outcomes for you, our clients.

After a period of extensive planning, we merged the two investment teams to create a unified team of more than 60 investment professionals.

While the teams have merged, the investment pools of both First State Super and StatePlus remain distinct, with their own investment strategies. You can be assured that your unique investment requirements will receive the same focus as before—the difference is that you now benefit from the combined resources and experience of a larger team.

### Experienced leadership

Chief Investment Officer Damian Graham, who has over 25 years' experience managing equity portfolios and investment teams, leads the combined team. He is supported by Michael Winchester, Head of Investment Strategy, and a strong leadership team of experienced professionals.



**Damian Graham**  
Chief Investment Officer

Both Damian and Michael have an extensive understanding of the unique needs of people in retirement, and how they need to invest differently.

Damian was the Chief Investment Officer of StatePlus from 2012 to 2016. Michael, who was with StatePlus from 2013 to 2017, is a highly-experienced specialist in the area of investment strategy. Michael has been pivotal in developing new approaches to investments across asset classes.

With the expertise of the unified team behind them, Damian and Michael play a significant role in managing your investments to achieve the best retirement outcomes for you.

*Damian and Michael have an extensive understanding of the unique needs of people in retirement, and how they need to invest differently.*

### A bigger investment pool

The team manages over \$86 billion in funds under management. This clearly creates new investment opportunities for the leadership team, who are responsible for assessing, implementing and monitoring a wide range of investment decisions.

The leadership team is accountable to the Boards of both StatePlus and First State Super.

Combining the teams has also created economies of scale and opportunities for new operational efficiencies. These have the potential to generate improved investment performance, and will enable us to tailor solutions more closely to the needs of clients.

### Specialist asset management teams

The asset management teams manage a wide array of investments across the range of asset classes, including equities, property, fixed income, alternatives, and cash, both in Australia and in international markets.

Under the new team structure, the specialist teams manage these investments according to strict guidelines to ensure they remain relevant to the long-term investment strategy, and perform in line with expectations.

### Strategy working hand in glove with operations

Michael Winchester's *Investment Strategy Team* is responsible for:

- assessing the performance of individual asset classes
- gauging the likely impact of factors such as global economic trends on future performance
- recommending an appropriate mix of asset types to meet our long-term objectives.

Supporting them all, the *Investment Operations Team* takes care of making new investments, monitoring and reporting on existing investments, and ensuring compliance with a wide range of operating requirements.



**Michael Winchester**  
*Head of Investment Strategy*

### New technology for a new time

We're introducing a number of new initiatives to improve our technology and diversify the way we manage particular assets.

A good example is a small group developing the capability to manage shares directly on the Australian Stock Exchange. Alongside our external investment managers, this will enable us to create more tailored investment strategies.

In 2017, First State Super became the first Australian super fund to obtain a Qualified Foreign Institutional Investor (QFII) licence from the Shanghai Stock Exchange. This facility allows us to invest directly into the Chinese domestic share market. Over time the StatePlus funds will also have access to investment opportunities in this exciting and dynamic economy.

*When it comes to investing for retirement, it's important to know that your investments are in the hands of experienced professionals.*

### A team you can rely on into the future

When it comes to investing for retirement, it's important to know that your investments are in the hands of experienced professionals. We've focused on developing a new combined investment team structure that we believe gives us the best combination of experience, technology and leadership talent to meet your investment needs and support you in achieving your income goals in retirement.



# Making your retirement dollars go further



*Many of us worry that we may not have enough money in retirement, but with the right approach to budgeting you can make the most of your money, now and for years to come.*

## Look for bargains on big-ticket items

Retiring gives you back the eight hours of your day that you used to spend working, so you can afford to spend some time looking for bargains. A few hours online comparing prices can make a huge difference to the amount you pay.

Take travel for example. There are some amazing discounts available, especially if you're flexible with dates, prepared to travel off-peak and book early. If you're travelling during school holidays with the whole family, consider caravan parks instead of booking multiple hotel rooms.

## Time with family is its own reward

About a third of retirees<sup>1</sup> rate shared experiences with kids and grandchildren as their favourite past-time, and you can create memorable family experiences without spending a lot. It's often the simple things that work best: enjoying a favourite picnic spot or a regular family lunch can feel just as special as dining out, particularly if everyone contributes by bringing food.

## Save on essentials

Day-to-day household expenses are a great place to look for savings. Through online comparison sites you can find better deals on essentials such as insurance, credit cards, loans, utilities and mobile phone plans.

## Supplement your income

You can earn extra money by selling unwanted items online or through social media. If going back to work has no appeal, pet-sitting, dog walking or babysitting can be a great way to supplement your budget and make new friends in your community.

<sup>1</sup> Research Backgrounder and Topline findings prepared by BlueChip Communication 7th September, 2017, page 6  
"Whether it's the City, Coast or Country the most pleasurable aspect of retirement is being able to spend time with family"



### 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](http://stateplus.com.au/contact) to send us your feedback.



[stateplus.com.au](http://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.

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