

Financial Year ended 30 June 2019

## Message from the CEO

*Helping our clients achieve a sense of freedom and wellbeing through greater financial security is something we care deeply about.*



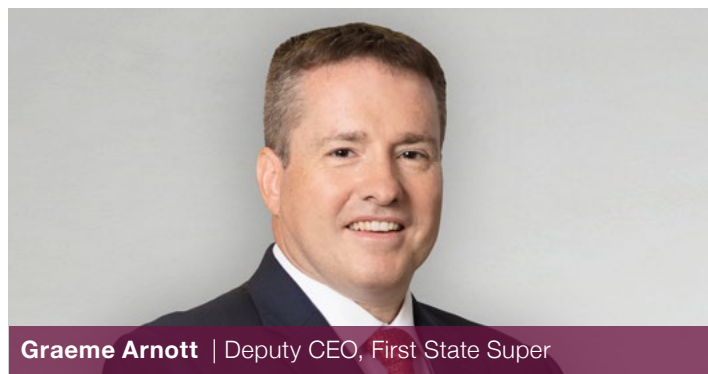
**Deanne Stewart** | CEO, First State Super

When First State Super and StatePlus combined forces in 2016, we created the largest member-owned financial advisory practice in Australia, with a network of over 200 financial planners and a combined asset pool now nudging A\$100 billion.

Our combined superannuation and advice business is run solely to benefit you and our other 800,000 clients around Australia. So what does this mean for you?

To deliver even better outcomes for our clients and maximise the benefits of our strength and scale, we integrated StatePlus into First State Super and transferred the members and assets of the StatePlus Retirement Fund to a new section within First State Super on 1 July 2019. Most StatePlus clients are now members of First State Super.

As the CEO of First State Super, I'm absolutely thrilled about the long-term benefits of this change. It's a significant step towards our goal of creating outstanding client experiences and ensuring we deliver long-term sustainable investment returns.



**Graeme Arnott** | Deputy CEO, First State Super

I'd like to thank Graeme Arnott for his outstanding leadership and enormous contribution as CEO of StatePlus over the last three years. And I'd like to congratulate him in his new role as

Deputy CEO, First State Super. Together we will continue to focus on the outcomes you want, and support you throughout your retirement journey.

We want to be Australia's most trusted choice for retirement, superannuation and advice. The financial services Royal Commission highlighted the importance of community expectations and placing the needs of the customer at the forefront of service design, development and delivery.

*By leveraging our size and scale, we're confident we can drive down costs for our clients and access a broader range of investment opportunities.*

I'm proud to say that First State Super's 'Members First' culture has always placed the needs of our clients at the heart of our business decisions. We're working closely with our national network of planners, reviewing and refining our approach, so we can deliver market-leading products and services, including aged care and estate planning advice, that give you the peace of mind, service and support you need, when you need it.

By leveraging our size and scale, we're confident we can drive down costs for our clients and access a broader range of investment opportunities. That's why we're currently exploring the benefits of a merger with VicSuper. Like us, VicSuper has a long heritage in the public sector. Our culture and values are very similar. We're both profit-to-member funds and we both have strong in-house financial planning services.

If we go ahead, this merger would make us the leading fund for retirement and great advice – helping our clients make the most of their retirement.

I look forward to bringing you more updates in the future.

**Deanne Stewart**

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# Market update – the year in review

*Global economic growth was fairly stable in the first half of the financial year, but increasing trade tension between the US and China took its toll on share markets. With business and consumer confidence falling, many central banks reduced their cash rate, providing greater support for the economy and for financial markets. Shares responded positively, reaching new highs, while both bond yields and cash rates finished the year lower.*

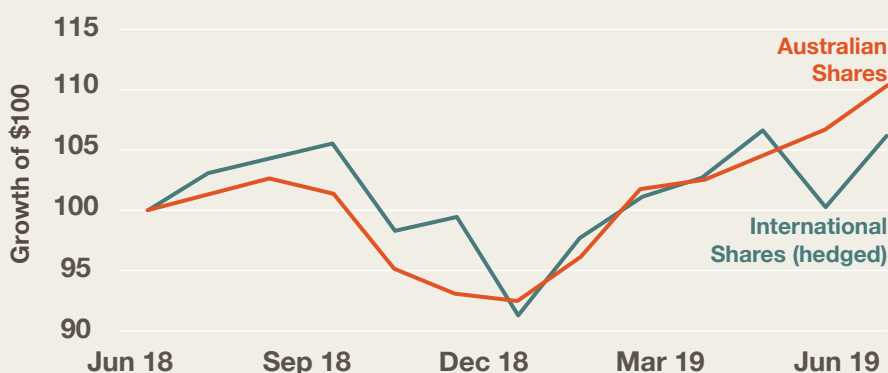
*US shares rose 10.4% in the 2019 financial year, while Australian shares were up 11.5%.*

## Shares

Although global share markets were up on average over the 12 months to 30 June 2019, there were several periods of heightened market volatility.

The US market was strongest, rising 10.4%, and analysts there expect earnings growth to be up 8-9% in the year ahead. This is potentially optimistic given the ongoing negative impact of the escalating trade war with China.

**Australian shares were up 11.5% in FY2019**  
**International shares were up on average 6.6%**



Source: StatePlus

*We've experienced the most severe fall in house prices in 10 years, with prices coming down 15% from their 2017 peak on a national basis.*

The fragile economic recovery in Europe was caught up in the slowdown in global trade, and the European Central Bank had to step in and pledge to provide further stimulus. European shares were subsequently up 6.5%. The UK remains in turmoil over Brexit, but a large component of the index is in global companies, so there's been less of an impact than you might expect on UK shares, which rose 1.6%.

Japan has been somewhat of a laggard, with a decline of -8.2% for the year. A stronger currency has negatively impacted its exporters.

Australian shares had a strong year, rising 11.5%. The best performing sectors were those with higher yields, as investors sought income-producing shares to compensate for lower interest rates.

We've experienced the most severe fall in house prices in 10 years, with prices coming down 15% from their 2017 peak on a national basis. The negative impact on the economy has been partially offset by an increase in government spending on infrastructure. A boom in iron ore prices due to supply interruptions in Brazil has also boosted the resources sector.

*The shift in interest rate expectations is a global phenomenon...cash returns remain in low single digits and are likely to fall lower.*

## Fixed Income and Cash

Responding to persistently low inflation, the Reserve Bank of Australia (RBA) cut the cash rate to a new low of 1.0% in July to support growth and drive the unemployment rate lower. This was the result of falling business and consumer confidence. The market anticipates one further rate cut in Australia before March 2020.

The shift in interest rate expectations is a global phenomenon, with around four interest rate cuts in the US expected over the next 12 months. As such, cash returns remain in low single digits, and are likely to fall lower, as central banks globally continue to take action to steady economic growth.

The yield on Australian government bonds has also come down considerably, falling a little over 1.0% to finish the year with returns of 9.6%. We're not alone though. Bond yields globally have come down as investors factor in weaker growth expectations and the likelihood that interest rates will have to stay lower for longer.

*With the RBA moving to cut rates here, our currency looks relatively less appealing to overseas investors.*

## The Australian dollar

The Australian dollar (AUD) declined against the USD, Euro, Yen and British Pound over the past 12 months. One factor that contributes to exchange rates is the relative attractiveness of interest rates, so with the RBA moving to cut rates here, our currency looks relatively less appealing to overseas investors. Another driver is commodity prices, and as they've been quite strong, the dollar probably held up better than it would otherwise have done.



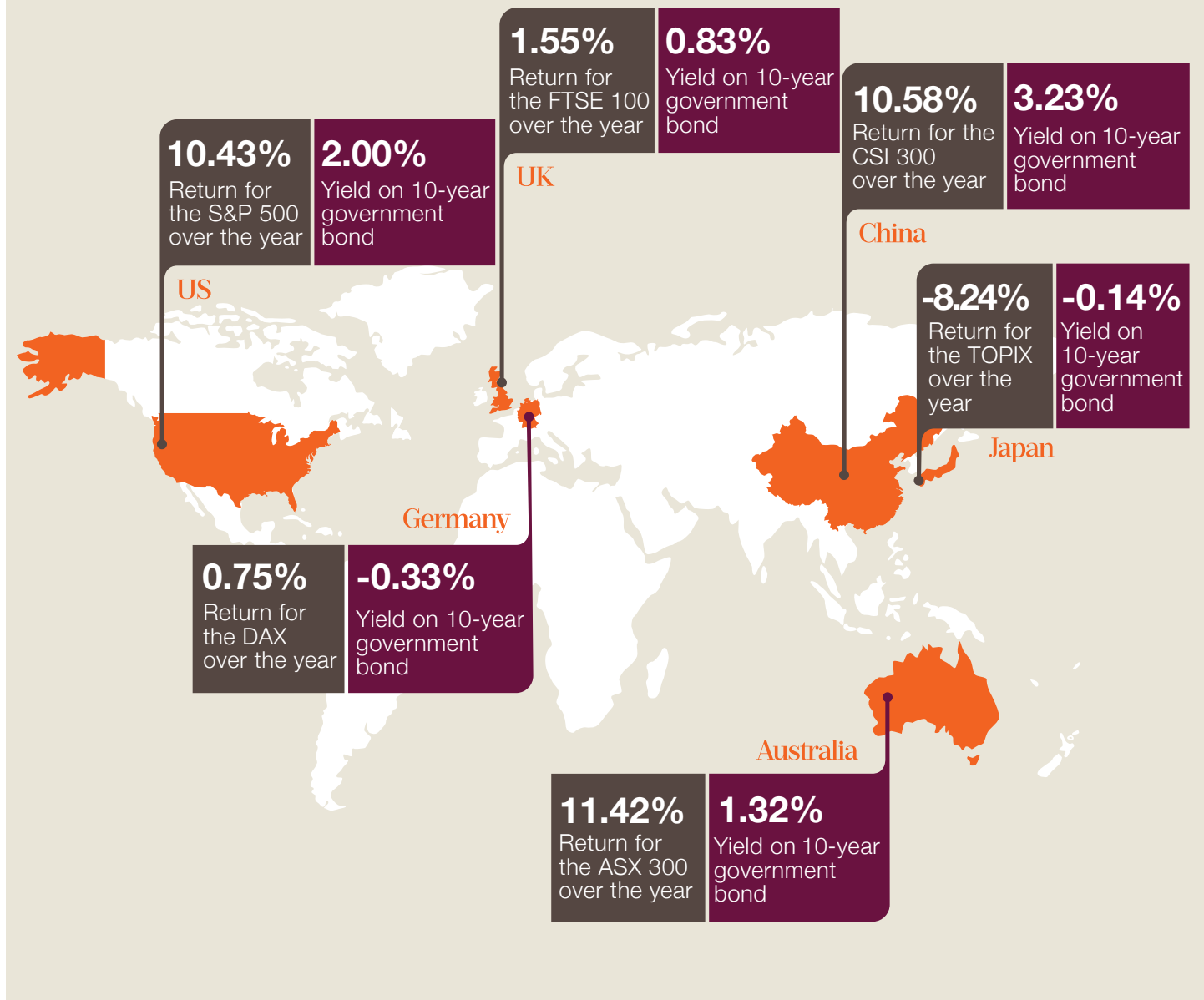
## What to look out for in the financial year 2020

- Inflation has been low globally, and most central banks are cutting cash rates. Markets are really not pricing in any chance of inflation returning, so if we were to see an upside inflation surprise, we might see prices for both shares and bonds head lower.
- It seems likely that US and China relations will remain tense, and while we're not giving up hope on a resolution on trade, we're expecting volatility in markets will be with us for some time.
- In Australia it does look as though house prices have stabilised, and with tax cuts and lower mortgage rates coming through, we're expecting consumers to spend a bit more, which should help boost growth.

## Market update – the year in review

# Investment market performance from around the globe

1 July 2018 – 30 June 2019



Source: Bloomberg, all returns are inclusive of dividends.

### Australian dollar vs US dollar

US\$0.7405

30 June 2018

US\$0.7020

30 June 2019

### Annual returns on commodities

One year investment return

1 July 2018 – 30 June 2019



Gold  
12.5%



Oil  
-21.1%



Copper  
-9.6%



Iron ore  
81.8%



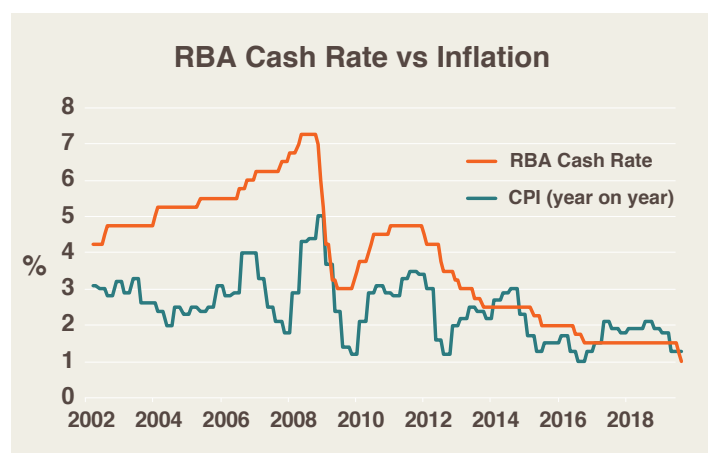


## Finding growth in a low interest rate environment

*Over the last 12 months, economic conditions around the world have slowed. In Australia, low growth and low inflation have left many investors searching for good investment returns, so we look at how you can maximise your investments in this difficult environment.*

### The inflation challenge

Inflation has been a concern for several years, and we've repeatedly fallen below the Reserve Bank of Australia's (RBA) target 2–3% band. The RBA's successive cuts to the cash rate in recent months are designed to steady economic growth and ensure long-term price stability and full employment, but this has mixed fortunes for investors.



### When cash isn't king

When you're retired, you typically have a lower-risk investment portfolio to reduce your exposure to volatile market movements. While cash has a role to play in offering a potential safe haven, it has its drawbacks when interest rates are low.

When the RBA reduces the cash rate, banks, building societies and credit unions usually follow with a cut to interest rates, which has a negative impact on any money invested

in savings accounts and term deposits. Based on current<sup>1</sup> interest rates, you would be receiving a rate of return that's lower than inflation – meaning your money is actually going backwards compared to the price you pay for everyday goods and services.

### The secret to building a successful portfolio

We expect returns over the next decade to be lower but we believe strong population growth and a continued infrastructure boom will support long-term growth in the Australian economy.

To find a return above the cash rate, you may need to explore alternative investment opportunities, which can mean accepting more risk and more volatility. But it doesn't mean putting all your hard-earned retirement savings at risk. Spreading your money across a range of different investments both reduces risk and balances out returns.

We diversify our portfolios by focusing on areas like international markets, property assets and infrastructure investments, and over the past decade, returns from a balanced portfolio like this have been positive for generating sustainable retirement outcomes.

### Know what's right for you

An investment strategy isn't 'set and forget'. With a continually changing investment landscape you need to feel confident that your strategy suits your financial goals.

A financial planner can help you ensure your investment portfolio is on track to help you to achieve your retirement goals.

<sup>1</sup> RBA cash rate of 1.0% as at 31 July 2019

# New super rules from 1 July 2019



*Superannuation rules change constantly and a number of new rules came into effect on 1 July 2019. We've summarised some of the key changes that may affect you.*

## Carry-forward concessional contributions

You can now carry forward up to five years of unused amounts of concessional (before-tax) contributions caps. This means you can make contributions into your super account using your unused concessional contributions from the previous five years, provided you meet certain conditions. Any unused amounts will expire after five years.

To qualify:

- your total super balance<sup>1</sup> must be less than \$500,000 on 30 June of the previous financial year
- you must not have used all your \$25,000 concessional contributions cap in the previous financial year.

Remember that if you're 65 or over, the normal work test rules also apply.

The five-year carry-forward period came into effect on 1 July 2018, but the 2019-20 financial year is the first year that you can make the catch-up contributions.

## No work test for first year of retirement

Good news for new retirees. From 1 July 2019, you don't have to meet the work test to make voluntary super contributions in your first year of retirement.

To qualify for the exemption, you must meet the following conditions.

- You've met the work test in the previous financial year.
- You have a total super balance<sup>1</sup> of less than \$300,000 as at 30 June of the previous financial year.
- You haven't used this exemption in a previous year.

## Changes to deeming rates

On 14 July 2019, the government announced changes to the deeming rates used by Centrelink when assessing age pension eligibility under the income test.

Under the test, you're 'deemed' to have earned income from your financial assets based on pre-set rates. It doesn't matter how much you actually earn on those assets.

For most of the last 20 years, this has benefited those retirees earning a good rate of return on their money because the deeming rates (assumed rate of return) were lower than their actual returns. But when official interest rates started to fall, so too did retirees' actual earnings. Many retirees were disadvantaged by this because their actual earnings started to fall below what they were deemed to be earning.

The recent change on 14 July 2019 aims to realign the rates. The lower rate is now 1%, which is much closer to the current<sup>2</sup> cash rate, and applies to the first \$51,800 for singles and \$86,200 for couples. The higher deeming rate of 3% applies to financial assets above these levels.

These changes have been backdated to take effect from 1 July 2019.

<sup>1</sup> Your total super balance is the combined amount of all your super funds in both the accumulation and retirement phase.

<sup>2</sup> As at the time of publication.



## New deeming rates from 1 July 2019

Your situation	Deeming rate
If you're single	1% on the first \$51,800 of your investment assets, plus
	3% on your investment assets over \$51,800
If you're a member of a couple and at least one of you receives a pension	1% on the first \$86,200 of your combined investment assets, plus
	3% on your combined investment assets over \$86,200

Source: Department of Human Services

*If you're unsure how these changes may affect you, speak to your financial planner. If you don't have a planner, you can contact us. Our financial planners have years of experience and will work with you on a financial plan to help you reach your goals.*

## New measures to 'Protect Your Super'

The government's new Protect Your Super package was introduced on 1 July 2019. It's designed to protect Australians' super accounts from being eroded by unnecessary fees and insurance premiums. Here are some of the key features.

### 1. Consolidation of inactive low-balance accounts

If you have an inactive\* super account with a balance less than \$6,000, we'll have to close the account and automatically transfer the balance to the Australian Taxation Office (ATO) by 30 April or 31 October each year. If you don't want this to happen, you need to contact us or your financial planner.

*\*An inactive account is one that hasn't received a contribution or rollover, changed investments or changed a binding beneficiary nomination for more than 16 months, has a balance of \$6,000 or less, and a condition of release has not been met.*

### 2. Cap on fees

If you have a small, active super account with a balance below \$6,000 at the end of a financial year, the changes ensure you won't pay more than 3% p.a. in fees.

### 3. Opt-in insurance for inactive accounts

From 1 July 2019, if your account has been inactive for 16 months and you haven't elected to obtain or maintain insurance in that super fund, your insurance may be cancelled.

### 4. All exit fees removed

All super funds are no longer allowed to charge any exit fees.

# Important update on your products and fees

On 1 July 2019, as a result of the successor fund transfer of the StatePlus Retirement Fund to the First State Superannuation Scheme, new Product Disclosure Statements (PDSs) were issued for the Flexible Income Plan, Tailored Super Plan, Transition to Retirement Pension, Allocated Pension, Term Allocated Pension and Personal Retirement Plan. Visit [stateplus.com.au/pds](https://stateplus.com.au/pds) to view the new PDSs. You can download a copy online or request a free paper copy by calling us on 1800 620 305.

The PDSs dated 1 July 2019 include updated variable components of fees and costs of our products to reflect *estimated* costs incurred for the 2018-19 financial year. This is because we couldn't provide actual amounts at the time the PDSs were issued.

We have now calculated the actual fees and costs for the 2018-19 financial year. You can view the latest fees on our website by visiting [stateplus.com.au/investments/products](https://stateplus.com.au/investments/products), selecting the relevant product, and selecting 'Fees' in the table at the bottom of the page. The fees you pay are also shown on your Annual Statement.





# More investment opportunities, better service

*To provide you with improved efficiency and greater investment opportunities, we've merged the StatePlus Retirement Fund and First State Superannuation Scheme (First State Super). We transferred members and assets of the StatePlus Retirement Fund to a new section within First State Super on 1 July 2019.*

Since First State Super acquired StatePlus in 2016, the two organisations have worked together to help everyday Australians make the most of their superannuation and retirement, through high quality, cost-effective investment solutions and tailored financial advice when they need it most.

## A new trustee

Following the merger of the two funds, FSS Trustee Corporation became the new trustee of the Allocated Pension, Term Allocated Pension, Personal Retirement Plan, Flexible Income Plan, Tailored Super Plan and Transition to Retirement Pension.

This means you're no longer a member of the StatePlus Retirement Fund. Instead, you are a member of First State Super.

## What this means

With the same team managing your investment, you can be confident you're in good hands.

- No change to your account details and client ID.
- No change to your benefits.
- No change to your pension payments (if applicable).
- No change to your beneficiary nominations.
- No change to the total fees that you pay (however the way your various fee components are disclosed has been improved).
- No change to how you receive your statements and reports.

## Significant benefits

We aim to provide you with the highest quality investment solutions for your retirement. By combining the StatePlus Retirement Fund with the First State Superannuation Scheme, we've created one of Australia's largest industry super funds. This increased scale will enable us to:

- access more investment opportunities for your funds
- provide you with a greater choice of investment options
- expand our range of services and digital tools.



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



[stateplus.com.au](https://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 and 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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