

Half Year ending 31 December 2019

Message from the CEO



2019 was a very strong year for returns. Our strategy is to grow and achieve the scale that will allow us to invest in areas like retirement and advice, so you don't have to choose between doing well financially and doing good in the world.

It's been a challenging time for many of our clients, especially those in emergency services, protection services and healthcare, who have protected and supported our communities through the bushfires. I want to pay tribute to your tireless and inspirational work. It is truly an honour to serve you and all our clients.

We're also committed to doing well for you, and believe when it comes to superannuation, you shouldn't have to choose between doing well financially and doing good in the world.

Looking back...

2019 was a very strong year for investment markets, with the ASX 300 recording its best year in a decade.

I'm also proud of the positive impact we've had on the community with our investments.

- Over \$160 million invested in affordable housing for key workers, close to health and education precincts.
- The Sydney Light Rail, which is now open, and such a significant piece of infrastructure.
- The NSW Police Aviation facility being built at Bankstown Airport, which will provide a first-class police aviation wing for PolAir, part of the NSW Police Force.

There's been significant work on our climate change adaption plan to manage the risks and opportunities of climate change in our investments.

The bushfire crisis also brought climate change into focus and we positively integrate environmental, social and governance (ESG) principles across our investment portfolios.

- Developing an internal system for incorporating responsible investing factors into our investments, which awarded us the UN-backed Principles of Responsible Investing ESG Incorporation Initiative of the Year award.

- Investing directly in Snowtown 2, an operational windfarm in South Australia.
- Owning the largest US recycling bottle to bottle plant.
- Investing over \$2 billion dollars in clean energy and renewables.

Looking ahead...

The integration last year of StatePlus with First State Super means you now have access to one, streamlined advice service. You can now go online, speak to a planner over the phone, or meet in person about retirement and aged care, to prepare a will, or manage your insurance needs. A range of seminars and training partnerships are also available to enhance your financial wellbeing.

Our merger with VicSuper will go ahead from 1 July 2020.

A big, exciting year ahead

I'm pleased to confirm that our merger with VicSuper will go ahead from 1 July 2020, making us one of Australia's largest super funds, with over \$125 billion funds under management and over 1.1 million members.

We're committed to providing you with high-quality investment solutions for your retirement and our increased size and scale will allow us to access even more investment opportunities and help to drive down costs overall.

The goals of our members, the needs of our communities and the impact of our investments is what drives us. I look forward to continuing to serve you, our valued members.

Deanne Stewart

Chief Executive Officer

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Market update – the year in review

A surprising year for returns

Against a background of global geopolitical unrest, 2019 stunned many with strong investment returns across almost all asset classes.

Few people forecast the strong returns seen at the close of 2019. In Australia, the ASX 300 recorded its best year since 2009, up 18.8%, while in the US, the S&P 500 soared 28.9%. This surprised market commentators and was welcomed by superannuation members seeking retirement income.

Positive action reaped the rewards

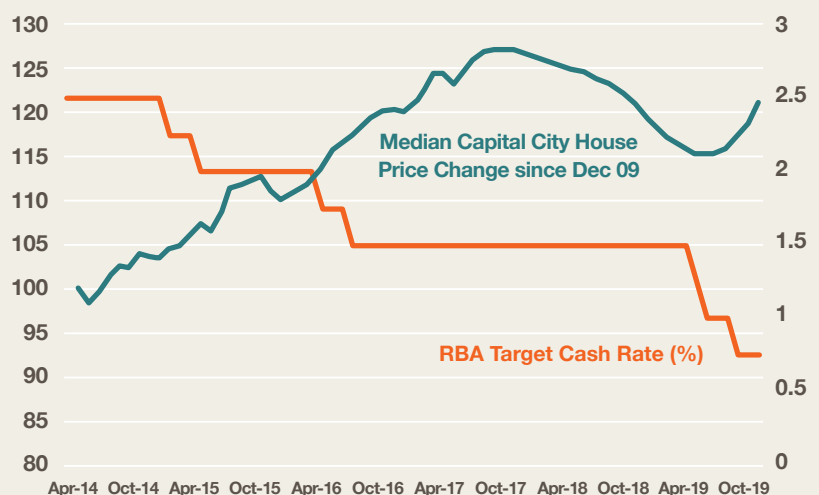
Playing centre stage in markets' outperformance were global central banks, which reacted to slowing global growth, stagnant inflation and US/China trade tension by making several rate cuts.

In Australia, interest rate policy came into sharp focus when the Reserve Bank of Australia (RBA) made three successive interest rate cuts to a new low of 0.75%. These cuts failed to reignite consumer confidence and had little impact on the RBA's targeted inflation rate of 2-3%. However, the rate cuts, together with a convincing Coalition election win in May, which removed prospects of housing tax changes, saw Australian house prices recover strongly across all our major capital cities.

Global central banks reacted to slowing global growth, stagnant inflation and trade tensions by making several rate cuts.

The rate cuts ... saw Australian house prices recover strongly across all our major capital cities.

Correlation between the falling cash rate and rising house prices



Source: CoreLogic and RBA

Talk of a potential trade agreement sparked a December bounce in equity markets.

This backdrop reinforces the importance of investing in a diversified portfolio to meet your retirement goals.

Global tensions with local implications

Over the six months to December 2019, the trade tensions between the US and China dominated global news headlines. When talk of a potential trade agreement finally eventuated in December, it sparked a bounce in equity markets.

In Europe, it was Brexit and the UK election which captured the most attention throughout the second half of the year. To the surprise of many weary observers, the ongoing uncertainty was partially resolved through the Conservative party's re-election and overall house majority, paving the way for Prime Minister Boris Johnson to successfully complete Brexit in early 2020.

Markets searching for certainty

The coronavirus has recently triggered a shift in investor sentiment. Until mid-January, investors were extremely optimistic, with share markets reaching highs not seen for several years.

But the problem for global markets is that investors like certainty.

Reports about the coronavirus, and the World Health Organisation declaration of this being a public health emergency on 30 January 2020, sparked international concern and uncertainty.



What it means for you

Many people's key financial assets such as their superannuation and their home are likely to have grown substantially over the last year.

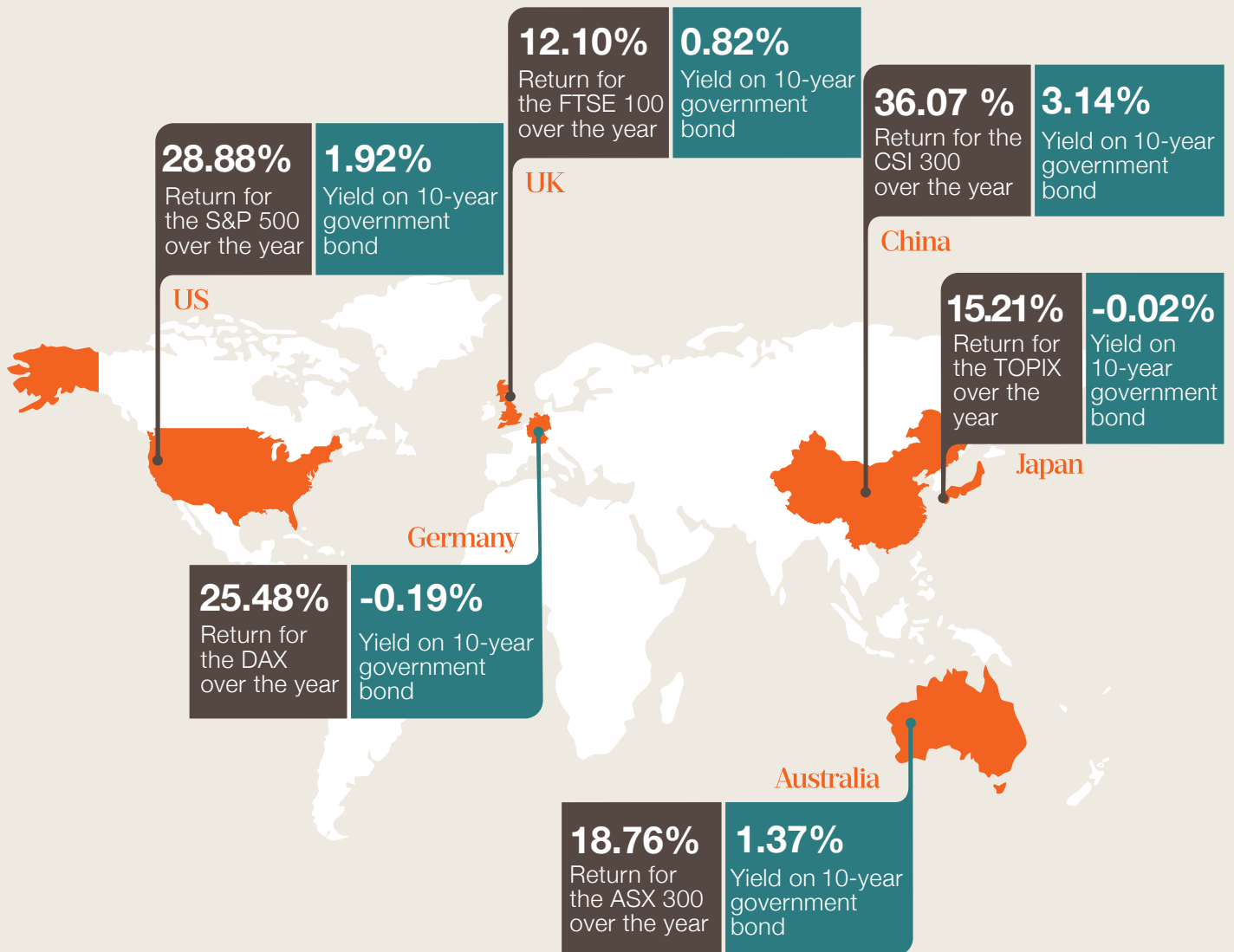
At the start of 2020, many global economists predicted a positive year, driven by emerging market countries like Brazil, Russia, India and China (BRICs). But economists now suggest the coronavirus could reduce first quarter Chinese GDP growth by between 0.5% and 1%. If current events do slow China's GDP growth, there's a risk this will have follow-on effects for other countries. Markets currently expect this to be a temporary impact and central banks are looking through these short-term effects, but uncertainty remains.

This backdrop reinforces the importance of investing in a diversified portfolio to meet your retirement goals.

Market update – the year in review

Investment market performance from around the globe

1 January 2019 – 31 December 2019



Source: Bloomberg, all returns are inclusive of dividends.

Australian dollar vs US dollar

US\$0.7049
31 December 2018

US\$0.7021
31 December 2019

Annual returns on commodities

One year investment return

1 January 2019 – 31 December 2019



Gold
18.31%



Oil
22.68%



Copper
3.50%



Iron ore
28.10%



Sustainable impact and secure returns

Investing in our first sustainability bond

As well as earning good returns for our members, we're committed to investing responsibly, so we have a positive and sustainable impact on the community.

We recently secured a \$250 million cornerstone investment in the inaugural NSW Treasury Corporation 2025 Sustainability Bond (the Bond). It's part of the NSW Sustainability Bond Programme, which generates funding to help build and improve infrastructure, and make communities more liveable.

How do you benefit?

A Treasury Bond gives exposure to a high quality, reliable income investment that generates a consistent stream of income for the Australian Fixed Income portfolio in the pre-mixed funds. At the same time, the Bond is used to invest in sustainable projects that support the communities of our members.

Investing in the future

The funds raised by the NSW state government through the sale of the Bond will be invested in the following green and social projects.



Five water projects with Sydney Water, which will help contribute to sustainable water and waste water management. Projects will include stormwater system infrastructure and the stabilisation of creeks with vegetation and plants.



Access improvements for people with a disability, limited mobility and parents with prams at 57 train stations and 12 ferry wharves across NSW.



Over \$500m for school projects in nine new schools and 19 school upgrades to provide up to 15,000 additional school places.



We are merging with VicSuper

Combining the two super funds will provide significant benefits to all our members.

This is an exciting announcement as this merger will offer considerable value to our members and our increased funds under management will allow us to be an even greater force for good in our members' communities.

The size of First State Super's and VicSuper's combined assets means we will become one of Australia's largest superannuation funds, managing \$125 billion in savings on behalf of more than 1.1 million members.

While we have agreed to merge, what we do won't change. We'll continue to engage with our members as we always have and continue our commitment to providing great services and advice.

More about VicSuper

VicSuper is a \$24 billion-strong profit-to-member superannuation fund with over 249,000 members. Like us, VicSuper is committed to investing members' retirement savings responsibly to generate long-term value and provide peace of mind through financial security in retirement.

We're both award-winning funds, committed to delivering good for our members and their communities. Both organisations share strong cultural alignment and have very similar values, centred around putting members at the heart of everything we do.

What does the merger mean for you?

This merger will enable us to deliver an even better deal for our members.

- Significant scale benefits, that can benefit members' retirement savings over the long term.
- Access to broader investment opportunities and increased diversification leading to cost savings over time.
- The ability to leverage the collective strength of education, advice and retirement solutions and the opportunity to provide great value and service to members.
- The capacity to develop innovative retirement income solutions to support our members to achieve better outcomes in retirement.



Who will be looking after your super?

Both First State Super and VicSuper have incredibly dedicated and knowledgeable teams that will be able to come together and continue to offer best in-class support to our members.

Following the merger, Board Director representation will reflect the membership composition of the merged fund. The Board will continue to reflect equal member and employer representation with Neil Cochrane as our independent Chair and 14 Directors, four of whom would be from VicSuper's nominating bodies.

First State Super's current CEO, Deanne Stewart will be appointed as CEO of the merged fund. VicSuper's current CEO, Michael Dundon will be appointed as Deputy CEO of the merged fund.



The size of First State Super's and VicSuper's combined assets means we will become one of Australia's largest superannuation funds, managing \$125 billion in savings on behalf of more than 1.1 million members.

Important changes you need to know



Fee changes and product updates

We're committed to providing high-quality investment solutions for your retirement.

We recently sent you a letter or email outlining changes we're making to our super and pension fees. There are also changes to return objectives, strategic asset allocations and standard risk measures for our investment options following our annual investment review for Super, Pension and Investment Funds.

To help you understand what's changing, we've put together a summary below.

Changes to Administration Fees – super and pension

From 1 April 2020, the Administration Fee will be deducted directly from your account.

- Annual administration fee of \$52.
- Asset-based administration fee of 0.20% of the amount you invest, capped at \$1,500 per annum (includes government costs and levies).

Changes to Investment Fees – super and pension

From 1 April 2020, the Investment Fee will be made up of three components.

1. Management fee – fixed at 0.00% to 0.20% per annum based on your chosen investment option.
2. Investment-related costs – payable for the investment management of your chosen investment option.
3. Performance-related costs – payable when certain investment managers exceed performance targets.

The new Product Disclosure Statement will be available from 1 April 2020 and will include the total fees and costs for the 2018-2019 financial year.

Updated investment objectives

We've updated the investment objectives for the single asset class options.

We're also changing the investment objectives for the super and pension diversified investment options, which will now be stated after taking into account fees, costs and tax over rolling 10-year periods.

Changes to the Strategic Asset Allocation from 1 April 2020

- We're consolidating the Alternatives sector to include credit income, property, infrastructure, private equity, hedge funds and real return strategies.
- Private equity is a new investment category for our super and pension products. These companies aren't listed on a stock exchange and typically need investment and expertise to support future growth plans.
- Fixed Income will include both Australian and International sectors.
- Enhanced Income (now Conservative Income) sits within the Cash sector.

You can read a more detailed description of all the changes as they apply to your product on our website at stateplus.com.au/notices under the Important Notices dated February 2020.



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.



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