

Half Year ending 31 December 2018

Message from the CEO



We can't over-emphasise how important it is to stay invested and focused on your long-term financial goals.

While global economic conditions were reasonably strong in 2018, we did see falls on most global share markets towards the end of the year, causing challenges for investors. In this edition of 'Your Fund Update', our investment team reviews how financial markets performed last year and suggests what to look out for in 2019. We also highlight important changes to some of our products and investment options, and encourage you to take some time to read them.

Slower growth expected

If ever there was a year that demonstrated the risk of chasing past returns, it was 2018 – a year where financial markets were significantly influenced by geopolitical risks, trade tension, interest rates and oil prices. Together, these factors caused considerable uncertainty, which in turn contributed to ongoing volatility as markets reacted to the uncertainty.

Looking ahead, the Reserve Bank of Australia (RBA) has forecast around 3% GDP growth this year, with expected inflation of around 2% and unemployment of around 5%¹. While this is a reasonable set of numbers for the Australian economy, there are some concerns over the Australian housing market, compounded by an expectation that global growth will continue to slow.

In this environment, we can't over-emphasise how important it is to stay invested and focused on your long-term financial goals. Our financial planners are here to guide you through times like these, and are committed to supporting you in your retirement journey.

Evolving our products and services

We acknowledge that from time to time, we've fallen short of your expectations, as well as our own. We know you've been inconvenienced by some of our administrative processes and we're truly sorry for the impact these have on you.

My commitment to you is that we're constantly striving to do better. Over the past five years we've grown as an organisation. We remain firmly focused on delivering services that provide

the best outcomes for you. We've invested heavily in our digital capability and technology so you can access financial advice the way you want it, with many of our clients now enjoying the benefits of our secure website to manage payments online and securely transact on their investments.

The Royal Commission

After a year-long inquiry, the final report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was released in February 2019. At the heart of the issues and recommendations was reference to the ultimate responsibility of CEOs and Boards in determining an organisation's culture, alongside a willingness and ability to respond appropriately to client needs. We're now closely reviewing the findings in Commissioner Hayne's Final Report and will continue to support all initiatives that lead to greater transparency, confidence and security for our clients.

As always, if you have any questions, please don't hesitate to get in touch.

Graeme Arnott

Chief Executive Officer

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¹ Source: Reserve Bank of Australia, February 2019

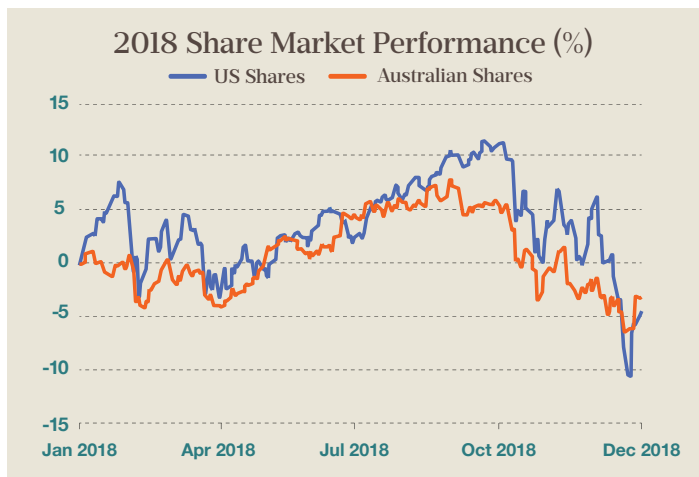
Market update – the year in review

2018 was a year characterised by volatility, and created a challenging environment for investors and the wider superannuation industry alike. Geopolitical tensions, trade wars and political fragmentation exacerbated the slowdown in global economic activity and magnified the impact of higher interest rates in the US. This led to negative returns in growth assets like shares, while more defensive income assets like Government bonds produced a positive return, providing a much-needed buffer for diversified investors.

Shares

Global

Global share markets rose strongly during the first three quarters, before stumbling on concerns for corporate earnings and trade tensions between the US and China. Several large companies, including Apple, Boeing and Caterpillar, suffered falls given their strong revenue ties to the Chinese market. And despite previously being market darlings, US technology companies also declined as the US government stepped up its inquiry into privacy and data collection practices. The S&P 500 finished the year down 4.4%.



Europe & Japan

In Europe, economic activity slowed considerably as the European Central Bank unwound its financial stimulus. With recurring concerns over long-term growth, the Eurostoxx 50 index fell by 12.0%. In Japan too, the share market fell. The 15.9% drop came as domestic growth softened and the currency strengthened, reducing offshore profits in Yen terms.

Emerging markets

Emerging-market shares were caught in the crossfire between higher interest rates in the US and slower growth in China. Returns were down 10.1% for the year in local currency terms. That said, Chinese policy makers announced a combination of tax cuts and measures to improve credit growth, which we expect will support the economy throughout 2019.

Australia

In Australia, the ASX 300 ended the year down 3.1%. It marked a period of significant weakness for the previously booming housing market. Consumer spending also fell. Bank earnings were challenged by softer property prices, reduced credit growth and concerns around the ongoing and well-publicised Royal Commission.

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The resources sector bucked the trend, recording steady earnings thanks to stabilising metal prices.

Fixed Income and Cash

Fixed income markets produced strong returns in Australia and globally as a result of the decline in longer-term bond yields. Inflation initially rose but later declined following a drop in oil prices. Returns for credit investments were negative as higher cash rates and concerns about the long-term economic outlook in the US saw investors move into less risky income assets.

Fixed income markets produced strong returns in Australia and globally.

In Australia, the Reserve Bank of Australia (RBA) held the cash rate steady at 1.5% in response to the weaker property market and reduced consumer spending. Only three months ago, markets were anticipating a rate increase in late 2019, but the deterioration in markets and economic data at the end of 2018 means the RBA is likely to remain on hold for a prolonged period, and could even cut rates further if conditions continue to decline.

In contrast, the US Federal Reserve (Fed) raised interest rates four times during 2018, reflecting strong growth in the US economy. That said, concerns over the impact of higher tariffs, along with higher interest rates, has brought pockets of stress to financial markets. Recent statements from the Fed suggest more flexibility towards interest rate hikes in 2019.

The Australian dollar

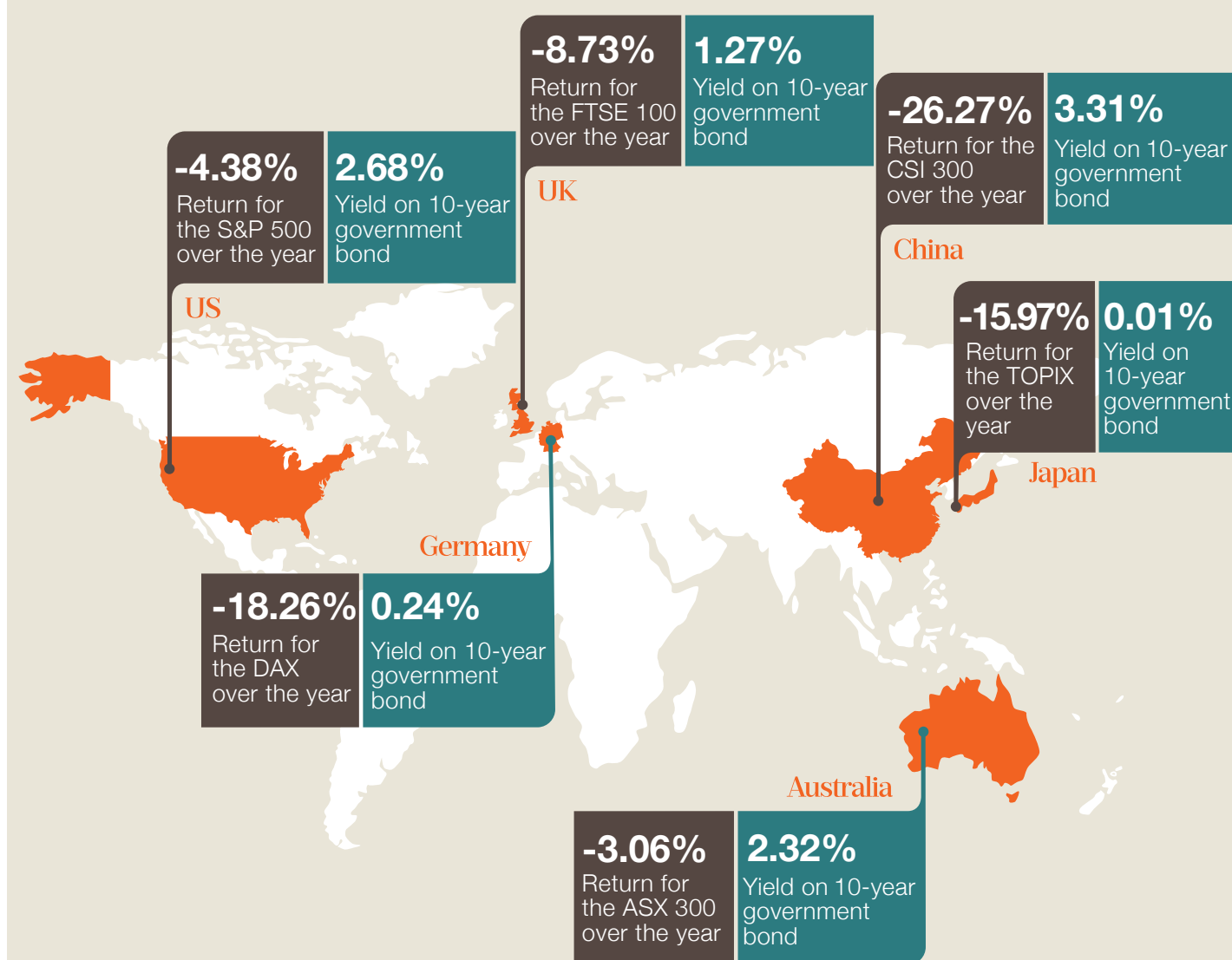
The Australian dollar (AUD) depreciated throughout 2018 in response to higher real interest rates in the US and investors' preference for 'safe haven' currencies during periods of uncertainty.

We expect the AUD to remain soft, which will be positive for exports and national competitiveness.

The AUD was down 9.7% against the USD, down 12.3% against the Yen and down 5.5% against the Euro. We expect the AUD to remain soft, which will be positive for exports and national competitiveness.

Investment market performance from around the globe

31 December 2017 – 31 December 2018



Market update – the year in review

Australian dollar vs US dollar

US\$0.7809

31 December 2017

US\$0.7049

31 December 2018

Annual returns on commodities

One year investment return

31 December 2017 – 31 December 2018



Gold

-1.5%



Oil

-19.5%



Copper

-17.7%



Iron ore

-2.4%

What to look out for in 2019



The year started out strongly with markets regaining some of the losses they incurred during the December quarter of 2018. Looking forward, we expect volatility will remain high during 2019, but are also hopeful that we will see resolution in some of the areas of uncertainty that have been concerning investors, including aspects of Brexit and the ability of China and the US to agree to a trade truce.

We're closely watching global policy makers to see whether they introduce renewed stimulus measures in response to the slowdown in economic growth. China has already announced interest rate cuts and tax relief. In the US, expectations for future interest rate rises in the near term have come down significantly, which is welcome news for investors.

Domestically, the upcoming federal election brings additional uncertainty and the ongoing impact of a cooler housing market on consumer spending remains a key focus.

It's during periods of uncertainty that a portfolio built on the foundations of diversification can shine, and StatePlus portfolios are purposefully built with a defensive bias. As ever, it's important to stay the course and focus on the long term when it comes to investing for income in retirement.

Be sure to talk to your financial planner if you're concerned about the volatile market conditions, or if you're unsure about your current strategy.

Making the transition

Work provides more than a financial benefit – there's the social interaction, daily routine and mental stimulation. The idea of a world where this doesn't exist can be quite daunting.

StatePlus has launched a **NEW** Transition to Retirement Pension (TRP) to help you ease into retirement. Remember that a transition to retirement strategy may not suit everyone so it's important to seek financial advice before you start one.

Transition to Retirement Pension

Continue working and supplement your cash flow



Receive a TRP income stream from your superannuation



Maintain control over your financial strategy and investments



Case Study 1 Replacing your income

Geoff is 60 and works full time. He uses salary sacrifice to build wealth tax effectively, while receiving an income stream from his super to top up his reduced take home pay.



Geoff works 5 days a week

\$80k salary



His employer pays 9.5% pa salary into super

\$7,600pa



He salary sacrifices into his super

\$17,400pa



He uses an income stream from super to supplement his income

\$12,000pa



Geoff's take home pay

\$62,047pa

Example assumes 4% drawdown on a \$300,000 TRP balance and uses 2018-19 tax rates.

Case Study 2 Supplementing your income

Mary is 62 and has reduced her working hours to 3 days a week so she has more time for hobbies, but she doesn't want to reduce her income.



Mary works 3 days a week

\$60k salary



Her employer pays 9.5% pa salary into super

\$5,700pa



She uses an income stream from super to supplement her income

\$25,000pa



Mary's take home pay

\$73,383pa

If Mary worked full time (5 days a week) her salary would be \$100k and her take home pay \$73,883 pa.

Example assumes 5% drawdown on a \$500,000 TRP balance and uses 2018-19 tax rates.

WHY a Transition to Retirement Pension?

- Choice of income levels (between 4% and 10% of your account balance).
- Potential to invest and grow your superannuation tax-effectively.
- An investment closely monitored by our specialists.

The rules



- A TRP income stream is non-commutable – you must satisfy a condition of release before you can convert it to a lump sum.
- The Government says you must withdraw a minimum 4% of your account balance each year, up to a maximum of 10%.
- You pay tax on your investment earnings at the concessional rate of up to 15%.

Get advice



- Starting a TRP before retirement may reduce your retirement wealth.
- An investment strategy to maintain growth while balancing contributions and withdrawals is crucial.
- So, seek financial advice about whether a TRP strategy might be appropriate for you.



Important changes to your super and pension

We recently made some important changes to some of our products and investment options in relation to asset allocation, return objectives and fees. These may have an impact on your account. Here we provide a summary of the key changes and encourage you to take some time to read the full details on our website. Go to stateplus.com.au/notices and click on 'StatePlus Retirement Fund – Important Changes – February 2019'. In this article we refer to this notice on our website as 'Important Changes'.

Return objectives

What's changed

Following a review by our asset consultant, we have lowered the CPI+ objectives for three of our diversified investment options.

- Capital Stable Fund
- Moderate Fund
- Balanced Fund

The return objectives for all other investment options remain unchanged.

Please refer to the Important Changes notice on our website for full details about the new return objectives.

Standard Risk Measures

What's a Standard Risk Measure

We've adopted the Standard Risk Measure (SRM), which is based on industry guidance to allow investors to compare investment options within and across super funds that are expected to deliver a similar number of negative annual returns over any 20-year period.

However, it's important to note that the SRM is only a measure of the estimated number of negative annual returns over a 20-year period and is not a complete assessment of all forms of risk. For example, it does not take into account the size of a potential negative return.

The SRM also does not take into account the impact of any fees and taxes that may apply on the likelihood of a negative return.

What's changed

A number of SRMs for our investment options have increased.

For more information please refer to the Important Changes notice on our website.

Strategic Asset Allocation (SAA)

Each of our funds has a medium to longer term target allocation of assets between the asset classes (called the strategic asset allocation for the fund), based on the investment objective of that fund. We may review and vary a fund's SAA or asset allocation range from time to time, consistent with the investment objective of the fund.

What's changed

We've made several changes to the SAAs across the StatePlus Retirement Fund.

- The High Yield Fixed Interest asset class is now called Credit Income.
- Credit Income is now allocated to the Income sector instead of Growth.
- We have increased our exposure to Credit Income for some investment options.

The table below shows the variation from the previous SAAs for the Credit Income, International Fixed Interest and Australian Fixed Interest asset classes, and the current and previous Target SAAs for Income assets and Growth assets for the Capital Stable, Moderate, Balanced and Growth investment options.

There are no changes to the SAA for other asset classes other than those outlined in the table below.

Fund	Credit Income	International Fixed Interest	Australian Fixed Interest	Income (Target SAA)		Growth (Target SAA)	
				New	Previous	New	Previous
Capital Stable	+2%	-	-2%	75%	75%	25%	25%
Moderate	+3%	-3%	-	62%	60%	38%	40%
Balanced	+4%	-4%	-	43%	40%	57%	60%
Growth	+2%	-2%	-	20%	15%	80%	85%

Fees and costs

What's changed

There have been some changes to our fees and costs to reflect the 2017-18 financial year and disclosure of additional information.

We've updated the variable components of fees and costs to reflect actual costs incurred for the 2017-18 financial year to comply with legislative requirements.

For more information please refer to the Important Changes notice on our website.

Complaints handling process

From 1 November 2018, a new body called the Australian Financial Complaints Authority (AFCA) became responsible for managing financial disputes, including superannuation complaints. If, for any reason, you're not satisfied with the advice or service you receive from StatePlus, you're entitled to make a complaint.

We have updated the complaints contact details for StatePlus.

Telephone 1800 620 305
8:15am to 8:15pm AEST (business days)

Email complaints@stateplus.com.au

Mail Complaints Manager – StatePlus
GPO Box 5336
Sydney NSW 2001

If you don't receive a satisfactory outcome to your complaint, you can lodge a complaint with AFCA. The contact details for AFCA are as follows.

Telephone 1800 931 678

Email info@afca.org.au

Mail Australian Financial Complaints Authority
GPO Box 3, Melbourne VIC 3001

Website www.afca.org.au



It's all a balancing act

When you reach retirement, your accumulated wealth is probably the most you'll ever have.

This reinforces the importance of having a robust financial plan that enables you to achieve your retirement goals while giving your money longevity.

Our primary purpose is to invest in a way that allows our clients to receive a steady income stream. Managing the investment risk, and only taking as much risk as you need, is key.

Staying the course

Maintaining a long-term mindset and sticking to your financial plan during periods of market volatility usually gives you the best chance of achieving your retirement goals. That's because investments naturally move up and down in value, and over the long term every investor should expect to experience both losses and gains.

The risk and return trade off

Our experience tells us retirees have a greater need for certainty and security around the risks they are taking, seeking assurance that they have a good balance of risk and return.

Experiencing poor investment returns around retirement can have a lasting effect on your savings. A big loss when your nest egg is at its largest, or making large withdrawals after a market fall, can significantly impact your long-term retirement savings. This is known as sequencing risk. As a general rule, **when** good or bad investment returns occur is almost as important as the **size** of your accumulated returns.

But investment risk is also an important driver of investment growth. For retirees, the emphasis is on making sure your money keeps up with the long-term cost of living, and doesn't run out, no matter what age you live to. With health and medical advances increasing life expectancy, this is now one of the biggest financial risks facing retirees.

Making the right choice

Less volatile returns have smaller 'dips' in market downturns and reduce the impact of sequencing risk. Managing this risk, while ensuring you have access to unique investment opportunities and sufficient long-term growth, is at the core of our investment approach.



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

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