



# ANNUAL REPORT

## 2019 - 20

# MISSION

State Super's mission is to provide high quality superannuation services to members to maximise their superannuation benefits and to support the NSW Government in meeting its funding objective.

## 2019-20 HIGHLIGHTS

- The State Super Pooled Fund had assets totalling \$42 billion (excluding the Employer Sponsor Receivable) at 30 June 2020.
- The Pooled Fund's net investment revenue for 2019-20 was \$647 million.
- The Trustee Selection Strategy for the Pooled Fund earned net investment revenue that resulted in an estimated effective average rate of return credited to Crown employers of 1.6% (after adjustment for exempt current pension income tax). In addition, the Trustee credited a 1.5% return to members in the Growth Strategy (after tax). These performances were highly competitive relative to the universe of growth strategies offered by other superannuation funds.
- All portfolios have demonstrated strong resilience in an extremely challenging environment, preserving capital for members whilst ensuring liquidity to meet benefit payments. At 30 June 2020, net Fund assets (excluding the Employer Sponsor Receivable) covered 71% of accrued liabilities (actuarially measured using the assumed earning rate of the Fund).
- Key investment activities implemented include risk management strategies to navigate the impact of the Covid-19 pandemic on capital markets, robust review of investment objectives in light of the prevailing uncertain investment environment, enhanced emphasis on liquidity modelling of the Fund's liquidity requirements, extensive scenario testing as part of broadening out the Fund's risk management framework, and implementation of the newly articulated State Super Responsible Investment Policy.
- State Super has developed a multi-year strategy to explicitly address climate risk in the portfolios. This included working with specialist advisors to determine the impact on the strategic asset allocation under various scenarios. Analysis was also undertaken across all State Super's infrastructure and real estate assets to assess the exposure to climate risk, including heat stress, water stress, floods, sea level rise and hurricanes/typhoons.
- State Super delivered a successful 100-year anniversary program, engaging our members and key stakeholders including government, fund managers, suppliers and media. We also leveraged our anniversary to launch the State Super Academic Scholarship program.
- State Super's annual member satisfaction rating from the 2019/2020 survey remained consistently high at 7.9 out of a possible 10.
- Our member publications, such as SuperViews and PensionViews have been increasing in readership levels, indicating that members are engaging with the articles that are intended to inform and educate our members.
- We surveyed members on a suite of member beliefs that led to the articulation of Member Beliefs which have been well received by our broader membership. The Member Beliefs were launched across numerous channels to reach members and stakeholders and are being tracked via research to ensure they continue to meet our member needs and expectations.
- State Super launched a new and improved member website including a reengineering of the design, navigation and content. To align the improved member experience, we made significant design changes to the secure member login site where members can review their details.
- Nearly 2000 SASS and SSS members attended one of the 57 free education seminars/webinars on their schemes. The replacement of face to face seminars to an online reengineered version has been very successful with our members.
- We successfully oversaw Mercer during the migration of over 66,000 pension members to the new administration platform.

# Report to the Minister

October 2020

The Hon. Dominic Perrottet, MP  
NSW Treasurer  
GPO Box 5341  
SYDNEY NSW 2001

Dear Minister,

We have pleasure in submitting to you, for presentation to Parliament, the Annual Report of the SAS Trustee Corporation for the period 1 July 2019 to 30 June 2020.

The Annual Report contains reports for:

- SAS Trustee Corporation; and
- SAS Trustee Corporation Pooled Fund.

These have been prepared in accordance with the provisions of the *Annual Reports (Statutory Bodies) Act 1984*, the *Public Finance and Audit Act 1983*, associated regulations and the Treasurer's directions.

We look forward to working with you during the coming year.

Yours sincerely



**Nicholas Johnson**  
Chairperson of the Trustee Board  
SAS Trustee Corporation



**Claire Keating**  
Board member and Chairperson,  
Risk, Audit and Compliance Committee  
SAS Trustee Corporation

# Annual Report: 2019-20

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# Part A

## About State Super

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# A message from the Chairperson

## COVID-19 challenges and responses

My review of 2019/20 must start with an acknowledgement of the impact and consequences of COVID-19 on our members, all our various stakeholders, our service suppliers and the resulting difficult financial markets.

The Board sends sincere condolences to everyone whose lives have been affected by this serious and continuing pandemic.

The Chief Executive Officer's report discusses many of the specific resultant challenges which State Super has faced. I am delighted to state that the Board has been very pleased with the proactive responses by management throughout the year.

## Structure of the Chair's Report

I will comment on three important themes which the Board has concentrated on over the past year. These are, the consequences of the Banking Royal Commission, State Super's reliance on external service suppliers, and the much-heightened Board engagement with Responsible Investment issues.

## Consequences of the Banking Royal Commission

Often referred to as the Hayne Royal Commission, this inquiry highlighted multiple examples of poor practices and behaviours which were detrimental to customers' interests and which were common across the financial services sector. The Final Report set out recommendations in respect of expected standards that all financial service organisations should comply with in order to deliver service that the community should reasonably expect.

The State Super Board considered those recommendations very carefully and was determined to satisfy itself that the organisation meets or exceeds these benchmarks of community expectations. In that context the Board commissioned an independent review of Board performance and skills necessary to meet our statutory oversight obligations.

The Board approved a review of the organisation's full compliance with all the recommendations contained in the Hayne Final Report. The Board also approved an independent review of the organisation's compliance with the regulatory framework applied under the relevant Heads of Government Agreement ('HOGA') and satisfied itself that this framework was substantially similar to that applied by APRA to superannuation funds. Finally, the operating behaviour and culture within the organisation was re-examined through the regular staff survey.

These various independent reports have been thoroughly discussed by the Board, which is satisfied that State Super operates in a manner wholly consistent with the best-practices expected both by the Hayne Final Report and by the community.

Maintaining excellent governance will continue to receive high attention from the Board and Management.

## Reliance on external service suppliers

State Super has a high level of reliance on external service suppliers covering most elements of the fund's operations including registry and call centre services, custodial services, strategic financial advice, and asset management.

The benefits flowing to State Super from these outsourced arrangements include lower member costs as a result of substantial economies of scale in administrative services, access to world-class perspectives and advice on investment strategies, best-practice investment execution, and early access to latest technology advances.

The Board recognises that reliance on external service providers can bring associated indirect risks that are not always immediately evident, but which may have a negative impact on the overall business of State Super and, thereby, on members.

The Board and its Sub-Committees have devoted significant attention to regularly reviewing, and where necessary updating, the appropriateness of the contractual relationships with each service supplier. Specific issues regularly addressed include the status quo performance of service suppliers, their capacity to manage changes and upgrades in their systems supporting State Super, the depth and quality of talent committed to support the services delivered to State Super, and the level of proactive engagement by suppliers to help State Super evolve to best practices.

The Board and its Committees meet with senior officers from our material service providers to satisfy ourselves that the fund is receiving high quality, value for money services from organisations that share our core values and commitment to best governance practices.

## Board engagement with Responsible Investment

Responsible investing is commonly used to encapsulate such sensitive and high-profile issues as climate change, corporate treatment of their customers and suppliers, non-discriminatory work practices and governance, and meeting community expectations of best corporate behaviour.

These issues are at the very core of State Super's approach to business. With \$42 billion of assets, we are in a position to influence the responsible behaviour of companies in which we invest.

Our website gives much detail on the specific initiatives we have taken in respect of responsible investing. But given its central role in the Board's oversight of the fund it seems timely to summarise our overall approach.

The Board holds a strong belief in the need to make, and to monitor, the fund's investment decisions using

transparent, responsible environmental, social, and governance (**ESG**) criteria.

The Board believes that ESG criteria have a direct measurable impact on the value of assets held in the fund. Equally, the Board believes that the societal and ethical values reflected in the ESG criteria are important, should be carefully developed, and should be adhered to in our investment decisions.

The Board believes that our members and our stakeholders, including the NSW public sector employers and the NSW Government, hold similar strong commitment to responsible investing based on both the *values* underpinning ESG criteria and the potential impact on asset *value* from investing in companies with poor ESG standards.

### Board changes

Firstly, I'd like to extend gratitude to my fellow Directors for their dedication and support. This year there have been a number of Board changes.

The term of Employee Representative George Maniatis ended this year. I thank George for his valuable contributions.

I welcome Lisbeth Rasmussen and Stewart Little to the State Super Board. Lisbeth was appointed as an Employer Representative in March 2020 and has a long successful career in the funds management industry. Stewart was appointed as an Employee Representative in September 2019 and brings valuable public sector employment experience.

Finally, I would like to again acknowledge the outstanding work the State Super staff has undertaken every day of this challenging year on behalf of our members. Thank you.



Nicholas Johnson  
Chairperson  
October 2020

# Chief Executive Officer's report

There are no words to describe the impact of the SARS COV-2 Coronavirus, and its disease COVID-19, on our organisation and our members.

Our thoughts go out to all our members and everyone who has lost loved ones during this time. We grieve with you.

Our thanks go out to our members on the front-line including health service staffs, police, teachers and others in the service of our great state of NSW. We appreciate all your efforts and your diligence, holding the front line while the State is challenged by this pandemic. We stand with you.

And thanks also go to our staff, who have continued to work and deliver the member services and investment returns that our members need and expect. Adjusting to our new regime of working remotely, without any pause. We appreciate it.

## Our members

Our focus for the past year has been to enhance and improve the member experience. One aspect of this, is to ensure that our back-office systems are contemporary and up to the task. Mercer Administration Services (MAS) has agreed to transition IT systems to a new platform "Acurity", with the aim to provide improved back office operations, and lead to a better customer experience.

IT system transitions generally tend to be difficult, risky and poorly delivered. In our case, we have assertively managed the risk of this transition by instituting a formal governance structure (and Committee), bringing in experts from PwC to alert State Super of risk. Our management of risks has worked very well and has seen MAS migrate the nearly 67,000 pensioners successfully to the new platform. Further transitions are expected in 2021-22.

Nevertheless, the lockdown created severe stresses for MAS in working remotely, and our capacity to respond to member enquiries fell markedly. We have been working closely with MAS to rectify this, and as of the date of this report, most services have returned to normal.

After extensive member research we have articulated 5 Member Beliefs that reflect what we do every day in the interest of our members. In keeping with the Member Beliefs this was a year where we worked to minimise the impact to our members. Many would be familiar that the Annual CPI for Sydney was reported at -1% for the year ended 30 June 2020. And yet, the headline number belied the effects felt by pensioners. The composition of this Index includes items like child-care, which are less relevant for pensioners.

Our legislation clearly required us to pass this on to our pensioners, but following support of change by our Board, and extensive representations to government and other stakeholders, Parliament amended State Super's legislation for this requirement, and there was no decrease in pensions in October 2020.

## Our investments

Given that State Super's mission requires us to pay out more than we receive, a fall in financial markets disproportionately affects our portfolios. And yet, we need to deliver on aggressive return targets. This requires careful portfolio construction for growth, as well as an extensive portfolio downside protection to moderate the impact of market falls.

In this year of massive negative financial market returns in March and April, the downside protection worked as expected and significantly protected the portfolios such that our portfolios were never more than 3% negative on a financial year to date basis.

As at 30 June 2020, all portfolios recorded positive returns for the year, resulting in State Super being in the top 10\* funds in Australia, all the while taking significantly less risk. More importantly we maintained our target returns over each of our objectives, as shown in Part C.

## Commitment to meet all liabilities

State Super is working with the NSW Treasury to facilitate the Government's stated objective to fully fund the superannuation liabilities of the General Government Sector (excluding Universities).

The COVID-19 pandemic has placed unprecedented pressure on the State's finances over the medium term, however, in recognition of providing clarity to the Trustee about its obligations to its members and employer sponsors, the Treasurer has written to the Trustee reiterating the Government's commitment to achieving the objective of fully funding the State's defined benefit liabilities.

The Treasurer has further committed to maintaining an ongoing funding plan that will ensure all benefits continue to be paid when they fall due.

## Our staff

We have been working remotely since the middle of March but have implemented Covid-safe processes in our office, to allow people to work in the office where they wish to. Most importantly, we have actively supported our staff remotely, helping them with equipment, ergonomics of their home set-up and to focusing on their mental health. We have instituted frequent 'touch-base' calls and regular online all staff meetings.

Our technology has worked well, providing clear validation of the decisions we took over the last several years: to invest in remote solutions, to equip all staff members with laptops, and to move our operations to electronic processing.

## The future

Our priority now is to work our way to a recovery from COVID-19. Having said this, the work practices during this lockdown have reinforced my belief that flexibility in working pays off and it is inconceivable we will revert entirely to our old practices.

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\*SuperRatings End of Financial Year Performance

We are also working closely with MAS to ensure that the systems and processes to improve member services continue, and we will continue to be assertive to protect member interests.

Our team has been amazing, and I am proud of our culture. If there is one thing I hope to achieve going forward, it is to maintain the exemplary employee engagement, risk management and member first attitudes of our staff, while we transition to post COVID-19 'normal'.

### Environmental, Social and Governance (ESG) Risks

This year, in spite of all the challenges, we also implemented the next stage in our Responsible Investment approach. This entailed voting our shares, engaging with companies (with ACSI and TCorp) such as AMP and Rio Tinto to show our displeasure, and reporting the Climate Risk impact on our portfolios.

### Scholarship

I am also proud that we have now issued two Scholarships. The topics are :

- 'The exercise of voting rights by superannuation funds across different investment options', and
- 'Workplace Exit: Cause for Reflection'

Congratulations to both recipients! We are considering several more applications.

### Thank you

In closing, I want to thank all our people at State Super, our Board and Chairperson Nick Johnson, and our broader partners who work for our members: Mercer Administration Services, TCorp, JPMorgan, Frontier, Allianz, Aware Super, and our many suppliers.

What an extraordinary and challenging year it has been for everyone.



John Livanas  
Chief Executive Officer  
October 2020

## Overview of State Super

SAS Trustee Corporation (STC) is a statutory body representing the Crown and incorporated under the *Superannuation Administration Act 1996 (NSW)* (SA Act).

As trustee of four NSW superannuation schemes within the public sector, State Super oversees the:

- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- Police Superannuation Scheme (PSS), and the
- State Authorities Non-contributory Superannuation Scheme (SANCS).

### Assets

The State Super Pooled Fund, which comprises the assets of all four schemes, had net assets of approximately \$42 billion at 30 June 2020.

### Membership

With 96,180 members at 30 June 2020, a large portion of the membership has reached or is approaching retirement age. The State Super schemes are closed to new members.

The following table contains a summary of each scheme.

| State Authorities Superannuation Scheme (SASS) |  |
|--|--|
| Commencement                                   | 1 April 1988, under the <i>State Authorities Superannuation Act 1987</i> .   |
| Scheme eligibility                             | New employees in the NSW public sector were eligible to join the scheme and members of the Public Authorities Superannuation Scheme (PASS) were transferred to SASS from 1 April 1988.<br><br>By 1990, a number of other public sector superannuation schemes were closed and members were transferred to SASS. The schemes transferred included the State Public Services Superannuation Fund (SPSSF), the Transport Gratuity Scheme and the Government Railways Superannuation Fund, among others. |
| Closed to new members                          | 19 December 1992   |
| Members at 30 June 2020                        | Contributing members: 17,009<br>Deferred benefit members: 9,004<br>Pension members: 4,737<br>Total members: 30,750   |
| Financial position at 30 June 2020             | Net assets: \$12,104 million<br>Accrued benefits: \$14,194 million*<br>Unfunded liabilities: \$2,090 million   |
| Member benefits                                | Lump sum of employee contributions accumulated with earnings, plus an employer-financed, lump sum defined benefit based on final average salary or final salary, membership period and level of employee contributions.  |

| State Superannuation Scheme (SSS) |   |
|-----------------------------------|---|
| Commencement                      | 1 July 1919, under the <i>Superannuation Act 1916</i> .   |
| Scheme eligibility                | Salaried employees of the NSW public service and teaching service were eligible to join SSS, as well as a number of statutory authorities scheduled in the <i>Superannuation Act 1916 (NSW)</i> . |
| Closed to new members             | 1 July 1985   |
| Members at 30 June 2020           | Contributing members: 1,741<br>Deferred benefit members: 1,094<br>Pension members: 55,170<br>Total members: 58,005  |

\*Accrued benefits as measured by the actuary using the assumed earning rate of the Fund as the discount rate. Accounting standards require employers to report accrued benefits in their financial statements using a risk-free discount rate that results in a higher estimate of accrued benefits.

## State Superannuation Scheme (SSS) continued

|                                    |  |
|------------------------------------|--|
| Financial position at 30 June 2020 | Net assets: \$22,805 million<br>Accrued benefits: \$34,589 million*<br>Unfunded liabilities: \$11,784 million  |
| Member benefits                    | On retirement, a defined benefit (pension or lump sum), the amount of which depends on the number of units purchased. Members contribute towards fortnightly pension units throughout their membership. The number of units' members are entitled to contribute toward is determined by their salary.<br><br>Contributions that members make depend on their age, when the units were granted, the member's gender and, if female, whether they elected to retire at age 55 or 60. |

## Police Superannuation Scheme (PSS)

|                                    |  |
|------------------------------------|--|
| Commencement                       | 1 February 1907 under the <i>Police Regulation (Superannuation) Act 1906</i> .   |
| Scheme eligibility                 | Members of the NSW Police Service employed prior to 1 April 1988.  |
| Closed to new members              | 1 April 1988   |
| Members at 30 June 2020            | Contributing members: 649<br>Deferred benefit members: 79<br>Pension members: 6,697<br>Total members: 7,425                                    |
| Financial position at 30 June 2020 | Net assets: \$5,034 million**<br>Accrued benefits: \$7,621 million*<br>Unfunded liabilities: \$2,587 million                                   |
| Member benefits                    | On retirement, a defined benefit (pension or lump sum), the level of which depends on the member's final average salary and membership period. |

## State Authorities Non-contributory Scheme (SANCS)

|                                    |  |
|------------------------------------|--|
| Commencement                       | 1 April 1988 under the <i>State Authorities Non-contributory Superannuation Act 1987</i> .   |
| Scheme eligibility                 | Members of SASS, SSS and PSS.  |
| Closed to new members              | 19 December 1992   |
| Members at 30 June 2020            | Current active members: 19,399<br>Deferred benefit members: 9,633<br>Total members: 29,032   |
| Financial position at 30 June 2020 | Net assets: \$1,731 million<br>Accrued benefits: \$2,145 million*<br>Unfunded liabilities: \$414 million   |
| Member benefits                    | SASS, SSS and PSS members receive the SANCS benefit in addition to their main scheme benefit.<br><br>The SANCS benefit is 100% employer funded. The benefit is generally a lump sum of up to 3% of members' final salary or final average salary, for each year of service from 1 April 1988 (or, if later, the employment commencement date).<br><br>Members may also be eligible for the Additional Employer Contribution (AEC), an accumulation style superannuation benefit. |

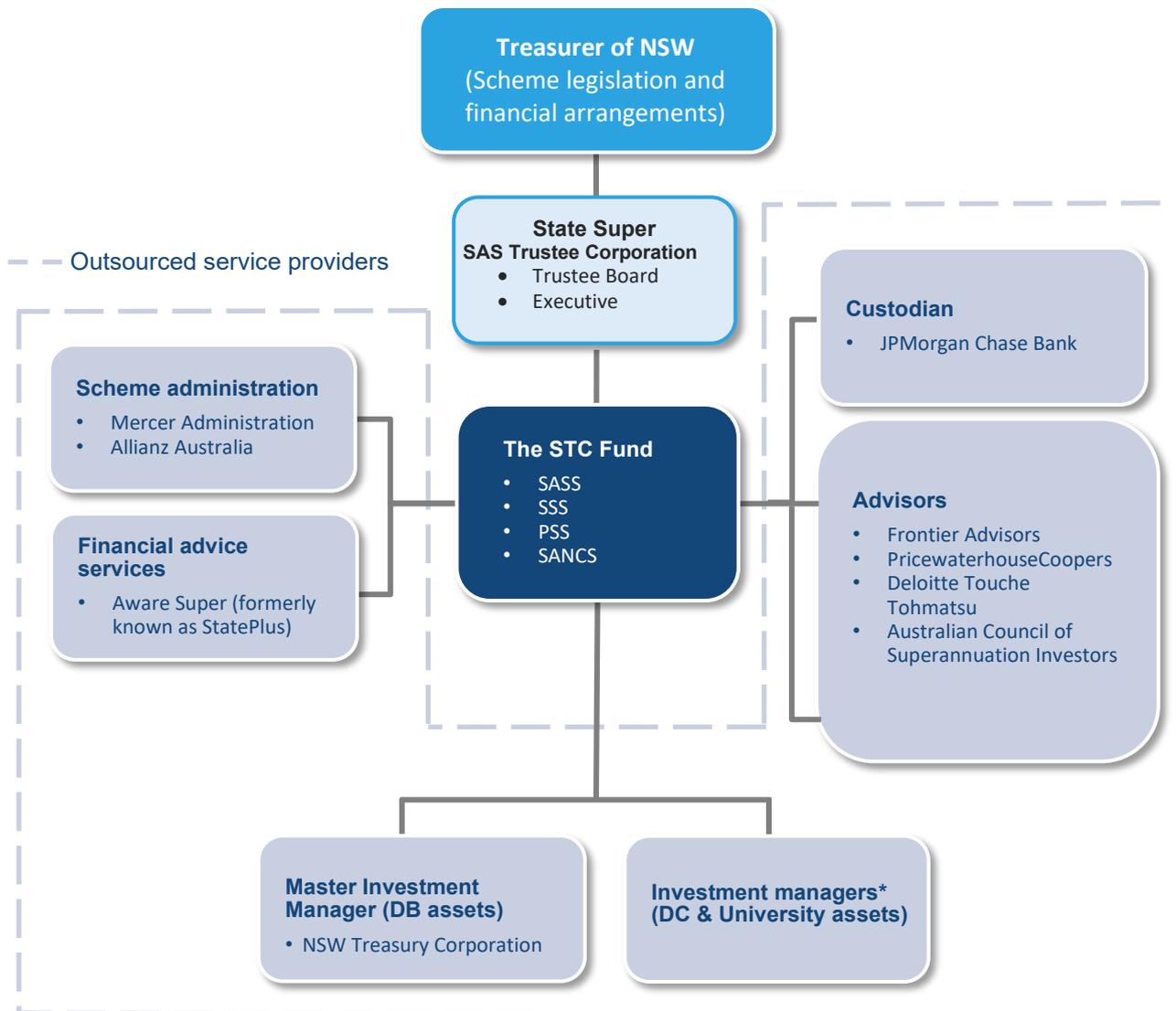
\*Accrued benefits as measured by the actuary using the assumed earning rate of the Fund as the discount rate. Accounting standards require employers to report accrued benefits in their financial statements using a risk-free discount rate that results in a higher estimate of accrued benefits.

\*\*Excludes Employer Sponsor Receivable

## Organisational structure

State Super operates under the *Superannuation Administration Act 1996* (SA Act) which establishes its functions, duties, powers and obligations. The SA Act also specifies requirements regarding Trustee Board composition and appointments. The minister responsible for the administration of the SA Act is the Treasurer of NSW, who also has powers to monitor the operations of State Super.

State Super's operational arrangements at 30 June 2020 are set out below:



\* Refer to pages 46, 47 and 48 for a full list of investment managers at 30 June 2020.

# Trustee Board

## Function and role of State Super

The principal functions of State Super as set out in s.50(1) of the SA Act are to:

- administer the State Super schemes
- invest and manage the Pooled Fund
- provide for the custody of the assets and securities of the State Super schemes
- ensure that benefits payable to persons entitled to receive benefits under the State Super schemes are paid in accordance with the Acts under which the schemes are constituted
- determine disputes under those Acts
- exercise such other functions regarding the State Super schemes and the Pooled Fund as the Minister may, from time to time, approve by order in writing.

State Super is required by the SA Act to outsource the following principal functions for the State Super schemes:

- superannuation scheme administration services
- superannuation investment management services
- custodian services.

Under s. 69(5) of the SA Act the State Super Board (the Trustee Board) manages and controls the affairs of State Super. The role of the Trustee Board extends to strategy, corporate governance, risk management, policy making and monitoring. Accordingly, the Trustee Board is responsible for:

- monitoring the State Super schemes and the Pooled Fund, including the control and accountability systems
- appointing and removing the Chief Executive Officer
- providing input to, and final approval of, the long-term strategy for the State Super schemes and annual Corporate and Business Plan
- approving and monitoring the annual budget and any extraordinary expenditure
- approving and monitoring State Super's risk management, compliance and control systems and policies
- approving and monitoring policies and procedures for the management of the Fund, including:
  - business plans, policies and processes for the proper direction, control and performance measurement of the Fund
  - standards to assess the performance of State Super's service providers
- setting the objectives, strategies and risk for investments, approving major investment decisions and monitoring and assessing investment performance
- approving and monitoring State Super's governance procedures for the Trustee Board and the staff of State Super, including work health and safety, and the Code of Conduct and Ethics
- monitoring the performance of the Pooled Fund, the Trustee Board's activities, State Super management and State Super's service providers.

Trustee Board members are remunerated in accordance with the NSW Government's Classification and Remuneration Framework for NSW Government Boards and Committees.

## Trustee Board member profiles

### Nicholas Johnson – Chairperson

**Appointed June 2015; reappointed June 2019**

Mr Johnson has extensive experience in financial services management in Australia and overseas. He retired from Barclays Capital in 2012 after serving as Chief Executive Officer for Australia from 1998 to 2009 and as Managing Director, Senior Relationship Management. He had previously held senior positions with the Commonwealth Bank, Morgan Stanley, and Credit Suisse. His financial sector experience includes roles as Head of Operations and of IT systems development in major investment banks as well as extensive involvement with investing in Unlisted Asset sectors.

Mr Johnson is a member of the NSW Generations Fund Advisory Board. His previous appointments include Chairman of Pillar Administration (a provider of administrative services to the superannuation industry, including to State Super), Chairman of the National Art School, Chairman of The Sydney Institute and an Advisory Board Member of the North-West Rail Link project.

Mr Johnson holds a Master of Arts from Oxford University and is a Member of the Australian Institute of Company Directors.

### Carol Austin – Employer Representative

**Company Director**

**Appointed June 2018**

Ms Austin has over thirty years' experience in the finance industry and is currently a Non-Executive Director of HSBC Bank Australia Ltd and the Grattan Institute, Chairman of the ACT Investment Advisory Board and a member of the Investment, Audit and Risk Committee of the General Sir John Monash Foundation.

Ms Austin's past directorships include the Future Fund and the Tasmanian Public Finance Corporation. She has also served on the advisory boards of the Australian Office of Financial Management and the Melbourne Institute of Applied Economic and Social Research. Ms Austin was also a Commissioner with the NSW Independent Planning Commission.

Ms Austin's executive career included economic research/senior management roles with the Reserve Bank of Australia, BHP and Contango Asset Management.

Ms Austin holds a Bachelor of Science from Monash University and a Bachelor of Economics (Hons) from ANU. She is a Fellow of the Australian Institute of Company Directors.

### Catherine Bolger – Employee Representative

**Professionals Australia**

**Appointed September 2015; reappointed October 2019**

Ms Bolger has extensive experience as a professional trustee director, having served on a range of industry fund and related boards for the last 15 years. She is currently a Director of Professionals Australia and the President of the Australian Institute of Superannuation Trustees and a trustee of Unions NSW.

Ms Bolger is also non-executive Director of Powercoal Employees' Entitlements Fund and was a member of the Insurance in Superannuation Industry Working Group, responsible for developing the Insurance in Superannuation Voluntary Code of Practice.

Ms Bolger holds a Bachelor of Economics and a Master of Labour Law and Relations from the University of Sydney, an RG146 Qualification and Super Springboard Level 1 from the Australian Institute of Superannuation Trustees. She is also a Graduate Member of the Australian Institute of Company Directors.

### Alex Claassens – Employee Representative

**NSW Rail, Tram and Bus Union**

**Appointed November 2012; reappointed November 2016**

Mr Claassens has been on our board since 2012 and is the Chair of the Member Services Committee, Chair of the HR & Nominations Committee and appointed Deputy Chair of the Police Superannuation Advisory Committee (PSAC). He is currently the State Secretary and National Executive Member of the NSW Rail, Tram and Bus Union, Director of Australian Mutual Bank and is an Elected Director of Transport Heritage NSW where he is the Deputy Chair of the Transport Heritage Board and is also the Chair of its Safety Committee. He has a passion for the transport industry, having begun his career driving trains on the NSW rail network.

Mr Claassens is an experienced board member having held numerous positions in the Mutual Credit Union sector and has been involved in several mergers. He is currently serving on the Board of Australian Mutual Bank and as a member of its Risk Committee. Mr Claassens has been part of the Sydney Alliance Community Building Board since 2013. He is a member of the Australian Institute of Company Directors, Australian Institute of Superannuation Trustees and the Association of Superannuation Funds of Australia.

Mr Claassens still drives passenger trains and heritage steam locomotives on a regular basis.

### **Swati Dave – Employer Representative**

#### **Company Director**

**Appointed May 2016; reappointed May 2019**

Ms Dave is the Managing Director and CEO of Export Finance Australia (formerly known as Export Finance and Insurance Corporation). She is an experienced senior banking executive and non-executive director with an established track record of successfully leading and growing complex P&L businesses in Australia, the UK, Hong Kong and Singapore.

Ms Dave has over 30 years' banking and finance experience across a number of sectors including infrastructure, energy and utilities, renewable energy and property. She has held senior positions at National Australia Bank, Deutsche Bank, AMP Henderson Global Investors, Bankers Trust and Westpac.

Ms Dave currently serves on the board of Asia Society Australia and the Advisory Board of the National Foundation for Australia-China Relations. She has served as a former director of Australian Hearing, Great Western Bancorp Inc. (USA) and the NAB Wealth Responsible Entities Boards.

Ms Dave holds a Bachelor of Commerce from the University of Newcastle and is a Graduate Member of the Australian Institute of Company Directors and the Australian Institute of Superannuation Trustees.

### **Claire Keating – Employer Representative**

#### **Company Director**

**Appointed November 2016; reappointed November 2019**

Ms Keating is an experienced non-executive director and independent consultant with over 30 years' experience in superannuation and funds management.

Ms Keating is a director of Australian Super, Charter Hall Direct Property Management Limited, Victorian Managed Insurance Authority and Yooralla (Disability) and is a Board Member of the Judicial Commission of Victoria.

Ms Keating was formerly a registered company auditor and partner of PricewaterhouseCoopers (2002-2016) and her roles at PwC included leadership of the Melbourne Financial Services Assurance practice and as National leader of the Investment Management Assurance practice. She is also a former director of the PwC Superannuation Fund.

She holds a Bachelor of Business (Accountancy) from RMIT, a Diploma in Superannuation Management from ASFA and Macquarie University, is a Chartered Accountant and a Graduate Member of the Australian Institute of Company Directors.

### **Stewart Little – Employee Representative**

#### **Public Service Association of NSW**

**Appointed September 2019**

Mr Little has represented the interests of public sector workers for more than 18 years. He understands the workings of government and has excellent relationships with ministerial and department staff, most recently providing leadership to the Public Service Association executive and senior management teams.

Mr Little was previously Senior Industrial Officer, and Industrial Officer for the Public Service Association of NSW (PSA). In 2016 he was elected General Secretary and is now responsible for the industrial representation of more than 39,000 public sector employees. Prior to that, Mr Little also held senior roles with the Police Association of NSW. Mr Little has a Bachelor of Applied Science in Information Science from the University of Technology Sydney.

**Tony O’Grady – Employee Representative**  
**NSW Nurses and Midwives’ Association**  
**Appointed June 2013; reappointed September 2017**

Mr O’Grady has over 11 years’ experience as a trustee director. In addition to his role as an employee representative on State Super, he served as a Director for Private Hospitals Superannuation Pty Limited – the Trustee for the Health Industry Plan – between 2005 and 2010 and also as a Director of StatePlus (now known as Aware Super) between May and November 2015.

He has more than 30 years’ experience in the union movement, having worked for the New South Wales Nurses and Midwives’ Association between 1987 and 2018. He worked as an organiser, industrial officer, team manager and projects manager. In 2004 he moved into administrative roles, initially as Manager Administrative Services, and from August 2006 to August 2018 as Manager Projects and Compliance. This latter role included responsibility for managing budget and audit.

He served on the Risk and Audit Committee whilst a Director of HIP and has been a member of State Super’s Risk Audit and Compliance Committee since December 2014.

Mr O’Grady holds a Graduate Diploma in Employment Relations from the University of Technology, Sydney and a Certificate in Nursing, which he completed at Royal North Shore Hospital.

**Lisbeth Rasmussen – Employer Representative**  
**Company Director**  
**Appointed March 2020**

Ms Rasmussen is a senior investment professional who brings to the board more than 30 years’ experience in managing large, complex funds. During this period Ms Rasmussen has held the following senior roles: CIO, Deputy CIO, Head of Strategy, Investment Manager, Investment Advisor and Economist in Europe and Australia.

For much of her career, Ms Rasmussen worked with State Super and its predecessors, before retiring as CIO in 2016, and was instrumental in establishing the principles that underpin the portfolios.

Ms Rasmussen sits as CIO for the Coal Mining Industry (Long Service Leave Funding) Corporation where she is responsible for overseeing their investment portfolio. She is also a former Director of Equisuper and Togethr Trustees, which was formed following the joint venture between Equisuper and Catholic Super.

Ms Rasmussen has an economics degree from the University of Copenhagen and a M.Sc. from the University of Bath in Development Studies and is a graduate of the Australian Institute of Company Directors.

**Former Trustee Board members**

**George Maniatis – Employee Representative**  
**NSW Fire Brigade Employees’ Union**  
**Appointed September 2015; term ended September 2019**

Mr Maniatis was the Senior Industrial Officer for the Fire Brigade Employees’ Union (FBEU) of New South Wales, from 2009 to 2019. He has over 25 years’ experience in the union movement, mainly as an Industrial Officer and advocate appearing before State and Federal industrial tribunals and courts.

Mr Maniatis was involved in the creation and establishment of NSW Fire Brigades Superannuation Pty Limited, the corporate trustee of the NSW Fire, Death and Disability Super Fund, including drafting the trust deed on behalf of the FBEU, and was the union-nominated Director of the Trustee from 2005 to 2007.

Mr Maniatis holds Bachelor of Economics and Master of Labour Law and Relations from the University of Sydney, and a Bachelor of Laws from the University of Technology, Sydney. He was admitted as a legal practitioner of the Supreme Court of New South Wales in 2003.

## Trustee Board membership and meeting attendance

The Trustee Board consists of a Chairperson, four employer representatives and four employee representatives nominated by Unions NSW. All Trustee Board members are appointed by the Minister on a part-time basis.

Trustee Board memberships and the current term of appointment for each member during the 2019-20 reporting period are listed in the table below.

|                                      | Appointed   | Term end date | Meetings attended during 2019-20<br>(actual / possible) |
|--------------------------------------|-------------|---------------|---|
| Mr N Johnson ( <i>Chairperson</i> )* | 26 Jun 2015 | 25 Jun 2023   | 8 / 8   |
| <b>Employee representatives</b>      |             |               |   |
| Mr A Claassens                       | 5 Nov 2012  | 4 Nov 2020    | 7 / 8   |
| Mr T O'Grady                         | 14 Sep 2017 | 13 Sep 2021   | 8 / 8   |
| Ms C Bolger*                         | 25 Sep 2015 | 16 Oct 2023   | 8 / 8   |
| Mr G Maniatis*                       | 25 Sep 2015 | 24 Sep 2019   | 2 / 2   |
| Mr S Little*                         | 30 Sep 2019 | 29 Sep 2023   | 6 / 6   |
| <b>Employer representatives</b>      |             |               |   |
| Ms C Austin                          | 28 Jun 2018 | 27 Jun 2022   | 8 / 8   |
| Ms L Rasmussen*                      | 12 Mar 2020 | 11 Mar 2024   | 3 / 3   |
| Ms S Dave                            | 26 May 2016 | 25 May 2022   | 5 / 8   |
| Ms C Keating*                        | 10 Nov 2016 | 4 Nov 2022    | 8 / 8   |

*The full-time employee representative position was vacant at 30 June 2014 and has been filled by a part-time board position.*

*\*During the year:*

- *Ms Bolger's term as Employee Representative expired on 24 Sep 2019 and was reappointed on 17 October 2019*
- *Mr Maniatis' term as Employee Representative expired on 24 Sep 2019*
- *Mr Little was appointed as Employee Representative and Ms Rasmussen as Employer Representative*
- *Ms Keating was reappointed as Employer Representative*

## Trustee Board and other committees

### Investment Committee members during the reporting period

Ms Austin, Ms Bolger, Ms Rasmussen and Mr Johnson (Chairperson). Members of the executive and other invited visitors attend committee meetings.

#### Purpose

The purpose of the Investment Committee includes:

- supporting the Trustee Board in determining and effecting the investment objectives and strategy
- monitoring the appointment or termination of investment managers for Pooled Fund investments, reviewing their performance and monitoring asset allocation
- receiving other information as may be required to improve the investment management decisions of State Super
- monitoring the asset and risk profile of the investment options so that they align with the investment strategy.

### Meetings attended during 2019-20

| Member                     | Attendance actual / possible |
|----------------------------|------------------------------|
| Mr N Johnson (Chairperson) | 5 / 5                        |
| Ms C Austin                | 5 / 5                        |
| Ms C Bolger                | 5 / 5                        |
| Ms Rasmussen*              | 3 / 3                        |

\*Ms Rasmussen was appointed to the Committee on 12 March 2020

### Risk, Audit and Compliance Committee members during the reporting period

Ms Keating (Chairperson), Ms Bolger, Ms Dave and Mr O'Grady.

Members of the executive, the Audit Office of New South Wales (and their delegates), the internal auditor and other invited visitors also attended committee meetings.

#### Purpose

The purpose of the Risk, Audit and Compliance Committee is to provide independent assistance and advice to the Trustee Board on State Super's:

- risk management, internal and external control frameworks and compliance framework
- internal and external audit, actuarial matters
- financial reporting and accountability.

### Meetings attended during 2019-20

| Member                     | Attendance actual / possible |
|----------------------------|------------------------------|
| Ms C Keating (Chairperson) | 5 / 5                        |
| Ms C Bolger*               | 4 / 5                        |
| Ms S Dave**                | 1 / 1                        |
| Mr T O'Grady               | 5 / 5                        |

\*Ms Bolger stepped down from the Committee effective 13 June 2020.

\*\* Ms Dave was appointed to the Committee effective 10 June 2020.

## Member Services Committee members during the reporting period

Mr Claassens (Chairperson), Ms Dave, Mr Maniatis, Little and O'Grady. Members of the executive and other invited visitors also attended committee meetings.

### Purpose

The purpose of the Member Services Committee includes:

- making recommendations to the Trustee Board on matters relating to the administration of State Super schemes and policies affecting stakeholders including dispute-related matters
- exercising a Trustee Board delegation to determine disputes involving State Super schemes
- monitoring member communications and research to assess member satisfaction with the services provided to them and how well the services meet member needs.

### Meetings attended during 2019-20

| Member                       | Attendance actual / possible |
|------------------------------|------------------------------|
| Mr A Claassens (Chairperson) | 5 / 5                        |
| Ms S Dave*                   | 4 / 4                        |
| Mr G Maniatis**              | 1 / 1                        |
| Mr S Little***               | 2 / 2                        |
| Mr T O'Grady                 | 5 / 5                        |

\*Ms Dave stepped down from the Committee effective 10 June 2020

\*\* Mr Maniatis' term as Employee Representative expired on 24 Sep 2019

\*\*\* Mr Little was appointed to the Committee effective 27 February 2020

## Statutory Committee – Police Superannuation Advisory Committee

The committee is a statutory committee established under Part 2H of the *Police Regulation (Superannuation) Act 1906* to exercise certain powers delegated by the Trustee Board.

### Members during the reporting period

This committee consists of a Chairperson appointed by the Minister, three nominees of the Police Association of New South Wales, and one nominee each from the Commissioned Officers' Branch of the Public Service Association of New South Wales, State Insurance Regulatory Authority, the Minister for Police, and State Super. The State Super nominee is a member of the State Super Executive.

### Purpose

The purpose of the Police Superannuation Advisory Committee is to determine entitlement to medical

discharge for members of the NSW Police Force, entitlement to 'Hurt on Duty' pension increases and other benefits under the Police Superannuation Scheme, and to advise State Super on matters relating to administration of the *Police Regulation (Superannuation) Act 1906* that are referred to it by the Trustee Board.

### Meetings attended during 2019-20

| Member                        | Attendance actual / possible |
|-------------------------------|------------------------------|
| Mr A Claassens (Chairperson)* | 11/12                        |

\*A Chair was appointed from members for 1 meeting

## Human Resources and Nominations Committee members during the reporting period

Ms Bolger and Messrs Claassens (Chairperson), Maniatis, Johnson and Little. Members of the executive and invited visitors also attended committee meetings.

### Purpose

The purpose of the Human Resources and Nominations Committee is to support the Board in fulfilling its responsibilities in relation to human resource matters and corporate culture including:

- overseeing the human resource governance framework
- oversee the framework to embed an ethical corporate culture
- reviewing and developing the ongoing performance assessment methodology to assess the performance of the Board and its committees
- to set and review the remuneration, performance objectives and criteria for the CEO
- monitoring human resource obligations under relevant policies, including the Code of Conduct and Ethics
- Board training strategies and renewal.

### Meetings attended during 2019-20

| Member                       | Attendance actual / possible |
|------------------------------|------------------------------|
| Mr A Claassens (Chairperson) | 4 / 4                        |
| Ms C Bolger                  | 4 / 4                        |
| Mr G Maniatis**              | 1 / 1                        |
| Mr N Johnson                 | 4 / 4                        |
| Mr S Little***               | 1 / 1                        |

\*\* Mr Maniatis' term as Employee Representative expired on 24 Sep 2019

\*\*\* Mr Little was appointed to the Committee effective 27 February 2020

## State Super Executive team

The State Super Executive comprises the Chief Executive Officer and six senior executives. Together they are responsible for implementing State Super's corporate strategies and managing the day-to-day activities of the business.

The structure of the State Super Executive team as at 30 June 2020 is shown below:



## Executive team profiles

### John Livanas

#### Chief Executive Officer

Mr Livanas leads a team of experienced senior executives in managing the provision of member services and the investment of approximately \$42 billion of assets.

Mr Livanas has over 30 years' industry experience, having worked in organisations including Deloitte South Africa, the South African Government Employees Pension Fund – the precursor to the country's sovereign fund – and several Australian superannuation funds.

Prior to his appointment at State Super, Mr Livanas was the Chief Executive Officer of AMIST Super and the General Manager of FuturePlus Financial Services. He was a Director of ISPT and ISPT Grosvenor International Property Trust and has been appointed to the Board of the Australian Council of Superannuation Investors.

Mr Livanas holds a Bachelor of Science in Engineering and an MBA from the University of Witwatersrand and a Graduate Diploma of Finance and Investments from the Financial Services Institute of Australia. He is an ASFA-accredited Investment Fiduciary and a Graduate of the Australian Institute of Company Directors.

### Gary Gabriel

#### Chief Investment Officer

Mr Gabriel leads State Super's internal Investment and Actuarial teams and is responsible for determining and executing the Fund's investment strategies. This includes developing investment policies and objectives, determining asset allocation, and implementing and monitoring the Fund's investment arrangements. Mr Gabriel is also responsible for overseeing the Fund's key partnerships with its investment advisors, managers and other related service providers.

Mr Gabriel has more than 25 years' experience in institutional investment, spanning investment strategy formulation, portfolio construction and risk management, and investment management across global listed and unlisted asset classes. Prior roles include General Manager of Portfolio Strategy and Risk at HESTA, Managing Director (Asia Pacific) for Wilshire Associates, Head of Private Markets at the Future Fund, and Head of Private Markets at UniSuper.

Mr Gabriel holds a Bachelor of Economic Science from the University of Witwatersrand and a Certificate in Actuarial Techniques from the Institute of Actuaries. He is also a CFA Charter holder and is a Graduate of the Australian Institute of Company Directors.

## **Jag Narayan**

### **Chief Risk Officer**

Mr Narayan is responsible for developing and implementing the organisation's risk, compliance and internal audit strategy. The role encompasses embedding a risk culture within State Super, setting and monitoring strategic and operational risks and reporting to the Trustee Risk, Audit and Compliance Committee and the Trustee Board.

Mr Narayan has over 20 years' experience in risk management, with more than 15 years in financial services organisations. His previous employers include the Territory Insurance Office (TIO), Insurance Australia Group (IAG), Caltex Australia and Westpac Banking Corporation. Prior to his appointment in October 2015, Mr Narayan led the Audit, Risk and Compliance function and reported to the CEO and the Audit and Risk Committee/Board of the Territory Insurance Office in Darwin.

Mr Narayan is a qualified Chartered Accountant, Certified Internal Auditor and Certified Compliance and Risk Professional. He holds a Bachelor of Commerce (Accounting) from the University of Western Sydney.

## **Allan Parapuram**

### **General Counsel and Company Secretary**

Mr Parapuram provides State Super with legal and governance counsel, overseeing the legal and governance framework and secretarial matters of the Board.

Mr Parapuram is a member of the Police Superannuation Advisory Committee which determines entitlement to medical discharge for members of the NSW Police Force under the Police Superannuation Scheme, and a member of the State Super/Aware Super Steering Group, the central reference point for the oversight and management of the Aware Super relationship.

Mr Parapuram has held senior legal roles at State Super for the last seven years and was previously Head of Legal, Risk and Compliance at Qantas Superannuation. He has more than twenty years' experience in superannuation and financial services law, trustee and investment governance, audit and compliance and risk management in financial services generally. Mr Parapuram holds a current legal practising certificate, a Master of Laws, a Bachelor of Laws, and a Bachelor of Economics.

## **Nish Patel**

### **Chief Financial Officer and GM Corporate Services**

Mr Patel is the Chief Financial Officer and General Manager Corporate Services, responsible for directing and managing the financial, investment and operational activities of the organisation and ensuring the implementation of the overall organisational strategy.

Mr Patel has over 25 years' senior executive experience in funds management, investment banking and financial services. Prior to joining the organisation, he was AMP Capital's Chief Financial Officer and later Chief Operating Officer, Asia. He has held senior finance, strategy and M&A roles with leading ASX 100 companies. He commenced his career with Arthur Andersen in London and has worked extensively in Europe and Asia.

Mr Patel is a qualified Chartered Accountant and holds a Bachelor of Science (Honours) degree in Economics.

## **Nada Siratkov**

### **General Manager, Member Engagement**

Ms Siratkov is responsible for directing and managing the delivery of member services and engagement strategies. This includes setting the direction of Member Engagement and ensuring that there is an integrated approach to managing the member experience. Ms Siratkov is responsible for negotiating and managing material service contracts that maximise value to State Super and its members. In addition, Ms Siratkov is responsible for member product development, scheme legislation and its interpretation and policy, marketing, stakeholder engagement, disputes and the management of State Super's profile and brand.

Ms Siratkov is responsible for the Member Services Committee, is a member of the State Super/Aware Super Steering Group and is on State Super's WHS Committee.

Prior to joining State Super, Ms Siratkov held executive positions in the financial services industry including Aon, Zurich and Westpac and has an extensive knowledge of the superannuation, insurance and banking environments.

Ms Siratkov holds a Bachelor of Arts from the University of Sydney and a Master of Business majoring in Marketing from the University of Technology and is a Graduate of the Australian Institute of Company Directors.

## **Charles Wu**

### **Deputy Chief Investment Officer & General Manager, Defined Contribution Investments**

Mr Wu joined State Super in 2015. In his role as Deputy Chief Investment Officer and General Manager, Defined Contribution Investments, Mr Wu is responsible for formulating investment strategies to achieve return objectives on a risk-adjusted basis. He was previously an Investment Manager at Media Super and an analyst at Mercer.

Mr Wu holds a Master of Commerce and a Bachelor of Computer Engineering and is a Chartered Financial Analyst holder. He also serves as Vice President at Chartered Financial Analyst Society Sydney.

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# Part B

## Corporate performance

State Super's performance against Corporate Plan objectives

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# State Super's performance against its Corporate Plan objectives

State Super has set five key strategies for 2020-21 to 2024-25. These strategies cover the two fundamental aspects of State Super's business – investment strategy and member experience – supported by three crucial enablers – governance, stakeholder relationships and people. These strategies are basically unchanged from the previous financial year (2019-20), with minor refinements to accommodate new information or a new environment.

## State Super's 2020-21 Corporate Plan identified five key objectives for the financial year

1. **Member.** Deliver relevant and reliable member experiences.
2. **Investment.** Set and meet our risk/return objectives.
3. **Governance.** Maintain an effective governance framework.
4. **Stakeholders.** Maintain positive relationships with stakeholders.
5. **People.** Strengthen State Super's operating model and workforce.

## Overview

### Challenges faced during the year included:

1. Maintaining a high level of employee engagement, and to ensure that the capabilities required in the organisation are retained.
2. Managing the significant risks and challenges posed by the COVID-19 pandemic to investment objectives, member outcomes and the safety of our work force.
3. Ensuring compliance with the requirements of HOGA, APRA, and the ATO and maintaining a high degree of awareness of developments from the Royal Commission.
4. Appropriately overseeing TCorp as our key Master Investment Manager.
5. Appropriately overseeing Mercer Administration Services, including the systems transition program.

## 1. Member: Deliver relevant and reliable member experiences

State Super's success in meeting member needs and satisfaction remains high with significant improvements across a number of key areas including our seminars, member interview service, financial planning and annual statements – all scoring well above the national average.

Our 5 Member Beliefs were launched across a series of channels and to our business partners. These are guiding principles that help us when taking decisions on member issues. In accordance with meeting our member beliefs - COVID-19 early release payments were introduced in April 2020. As a defined benefit fund, STC were not required to participate in this initiative but believed it was in the best interest of members. A project was initiated in March and full capability achieved within the timeline set out by the ATO.

Mercer's system migration programme has been identified as a key risk to STC and its members. In order to best manage this risk, we introduced a governance structure and an appropriate engagement framework with Mercer that preserves State Super's decision-making authority regarding the administration migration programme. Our ability to oversight and manage risks has given us added assurance and as a result a successful Mercer migration to the new platform of over 66,000 pension members. Phase 1 of the migration was completed in May 2020 and planning for phases 2 and 3 is underway.

Our website was re-designed, upgraded and re-launched ([Statesuper.nsw.gov.au](http://Statesuper.nsw.gov.au)) in October 2019. Member annual tracking research has indicated an increase in satisfaction with the new website even though it was very new at the time of the research being conducted.

As part of managing our media exposure we have developed a proactive media strategy including access to Meltwater media and journalist database allowing comprehensive monitoring of media for items relating to State Super or of industry importance. This year we introduced our first social media platform on LinkedIn – which has been growing steadily and which will serve as an efficient platform for State Super to engage with its followers and the broader superannuation industry.

## 2. Investment: Set and meet risk/return objectives

Over the 2019-20 financial year, State Super has continued to work closely with TCorp and our independent scheme actuary, PwC, to carefully monitor and continually improve the alignment of the investment strategy for our defined benefit assets with our actuarial projections of future member liabilities.

State Super is working with the NSW Treasury to facilitate the Government's stated objective to fully fund the superannuation liabilities of the General Government Sector (excluding Universities).

The COVID-19 pandemic has placed unprecedented pressure on the State's finances over the medium term, however, in recognition of providing clarity to the Trustee about its obligations to its members and employer sponsors, the Treasurer has written to the Trustee reiterating the Government's commitment to achieving the objective of fully funding the State's defined benefit liabilities.

The Treasurer has further committed to maintaining an ongoing funding plan that will ensure all benefits continue to be paid when they fall due.

The next triennial review by the Scheme Actuary, PwC, to review in detail the key assumptions underlying the calculation of the liabilities and the appropriateness of the investment strategy will be at 30 June 2021. In the interim, the actuary's asset/liability model has been extensively used to assess and monitor the impact of the COVID-19 pandemic on asset values, funding position, contribution changes, and liquidity requirements. The Trustee Selection Investment Option did not achieve its investment objective over shorter periods to 30 June 2020 due to the COVID-19 pandemic, however, it has comfortably exceeded its objective over the seven and ten year periods.

Each of the diversified Member Investment Choice Strategies, except for the Cash option, exceeded its investment objective over three, five and ten year periods to 30 June 2020, and ranked in the first or second quartile of returns for funds with comparable investment strategies over the same periods. The Cash option's performance reflects the very low interest rate environment.

Risk settings and asset allocation for the Fund are reviewed regularly, and heightened monitoring was implemented when the COVID-19 pandemic commenced. The asset allocation for each investment strategy is well diversified across asset classes, risk premiums, investment managers and individual securities. The aim of this diversification is to reduce the expected volatility associated with achieving the target level of return. In addition, tail risk protection strategies and foreign currency exposure are utilised to provide additional protection against large market drawdowns.

## 3. Governance: Maintain an effective governance framework

The Board is served by highly skilled individuals who meet the requirements of the organisation as reflected by the Skills Matrix and internal and external Board Assessments. State Super maintains a skills matrix for the Board and Executive. During the year, the Board facilitated its annual performance assessment for FY2019 with a comprehensive assessment process undertaken by an expert firm involving Board members and relevant Executives. An analysis of the results showed that the Board continues to perform well and discharges the obligations set for it.

A formal governance and delegations framework enables appropriate oversight and monitoring of the organisation. This framework was explicitly reviewed to address issues arising from new remote working arrangements to comply with pandemic restrictions including facilitation of remote meetings.

State Super complies with the HOGA requirements, conforming to the prescribed Commonwealth Retirement Income principles to the best of our endeavours. These include the principles of Trustee Governance, Audit and Risk Management and reporting to the ATO and APRA as required.

The Funds are audited annually by the Auditor General and the outcomes of the annual audit are contained in the Annual Accounts that are part of this Annual Report.

Staff capabilities are regularly assessed against the skills required in the organisation with appropriate training and development programs implemented.

State Super continues to focus on monitoring its outsourced arrangements with its mandated investment manager NSW Treasury Corporation, its Scheme administrator, Mercer Administration Services and its custodian, JP Morgan.

## 4. Stakeholders: Maintain positive relationships with stakeholders

Our stakeholder management framework is working very well with our counterparts at Treasury, our partners, and with external interest and policy groups. Our positive relationship with Treasury has resulted in a collaborative approach to addressing various matters that the Trustee has identified and has created positive outcomes for all concerned but most importantly our members. Furthermore, our participation and debate in policy groups comprising of Public Sector schemes in all states is in place and working very effectively.

Our regular Policy participation in AIST and other working groups has resulted in an increased acknowledgment of our expertise and the State Super brand. A number of executives have participated in speaker events including in investment and member engagement. State Super contributed to industry debate and thought leadership via participation in various forums such as the AIST CIO Forum and AIST Customer Symposium.

2019 marked the 100<sup>th</sup> year anniversary for our fund and to celebrate we held a very successful event at the NSW Library. Our special guest - Treasurer Dominic Perrottet - delivered an outstanding speech culminating in his announcement of the State Super academic scholarship. Other special guests included past and present staff and board members, partners and Dr Betty Hall our 100-year-old member who charmed everyone with her wise words at the event.

## 5. People: Strengthen State Super's operating model and workforce

State Super's workforce strategies continue to focus on three key areas and supporting initiatives have been refined to address business requirements during the reporting period.

1) *Improving workforce sustainability*: State Super's workforce has remained stable over the reporting period with an attrition rate of 5%. Following on from the structural changes of 2019, the organisation undertook a further realignment in the Audit, Risk and Compliance team with the aim of uplifting capability and better aligning roles to strategic outcomes. This resulted in the addition of two Senior Managers to the Audit, Risk & Compliance team. The Investment team also brought on Senior Managers in the Portfolio Risk and Responsible Investment functions.

Since 2016, the employment conditions of State Super's non-executive employees had been governed by a Section 52 Determination, which had to be approved on an annual basis. With the aim of providing the non-executive employees with greater stability in their employment arrangements, State Super commenced the development of an Enterprise Agreement in 2019. The State Super Enterprise Agreement 2020-2022 which was overwhelmingly supported by staff, was approved by the Industrial Relations Commission in early February 2020 and the non-executive staff were subsequently transitioned under the Enterprise Agreement.

2) *Building capability and knowledge retention to enable high performance*: To maintain and build on the organisation's strong performance, State Super continued to focus on a blended approach to learning and professional development during the reporting period. However due to the COVID-19 situation in the second half of the review period, a number of programs were put on hold.

3) *Developing a workplace culture that promotes employee wellbeing and engagement*: 2019 saw the finalisation of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry and whilst State Super was not impacted by the review or its findings, we took the opportunity to reflect on our culture – comparing the values and behaviours in our current culture and articulating the values and behaviours of a desired culture that would enable the organisation to deliver its longer-term objectives. To that end, State Super commissioned Mercer to undertake a Culture Review. This review which involved participation and feedback across the entire organisation showed a strong alignment between State Super's current and desired culture.

With the 2020 People Matter Employee Survey delayed till October 2020, State Super undertook a Pulse Survey as an interim check on how employees were feeling about work, working from home arrangements, support measures and leadership. Feedback from the Pulse Survey indicated that the vast majority of staff (97%) understood what was expected of them in order to do well in their role while working remotely, that they were getting good support from their managers in adapting to the evolving COVID-19 situation, and that senior managers are provided direction through the uncertainties.

# Part C

## Operations overview

### Investments

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### Member engagement

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## Investments

This section provides an overview of State Super's investment management structure and its performance and management activities during 2019–20.

### Investment management structure

On 15 June 2015, pursuant to a Master Financial Services Agreement (MFSA), TCorp became the Master Investment Manager for the Trustee Selection Strategy, which primarily invests employer funded (defined benefit) assets. The MFSA was updated to comply with the Ministerial Orders and executed on 28 October 2016. It is reviewed annually, in general, and was most recently reviewed in 2019 with an updated consolidated agreement executed in December 2019.

State Super retains responsibility for setting and overseeing all State Super investment strategies, including risk and return objectives, investment policies, strategic asset allocation and ranges, and portfolio risk overlay strategies. TCorp is responsible to State Super for implementing the investment strategy for Trustee Selection in accordance with State Super's policies, including dynamic asset allocation, portfolio construction, investment risk management and investment manager selection. State Super continues to be responsible for the investment management of the four Member Investment Choice strategies (Growth, Balanced, Conservative and Cash) in which the SASS defined contribution assets are primarily invested, and the two University investment strategies (University Diversified Conservative and University Cash) in which the Universities' Employer reserves are invested.

### Investment market overview

#### A year of firsts

The past financial year started with unresolved US-China trade tensions but then the COVID-19 pandemic triggered the largest global recession since at least the early 1900s. Restrictive containment measures entailing the shutdown of economies around the world contributed to sharp rises in unemployment and dramatic falls in consumption demand, hitting travel, leisure and entertainment sectors especially hard.

There has been an unprecedented global policy response to the pandemic. Central Banks have set and maintained historically low interest rates, and have implemented very large quantitative easing programs, including the RBA for the first time. Governments have provided enormous fiscal support packages to enable businesses to survive the pandemic and provide basic levels of income support to those thrown into unemployment.

Equity markets have experienced extreme volatility, suffering their fastest decline in history as the pandemic took hold, but then also experiencing one of the sharpest rebounds in history as the policy response emerged and grew. As a result, US and Japanese equities ended the financial year with a small positive return, whilst the UK and, to a lesser extent Europe, had negative returns. Emerging market equities produced a small negative return, although some countries' returns were positive, such as China, while others' returns, such as Brazil, were negative due to a greater impact of the pandemic and falling oil prices. Australian equities also had a negative return over the financial year.

Property has been particularly hard hit, both by the immediate collapse in consumer and business demand, and uncertainty around the sustained impact of the dramatic move to online retail and working from home. Although listed property prices have rebounded strongly, the return for the year remains strongly negative. Listed infrastructure experienced the same pattern of returns but not as pronounced, with utilities performing relatively well, but airports particularly hard hit.

Bond yields fell over the year to new record lows, providing solid returns from government bonds but also substantially dampening future return potential from these assets. The Australian Dollar fell materially, at one point dropping below US\$0.58, which provided some protection for unhedged overseas assets, but it has subsequently recovered.

#### The year ahead

We expect the investment environment to remain challenging and largely unpredictable in the coming year as the world continues to navigate through the pandemic, as well as unprecedented policy and economic settings. As an anecdotal and strong indication of the level of uncertainty, the majority of international corporations withheld providing any market guidance for the 2020-21 financial year. Investment outcomes will depend on a number of critical factors, with strong forces working in both directions.

Potential headwinds include a slow and interrupted reopening of global economies, disappointing progress towards a vaccine, long-lasting impacts of the virus on the global economy such as deglobalisation, and the longer-term impacts of historically high levels of debt. In addition, the capital market will have to digest the heightening geo-political risk from a deteriorating US-China relationship, as well as a US presidential election in November.

On the other hand, ongoing strong policy support, a sharp rebound in demand, a quicker than expected production of a vaccine, enormous growth in the technology sector, and cheap debt may mean that equity markets continue to recover strongly.

These competing forces result in a wide variety of possible outcomes. In our view, on balance, the risk is for economic activity to disappoint in the medium term, as government support measures fade, fears about new coronavirus cases grow, geo-political tensions continue to rise, and stop-start economic activity becomes the new norm.

Even without additional widespread government mandated lockdowns, which carry immense economic and political costs, people's behaviour may well have changed at least for the foreseeable future.

State Super recognises that investment markets can de-couple from economic fundamentals, especially in the short term, and so we are managing the portfolio to balance these economic risks with the need to also have appropriate levels of market exposure in order to meet our investment objectives.

## Investment performance

### 2019-20 performance

The 2019-20 annual crediting rates for the various investment options were as follows:

| Strategy                            | Crediting rate p.a.*<br>% |
|-------------------------------------|---------------------------|
| <b>Defined Benefit</b>              |                           |
| Trustee Selection                   | 1.3**                     |
| University Diversified Conservative | 0.3                       |
| University Cash                     | 0.8                       |
| <b>Member Investment Choice</b>     |                           |
| Growth                              | 1.5                       |
| Balanced                            | 2.7                       |
| Conservative                        | 3.0                       |
| Cash                                | 0.9                       |

\*Net of fees and taxes

\*\*This excludes the benefit of the ECPI, please refer to the table on page 33 for the inclusion of ECPI returns.

Global equity markets experienced both one of the sharpest falls and sharpest recoveries in history. A continued strong market rally in the first half of the financial year gave way to circa 35% fall in markets, arguably the sharpest equities market drawdown in history, as the Covid-19 pandemic shut down economies around the world. Unhedged international equities were protected as the Australian dollar fell. After hitting a low on 23 March, equity markets recovered in one of the sharpest recoveries in history, on the back of unprecedented global fiscal and monetary support. Somewhat belying a period of enormous market volatility, equity markets finished the year with only modest negative returns.

Bonds continued to make a positive contribution to performance as long-term yields fell to historic lows, although the extent to which they offset the equity drawdown was limited by the low yields prevailing when the pandemic hit.

The Covid-19 pandemic has had a dramatic impact on the air travel industry, effectively halting more than 95% of air travel during the initial global shutdown of business and borders. It has also significantly impaired shopping centre traffic and created uncertainty about the prospect for office space. State Super therefore applied a large write down to its unlisted infrastructure and property assets in the 2019-20 financial year.

Over the 2019-20 financial year, the use of downside protection provided a meaningful boost to portfolio returns and liquidity during the sharp equity market fall.

## Long-term performance

Meeting long-term goals requires investments to be actively managed to capture the returns offered for taking on risk, whilst controlling the impact of losses in more turbulent market conditions. Given the Fund's negative cash flow and different investment horizons for different investment options, State Super (either directly or via TCorp for Trustee Selection) will reallocate assets as it deems necessary to increase the probability of all investment strategies achieving their respective investment objectives and ensuring appropriate liquidity levels.

Crediting rates for the period ended 30 June 2020 against investment objectives for each of the State Super strategies are provided in the table below.

| Strategy                            | Objective<br>(at 30 June 2020) | Period   | Average annual<br>compound crediting<br>rate p.a.<br>% | Objective p.a.<br>% |
|-------------------------------------|--------------------------------|----------|--|---------------------|
| <b>Defined Benefit</b>              |                                |          |  |                     |
| Trustee Selection                   | CPI + 5.0%                     | 10 years | 8.0  | 6.7                 |
| University Diversified Conservative | Cash + 1.0%                    | 4 years  | 3.0  | 2.5                 |
| University Cash                     | Cash                           | 3 years  | 1.4  | 1.5                 |
| <b>Member Investment Choice</b>     |                                |          |  |                     |
| Growth                              | CPI + 3.0%                     | 7 years  | 7.8  | 5.9                 |
| Balanced                            | CPI + 2.0%                     | 7 years  | 6.7  | 4.6                 |
| Conservative                        | CPI + 1.0%                     | 4 years  | 4.3  | 3.1                 |
| Cash                                | Cash                           | 3 years  | 1.5  | 1.5                 |

The Trustee Selection and all diversified investment option strategies, with the exception of the Cash options, have delivered returns above their long-term performance objectives. The Cash Options' returns reflect historically low interest rates.

State Super implements its investment strategies through investment managers, with TCorp undertaking all manager selection activities for Trustee Selection. Over the course of the financial year investment managers' performances in each of the investment strategies were reviewed and adjustments made to ensure the risk return characteristics of each investment strategy were in line with investment objectives. State Super continues to maintain prudent liquidity requirements to fund its liabilities and a focus on liquidity management remains a priority for the investment team.

Risk and asset allocation settings for the Fund are reviewed regularly. The asset allocation for each investment strategy is well diversified across asset classes, risk premiums, investment managers and individual securities. The aim is to generate returns with substantially reduced volatility. Risk management plays a crucial role in this process.

## Crediting rates for defined benefit reserves

The crediting rates provided in the following tables for defined benefit reserves are prior to adjustments for the varying rates of exempt current pension income (ECPI) tax. As a result of the ECPI tax adjustment, each of the defined benefit reserves (including those relating to Crown and other Government enterprises with pension members) is credited with an additional amount over and above that shown below.

### Trustee Selection Strategy

| Year ending  | Crediting rate to employer reserves (p.a.)<br>% |
|--|---|
| 30 June 2020   | 1.3   |
| 30 June 2019   | 8.5   |
| 30 June 2018   | 8.2   |
| 30 June 2017   | 9.5   |
| 30 June 2016   | 3.6   |
| <b>Average annual compound crediting rate (p.a.)</b> |   |
| Over 3 years   | 6.0   |
| Over 5 years   | 6.2   |
| Over 10 years  | 8.0   |

### University Diversified Conservative Strategy

| Year ending  | Crediting rate to employer reserves (p.a.)<br>% |
|--|---|
| 30 June 2020   | 0.3   |
| 30 June 2019   | 4.0   |
| 30 June 2018   | 3.3   |
| 30 June 2017   | 4.4   |
| 30 June 2016   | 1.9   |
| <b>Average annual compound crediting rate (p.a.)</b> |   |
| Over 3 years   | 2.5   |
| Over 5 years   | 2.8   |
| Over 10 years  | N/A   |

| Trustee Selection returns for Crown employers after the benefit of ECPI tax | Crediting rate including ECPI * benefit to employer reserves (p.a.)<br>% |
|---|--|
| 30 June 2020  | 1.6  |
| 30 June 2019  | 9.2  |
| 30 June 2018  | 9.3  |
| 30 June 2017  | 10.5   |
| 30 June 2016  | 4.2  |
| <b>Average annual compound crediting rate (p.a.)</b>                        |  |
| Over 3 years  | 6.7  |

### University Cash Strategy

| Year ending  | Crediting rate to employer reserves (p.a.)<br>% |
|--|---|
| 30 June 2020   | 0.8   |
| 30 June 2019   | 1.8   |
| 30 June 2018   | 1.6   |
| 30 June 2017   | 1.6   |
| 30 June 2016   | 2.0   |
| <b>Average annual compound crediting rate (p.a.)</b> |   |
| Over 3 years   | 1.4   |
| Over 5 years   | 1.6   |
| Over 10 years  | N/A   |

\*Tax benefit arising from Exempt Current Pension Income

## Crediting rates for member investment choice strategies

SASS is a hybrid scheme, with the member-financed benefit component being the accumulation of member contributions, while investment earnings and an employer-financed benefit component are defined benefits. On deferral, both the member and employer-financed components are accumulated with investment earnings from the investment strategy or strategies selected by the member.

SASS members have a choice of four investment strategies – Growth, Balanced, Conservative and Cash. The Growth Strategy is the default strategy that applies if a member does not make an investment choice.

The crediting rates for the four investment strategies are shown below. Given as an annual rate and rounded to one decimal point, they are credited to members' accounts at the end of the financial year. Actual crediting rates are declared monthly to four decimal places. The annual rate is the compounded monthly rates.

### Growth Strategy

| Year ending  | Crediting rate to members (p.a.)<br>% |
|--|---------------------------------------|
| 30 June 2020   | 1.5                                   |
| 30 June 2019   | 7.6                                   |
| 30 June 2018   | 9.4                                   |
| 30 June 2017   | 9.0                                   |
| 30 June 2016   | 5.0                                   |
| <b>Average annual compound crediting rate (p.a.)</b> |                                       |
| Over 3 years   | 6.1                                   |
| Over 5 years   | 6.4                                   |
| Over 10 years  | 8.0                                   |

### Balanced Strategy

| Year ending  | Crediting rate to members (p.a.)<br>% |
|--|---------------------------------------|
| 30 June 2020   | 2.7                                   |
| 30 June 2019   | 5.9                                   |
| 30 June 2018   | 6.9                                   |
| 30 June 2017   | 6.9                                   |
| 30 June 2016   | 5.3                                   |
| <b>Average annual compound crediting rate (p.a.)</b> |                                       |
| Over 3 years   | 5.1                                   |
| Over 5 years   | 5.5                                   |
| Over 10 years  | 7.1                                   |

### Conservative Strategy

| Year ending  | Crediting rate to members (p.a.)<br>% |
|--|---------------------------------------|
| 30 June 2020   | 3.0                                   |
| 30 June 2019   | 4.7                                   |
| 30 June 2018   | 5.0                                   |
| 30 June 2017   | 4.4                                   |
| 30 June 2016   | 4.6                                   |
| <b>Average annual compound crediting rate (p.a.)</b> |                                       |
| Over 3 years   | 4.2                                   |
| Over 5 years   | 4.3                                   |
| Over 10 years  | 5.7                                   |

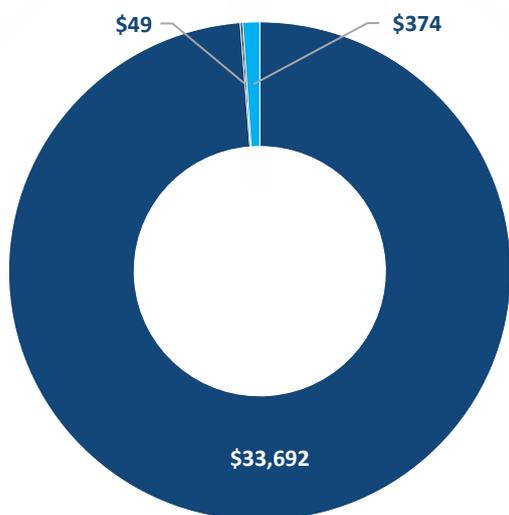
### Cash Strategy

| Year ending  | Crediting rate to members (p.a.)<br>% |
|--|---------------------------------------|
| 30 June 2020   | 0.9                                   |
| 30 June 2019   | 1.9                                   |
| 30 June 2018   | 1.7                                   |
| 30 June 2017   | 1.9                                   |
| 30 June 2016   | 2.0                                   |
| <b>Average annual compound crediting rate (p.a.)</b> |                                       |
| Over 3 years   | 1.5                                   |
| Over 5 years   | 1.7                                   |
| Over 10 years  | 2.5                                   |

## Funds under management (FUM)

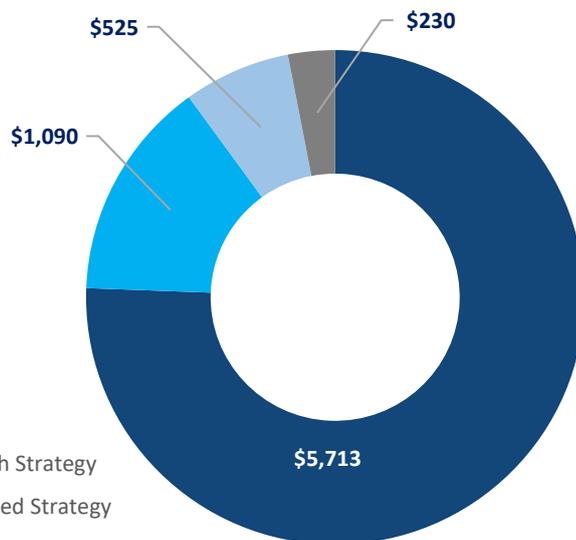
FUM per investment strategy at 30 June 2020 (\$ millions) \*

### DEFINED BENEFIT STRATEGIES



- Trustee Selection
- University Diversified Conservative
- University Cash

### MEMBER INVESTMENT CHOICE STRATEGIES



- Growth Strategy
- Balanced Strategy
- Conservative Strategy
- Cash Strategy

\*Excludes Employer Sponsor Receivable

## Investment policies and practices

### STRATEGIC ASSET ALLOCATION

State Super allocates assets into three categories – Liquid Growth, Alternatives and Liquid defensive – to more closely reflect the role of each type of asset within the portfolio.

Liquid Growth consists of Australian and international listed equities. Liquid Defensive consists of Australian and international fixed interest, inflation-linked bonds, other defensive strategies, cash and income. The latter is a newly introduced asset class for the member investment choice strategies. Alternatives comprises property, infrastructure, corporate debt, absolute return strategies and private equity comprise the alternatives category.

**Liquid Growth** is expected to make a large contribution to long-term returns; however, the market is likely to remain highly volatile. The allocation to Liquid Growth, as well as the allocation between Australian and international equities within this category may be changed from time to time depending on market opportunities.

**Alternatives** serve a dual purpose. Some of the asset classes in this category are expected to generate returns in line with or higher than the return objective. Other asset classes within Alternatives are expected to have the dual objective of providing a good level of return, whilst also reducing the volatility of returns, especially when equity markets fall.

**Liquid Defensive** represents asset classes that tend to do well when equity markets are turbulent or fall. These asset classes provide capital protection when most other strategies are not performing well but are not expected to significantly contribute to the return over the long term. However, the historically low interest rates mean that the returns for these assets are likely to be below inflation over the short to medium term. This led to the addition of the income asset class that aims to deliver yield above cash with strong capital preservation characteristics.

State Super can dynamically allocate assets between Liquid Defensive and Liquid Growth, based on changes in the investment environment. The allocation to Alternatives, on the other hand, is strategic in nature and generally illiquid, with investments being held over the medium to long term.

State Super reviews the strategic asset allocation of each investment strategy annually in conjunction with its advisers. Critical areas of focus include setting the investment risk and return objectives, having regard to the expected investment environment over each Option's investment timeframe, and liquidity requirements over the short- and medium-term to ensure member benefits can be readily paid as and when they fall due.

For the Member Investment Choice and University investment strategies State Super considers quarterly whether any dynamic asset allocation tilts are appropriate given current valuations. For Trustee Selection, TCorp's mandate includes DAA decisions.

## MARKET RISK PROTECTION STRATEGIES

The Trustee is focused on mitigating the risks of a large drawdown in equity markets; however, downside protection strategies typically requires a premium to be paid for that protection and could also mean giving up some return in strong equity markets. State Super carefully weighs up this trade-off in managing its downside risk.

**Downside protection** – The Trustee may employ a series of investment strategies to manage downside risk, which could include a combination of derivatives for hedging and exposure management, rotation of assets and managers, centralised managed currency overlay, option strategies and manager benchmarking focused on downside risk management.

**Exposure management** – In the case of the Trustee Selection and all DC Strategies, the listed asset classes can be tilted away from their respective asset allocation weights in a disciplined manner. The portfolios are tilted using dynamic asset allocation ranges set for each of the strategies to capture upside potential gains and provide a degree of downside protection.

## RESPONSIBLE INVESTMENT

State Super's Investment Beliefs recognise that "environmental, social and governance (ESG) factors may materially impact investment risk and returns, particularly over the long term". State Super is committed to the integration of responsible investment and ESG factors in the selection, retaining and realising of investments, and the adoption of an active ownership approach across the Pooled Fund. To enable effective integration, a new Responsible Investment Policy was approved by the Trustee Board in June 2019.

State Super implemented its new Responsible Investment Policy over the 2020 financial year. Significant developments in this respect include:

- Proxy voting – All proxy voting for DC Options has transitioned from the managers to State Super, with voting based on the ACSI (Australian Council of Superannuation Investors) guidelines. Proxy voting for Trustee Selection has been delegated to TCorp. State Super also published its first proxy voting activities report on its website on 20 July 2020.
- Climate modelling – With its advisors, State Super modelled alternative climate change scenarios in order to assess the impact of climate change on the expected risk and return characteristics for different asset classes and reflect its impact in the annual investment strategy review.
- Climate risk assessment – Analysis was commissioned and received in 2019 to identify potential vulnerabilities to climate change in State Super's unlisted property and infrastructure assets across the Pooled Fund. The analysis was extended in 2020 to include an assessment of the vulnerability of the physical assets within State Super's listed equities portfolio. The results of this assessment are being used to inform future investment and asset management decisions.
- Carbon footprint analysis – State Super implemented analysis to measure and monitor the carbon footprint of its listed equities portfolios of the DC fund. This will form part of the ongoing management of ESG risk.
- Exclusions – State Super continued to exclude investments in tobacco and controversial weapon manufacturers from the Pooled Fund.

## INVESTMENT GOVERNANCE FRAMEWORK

The Trustee Board has approved State Super's Investment Governance Framework which covers the policies, procedures and organisational structure which support the implementation of investment decisions for the Pooled Fund. The investment governance structure comprises a combination of legislative requirements, Ministerial Orders, Board and Board Sub-Committee oversight, and is implemented by State Super's Executive and NSW Treasury Corporation as Master Investment Manager.

Key components of the Framework include:

**Board Investment Committee** – The Trustee Board has an established Investment Committee to support the Board in determining the investment strategy and risk settings for the Trustee Selection, Member Choice and University portfolios.

**Risk, Audit and Compliance Committee** – The Trustee Board has an established Risk, Audit and Compliance Committee to support the Board by reviewing and monitoring State Super’s governance, risk and compliance frameworks, including audit arrangements, selection of the Appointed Actuary, the triennial actuarial review of the Pooled Fund and the review of policies and procedures.

**Management Investment Committee** – The Management Investment Committee is the governing body to support the CEO in executing investment related delegations from the Board for the Member Investment Choice and University portfolios. The Committee also oversees the development and implementation of the investment strategy for the Trustee Selection portfolio and develops investment related policies and processes for the Pooled Fund.

**Investment Team** – This team is responsible for executing State Super’s Investment Policy Statement and other investment-related policies by recommending the strategic asset allocation and risk management strategies for each of the investment options within the Pooled Fund, and dynamic asset allocation decisions for the Member Investment Choice and Universities strategies, reviewing and monitoring the performance of the Master Investment Manager, implementing a responsible investment program, managing liquidity to ensure each Member Investment Choice strategy can meet its liability requirements, and managing all the investment decisions and processes for the Member Investment Choice and Universities investment strategies.

**Master Investment Manager** – NSW Treasury Corporation (TCorp) was appointed as Master Investment Manager for the Trustee Selection portfolio. This arrangement is governed by a written contract, the MFSA (Master Financial Services Agreement), which establishes the services and functions of TCorp. The appointment of TCorp commenced 15 June 2015. The MFSA was updated to comply with the Ministerial Orders and executed on 28 October 2016.

**Asset Consultant** – Frontier Advisors Pty Limited, as Asset Consultant for the Member Investment Choice and Universities investment strategies, provides a range of advisory services that include the review of investment objectives, strategic asset allocation and the risk/return profile of investment options.

**Scheme Actuary** – PricewaterhouseCoopers Securities Limited is State Super’s Appointed Scheme Actuary. The Scheme Actuary is appointed to conduct the triennial actuarial review of the schemes, which projects the profile of the Fund’s assets and liabilities to the funding position and schemes’ requirements. It also includes asset and liability modelling to test sensitivities to different funding, return, salary, inflation and longevity assumptions. The Scheme Actuary is required to report on the triennial review to State Super.

**Master Custodian** – JP Morgan Chase Bank NA (JP Morgan) is the master custodian for the Pooled Fund. The master custodian holds the assets of the Pooled Fund and performs a range of investment administration functions including valuation of assets, fund accounting, performance reporting and investment mandate monitoring. JP Morgan has also been contracted to operate a securities lending program over the assets of the Pooled Fund.

**Investment Managers** – As required by the *Superannuation Administration Act 1996 (NSW)*, all the Pooled Fund’s investments are managed by external investment managers appointed by State Super or its agent, the Master Investment Manager TCorp. Each manager operates under a written agreement which can take the form of an Investment Management Agreement, Side Letter or Subscription Agreement as appropriate. Investment managers’ performance is monitored throughout the year and new managers may be added or existing managers replaced.

**Policies** – State Super has a range of policies supporting the Investment Governance Framework. These include the:

- Investment Beliefs
- Investment Policy Statement
- Liquidity Policy
- Responsible Investment Policy
- Exposure and Counterparty Policy
- Securities Lending Policy

**Derivatives** – Derivatives, including futures, options and total return swap, can be used by the Pooled Fund’s investment managers. Each manager’s investment mandate clearly states that derivatives may only be used to facilitate efficient cash flow management or to hedge the portfolio against market movements and cannot be used for speculative purposes or investment portfolio gearing.

**Foreign currency exposure policy:** The Trustee’s policy as at 30 June 2020 is to set the target foreign currency exposure at the overall Option level and compare this exposure to the foreign currency exposure arising from the total unhedged foreign assets held by the Option. Any further foreign currency hedging required to achieve the target exposure is attained by hedging a portion of the Option’s unhedged foreign assets back to Australian dollars.

## Defined Benefit investment strategies at 30 June 2020

### TRUSTEE SELECTION STRATEGY

**Investment objective:** The objective of the Trustee Selection Strategy is to maximise the earnings rate, subject to a greater than 50% probability of exceeding CPI + 5.0% p.a. over rolling 10-year periods.

**Risk:** High (standard risk measure (SRM) risk band 6: from 4 to less than 6 negative annual returns estimated over any 20-year period).

**Net assets at 30 June 2020:** \$33,692 million

**Asset allocation at 30 June 2020:**

|                              | Strategic %  | Actual %     |
|------------------------------|--------------|--------------|
| <b>Liquid growth</b>         | <b>51.0</b>  | <b>50.6</b>  |
| Australian equities          | 18.0         | 17.3         |
| International equities       | 33.0         | 33.3         |
| <b>Alternatives</b>          | <b>36.0</b>  | <b>36.7</b>  |
| Infrastructure               | 12.0         | 12.0         |
| Property                     | 7.0          | 7.8          |
| Other alternatives           | 17.0         | 16.9         |
| <b>Liquid defensive</b>      | <b>13.0</b>  | <b>12.7</b>  |
| Australian fixed interest    | 3.0          | 3.0          |
| International fixed interest | 0.0          | 0.0          |
| Defensive Strategies         | 6.0          | 6.0          |
| Cash                         | 4.0          | 3.7          |
| <b>TOTAL</b>                 | <b>100.0</b> | <b>100.0</b> |

### UNIVERSITY DIVERSIFIED CONSERVATIVE STRATEGY

**Investment objective:** The investment objective of the University Diversified Conservative Strategy is to maximise the earnings rate subject to a greater than 50% probability of exceeding CPI + 0.5% p.a. over rolling 4-year periods.

**Risk:** Low to medium (SRM risk band 3: from 1 to less than 2 negative annual returns estimated over any 20-year period).

**Net assets at 30 June 2020:** \$49 million

**Asset allocation at 30 June 2020:**

|                              | Strategic %  | Actual %     |
|------------------------------|--------------|--------------|
| <b>Liquid growth</b>         | <b>19.0</b>  | <b>20.3</b>  |
| Australian equities          | 8.0          | 8.7          |
| International equities       | 11.0         | 11.6         |
| <b>Alternatives</b>          | <b>0.0</b>   | <b>0.0</b>   |
| <b>Liquid defensive</b>      | <b>81.0</b>  | <b>79.7</b>  |
| Australian fixed interest    | 4.0          | 1.6          |
| International fixed interest | 2.0          | 4.2          |
| Cash                         | 75.0         | 73.9         |
| <b>TOTAL</b>                 | <b>100.0</b> | <b>100.0</b> |

### UNIVERSITY CASH STRATEGY

**Investment objective:** The investment objective of the University Cash Strategy is to maximise the earnings rate subject to a greater than 80% probability of exceeding cash p.a. over rolling three-year periods.

**Risk:** Very Low (SRM risk band 1: less than 0.5 negative annual returns estimated over any 20-year period).

**Net assets at 30 June 2020:** \$374 million

**Asset allocation at 30 June 2020:**

|                              | Strategic %  | Actual %     |
|------------------------------|--------------|--------------|
| <b>Liquid growth</b>         | <b>0.0</b>   | <b>0.0</b>   |
| <b>Alternatives</b>          | <b>0.0</b>   | <b>0.0</b>   |
| <b>Liquid defensive</b>      | <b>100.0</b> | <b>100.0</b> |
| Australian fixed interest    | 0.0          | 0.0          |
| International fixed interest | 0.0          | 0.0          |
| Cash                         | 100.0        | 100.0        |
| <b>TOTAL</b>                 | <b>100.0</b> | <b>100.0</b> |

## Member Investment Choice strategies at 30 June 2020

### GROWTH STRATEGY

**Investment objective:** The objective of the Growth Strategy is to maximise the earnings rate subject to a greater than 50% probability of exceeding CPI + 3% p.a. over rolling 7-year periods.

**Risk:** High (SRM risk band 6: from 4 to less than 6 negative annual returns estimated over any 20-year period).

**Net assets at 30 June 2020:** \$5,713 million

#### Asset allocation at 30 June 2020:

|                              | Strategic %  | Actual %     |
|------------------------------|--------------|--------------|
| <b>Liquid growth</b>         | <b>51.0</b>  | <b>48.6</b>  |
| Australian equities          | 22.5         | 23.0         |
| International equities       | 28.5         | 25.6         |
| <b>Alternatives</b>          | <b>36.0</b>  | <b>33.7</b>  |
| Infrastructure               | 10.5         | 10.2         |
| Property                     | 8.0          | 7.8          |
| Other alternatives           | 17.5         | 15.7         |
| <b>Liquid defensive</b>      | <b>13.0</b>  | <b>17.7</b>  |
| Australian fixed interest    | 4.0          | 1.6          |
| International fixed interest | 2.0          | 3.8          |
| Defensive Strategies         | 0.5          | 0.5          |
| Cash                         | 6.5          | 11.8         |
| <b>TOTAL</b>                 | <b>100.0</b> | <b>100.0</b> |

### BALANCED STRATEGY

**Investment objective:** The objective of the Balanced Strategy is to maximise the earnings rate subject to a greater than 50% probability of exceeding CPI + 2% p.a. over rolling 7-year periods.

**Risk:** Medium to High (SRM risk band 5: from 3 to less than 4 negative annual returns estimated over any 20-year period).

**Net assets at 30 June 2020:** \$1,090 million

#### Asset allocation at 30 June 2020:

|                              | Strategic %  | Actual %     |
|------------------------------|--------------|--------------|
| <b>Liquid growth</b>         | <b>34.5</b>  | <b>31.4</b>  |
| Australian equities          | 12.5         | 12.4         |
| International equities       | 22.0         | 19.0         |
| <b>Alternatives</b>          | <b>28.5</b>  | <b>27.8</b>  |
| Infrastructure               | 10.5         | 10.3         |
| Property                     | 8.0          | 7.8          |
| Other alternatives           | 10.0         | 9.7          |
| <b>Liquid defensive</b>      | <b>37.0</b>  | <b>40.8</b>  |
| Australian fixed interest    | 7.5          | 4.2          |
| International fixed interest | 2.5          | 4.8          |
| Defensive Strategies         | 0.5          | 0.1          |
| Cash                         | 26.5         | 28.2         |
| <b>TOTAL</b>                 | <b>100.0</b> | <b>100.0</b> |

## CONSERVATIVE STRATEGY

**Investment objective:** The objective of the Conservative Strategy is to maximise the earnings rate subject to a greater than 50% probability of exceeding CPI + 1.0% p.a. over rolling 4-year periods.

**Risk:** Medium (SRM risk band 4: from 2 to less than 3 negative annual returns estimated over any 20-year period).

**Net assets at 30 June 2020:** \$525 million

**Asset allocation at 30 June 2020:**

|                              | Strategic %  | Actual %     |
|------------------------------|--------------|--------------|
| <b>Liquid growth</b>         | <b>21.0</b>  | <b>19.4</b>  |
| Australian equities          | 8.5          | 8.9          |
| International equities       | 12.5         | 10.5         |
| <b>Alternatives</b>          | <b>24.5</b>  | <b>23.1</b>  |
| Infrastructure               | 10.5         | 10.2         |
| Property                     | 8.0          | 7.8          |
| Other alternatives           | 6.0          | 5.1          |
| <b>Liquid defensive</b>      | <b>54.5</b>  | <b>57.5</b>  |
| Australian fixed interest    | 6.0          | 3.7          |
| International fixed interest | 3.0          | 5.3          |
| Defensive Strategies         | 0.5          | 0.1          |
| Cash                         | 45.0         | 48.4         |
| <b>TOTAL</b>                 | <b>100.0</b> | <b>100.0</b> |

## Investment expenses

The indirect cost percentage for an investment strategy is the investment management expenses incurred by the strategy expressed as a percentage of the average net asset value of the strategy. The estimated indirect cost percentages for the seven investment strategies for 2020-21 are shown below. These estimates are broadly similar to the previous year. (Note, the indirect cost percentages for 2020-21 are estimates only and may change due to market circumstances or changes in the structure of the asset sectors as the year unfolds).

| Investment indirect cost ratio of average total assets |                                     |  |  |
|--|-------------------------------------|--|--|
| Strategy   | Actual 2019-20                      | Estimated 2019-20                        | Estimated 2020-21                        |
| <b>Defined benefit investment strategies</b>           |                                     |  |  |
| Trustee Selection                                      | 0.40%                               | 0.50%                                    | 0.45%                                    |
| University Diversified Conservative                    | 0.04%                               | 0.06%                                    | 0.05%                                    |
| University Cash  | 0.05%                               | 0.04%                                    | 0.05%                                    |
| <b>Member Investment Choice investment strategies</b>  |                                     |  |  |
| Growth   | 0.42%*                              | 0.48%*                                   | 0.48%*                                   |
| Balanced   | 0.32%                               | 0.37%                                    | 0.37%                                    |
| Conservative   | 0.28%                               | 0.30%                                    | 0.31%                                    |
| Cash   | 0.03%                               | 0.04%                                    | 0.04%                                    |
|  | *0.34% + 0.08% performance fee paid | *estimated 0.40% + 0.08% performance fee | *estimated 0.40% + 0.08% performance fee |

## CASH STRATEGY

**Investment objective:** The objective of the Cash Strategy is to maximise the earnings rate subject to a greater than 80% probability of exceeding Cash p.a. over rolling 3-year periods.

**Risk:** Very low (SRM risk band 1: less than 0.5 negative annual returns estimated over any 20-year period).

**Net assets at 30 June 2020:** \$230 million

**Asset allocation at 30 June 2020:**

|                         | Strategic %  | Actual %     |
|-------------------------|--------------|--------------|
| <b>Liquid growth</b>    | <b>0.0</b>   | <b>0.0</b>   |
| <b>Alternatives</b>     | <b>0.0</b>   | <b>0.0</b>   |
| <b>Liquid defensive</b> | <b>100.0</b> | <b>100.0</b> |
| Cash                    | 100.0        | 100.0        |
| <b>TOTAL</b>            | <b>100.0</b> | <b>100.0</b> |

## Changes to investment strategies effective 1 July 2020

In June 2020, State Super undertook its annual detailed review of the investment strategies and objectives for each investment option of the Pooled Fund.

| Investment Options                            | Return Objectives effective 1 July 2019         | Return Objectives effective 1 July 2020         |
|---|---|---|
| Growth Strategy                               | CPI + 3.0% p.a.<br>over rolling 7-year periods  | CPI + 3.0% p.a.<br>over rolling 7-year periods  |
| Balanced Strategy                             | CPI + 2.0% p.a.<br>over rolling 7-year periods  | CPI + 2.0% p.a.<br>over rolling 7-year periods  |
| Conservative Strategy                         | CPI + 1.0% p.a.<br>over rolling 4-year periods  | CPI + 1.0% p.a.<br>over rolling 4-year periods  |
| Cash Strategy                                 | Cash return<br>over rolling 3-year periods      | Cash return<br>over rolling 3-year periods      |
| Trustee Selection Strategy                    | CPI + 5.0% p.a.<br>over rolling 10-year periods | CPI + 5.0% p.a.<br>over rolling 10-year periods |
| University Diversifies Conservative Strategy* | CPI + 0.5% p.a.<br>over rolling 4-year periods  | Cash + 1.0% p.a.<br>over rolling 4-year periods |
| University Cash Strategy                      | Cash return<br>over rolling 3-year periods      | Cash return<br>over rolling 3-year periods      |

\*University Diversified Conservative Option will be fully unwound by February 2021. Therefore, the Board has approved to change a real return objective to cash-link return objective.

### Strategic asset allocation changes

As part of the review, several strategic asset allocation changes have been made to the Trustee Selection Strategy. We continue to harmonise illiquid assets across different options to enhance portfolio liquidity. These changes have been implemented by re-weighting the allocations to the impacted asset classes. While we continue to maintain a constructive longer-term outlook, we are mindful of the heightened risk in the shorter term and these changes are intended to further improve the diversification and provide additional downside risk protection.

### Growth, Balanced and Conservative Strategy

There were no asset allocation changes for these investment options. The permitted range for foreign currency exposure was widened due to the desirable downside protection properties that foreign currency exposure can offer.

### Trustee Selection Strategy

Trustee Selection is a defined benefit scheme with a different investment time horizon to DC options. This allows Trustee Selection to benefit from additional premium by investing into less liquid assets. This is reflected in the further small increase in the allocation to unlisted infrastructure. Additionally, we have included Defensive strategies to mitigate sequencing risk associated with Trustee Selection. Other changes were also made to the strategic asset allocations to improve the diversification and portfolio efficiency, along with an increased allocation to foreign currency.

No changes have been made to the asset allocations for Cash and University Cash Strategies.

## STRATEGIC ASSET ALLOCATIONS FOR DEFINED BENEFIT STRATEGIES

### Trustee Selection Strategy

Effective from 1 July 2020, the strategic asset allocation for the Trustee Selection Strategy was revised as follows:

|                              | Strategic asset allocation % | Dynamic asset allocation range % |
|------------------------------|------------------------------|----------------------------------|
| <b>Liquid growth</b>         | <b>55.0</b>                  | <b>39.0 – 71.0</b>               |
| Australian equities          | 19.0                         |                                  |
| International equities       | 36.0                         |                                  |
| <b>Alternatives</b>          | <b>33.0</b>                  | <b>23.0 – 43.0</b>               |
| Infrastructure               | 12.0                         |                                  |
| Property                     | 7.0                          |                                  |
| Other alternatives           | 14.0                         |                                  |
| <b>Liquid defensive</b>      | <b>12.0</b>                  | <b>10.0 – 28.0</b>               |
| Australian fixed interest    | 2.0                          |                                  |
| International fixed interest | 0                            |                                  |
| Other defensive strategies   | 6.0                          |                                  |
| Cash                         | 4.0                          |                                  |
| <b>TOTAL</b>                 | <b>100.0</b>                 | <b>100.0</b>                     |

### University Diversified Conservative Strategy

Effective from 1 July 2020, the strategic asset allocation for the University Diversified Conservative Strategy remains as follows:

|                              | Strategic asset allocation % | Dynamic asset allocation range % |
|------------------------------|------------------------------|----------------------------------|
| <b>Liquid growth</b>         | <b>19.0</b>                  | <b>11.0 – 27.0</b>               |
| Australian equities          | 8.0                          |                                  |
| International equities       | 11.0                         |                                  |
| <b>Alternatives</b>          | <b>0.0</b>                   | <b>N/A</b>                       |
| <b>Liquid defensive</b>      | <b>81.0</b>                  | <b>73.0 – 89.0</b>               |
| Australian fixed interest    | 4.0                          |                                  |
| International fixed interest | 2.0                          |                                  |
| Cash                         | 75.0                         |                                  |
| <b>TOTAL</b>                 | <b>100.0</b>                 | <b>100.0</b>                     |

### University Cash Strategy

Effective from 1 July 2020, the strategic asset allocation for the University Cash Strategy remains as follows:

|                         | Strategic asset allocation % |
|-------------------------|------------------------------|
| <b>Liquid growth</b>    | <b>0.0</b>                   |
| <b>Alternatives</b>     | <b>0.0</b>                   |
| <b>Liquid defensive</b> | <b>100.0</b>                 |
| Cash                    | 100.0                        |
| <b>TOTAL</b>            | <b>100.0</b>                 |

*Note: Dynamic asset allocation ranges are not used in the University Cash Strategy.*

## STRATEGIC ASSET ALLOCATIONS FOR MEMBER INVESTMENT CHOICE STRATEGIES

### Growth Strategy

Effective from 1 July 2020, the strategic asset allocation for the Growth Strategy remains as follows:

|                              | Strategic asset allocation % | Dynamic asset allocation range % |
|------------------------------|------------------------------|----------------------------------|
| <b>Liquid growth</b>         | <b>51.0</b>                  | <b>35.0 – 67.0</b>               |
| Australian equities          | 22.5                         |                                  |
| International equities       | 28.5                         |                                  |
| <b>Alternatives</b>          | <b>36.0</b>                  | <b>28.0 – 44.0</b>               |
| Infrastructure               | 10.5                         |                                  |
| Property                     | 8.0                          |                                  |
| Other alternatives           | 17.5                         |                                  |
| <b>Liquid defensive</b>      | <b>13.0</b>                  | <b>10.0 – 29.0</b>               |
| Australian fixed interest    | 4.0                          |                                  |
| International fixed interest | 2.0                          |                                  |
| Income                       | 2.0                          |                                  |
| Defensive strategies         | 0.5                          |                                  |
| Cash                         | 4.5                          |                                  |
| <b>TOTAL</b>                 | <b>100.0</b>                 | <b>100.0</b>                     |

### Balanced Strategy

Effective from 1 July 2020, the strategic asset allocation for the Balanced Strategy remains as follows:

|                              | Strategic asset allocation % | Dynamic asset allocation range % |
|------------------------------|------------------------------|----------------------------------|
| <b>Liquid growth</b>         | <b>34.5</b>                  | <b>24.5 – 44.5</b>               |
| Australian equities          | 12.5                         |                                  |
| International equities       | 22.0                         |                                  |
| <b>Alternatives</b>          | <b>28.5</b>                  | <b>20.5 – 36.5</b>               |
| Infrastructure               | 10.5                         |                                  |
| Property                     | 8.0                          |                                  |
| Other alternatives           | 10.0                         |                                  |
| <b>Liquid defensive</b>      | <b>37.0</b>                  | <b>27.0 – 47.0</b>               |
| Australian fixed interest    | 7.5                          |                                  |
| International fixed interest | 2.5                          |                                  |
| Income                       | 8.0                          |                                  |
| Defensive strategies         | 0.5                          |                                  |
| Cash                         | 18.5                         |                                  |
| <b>TOTAL</b>                 | <b>100.0</b>                 | <b>100.0</b>                     |

## Conservative Strategy

Effective from 1 July 2020, the strategic asset allocation for the Conservative Strategy remains as follows:

|                              | Strategic asset allocation % | Dynamic asset allocation range % |
|------------------------------|------------------------------|----------------------------------|
| <b>Liquid growth</b>         | <b>21.0</b>                  | <b>13.0 – 29.0</b>               |
| Australian equities          | 8.5                          |                                  |
| International equities       | 12.5                         |                                  |
| <b>Alternatives</b>          | <b>24.5</b>                  | <b>16.5 – 32.5</b>               |
| Infrastructure               | 10.5                         |                                  |
| Property                     | 8.0                          |                                  |
| Other alternatives           | 6.0                          |                                  |
| <b>Liquid defensive</b>      | <b>54.5</b>                  | <b>46.5 – 62.5</b>               |
| Australian fixed interest    | 6.0                          |                                  |
| International fixed interest | 3.0                          |                                  |
| Income                       | 18.0                         |                                  |
| Defensive strategies         | 0.5                          |                                  |
| Cash                         | 27.0                         |                                  |
| <b>TOTAL</b>                 | <b>100.0</b>                 | <b>100.0</b>                     |

## Cash Strategy

Effective from 1 July 2020, the strategic asset allocation for the Cash Strategy remains as follows:

|                         | Strategic asset allocation % |
|-------------------------|------------------------------|
| <b>Liquid growth</b>    | <b>0.0</b>                   |
| Australian equities     | 0.0                          |
| International equities  | 0.0                          |
| <b>Alternatives</b>     | <b>0.0</b>                   |
| <b>Liquid defensive</b> | <b>100.0</b>                 |
| Cash                    | 100.0                        |
| <b>TOTAL</b>            | <b>100.0</b>                 |

*Note: Dynamic asset allocation ranges are not used in the Cash Strategy.*

## Investment managers at 30 June 2020

|   | Trustee Selection Strategy | Member Investment Choice Strategies | University Strategies |
|---|----------------------------|-------------------------------------|-----------------------|
| <b>Australian Equities</b>                          |                            |                                     |                       |
| Aberdeen Standard Investments                       | –                          | ✓                                   | –                     |
| BlackRock Asset Management Australia Limited        | ✓                          | –                                   | –                     |
| Citigroup Global Markets Australia Pty Ltd          | ✓                          | ✓                                   | –                     |
| Cooper Investors Pty Limited                        | ✓                          | –                                   | –                     |
| Hyperion Asset Management Limited                   | ✓                          | –                                   | –                     |
| Lazard Asset Management Pacific Co                  | ✓                          | ✓                                   | –                     |
| Macquarie Group Limited                             | ✓                          | ✓                                   | –                     |
| Martin Currie Investment Management Ltd             | –                          | ✓                                   | –                     |
| New South Wales Treasury Corporation                | ✓                          | –                                   | –                     |
| Northcape Capital Pty Ltd                           | ✓                          | –                                   | –                     |
| Omega Global Investors                              | –                          | ✓                                   | –                     |
| Pendal Group Limited                                | ✓                          | ✓                                   | –                     |
| Platypus Asset Management Pty Ltd                   | ✓                          | ✓                                   | –                     |
| State Street Bank & Trust Company                   | ✓                          | ✓                                   | –                     |
| State Street Global Advisors Australia Limited      | ✓                          | –                                   | ✓                     |
| UBS Securities Australia Ltd                        | ✓                          | –                                   | –                     |
| <b>International Equities</b>                       |                            |                                     |                       |
| AQR Capital Management LLC                          | ✓                          | ✓                                   | –                     |
| AXA Rosenberg (via Equity Trustees Ltd)             | ✓                          | –                                   | –                     |
| Artisan Partners Limited Partnership                | ✓                          | –                                   | –                     |
| BlackRock Asset Management Australia Limited        | ✓                          | –                                   | –                     |
| C Worldwide Asset Management Fondsmæglerselskab A/S | ✓                          | ✓                                   | –                     |
| Citigroup Global Markets Australia Pty Ltd          | ✓                          | ✓                                   | –                     |
| Harris Associates Limited Partnership               | ✓                          | –                                   | –                     |
| Neuberger Berman Australia Ltd                      | –                          | ✓                                   | –                     |
| Northcape Capital Pty Ltd                           | ✓                          | –                                   | –                     |
| Ninety One Plc (Previously known as Investec)       | ✓                          | ✓                                   | –                     |
| State Street Bank & Trust Company                   | ✓                          | ✓                                   | –                     |
| State Street Global Advisors Australia Limited      | ✓                          | ✓                                   | ✓                     |
| UBS Securities Australia Ltd                        | ✓                          | –                                   | –                     |
| Veritas Asset Management LLP                        | ✓                          | –                                   | –                     |
| Schroder Investment Management Australia Limited    | ✓                          | –                                   | –                     |

|   | Trustee Selection Strategy | Member Investment Choice Strategies | University Strategies |
|---|----------------------------|-------------------------------------|-----------------------|
| <b>Property</b>   |                            |                                     |                       |
| AEW Capital Management, LP (via Equity Trustees Ltd)    | –                          | ✓                                   | –                     |
| AMP Capital Investors Limited                           | –                          | ✓                                   | –                     |
| Brookfield Premier Real Estate Partners L.P             | ✓                          | –                                   | –                     |
| Charter Hall Investment Management Limited              | –                          | ✓                                   | –                     |
| Dexus Funds Management Limited                          | ✓                          | –                                   | –                     |
| EG Funds Management Pty Ltd                             | ✓                          | –                                   | –                     |
| Franklin Templeton Investments Australia Limited        | ✓                          | –                                   | –                     |
| Invesco Real Estate (via Equity Trustees Ltd)           | –                          | ✓                                   | –                     |
| Investa Property Group                                  | –                          | ✓                                   | –                     |
| ISPT Pty Ltd  | –                          | ✓                                   | –                     |
| LaSalle Investment Management (via Equity Trustees Ltd) | –                          | ✓                                   | –                     |
| New South Wales Treasury Corporation                    | ✓                          | –                                   | –                     |
| Vanguard Investments Australia Ltd                      | ✓                          | –                                   | –                     |
| <b>International Fixed Interest</b>                     |                            |                                     |                       |
| State Street Global Advisors Australia Limited          | –                          | ✓                                   | ✓                     |
| <b>Australian Fixed Interest &amp; Cash</b>             |                            |                                     |                       |
| First Sentier Investors (previously Colonial)           | ✓                          | ✓                                   | –                     |
| New South Wales Treasury Corporation                    | ✓                          | –                                   | –                     |
| Pendal Group Limited                                    | ✓                          | ✓                                   | –                     |
| State Street Global Advisors Australia Limited          | ✓                          | ✓                                   | ✓                     |
| <b>Alternative Assets</b>                               |                            |                                     |                       |
| Challenger Investment Partners Limited                  | –                          | ✓                                   | –                     |
| Challenger Investment Solutions Pty Ltd                 | –                          | ✓                                   | –                     |
| Fulcrum Asset Management LLP                            | –                          | ✓                                   | –                     |
| GAM International Management Limited                    | –                          | ✓                                   | –                     |
| GMO Australia Limited                                   | ✓                          | –                                   | –                     |
| K2/D&S Management Co. L.P                               | ✓                          | –                                   | –                     |
| Kohlberg Kravis Roberts & Co. L.P.                      | –                          | ✓                                   | –                     |
| Macquarie Investment Management Limited                 | ✓                          | –                                   | –                     |
| MAN Group plc   | –                          | ✓                                   | –                     |
| New South Wales Treasury Corporation                    | ✓                          | –                                   | –                     |
| Perennial Value Management Limited                      | –                          | ✓                                   | –                     |
| PIMCO Australia Pty Ltd                                 | ✓                          | –                                   | –                     |
| PineBridge Investments LLC                              | –                          | ✓                                   | –                     |
| Resolution Life Group Holdings L.P                      | ✓                          | –                                   | –                     |
| Siguler Guff Distressed Opportunities Fund III (F) LP   | ✓                          | –                                   | –                     |
| Siguler Guff Distressed Opportunities Fund IV (F) LP    | ✓                          | –                                   | –                     |
| York Distressed Asset Holdings IV, LLC                  | –                          | ✓                                   | –                     |
| <b>Currency</b>   |                            |                                     |                       |
| State Street Global Advisors Australia Limited          | ✓                          | ✓                                   | –                     |

|   | Trustee Selection Strategy | Member Investment Choice Strategies | University Strategies |
|---|----------------------------|-------------------------------------|-----------------------|
| <b>High Yield/Bank Loans/EMD</b>                |                            |                                     |                       |
| Brigade Capital Management LP                   | ✓                          | –                                   | –                     |
| Intermediate Capital Group Limited              | ✓                          | –                                   | –                     |
| Ninety One UK Limited                           | ✓                          | –                                   | –                     |
| KKR Australia Investment Management Pty Limited | ✓                          | –                                   | –                     |
| Lazard Asset Management Pacific Co              | ✓                          | –                                   | –                     |
| PineBridge Investments LLC                      | ✓                          | –                                   | –                     |
| <b>Infrastructure</b>                           |                            |                                     |                       |
| AMP Capital Funds Management Limited            | ✓                          | –                                   | –                     |
| First Sentier Investors (previously Colonial)   | –                          | ✓                                   | –                     |
| H.R.L. Morrison & Co Limited                    | –                          | ✓                                   | –                     |
| IFM Investors                                   | –                          | ✓                                   | –                     |
| Macquarie Specialised Asset Management Limited  | ✓                          | –                                   | –                     |
| New South Wales Treasury Corporation            | ✓                          | ✓                                   | –                     |
| QIC Limited                                     | –                          | ✓                                   | –                     |
| Whitehelm Capital Pty Ltd                       | ✓                          | –                                   | –                     |
| <b>Diversified</b>                              |                            |                                     |                       |
| State Street Global Advisors Australia Limited  | –                          | –                                   | ✓                     |

# Member Engagement

## Overview of scheme membership

The membership of the State Super schemes at 30 June 2020 is set out below.

| Scheme                          | At 30 June 2015 | At 30 June 2020 | Movement % over 5 years |
|---------------------------------|-----------------|-----------------|-------------------------|
| <b>Active members</b>           |                 |                 |                         |
| SASS                            | 28,669          | 17,009          | -41%                    |
| SSS                             | 7,114           | 1,741           | -76%                    |
| PSS                             | 1,281           | 649             | -49%                    |
| <b>Total</b>                    | <b>37,064</b>   | <b>19,399</b>   | <b>-48%</b>             |
| <b>Deferred benefit members</b> |                 |                 |                         |
| SASS                            | 10,358          | 9,004           | -13%                    |
| SSS                             | 2,047           | 1,094           | -47%                    |
| PSS                             | 114             | 79              | -31%                    |
| <b>Total</b>                    | <b>12,519</b>   | <b>10,177</b>   | <b>-19%</b>             |
| <b>Pension members</b>          |                 |                 |                         |
| SASS                            | 4,156           | 4,737           | 14%                     |
| SSS                             | 53,452          | 55,170          | 3%                      |
| PSS                             | 6,550           | 6,697           | 2%                      |
| <b>Total</b>                    | <b>64,158</b>   | <b>66,604</b>   | <b>4%</b>               |
| <b>Total</b>                    | <b>113,741</b>  | <b>96,180</b>   | <b>-15%</b>             |

The State Super schemes are closed to new members. Over the past five years, the number of active members fell by 17,665, while the number of pension members increased by 2,446. Refer to page 72 for membership statistics for the past five years.

### The next five years

Over the coming five-year period to 30 June 2025, the membership of the State Super schemes will continue to fall to a projected 77,999 members, while the contributory or active membership will more than halve to 8,368 members. This rapid reduction in contributors reflects the age profile of the membership as well as the SSS benefit design, which encourages retirement by age 60. Over the period to 2025, the deferred benefit membership is projected to fall to 5,344 members, as these members reach the age when they can claim their benefit.

The number of pension members is projected to fall from 66,604 to 64,287 in 2025. Over the longer term, pension members will be the only remaining State Super members.

## Benefits for members

State Super continues to provide a range of services to enable members to obtain timely, accurate and useful information on the schemes and their personal benefit entitlements.

### INFORMATION, EDUCATION AND ADVICE SERVICES

The trends in members' use of the services are shown in the table below.

|                           | 2017–18 | 2018–19 | 2019–20 |
|---------------------------|---------|---------|---------|
| Telephone calls           | 78,845  | 75,322  | 75,835  |
| Letters                   | 4,795   | 4,949   | 5,491   |
| Emails                    | 23,210  | 23,026  | 13,456* |
| Seminar attendance        | 1,681   | 2,092   | 1,971   |
| Personal interviews       | 473     | 208     | 183     |
| Financial planning advice | 15,442  | 13,994  | 13,263  |

*\*In 2019-20 the method to calculate email enquiries was changed to include only emails sent to the administrator.*

#### Member contact

Over 95,000 phone calls, letters and emails were managed by our external administrator. State Super carefully manages member services delivered by Mercer Administration Services.

There were 149,524 users who visited the site 264,377 times and spent an average 2:46 minutes per session. Our members clicked the link to login to view their account over 98,000 times.

#### Personal interview service

Personal interviews are available for current and deferred State Super members. Members are provided with general advice about their scheme and general superannuation information. During 2019–20, State Super provided 183 personal interviews, mainly at our CBD office, with the remainder held in regional offices of Aware Super. Due to the risk posed by COVID-19, personal interview services are being conducted by video calls.

#### Financial planning advice

Aware Super provides financial planning advice to members of the State Super schemes and their relatives.

State Super carefully monitors and works with Aware Super to ensure that State Super scheme members continue to have access to high-quality information and advice about their scheme entitlements and financial planning. During 2019–20, Aware Super made 13,263 financial planner appointments for State Super members or relatives of State Super members.

#### Retirement planning seminars

During 2019–20, Aware Super delivered retirement planning seminars across NSW metropolitan and regional areas on behalf of State Super. The program was suspended in March due to the risk posed by COVID-19 and recommenced 2 months later in a webinar format. There were 57 Seminars / webinars hosted, of these, 51 were SASS-based seminars and 6 were SSS based. These were attended by 1,971 SASS and SSS members.

## OTHER BENEFITS FOR MEMBERS

### Salary sacrifice contributions

All members have the option of contributing their compulsory member contributions on a post or pre-tax (salary sacrifice) basis. The majority of members in all schemes make salary sacrifice contributions. The percentage of member contributions received via salary sacrifice for 30 June 2020 is shown in the following table, with a breakdown per scheme.

#### Percentage of member contributions received via salary sacrifice over the last three years

| Scheme | 2017–18<br>% | 2018–19<br>% | 2019–20<br>% |
|--------|--------------|--------------|--------------|
| SASS   | 74           | 72           | 71           |
| SSS    | 81           | 79           | 78           |
| PSS    | 69           | 70           | 70           |

### SASS member investment choice

SASS members can choose single or multiple investment strategies for their personal account balance and future contributions.

The table below shows the allocation of member account balances by investment strategy. The account balances cover both contributory and deferred SASS members, are net of surcharge tax liabilities and include deferred SANCS benefits invested in the Growth Strategy.

|              | Account balances           |            |                            |            |
|--------------|----------------------------|------------|----------------------------|------------|
|              | 30 June 2019<br>\$ million | %          | 30 June 2020<br>\$ million | %          |
| Growth       | 6,193                      | 79         | 5,713                      | 76         |
| Balanced     | 1,047                      | 13         | 1,090                      | 14         |
| Conservative | 513                        | 6          | 525                        | 7          |
| Cash         | 145                        | 2          | 230                        | 3          |
| <b>Total</b> | <b>7,898</b>               | <b>100</b> | <b>7,558</b>               | <b>100</b> |

A large majority of account balances continue to be invested in the Growth Strategy (the default strategy) for member investment choice.

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# Part D

## Corporate Governance

The following information is provided in accordance with the *Annual Reports (Statutory Bodies) Regulation 2015*.

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## Corporate governance

Fit-for-purpose and effective governance arrangements are the foundation of high-quality performance. In 2019–20, State Super's governance arrangements performed effectively under significant interruption caused by the COVID-19 pandemic. The AIST Governance Code Panel provided positive feedback to State Super on a range of improvements that had been implemented in 2019-20. There was also a seamless transition for the Board whilst six out of the nine board members were either re-appointed or replaced with new members during the year.

As APRA have postponed their major policy review program that arose from the 2018 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (RC) due to the COVID-19 pandemic, our work implementing any material outcomes from that review was put on hold this year. APRA have now indicated they will re-commence their review program in FY2021, and we will plan our work accordingly. This also includes our review of the implications of the RC on our major outsourcing providers, Mercer and TCorp, as well as on Aware Super. While we are not APRA regulated, we nevertheless have an obligation through HOGA (Heads of Government Agreement) to remain closely aligned with the APRA requirements on a 'best endeavours' basis.

A key theme from the RC relates to the culture of financial services organisations. State Super evaluates employee satisfaction and attitudes through surveys and key metrics. For 2019/20, State Super's overall employee engagement was significantly higher than the public sector equivalent averages. In addition, State Super conducts annual risk culture surveys which note a strong risk culture. State Super has also arranged for an external consultant to conduct a specific culture survey of staff to assess culture on a more granular basis in a way that is consistent with the recommendations of the RC. This work was completed in 2019.

### State Super's regulatory framework

State Super is governed by the *Superannuation Administration Act 1996* (NSW) (the SA Act). The SA Act expressly provides that State Super is a trustee for the purposes of the *Trustee Act 1925* (NSW).

The State Super schemes are exempt public sector superannuation schemes for the purposes of the *Superannuation Industry Supervision Act 1993* (Cth) (the SIS Act) and are not regulated under the SIS Act. However, the SIS Act is relevant because the State of NSW is a party to HOGA with the Commonwealth Government. The HOGA contains an undertaking by the State of NSW that it will ensure that members' accrued benefits in exempt schemes are fully protected and that those exempt schemes will, on a best endeavours basis, conform to the principles of the Commonwealth's retirement income policy as reflected in the attachment to the HOGA and from time to time in Commonwealth legislation. State Super considers that the Commonwealth legislation (and the Australian Prudential Regulation Authority (APRA) Superannuation Prudential Standards made under that legislation) provide significant guidance as to the exercise of its statutory and fiduciary functions. Accordingly, State Super aspires to be compliant with Commonwealth legislation including the SIS Act (and the APRA Superannuation Prudential Standards) on a best endeavours basis.

The NSW Government, and in particular the Treasurer of NSW, has specific responsibilities for overseeing State Super's prudential regulation.

### Compliance framework

State Super's formal compliance framework outlines the processes adopted by the Trustee Board to ensure compliance with the regulatory obligations that apply to State Super's day-to-day operations. The framework is the totality of the systems, structures, policies, processes and people within State Super's business operations that identify, assess and manage compliance obligations. The Trustee Board receives ongoing reporting and actively participates in the monitoring process to ensure the adequacy of the plans and policies, both directly and through its Committees.

State Super's compliance processes include:

- The review and maintenance of plans and policies required by NSW legislation for public sector agencies.
- The review and maintenance of plans and policies that comply (on a best endeavours basis) with the SIS Act, the APRA Superannuation Prudential Standards and the relevant provisions of the *Corporations Act 2001* (Cth).
- The review and maintenance of compliance obligation registers that identify State Super's legislative and contractual obligations.
- Ongoing self-assessment of compliance with the compliance obligations register and the reporting of results to the Risk, Audit and Compliance Committee.
- Obtaining annual formal verification from State Super's outsourced service providers confirming they have complied with their contractual and legislative obligations in relation to their services to State Super.
- Periodic internal audits of compliance with relevant plans and policies.
- Regular Board appraisals to assess governance and control practices along with other key elements for Board success.

# Risk management

## Risk management and insurance

The Trustee Board is responsible for having a Risk Management Framework that is appropriate to the size, business mix and complexity of the State Super schemes and which enables the Trustee to effectively manage the material risks presented by its environment and objectives.

The Risk, Audit and Compliance Committee (RACC) assists State Super to monitor and review the Risk Management Framework. Held at least quarterly, the RACC meetings are also attended by members of the Executive and representatives of the NSW Audit Office. Material outsourced providers, including the Administrator, Custodian and Master Investment Manager, also attend RACC meetings when required.

### Risk Management Framework and associated documents

State Super's Risk Management Framework sets out the Trustee Board's approach to risk. It represents the systems, structures, policies, processes and people within State Super's business operations that identify, assess, manage, mitigate and monitor all internal and external sources of inherent risk that could have a material impact on State Super's business operations or the interests of beneficiaries.

State Super's Risk Management Framework has been developed having regard to APRA Prudential Standard SPS 220 Risk Management and includes the following:

- Risk Appetite Statement (including Risk Tolerances)
- Risk Management Strategy
- All risk management policies, procedures and controls to identify, assess, monitor, report on, mitigate and manage each material risk
- Clearly defined and documented roles, responsibilities and formal reporting structures for the management of material risks throughout State Super's business operations
- A designated risk management function
- A review, monitoring, and reporting process to ensure that the risk management framework remains effective

The Risk Appetite Statement articulates the acceptable risk limits within which staff and consultants, whether internal or external, and at all levels of State Super business operations, must operate; while material risks, control methods and ongoing monitoring procedures are set out in State Super's Risk Management Strategy. State Super's Risk Management Framework details:

- Risks that have been identified by the Trustee Board as material
- Methods adopted to minimise and/or mitigate material risks
- A methodology for monitoring material risks on an ongoing basis.

In addition to the Risk Management Framework, State Super has procedures in relation to:

- The management and monitoring of adequate human, technical and financial resources to enable State Super to carry out its obligations effectively
- The management and control of fraud and corruption
- Insurance cover in the event of an unexpected occurrence affecting its operations or resources.

State Super also has policies to deal with risk mitigation, including the Code of Conduct and Ethics and Public Interest Disclosure Policy, which encourage proactive risk management and compliance with regulatory obligations.

State Super has an independent review of its risk management framework every three years. The most recent review by Internal Audit in February 2020 found our framework to be relatively mature, balancing the challenges of a large fund with high member base against a highly outsourced business model.

### Insurance

During the 2019–20 financial year, insurance for State Super was maintained with the NSW Government self-insurance scheme called the Treasury Managed Fund (TMF), which covers the NSW Government's insurable risks. TMF provides cover for the following classes of risk:

- Workers Compensation
- Property (full replacement, new for old, including consequential loss)
- Liability (including, but not limited to, professional indemnity and directors' and officers' liability)
- Miscellaneous (e.g. personal accident).

## Internal Audit and Risk Management Attestation Statement for the 2019 – 2020 Financial Year for SAS Trustee Corporation

The Board of SAS Trustee Corporation (STC) is of the opinion that STC and its controlled entity, the SAS Trustee Corporate Staff Agency has internal audit and risk management processes in operation that are compliant with the eight (8) core requirements set out in the *Internal Audit and Risk Management Policy for the NSW Public Sector*, specifically:

### Core Requirements

#### Risk Management Framework

- |     |   |           |
|-----|---|-----------|
| 1.1 | The STC Board is ultimately responsible and accountable for risk management in STC and its controlled agency  | COMPLIANT |
| 1.2 | A risk management framework that is appropriate to STC has been established and maintained and the framework is consistent with AS/NZS ISO 31000:2009 | COMPLIANT |

#### Internal Audit Function

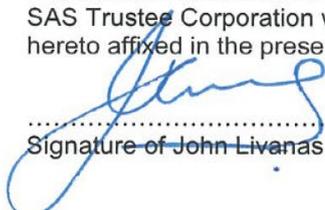
- |     |  |           |
|-----|--|-----------|
| 2.1 | An internal audit function has been established and maintained   | COMPLIANT |
| 2.2 | The operation of the internal audit function is consistent with the International Standards for the Professional Practice of Internal Auditing | COMPLIANT |
| 2.3 | The STC has an Internal Audit Charter that is consistent with the content of the 'model charter'   | COMPLIANT |

#### Audit and Risk Committee

- |     |  |           |
|-----|--|-----------|
| 3.1 | An independent Audit and Risk Committee with appropriate expertise has been established  | COMPLIANT |
| 3.2 | The STC Risk, Audit and Compliance Committee is an advisory committee providing assistance to the STC Board on STC governance processes, risk management and control frameworks, and its external accountability obligations | COMPLIANT |
| 3.3 | The STC Risk, Audit and Compliance Committee has a Charter that is consistent with the content of the 'model charter'  | COMPLIANT |

This ATTESTATION was executed on 8 October 2020, following a resolution of the STC Board on 8 October 2020

The COMMON SEAL of the SAS Trustee Corporation was hereto affixed in the presence of:



Signature of John Livanas

John Livanas  
CEO





Signature of Witness

Allan Parapuram  
General Counsel and Company Secretary

## Privacy and use of member information

State Super complies with relevant legislation, including the *Privacy and Personal Information Protection Act 1998* (NSW) (the NSW Privacy Act) and the *Health Records and Information Privacy Act 2002* (NSW) (the HRIP Act).

State Super has a Privacy Management Plan that is administered with the assistance of Mercer. State Super has also developed a Privacy Statement that:

- details how State Super complies with the requirements of the NSW Privacy Act and the HRIP Act;
- explains how State Super deals with members' personal and health information that may be collected and used in the course of administering the schemes; and
- summarises the circumstances where State Super may provide a members' personal and health information to third parties.

State Super endeavours to ensure its records of members' personal details are accurate. Members may contact Mercer to change their personal or health details. State Super takes steps to ensure there is no unauthorised use or disclosure of members' information. The Privacy Statement is available on request and from the State Super website at [www.statesuper.nsw.gov.au](http://www.statesuper.nsw.gov.au).

## Public interest disclosures

State Super has a Public Interest Disclosures Policy which ensures that State Super's processes are compliant with the *Public Interest Disclosures Act 1994* (NSW) (the PID Act). State Super facilitates staff awareness of its Public Interest Disclosures Policy and the relevant protections under the PID Act in a number of ways, including providing staff access to the Policy and conducting staff awareness training.

There were no public interest disclosures made to State Super during the 2019-20 year nor were there any finalised during that year.

## Significant judicial decisions

There were no significant judicial decisions in matters in which State Super was a party in the 2019-20 year.

## Disputes and appeals

The superannuation schemes administered by State Super provide members with a two-stage system of review of certain decisions made by a delegate of State Super that they wish to dispute. The first stage is State Super's Member Services Committee, and the second stage is an appeal to the Supreme Court of NSW. It should be noted that decisions in certain matters relating to PSS can be appealed directly to the District Court of NSW (see *District Court* section below).

At 1 July 2019, a total of 3 disputes were pending. During the year ending 30 June 2020, 3 new disputes were lodged. 3 disputes were determined by the Member Services Committee during the year (including disputes carried over from the previous year) and 3 disputes were withdrawn or discontinued during 2019-20.

|   |          |
|---|----------|
| <b>Disputes on hand at 1 July 2019</b>              | <b>3</b> |
| <b>Disputes lodged in 2019–20</b>                   | <b>3</b> |
| <b>Disputes determined in 2019–20</b>               |          |
| Confirmation of State Super delegate's decision     | (2)      |
| Delegate's decision set aside and new decision made | (1)      |
| Settled   | 0        |
| Dispute's withdrawn or discontinued in 2019–20      | (3)      |
| <b>Disputes on hand at 30 June 2020</b>             | <b>0</b> |

### Appeals to the Supreme Court

There was one (1) appeal to the Supreme Court from a determination by the Member Services Committee of a dispute in the 2019-20 year. However, that appeal will not be heard by the Court until the 2020-21 year.

|   |   |
|---|---|
| Decided in favour of State Super              | - |
| Decided in favour of the member/beneficiaries | - |
| Withdrawn or discontinued                     | - |
| Settled                                       | - |
| Transferred to District Court                 | - |

### District Court

The *Police Regulation (Superannuation) Act 1906* (NSW) (the PRS Act) provides for a right to apply directly to the District Court of NSW (with no requirement to first lodge a dispute with State Super) from decisions of:

- The Police Superannuation Advisory Committee (PSAC) as the delegate of State Super, concerning applications by PSS hurt on duty (HOD) pensioners for increases to their pensions and/or changes to the commencement dates of their pensions.
- PSAC or the CEO of State Super, as the delegate of State Super, concerning applications by current or former members of the Police Force who are in PSS for a certificate of incapacity under s.10B of the PRS Act.
- PSAC as the delegate of State Super, concerning applications for benefits upon the HOD death of any current or former member of the Police Force who was in PSS.
- The CEO of State Super as the delegate of State Super, concerning whether an application for a certificate of incapacity under s.10B of the PRS Act or for an increase to a HOD pension which was received outside of the legislatively prescribed timeframe should be accepted.
- Allianz Insurance Australia Limited as the delegate of State Super, concerning applications by current or former members of the Police Force who are in PSS for lump sum payments for HOD-related permanent impairments or for reimbursement of HOD-related medical expenses.

Applications to the District Court in matters involving State Super resulted in outcomes in the 2019-20 year as set out below:

|   | PSAC/CEO  | Allianz  |
|---|-----------|----------|
| Decided in favour of State Super              | 2         | -        |
| Decided in favour of the member/beneficiaries | 1         | -        |
| Withdrawn or discontinued                     | 3         | -        |
| Settled                                       | 13        | 1        |
| <b>Total</b>                                  | <b>19</b> | <b>1</b> |

As at 30 June 2020 there were 20 applications to the District Court in matters involving State Super where the legal proceedings were still ongoing. None of these matters involved a decision made by Allianz.

## Access to information

State Super is, for the purposes of the *Government Information (Public Access) Act 2009* (NSW) (the GIPA Act), an agency and as such must release “government information” unless there is an overriding public interest against disclosure. Government information is anything contained in a record held by an agency or held on behalf of an agency by a private sector entity, to which the agency has right of access.

State Super holds (either itself or via a service provider) information that is classed as “government information” about:

- Itself as a corporation – such as information relating to its business operations, financial situation and dealings, staff and structure and property and equipment and
- The superannuation schemes that it is trustee of, including a superannuation membership file for each of the members of the schemes.

It must be noted that information about the investment functions performed by State Super is excluded for the purposes of the GIPA Act.

### Open access information about State Super

The GIPA Act obliges agencies to release “open access information” (as defined in the GIPA Act) and State Super’s “open access information” is set out on the website [www.statesuper.nsw.gov.au](http://www.statesuper.nsw.gov.au) (under “About Us” and then “Access to Information”).

State Super reviews annually the types of government information it holds for the purpose of determining what government information should be made publicly available. The result of the 2019-20 review was that State Super believes that it has made publicly available all the government information it holds that should, in the public interest, be available and that can be made available without imposing unreasonable costs on itself.

### Access to information about State Super

Information about State Super, including its open access information, is available from the website [www.statesuper.nsw.gov.au](http://www.statesuper.nsw.gov.au) (under “About Us” and then “Access to Information”). The website also contains State Super’s Agency Information Guide, which amongst other things describes the types of government information held by State Super, the types of information that is available to the public and how to access that information.

Access to some government information about State Super may be able to be released after an informal application for the information, and such an application can be made by contacting State Super’s Information Access Officer on 02 9238 5906. However, State Super may impose reasonable conditions on the release of information informally, or it may require an applicant to make a formal application for access under the GIPA Act.

A formal application under the GIPA Act may be required where the requested information is of a type that is costly to make available or where the decision about access may have to be formally made because of the nature of the information sought. A formal application can be made using the form available from the website [www.statesuper.nsw.gov.au](http://www.statesuper.nsw.gov.au) (under “About Us” and then “Access to Information”). The completed form should be addressed to State Super at:

Information Access Officer  
SAS Trustee Corporation  
PO Box N259  
Grosvenor Place NSW 1220

A formal application under the GIPA Act requires an application fee of \$30 and State Super also has the right to charge a processing fee of \$30 per hour in addition to the application fee. Processing charges may be reduced by 50% for a pensioner holding a health care card, a full-time student or where an applicant is suffering financial hardship.

During the 2019-20 year, State Super directly received three (3) formal applications for access to information under the GIPA Act (as opposed to applications received on behalf of State Super by Mercer). One (1) of those applications was subsequently determined to be invalid. In 2019-20 State Super also received two (2) applications for internal review of decisions made by Mercer (for State Super) about applications under the GIPA Act. State Super carried out these two internal reviews. All of these applications received directly by State Super are included in Appendix 1 (along with all the applications received by Mercer on behalf of State Super) in the statistics relating to applications made to State Super for access to information under the GIPA Act in the 2019-20 year.

## Member access to their superannuation file

State Super members can apply for access under the GIPA Act for part or all the information held in the superannuation membership file that the scheme administrator (Mercer) maintains, on behalf of State Super, in relation to their scheme membership.

Mercer is contractually obliged to State Super to process these applications and has responsibility for handling the processing of certain functions of State Super relating to applications for access to information made by members of the State Super schemes. Mercer processes these applications as authorised delegate for and on behalf of State Super, which is the owner of the government information held by Mercer that comprises the members' superannuation files.

A formal application under the GIPA Act is required for a member of a State Super scheme to access part or all the information in their superannuation membership file held by Mercer. The forms for such an application are available on the State Super website under "About Us" and then "Access to Information" or by calling a Mercer Information Access Officer on 1800 779 068. The applications are made to Mercer, who process them as a delegate for and on behalf of State Super. An application fee of \$30 must be paid to Mercer and processing fees of \$30 an hour may apply (although the first 20 hours of processing is free of charge). Processing charges may be reduced by 50% for a pensioner holding a health care card, a full-time student or where an applicant is suffering financial hardship.

A formal application, once completed on the appropriate form, should be addressed to Mercer at:

Information Access Co-ordinator

Mercer Administration Services

PO Box 1229

Wollongong NSW 2500

## Applications to State Super (either directly or via Mercer) under the GIPA Act for access to information

During the 2019-20 year, there were:

- 306 formal applications for information (under the GIPA Act) received by or on behalf of State Super, (including withdrawn applications, but excluding invalid applications).
- 296 applications processed.
- 24 applications refused, in whole or in part, because the application was for information for which there is a conclusive presumption of overriding public interest against disclosure (categories referred to in Schedule 1 of the GIPA Act). Of those 24 applications, all but one (1) were only refused in part.
- There were 30 applications still in progress as at 30 June 2020 (there had been 20 applications in progress at 1 July 2019).

Refer to Appendix 1 for statistical information about applications to State Super (either directly or via Mercer) under the GIPA Act for access to information in the 2019-20 year.

## Relevant legislative changes

There were no changes to State Super's constituent legislation and the governing legislation of the State Super schemes in the 2019-20 year (the relevant pieces of legislation are set out below):

| Principal Act or regulation   | Description |
|---|-------------|
| <i>Superannuation Administration Act 1996 (NSW)</i>                     | No changes. |
| <i>Police Regulation (Superannuation) Act 1906 (NSW)</i>                | No changes. |
| <i>Police Association Employees (Superannuation) Act 1969 (NSW)</i>     | No changes. |
| <i>State Authorities Superannuation Act 1987 (NSW)</i>                  | No changes. |
| <i>State Authorities Non-contributory Superannuation Act 1987 (NSW)</i> | No changes. |
| <i>Superannuation Act 1916 (NSW)</i>                                    | No changes. |

There were also no changes to the Regulations made under the Acts listed above in 2019-20.

## Human resource management

During the reporting period, State Super transitioned from the SAS Trustee Corporation Conditions of Employment Determination 2019, to a new and longer-term industrial instrument – the State Super Enterprise Agreement 2020-2022. The Enterprise Agreement, which was overwhelmingly supported by staff, was approved in February 2020 for a period of 30 months.

Key employee services including the administration of salary and entitlements and the provision of reporting was provided by Mercer. Recruitment support continued to be provided by Mercer and specialist providers.

### Salary movement

In line with the NSW Government's Public Sector Wages Policy 2011, a 2.5% remuneration increase was awarded to State Super's non-executive staff, effective 1 July 2019. The Statutory and Other Offices Remuneration Tribunal similarly provided for a 2.5% remuneration increase for senior executive staff, effective 1 July 2019.

### Employee remuneration levels

The table below shows remuneration levels and number of staff by gender and salary range as at 30 June 2020. The salary ranges for 2020 are in accordance with the SAS Trustee Corporation Conditions of Employment Determination 2019 which transitioned in full to the State Super Enterprise Agreement 2020 -2022.

| Salary range          | 2020       |            |             | Salary range          | 2019       |            |             | Salary range          | 2018       |            |             |
|-----------------------|------------|------------|-------------|-----------------------|------------|------------|-------------|-----------------------|------------|------------|-------------|
|                       | Men        | Women      | Total staff |                       | Men        | Women      | Total staff |                       | Men        | Women      | Total staff |
| \$66,228 - \$93,825   | 0          | 4          | 4           | \$64,613 - \$91,536   | 0          | 4          | 4           | \$63,037 - \$89,303   | 0          | 4          | 4           |
| \$93,826 - \$119,213  | 0          | 0          | 0           | \$91,537 - \$116,304  | 0          | 0          | 0           | \$89,304 - \$113,467  | 0          | 0          | 0           |
| \$119,214 - \$131,907 | 1          | 0          | 1           | \$116,305 - \$128,689 | 1          | 1          | 2           | \$113,468 - \$125,550 | 0          | 1          | 1           |
| \$131,908 - \$154,534 | 1          | 4          | 5           | \$128,690 - \$150,764 | 3          | 2          | 5           | \$125,551 - \$147,087 | 0          | 4          | 4           |
| \$155,535 - \$181,496 | 11         | 9          | 20          | \$150,765 - \$177,069 | 9          | 9          | 18          | \$147,088 - \$172,750 | 10         | 9          | 19          |
| <b>Totals</b>         | <b>13</b>  | <b>17</b>  | <b>30</b>   |                       | <b>13</b>  | <b>16</b>  | <b>29</b>   |                       | <b>10</b>  | <b>18</b>  | <b>28</b>   |
|                       | <b>43%</b> | <b>57%</b> |             |                       | <b>45%</b> | <b>55%</b> |             |                       | <b>36%</b> | <b>64%</b> |             |

## Executive remuneration levels

The table below shows remuneration levels and the number of senior executive staff by salary band and gender at 30 June 2020.

In 2020 37.5% of State Super's employee-related expenditure related to senior executives, compared to 42% in 2019. The variance is driven by redundancy payments to executives in 2019.

| Band* and salary range                            | 2020 |       |       |                          | 2019 |       |       |                      | 2018 |       |       |                      |
|---|------|-------|-------|--------------------------|------|-------|-------|----------------------|------|-------|-------|----------------------|
|   | Men  | Women | Total | Average Remuneration     | Men  | Women | Total | Average Remuneration | Men  | Women | Total | Average Remuneration |
| Band 4 (Secretary) >\$487,051                     | 1    | 0     | 1     | \$568,250 <sup>(1)</sup> | 0    | 0     | 0     | N/A                  | 0    | 0     | 0     | N/A                  |
| Band 3 (Deputy Secretary) \$345,551 - \$487,050   | 1    | 0     | 1     | \$430,500                | 1    | 0     | 1     | \$420,000            | 0    | 0     | 0     | N/A                  |
| Band 2 (Executive Director) \$274,701 - \$345,550 | 3    | 0     | 3     | \$323,187                | 3    | 0     | 3     | \$315,305            | 3    | 0     | 3     | \$309,930            |
| Band 1 (Director) \$192,600 - \$274,700           | 1    | 1     | 2     | \$274,700                | 1    | 1     | 2     | \$267,657            | 2    | 2     | 4     | \$253,208            |
|   | 6    | 1     | 7     |                          | 5    | 1     | 6     |                      | 5    | 2     | 7     |                      |

(1) In 2019/20, the maximum performance bonus payable as part of the CEO's remuneration package was \$185,550. At the time of publication, the actual performance bonus payable is to be determined.

## Industrial relations

Public Sector Industrial Relations continued to provide industrial coverage for State Super during the review period, and this included guidance with the development of the State Super Enterprise Agreement 2020-2022. There were no disputes or industrial issues during the year.

## Training and development

State Super recognises the value of continuous learning in enhancing both individual performance and building organisational capability. Across the organisation, employees are encouraged to participate in a range of technical, interpersonal and leadership development programs as identified in their performance development plans and reviewed in ongoing discussions with their managers. Development options are varied and generally take a blended approach which includes attendance at courses either in person or online, participation and presenting at industry seminars and conferences, executive coaching and practical on the job training.

A number of organisation-wide programs that were planned for rollout in the second half of the year were put on hold due to the COVID-19 situation and these will be rolled out in the next reporting period.

## Work health and safety

With the COVID-19 situation in early 2020, State Super moved quickly to minimise the risk of employee infection and community transmission by transitioning the workforce to home based work arrangements. At the same time, the organisation ramped up its focus on employee health, mental health and wellbeing by increasing the frequency of employee communication, developing information and resources on staying well and broadening application of the Employee Assistance Program to include employee's extended families. To better understand the experience of employees with working from home and what additional support they needed, State Super rolled out a Pulse Survey.

To ensure the home work environment was conducive to employee health, wellbeing and performance, State Super upgraded its technology systems and provided staff with equipment and furniture to enable a seamless transition to home-based work. Additionally, virtual ergonomic assessments and First Aid Kits were provided to all employees.

The annual on-site flu vaccinations had to be cancelled in light of the COVID-19 situation and the requirement to work from home.

During the review period, State Super undertook a review of its Work Health and Safety Management System (WHSMS) as a follow up to the December 2018 audit. The review found that the level of compliance and adherence to best practice had been maintained and that the organisation had implemented recommendations from the 2018 review. The next audit will take place at the end of 2020.

The WHSMS, its implementation and program of works is led by State Super's WHS Committee who provide regular updates to employee and reports to the CEO on a monthly basis.

In May 2020, voting was held to determine the ongoing WHS consultation mechanism for the organisation with unanimous support for retaining the current WHS Committee arrangements for a further two-year term.

In the latter half of the reporting year, the Committee embarked on a review and update of all its WHSMS and documentation to ensure currency and fit for purpose over the coming years.

During the reporting period, State Super had no work-related injuries, illnesses or prosecutions under the Work Health and Safety Act 2011.

## Diversity and Inclusion

Diversity and Inclusion is key component of the organisation's corporate planning process. The focus of State Super's Diversity and Inclusion Policy and Plan is on embedding a culture of inclusivity and respect through awareness programs and clear behavioural expectations; data collection, analysis and reporting; identifying and removing barriers to merit based recruitment, professional development and carer progression.

**Table A: Trends in the representation of workforce diversity groups<sup>1</sup>**

| Workforce diversity group                                  | Benchmark or target | % of total staff <sup>2</sup> |        |        |
|--|---------------------|-------------------------------|--------|--------|
|  |                     | 2018                          | 2019   | 2020   |
| Women  | 50%                 | 55.26%                        | 50.00% | 48.65% |
| Aboriginal people and Torres Strait Islanders              | 2.6%                | 0%                            | 0%     | 0%     |
| People whose first language is not English                 | 19%                 | 21.05%                        | 22.22% | 29.73% |
| People with a disability                                   | N/A <sup>3</sup>    | 2.63%                         | 2.78%  | 2.78%  |
| People with a disability requiring work-related adjustment |                     | 0%                            | 0%     | 0%     |

**Table B: Trends in the distribution of workforce diversity**

| Workforce diversity group                                  | Benchmark or target | Distribution Index <sup>4</sup> |      |      |
|--|---------------------|---------------------------------|------|------|
|  |                     | 2018                            | 2019 | 2020 |
| Women  | 100                 | 83                              | 79   | 66   |
| Aboriginal and Torres Strait Islander people               | 100                 | N/A                             | N/A  | N/A  |
| People whose first language was not English                | 100                 | 87                              | 92   | 91   |
| People with a disability                                   | 100                 | 95                              | 95   | 93   |
| People with a disability requiring work-related adjustment | 100                 | N/A                             | N/A  | N/A  |

<sup>1</sup> Staff numbers at 30 June 2020.

<sup>2</sup> Excludes casual employees.

<sup>3</sup> Per cent employment levels are reported but a benchmark level has not been set.

<sup>4</sup> A distribution index of 100 indicates that the centre of the distribution of the workforce diversity group across salary levels is equivalent to that of other staff. Values of less than 100 mean that the workforce diversity group tends to be more concentrated at lower salary levels than is the case for other staff. The more pronounced this tendency is, the lower the index will be. In some cases, the index may be more than 100, indicating that the workforce diversity group is less concentrated at lower salary levels. The distribution index is not calculated where the workforce diversity group or non-workforce diversity group numbers are less than 20.

# Budgets

## State Super's budget for the year ended 30 June 2021 and 2020

|  | Budget FY 2021<br>\$'000 | Budget FY 2020<br>\$'000 | Actual FY 2020<br>\$'000 |
|--|--------------------------|--------------------------|--------------------------|
| <b>Income (reimbursement)</b>                              |                          |                          |                          |
| Income (reimbursement)                                     | 40,875                   | 43,135                   | 34,971                   |
| <b>Expenditure</b>   |                          |                          |                          |
| <b>Member administration costs</b>                         | <b>23,942</b>            | <b>24,875</b>            | <b>21,561</b>            |
| <b>Executive and Board</b>                                 |                          |                          |                          |
| Board expenses   | 705                      | 802                      | 571                      |
| Staff related costs  | 5,750                    | 5,800                    | 5,540                    |
| Accommodation/premises                                     | 1,392                    | 1,381                    | 1,242                    |
| Other administration expenses                              | 6,471                    | 6,524                    | 4,689                    |
| Regulatory, governance and process improvement initiatives | 2,615                    | 3,753                    | 1,368                    |
| <b>Total Executive and Board expenses</b>                  | <b>16,933</b>            | <b>18,260</b>            | <b>13,410</b>            |
| <b>Total expenditure</b>                                   | <b>40,875</b>            | <b>43,135</b>            | <b>34,971</b>            |
| <b>Net income/loss</b>                                     | <b>-</b>                 | <b>-</b>                 | <b>-</b>                 |

## Expenditure disclosure information

### Overseas visits

#### Gary Gabriel, Chief Investment Officer

Gary attended a Total Portfolio Approach (TPA) Tour visiting 6 cities (San Francisco, Vancouver, Edmonton, Toronto, Montreal, & New York) accompanied by TCorp, iCare and NSW Treasury between 27 July - 6 August 2019. Gary met with a number of professional firms including British Columbia Investment Management, AIMCo, IMCO, CPPIB, BlackRock, CDPQ, Bridgewater, British Columbia Investment Management.

The total cost incurred was \$11,927.04 (return airfare: \$8,657.84, accommodation: \$1,872.85 and incidental expenses \$1,396.35). This cost was entirely paid for by State Super.

#### Charles Wu, Deputy CIO and General Manager DC Investment

Charles Wu attended two conferences in London and Berlin between 26 January 2020 and 17 February 2020 including presenting at the Institutional Investors Annual European Pensions Symposium between 5 to 7 February 2020. Charles funded all travel to the conferences. State Super paid only for the Conference and Accommodation to the value of \$7,500.

#### John Livanas, CEO

Between 7 and 11 October 2019, John reviewed the operations and joined a study tour of Mercer's Global Operation Shared Services (GOSS) Centre at the Gurugram (Gurgaon) and Noida offices, India.

The purpose of the tour was to provide an opportunity to better understand how Mercer's GOSS Centre operates and to receive information as to Mercer's strategic intent relating to its operations. It also provided an opportunity for Mercer's clients to undertake due diligence to brief executives and boards and to meet trustee and APRA outsourcing requirements.

The total cost incurred was \$8,281.64 (return airfare to Delhi, India \$5,581.64, accommodation, food and transfers of \$2,700.00). This cost was entirely paid for by State Super.

### Payments to consultants

| Area              | Project   | Consultant                         | Total Cost<br>\$ |
|-------------------|---|------------------------------------|------------------|
| <b>STC</b>        |   |                                    |                  |
| Member Engagement | IT advisory for Administration Platform Transition*           | PwC Consulting (Australia) Pty Ltd | \$578,612        |
| Member Engagement | Review and advise on superannuation administration services** | Rice Warner Pty Ltd                | \$29,700         |
| Member Engagement | Member forums advice**  | Nous Group Pty Ltd                 | \$53,900         |
| <b>Total</b>      |   |                                    | <b>\$662,212</b> |

\*Subjected to procurement process including probity auditor

\*\*Subject to competitive quote process

## Account payment performance

### Accounts paid on time within each quarter

| Measure   | Sep-19       | Dec-19       | Mar-20      | Jun-20       |
|---|--------------|--------------|-------------|--------------|
| <b>All suppliers</b>  |              |              |             |              |
| Number of accounts due for payment  | 381          | 358          | 369         | 349          |
| Number of accounts paid on time   | 381          | 358          | 369         | 349          |
| Actual percentage of accounts paid on time (based on number of accounts)                | 100%         | 100%         | 100%        | 100%         |
| Dollar amount of accounts due for payment   | \$11,332,000 | \$11,921,000 | \$9,408,000 | \$13,922,000 |
| Dollar amount of accounts paid on time  | \$11,332,000 | \$11,921,000 | \$9,408,000 | \$13,922,000 |
| Actual percentage of accounts paid on time (based on \$)                                | 100%         | 100%         | 100%        | 100%         |
| Number of payments for interest on overdue accounts                                     | 0            | 0            | 0           | 0            |
| Interest paid on overdue accounts   | 0            | 0            | 0           | 0            |
| <b>Small business suppliers</b>   |              |              |             |              |
| Number of accounts due for payment to small businesses                                  | 35           | 32           | 31          | 6            |
| Number of accounts due to small businesses paid on time                                 | 35           | 32           | 31          | 6            |
| Actual percentage of small business accounts paid on time (based on number of accounts) | 100%         | 100%         | 100%        | 100%         |
| Dollar amount of accounts due for payment to small businesses                           | \$36,000     | \$69,000     | \$21,000    | \$22,000     |
| Dollar amount of accounts due to small businesses paid on time                          | \$36,000     | \$69,000     | \$21,000    | \$22,000     |
| Actual percentage of small business accounts paid on time (based on \$)                 | 100%         | 100%         | 100%        | 100%         |
| Number of payments to small business for interest on overdue accounts                   | 0            | 0            | 0           | 0            |
| Interest paid to small businesses on overdue accounts                                   | 0            | 0            | 0           | 0            |

## Land disposal

No land disposals were undertaken during the reporting period.

## Credit card use

STC's policy for the use of corporate credit cards by Executive staff is in accordance with the Treasury Policy and Guidelines Paper TPP 17-09. No irregularities in the use of corporate credit cards were recorded during the year.

## Grants to non-government community organisations

No grants to non-government community organisations were made during the reporting period.

## Annual report production details

The production of this report, including its writing, editing, typesetting and printing, was undertaken internally and no external costs were incurred. This report is available online at [www.statesuper.nsw.gov.au](http://www.statesuper.nsw.gov.au) in PDF format. Hard copies can be provided upon request.

## Information and security policy attestation

I, John Livanas of State Super, am of the opinion that State Super has managed cyber security risks in a manner that is consistent with the Mandatory Requirements of the NSW Cyber Security Policy.

The controls in place to mitigate identified risks to the digital information and digital information systems of State Super are adequate.

- State Super has assessed its cyber security risks.
- Cyber security is appropriately addressed as part of State Super's governance framework.
- State Super's Cyber Security response plans are integrated within its business continuity arrangements and have been tested over the previous 12 months (involving senior business executives).
- An internal audit of Cyber Security Assessment and effectiveness of controls was undertaken by Ernst & Young in May 2018 and found to be adequate.

## Controlled entities

State Super has one controlled entity – SAS Trustee Corporate Staff Agency. The principal activity and objective of the SAS Trustee Corporate Staff Agency is to provide personnel services to State Super and the SAS Trustee Corporation Pooled Fund.

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## Part E

# Five-year membership and financial statistical tables

Five years at a glance – to 30 June 2020

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## Five years at a glance – to 30 June 2020

| Member statistics                     | 2016          | 2017          | 2018          | 2019          | 2020          |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Active members – SASS                 | 26,076        | 23,394        | 21,038        | 18,875        | 17,009        |
| Active members – SSS                  | 5,653         | 4,219         | 3,080         | 2,313         | 1,741         |
| Active members – PSS                  | 1,166         | 1,043         | 913           | 784           | 649           |
| <b>Total active members</b>           | <b>32,895</b> | <b>28,656</b> | <b>25,031</b> | <b>21,972</b> | <b>19,399</b> |
| Deferred benefit members – SASS       | 10,112        | 9,852         | 9,606         | 9,293         | 9,004         |
| Deferred benefit members – SSS        | 1,838         | 1,607         | 1,412         | 1,228         | 1,094         |
| Deferred benefit members – PSS        | 107           | 99            | 93            | 85            | 79            |
| <b>Total deferred benefit members</b> | <b>12,057</b> | <b>11,558</b> | <b>11,111</b> | <b>10,606</b> | <b>10,177</b> |
| Pension members – SASS                | 4,241         | 4,353         | 4,479         | 4,620         | 4,737         |
| Pension members – SSS                 | 54,230        | 54,934        | 55,403        | 55,455        | 55,170        |
| Pension members – PSS                 | 6,557         | 6,569         | 6,610         | 6,659         | 6,697         |
| <b>Total pension members</b>          | <b>65,028</b> | <b>65,856</b> | <b>66,492</b> | <b>66,734</b> | <b>66,604</b> |

| Gender ratios – active members | 2016 | 2017 | 2018 | 2019 | 2020 |
|--------------------------------|------|------|------|------|------|
| Females – SASS                 | 51%  | 50%  | 50%  | 50%  | 49%  |
| Males – SASS                   | 49%  | 50%  | 50%  | 50%  | 51%  |
| Females – SSS                  | 37%  | 39%  | 42%  | 43%  | 46%  |
| Males – SSS                    | 63%  | 61%  | 58%  | 57%  | 54%  |
| Females – PSS                  | 12%  | 13%  | 13%  | 14%  | 14%  |
| Males – PSS                    | 88%  | 87%  | 87%  | 86%  | 86%  |

| Contributions – \$ million       | 2016         | 2017         | 2018         | 2019         | 2020         |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Employer contributions           | 281          | 357          | 420          | 400          | 442          |
| Employee contributions           | 330          | 305          | 255          | 226          | 206          |
| Crown contributions              | 1,376        | 1,431        | 1,502        | 1,577        | 1,656        |
| <b>Total contributions</b>       | <b>1,987</b> | <b>2,093</b> | <b>2,177</b> | <b>2,203</b> | <b>2,304</b> |
| Benefits paid – \$ millions      | 4,529        | 4,825        | 4,794        | 4,872        | 4,871        |
| Net contributions – \$ millions  | (2,542)      | (2,732)      | (2,617)      | (2,669)      | (2,567)      |
| Investment revenue – \$ millions | 1,645        | 3,887        | 3,681        | 3,483        | 647          |

| <b>Assets/liabilities*</b>          | <b>2016</b>     | <b>2017</b>     | <b>2018</b>     | <b>2019</b>     | <b>2020</b>     |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Accrued benefits – SASS             | 14,436          | 14,597          | 14,693          | 14,598          | 14,194          |
| Net assets to pay benefits          | 12,688          | 13,358          | 12,950          | 12,911          | 12,104          |
| <b>Over (under) funding – SASS</b>  | <b>(1,748)</b>  | <b>(1,239)</b>  | <b>(1,743)</b>  | <b>(1,687)</b>  | <b>(2,090)</b>  |
| Accrued benefits – SSS              | 34,887          | 34,787          | 34,556          | 34,473          | 34,589          |
| Net assets to pay benefits          | 21,901          | 22,626          | 23,226          | 23,817          | 22,805          |
| <b>Over (under) funding – SSS</b>   | <b>(12,986)</b> | <b>(12,161)</b> | <b>(11,330)</b> | <b>(10,656)</b> | <b>(11,784)</b> |
| Accrued benefits – PSS              | 7,373           | 7,402           | 7,445           | 7,507           | 7,621           |
| Net assets to pay benefits          | 4,501           | 4,661           | 4,900           | 5,153           | 5,034           |
| <b>Over (under) funding – PSS</b>   | <b>(2,872)</b>  | <b>(2,741)</b>  | <b>(2,545)</b>  | <b>(2,354)</b>  | <b>(2,587)</b>  |
| Accrued benefits – SANCS            | 2,425           | 2,367           | 2,293           | 2,199           | 2,145           |
| Net assets to pay benefits          | 1,949           | 1,499           | 1,945           | 1,893           | 1,731           |
| <b>Over (under) funding – SANCS</b> | <b>(476)</b>    | <b>(868)</b>    | <b>(348)</b>    | <b>(306)</b>    | <b>(414)</b>    |
| Total accrued benefits              | 59,121          | 59,153          | 58,987          | 58,777          | 58,549          |
| Total net assets to pay benefits    | 41,039          | 42,144          | 43,021          | 43,774          | 41,674          |
| <b>Over (under) funding – Total</b> | <b>(18,082)</b> | <b>(17,009)</b> | <b>(15,966)</b> | <b>(15,003)</b> | <b>(16,875)</b> |

\*Net asset figures above exclude Employer Sponsor Receivable

Employers are required by AASB119 Employee Benefits to report accrued benefits using a risk-free discount rate. This rate differs from the assumed earning rate used by the Fund actuary to calculate the accrued benefits set out in the table above. The risk-free rate results in a higher estimate of accrued benefits.

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## Part F

# Financial statements of the SAS Trustee Corporation

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## INDEPENDENT AUDITOR'S REPORT

### SAS Trustee Corporation

To Members of the New South Wales Parliament

#### Opinion

I have audited the accompanying financial statements of the SAS Trustee Corporation (the Corporation), which comprise the Statement of Comprehensive Income for the year ended 30 June 2020, the Statement of Financial Position as at 30 June 2020, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information of the Corporation and the consolidated entity. The consolidated entity comprises the Corporation and the entities it controlled at the year's end or from time to time during the financial year.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation and the consolidated entity as at 30 June 2020, and of their financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

My opinion should be read in conjunction with the rest of this report.

#### Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Corporation and the consolidated entity in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants (including Independence Standard)' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Other Information**

The Corporation's annual report for the year ended 30 June 2020 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The members of the Trustee Board are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprises the Statement by the Trustee Board under section 41C of the PF&A Act.

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

## **The Board's Responsibilities for the Financial Statements**

The members of the Trustee Board are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the members of the Board determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the members of the Board are responsible for assessing the ability of the Corporation and the consolidated entity to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: [www.auasb.gov.au/auditors\\_responsibilities/ar3.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf). The description forms part of my auditor's report.

The scope of my audit does not include, nor provide assurance:

- that the Corporation or the consolidated entity carried out their activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

A handwritten signature in blue ink, appearing to read 'W. Liao', with a vertical line extending downwards from the end of the signature.

Weini Liao  
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

12 October 2020  
SYDNEY



**SAS TRUSTEE CORPORATION**

**ABN 29 239 066 746**

**Statement by the Trustee Board  
for the year ended 30 June 2020**

Pursuant to section 41C of the *Public Finance and Audit Act 1983* and in accordance with a resolution of the Board of the SAS Trustee Corporation, we state that in our opinion the financial statements:

1. give a true and fair view of the financial position of the SAS Trustee Corporation as at 30 June 2020 and financial performance for the year then ended, and
2. have been prepared in accordance with the Australian Accounting Standards including Australian Accounting Interpretations, and other mandatory and statutory reporting requirements, including the provisions of the *Public Finance and Audit Act 1983*, the Public Finance and Audit Regulation 2015 and the Treasurer's Directions.

Further, we are not aware of any circumstances, which would render any particulars included in the financial statements to be misleading or inaccurate.

Signed at Sydney this 8<sup>th</sup> day of October 2020.



**Nicholas Johnson**  
*Chairperson*  
*SAS Trustee Corporation*



**Claire Keating**  
*Board Member and Chairperson of the*  
*Risk, Audit and Compliance Committee*  
*SAS Trustee Corporation*

**SAS TRUSTEE CORPORATION**

| <b>Consolidated Statement of Comprehensive Income<br/>for the year ended 30 June 2020</b> | <b>Note</b> | <b>Economic<br/>Entity<br/>2020<br/>\$'000</b> | <b>Economic<br/>Entity<br/>2019<br/>\$'000</b> | <b>Parent<br/>Entity<br/>2020<br/>\$'000</b> | <b>Parent<br/>Entity<br/>2019<br/>\$'000</b> |
|---|-------------|--|--|--|--|
| <b>Revenue</b>  |             |  |  |  |  |
| Operating Revenue   | 3           | <b>37,662</b>                                  | 40,147   | <b>35,024</b>                                | 37,658                                       |
| <b>Expense excluding Losses</b>   |             |  |  |  |  |
| Operating Expenses  | 3           | <b>(37,674)</b>                                | (39,011)                                       | <b>(34,967)</b>                              | (37,658)                                     |
| Finance Costs   | 3           | <b>(57)</b>                                    | -  | <b>(57)</b>                                  | -  |
| <b>Net Result</b>   |             | <b>(69)</b>                                    | 1,136  | -  | -  |
| <b>Other Comprehensive Income</b>   |             |  |  |  |  |
| <b>Items that will not be reclassified into Net Result in subsequent periods:</b>         |             |  |  |  |  |
| Superannuation actuarial re-measurement gains/(losses)                                    | 12          | <b>69</b>                                      | (1,136)  | -  | -  |
| <b>Total Other Comprehensive Income</b>   |             | <b>69</b>                                      | (1,136)  | -  | -  |
| <b>Total Comprehensive Income</b>   |             | -  | -  | -  | -  |

The accompanying notes form an integral part of the above Consolidated Statement of Comprehensive Income

**SAS TRUSTEE CORPORATION**

| <b>Consolidated Statement of Financial Position<br/>as at 30 June 2020</b> | <b>Note</b> | <b>Economic<br/>Entity<br/>2020<br/>\$'000</b> | <b>Economic<br/>Entity<br/>2019<br/>\$'000</b> | <b>Parent<br/>Entity<br/>2020<br/>\$'000</b> | <b>Parent<br/>Entity<br/>2019<br/>\$'000</b> |
|--|-------------|--|--|--|--|
| <b>Current Assets</b>  |             |  |  |  |  |
| Cash and Cash Equivalents  |             | 4,181  | 4,049  | 4,181  | 4,049  |
| Receivables  | 4           | 7,087  | 6,978  | 7,087  | 6,978  |
| Other Current Assets   |             | 511  | 421  | 511  | 421  |
| Right-of-Use Asset   | 5           | 1,238  | -  | 1,238  | -  |
| <b>Total Current Assets</b>  |             | <b>13,017</b>                                  | 11,448   | <b>13,017</b>                                | 11,448                                       |
| <b>Non-Current Assets</b>  |             |  |  |  |  |
| Right-of-Use Asset   | 5           | 1,547  | -  | 1,547  | -  |
| <b>Total Non-Current Assets</b>  |             | <b>1,547</b>                                   | -  | <b>1,547</b>                                 | -  |
| <b>Total Assets</b>  |             | <b>14,564</b>                                  | 11,448   | <b>14,564</b>                                | 11,448                                       |
| <b>Current Liabilities</b>   |             |  |  |  |  |
| Payables   | 6           | 5,804  | 5,970  | 10,725                                       | 10,769                                       |
| Lease Liability  | 7           | 1,218  | -  | 1,218  | -  |
| Provisions   | 8           | 1,046  | 721  | 737  | 542  |
| <b>Total Current Liabilities</b>   |             | <b>8,068</b>                                   | 6,691  | <b>12,680</b>                                | 11,311                                       |
| <b>Non-Current Liabilities</b>   |             |  |  |  |  |
| Lease Liability  | 7           | 1,760  | -  | 1,760  | -  |
| Provisions   | 8           | 4,736  | 4,757  | 124  | 137  |
| <b>Total Non-Current Liabilities</b>                                       |             | <b>6,496</b>                                   | 4,757  | <b>1,884</b>                                 | 137  |
| <b>Total Liabilities</b>   |             | <b>14,564</b>                                  | 11,448   | <b>14,564</b>                                | 11,448                                       |
| <b>Net Assets</b>  |             | -  | -  | -  | -  |
| <b>Accumulated Funds</b>   |             | -  | -  | -  | -  |

The accompanying notes form an integral part of the above Consolidated Statement of Financial Position

**SAS TRUSTEE CORPORATION**

| <b>Consolidated Statement of Changes in Equity<br/>for the year ended 30 June 2020</b> | <b>Note</b> | <b>Economic<br/>Entity<br/>2020<br/>\$'000</b> | <b>Economic<br/>Entity<br/>2019<br/>\$'000</b> | <b>Parent<br/>Entity<br/>2020<br/>\$'000</b> | <b>Parent<br/>Entity<br/>2019<br/>\$'000</b> |
|--|-------------|--|--|--|--|
| <b>Balance at 1 July</b>   |             | -  | -  | -  | -  |
| Net Result   |             | <b>(69)</b>                                    | 1,136  | -  | -  |
| <b>Other Comprehensive Income</b>  |             |  |  |  |  |
| Superannuation actuarial re-measurement gains/(losses)                                 | 12          | <b>69</b>                                      | (1,136)  | -  | -  |
| Total Comprehensive Income   |             | -  | -  | -  | -  |
| <b>Balance at 30 June</b>  |             | -  | -  | -  | -  |

The accompanying notes form an integral part of the above Consolidated Statement of Changes in Equity

**SAS TRUSTEE CORPORATION**

**Consolidated Statement of Cash Flows  
for the year ended 30 June 2020**

|   | Note | Economic<br>Entity<br>2020<br>\$'000 | Economic<br>Entity<br>2019<br>\$'000 | Parent<br>Entity<br>2020<br>\$'000 | Parent<br>Entity<br>2019<br>\$'000 |
|---|------|--------------------------------------|--------------------------------------|------------------------------------|------------------------------------|
| <b>Cash Flows from Operating Activities</b>                   |      |                                      |                                      |                                    |                                    |
| Receipts from Pooled Fund                                     |      | 36,634                               | 37,629                               | 33,995                             | 35,140                             |
| Interest Received   |      | 43                                   | 129                                  | 43                                 | 129                                |
| Payments to Suppliers and Employees                           |      | (36,545)                             | (43,018)                             | (33,906)                           | (40,529)                           |
| <b>Net Cash Flows from Operating Activities</b>               | 13   | <b>132</b>                           | (5,260)                              | <b>132</b>                         | (5,260)                            |
| <b>Cash Flows from Financing Activities</b>                   |      |                                      |                                      |                                    |                                    |
| Receipts from Pooled Fund                                     |      | 1,102                                | -                                    | 1,102                              | -                                  |
| Payments of the principal portion of Lease Liability          |      | (1,102)                              | -                                    | (1,102)                            | -                                  |
| <b>Net Cash Flows from Financing Activities</b>               |      | -                                    | -                                    | -                                  | -                                  |
| <b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents</b> |      | <b>132</b>                           | (5,260)                              | <b>132</b>                         | (5,260)                            |
| Opening Cash & Cash Equivalents                               |      | 4,049                                | 9,309                                | 4,049                              | 9,309                              |
| <b>Closing Cash &amp; Cash Equivalents</b>                    |      | <b>4,181</b>                         | 4,049                                | <b>4,181</b>                       | 4,049                              |

The accompanying notes form an integral part of the above Consolidated Statement of Cash Flows

## SAS TRUSTEE CORPORATION

### Notes to the financial Statements for the year ended 30 June 2020

#### 1. OPERATIONS

Under the terms of the *Superannuation Administration Act 1996* (the Act), the SAS Trustee Corporation (STC) is trustee for all assets of the SAS Trustee Corporation Pooled Fund ("the Pooled Fund"). STC is economically dependent on the Pooled Fund. STC is a statutory body and a NSW Government Agency domiciled and incorporated in NSW Australia. Its registered address is Level 16, 83 Clarence Street, Sydney, NSW, 2000.

Scheme administration services for the Pooled Fund are carried out by Mercer Administration Services (Mercer Administration). Mercer Administration charges fees for the services it provides.

The Pooled Fund is a separate reporting entity for accounting and taxation purposes.

The STC Staff Agency provides personnel services to STC and the Pooled Fund and is wholly owned by STC. The STC Economic Entity includes all transactions of STC and the STC Staff Agency. The principles of consolidation are described in note 2(b) below. STC is consolidated as part of the NSW Total State Sector Accounts.

#### Coronavirus (COVID-19)

COVID-19, which is a respiratory illness caused by a new virus, was declared a world-wide pandemic by the World Health Organisation in March 2020. COVID-19, as well as measures to slow the spread of the virus, have since had a significant impact on global economies and financial markets. The Trustee has considered the impact of COVID-19 in preparing its financial statements and related disclosures, and notes that given the nature of its activities there were no significant impacts on financial outcomes for the year ended 30 June 2020.

The Trustee's risk management framework continues to be applied across the operations of the entity, and Management continues to monitor the impact of COVID-19 on the entity's risk profile. Non-financial risks arising from local and global movement restrictions, and remote working by our staff, counterparties, clients and suppliers, are being identified, assessed, managed and governed through timely application of the Trustee's risk management framework.

#### 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

##### a) Statement of Compliance and Basis of Preparation

The financial statements are general purpose financial statements and are prepared in accordance with;

- the *Public Finance and Audit Act 1983*
- the Public Finance and Audit Regulation 2015
- the Treasurer's Directions, and
- Australian Accounting Standards and Interpretations.

Both the Economic Entity and the Parent Entity are not-for-profit entities.

The financial statements are prepared using the accrual basis of accounting.

The financial statements items are prepared in accordance with the historical cost convention, except where specified otherwise.

The accounting policies adopted in preparing the financial statements have been consistently applied during the year, unless otherwise stated. All amounts are expressed in Australian dollars and rounded to the nearest thousand dollars.

The financial statements were authorised for issue by the Trustee Board on 8<sup>th</sup> October 2020.

## SAS TRUSTEE CORPORATION

### Notes to the financial Statements for the year ended 30 June 2020

#### 2. STATEMENT OF ACCOUNTING POLICIES (Continued)

##### b) Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and the operating results of the Parent Entity (STC) and its controlled entity, the STC Staff Agency.

Transactions and balances between the Parent Entity and the controlled entity are eliminated on consolidation. The Parent Entity and its controlled entity are referred to in these financial statements as the "Economic Entity". The STC Staff Agency was exempted from preparing standalone financial statements under the Public Finance Audit Regulation 2015.

##### c) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Revenue is measured at fair value of the consideration received for the rendering of services.

Management fees are the reimbursement from the Pooled Fund for all costs relating to scheme administration and executive management incurred by STC and comprise of the direct expenses of the Parent Entity and administration fees from Mercer Administration. Under the terms of the Act, STC must recover the costs it incurs from the Pooled Fund. Consequently, it recognises an amount equal to the costs incurred at the time the services are delivered.

##### d) Cash and cash equivalents

Cash in the statement of financial position comprise of cash at bank and in hand, which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash as defined above.

##### e) Financial Instruments

Financial instruments give rise to positions that are financial assets or liabilities. The instruments include cash at bank, receivables and payables. All classes of instruments are initially recorded at cost and receivables and payables are subsequently measured at amortised cost. As such, inputs for valuing the receivables and payables are not based on observable market data. Such measurement provides a reliable estimate of the instrument. Any impairment loss occurring on financial instruments is treated as an expense in the period in which it occurs.

STC recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

STC derecognises a financial asset or a financial liability when the rights or obligation under the asset or liability is discharged, transferred, cancelled or expires.

##### f) Income Tax

STC is exempt from income tax under the *Income Tax Assessment Act 1936* and the *Income Tax Assessment Act 1997*.

## SAS TRUSTEE CORPORATION

### Notes to the financial Statements for the year ended 30 June 2020

#### 2. STATEMENT OF ACCOUNTING POLICIES (Continued)

##### g) Leases

The Trustee assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

##### (i) Right-of-use assets

The Trustee recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. The right-of-use assets are also subject to impairment on an annual basis.

##### (ii) Lease liabilities

At the commencement date of the lease, the Trustee recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. In calculating the present value of lease payments, the entity uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

##### h) New accounting standards and interpretations

###### AASB 16 Leases

AASB 16 Leases (AASB 16) became effective for periods beginning on 1 July 2019. AASB 16 requires lessees to recognise most leases on balance sheet as lease liabilities, with corresponding right-of-use assets being recognised. The Trustee has applied the modified retrospective method in adopting AASB 16 without restating the comparative information for 2019. There was nil impact on reserves on the adoption of AASB 16 at 1 July 2019. The adoption of the new standard is disclosed in note 5 and 7.

###### AASB 15 Revenue from Contracts with Customers

The standard has been implemented for the year ended 30 June 2020. There were no material changes to these financial statements.

###### AASB 2016-8 Amendments to Australian Accounting Standards– Deferral of AASB 15 for Not-for-Profit Entities

The standard has been implemented for year ended 30 June 2020. This standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer instead of the former risk and rewards basis. STC's revenue is based on contracts or legal requirements which allows for the recovery of costs incurred in providing services to customers. There were no material changes to these financial statements.

## SAS TRUSTEE CORPORATION

### Notes to the financial Statements for the year ended 30 June 2020

#### h) New accounting standards and interpretations (Continued)

##### AASB 1058 Income of Not-for-profit Entities

The standard has been implemented for the year ended 30 June 2020. This standard applies to transactions where not-for-profit entities receive volunteer services or enter into other transactions to acquire an asset for consideration which is less than fair value. The transactions in which this standard applies is uncommon for STC. There were no material changes to these financial statements.

##### AASB 2018-2 Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement

This standard has been implemented for year ended 30 June 2020. There were no material changes to these financial statements.

#### i) Accounting standards issued but not yet effective

At the date of authorisation of these financial statements there were no issued accounting standards that would materially change these financial statements.

#### j) Comparative Figures

Where there have been changes in presentation in the current financial year, the comparatives have been restated to improve the presentation.

#### k) Use of Judgements and Estimates

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts recognised in the financial statements for the year ended 30 June 2020. The defined benefit superannuation liabilities have been actuarially determined. The key assumptions are disclosed in note 12.

**SAS TRUSTEE CORPORATION**

**Notes to the financial Statements  
for the year ended 30 June 2020**

| <b>3. OPERATING RESULT</b>                               | <b>Economic<br/>Entity<br/>2020<br/>\$'000</b> | Economic<br>Entity<br>2019<br>\$'000 | <b>Parent<br/>Entity<br/>2020<br/>\$'000</b> | Parent<br>Entity<br>2019<br>\$'000 |
|--|--|--------------------------------------|--|------------------------------------|
| <b>Revenue</b>   |  |                                      |  |                                    |
| Management Fees  | <b>37,285</b>                                  | 39,833                               | <b>34,647</b>                                | 37,344                             |
| Interest revenue   | <b>43</b>                                      | 129                                  | <b>43</b>                                    | 129                                |
| Other revenue  | <b>334</b>                                     | 185                                  | <b>334</b>                                   | 185                                |
| <b>Total Revenue</b>                                     | <b>37,662</b>                                  | 40,147                               | <b>35,024</b>                                | 37,658                             |
| <b>Executive and Board Expenses</b>                      |  |                                      |  |                                    |
| Employee Related Expenses                                | <b>7,238</b>                                   | 7,134                                | -  | -                                  |
| Superannuation   | <b>657</b>                                     | 706                                  | -  | -                                  |
| Personnel Services Expenses                              | -  | -                                    | <b>5,188</b>                                 | 6,487                              |
| Depreciation charge for Right-of-Use Asset/Premises      | <b>1,238</b>                                   | -                                    | <b>1,238</b>                                 | -                                  |
| Lease Expenses/Premises Expenses                         | -  | 1,087                                | -  | 1,087                              |
| Other Overhead Expenses                                  | <b>2,269</b>                                   | 2,004                                | <b>2,269</b>                                 | 2,004                              |
| Board Expenses   | <b>571</b>                                     | 647                                  | <b>571</b>                                   | 647                                |
| <b>Total Executive and Board Expenses</b>                | <b>11,973</b>                                  | 11,578                               | <b>9,266</b>                                 | 10,225                             |
| <b>Fund Expenses</b>                                     |  |                                      |  |                                    |
| Scheme Administration Fees                               | <b>20,981</b>                                  | 21,987                               | <b>20,981</b>                                | 21,987                             |
| Regulatory, Governance & Process Improvement Initiatives | <b>1,368</b>                                   | 1,812                                | <b>1,368</b>                                 | 1,812                              |
| Professional Fees  | <b>2,689</b>                                   | 2,874                                | <b>2,689</b>                                 | 2,874                              |
| Other Administration Fees                                | <b>663</b>                                     | 760                                  | <b>663</b>                                   | 760                                |
| <b>Total Fund Expenses</b>                               | <b>25,701</b>                                  | 27,433                               | <b>25,701</b>                                | 27,433                             |
| <b>Total Operating Expenses</b>                          | <b>37,674</b>                                  | 39,011                               | <b>34,967</b>                                | 37,658                             |
| <b>Finance Costs</b>                                     |  |                                      |  |                                    |
| Interest expense on Lease Liability/Premises             | <b>57</b>                                      | -                                    | <b>57</b>                                    | -                                  |
| <b>Total Finance Costs</b>                               | <b>57</b>                                      | -                                    | <b>57</b>                                    | -                                  |
| <b>Net Result</b>  | <b>(69)</b>                                    | 1,136                                | -  | -                                  |

External audit fees of \$24,500 (2019: \$21,800) in relation to the audit of the financial statements for STC is included in the total expenses.

**SAS TRUSTEE CORPORATION**

**Notes to the financial Statements  
for the year ended 30 June 2020**

**3. OPERATING RESULT (Continued)**

| <b>Lease payments made during the year comprised</b> | <b>Economic<br/>Entity<br/>2020<br/>\$'000</b> | <b>Economic<br/>Entity<br/>2019<br/>\$'000</b> | <b>Parent<br/>Entity<br/>2020<br/>\$'000</b> | <b>Parent<br/>Entity<br/>2019<br/>\$'000</b> |
|--|--|--|--|--|
| Payments of the principal portion of Lease Liability | <b>1,102</b>                                   | 1,087  | <b>1,102</b>                                 | 1,087  |
|  | <b>1,102</b>                                   | 1,087  | <b>1,102</b>                                 | 1,087  |

| <b>4. RECEIVABLES</b> | <b>Economic<br/>Entity<br/>2020<br/>\$'000</b> | <b>Economic<br/>Entity<br/>2019<br/>\$'000</b> | <b>Parent<br/>Entity<br/>2020<br/>\$'000</b> | <b>Parent<br/>Entity<br/>2019<br/>\$'000</b> |
|-----------------------|--|--|--|--|
|-----------------------|--|--|--|--|

**Current**

|                              |              |       |              |       |
|------------------------------|--------------|-------|--------------|-------|
| Receivables from Pooled Fund | <b>6,339</b> | 6,349 | <b>6,339</b> | 6,349 |
| Other Receivables            | <b>748</b>   | 629   | <b>748</b>   | 629   |
|                              | <b>7,087</b> | 6,978 | <b>7,087</b> | 6,978 |

| <b>5. RIGHT-OF-USE ASSET</b> | <b>Economic<br/>Entity<br/>2020<br/>\$'000</b> | <b>Economic<br/>Entity<br/>2019<br/>\$'000</b> | <b>Parent<br/>Entity<br/>2020<br/>\$'000</b> | <b>Parent<br/>Entity<br/>2019<br/>\$'000</b> |
|------------------------------|--|--|--|--|
|------------------------------|--|--|--|--|

**Current**

|              |              |   |              |   |
|--------------|--------------|---|--------------|---|
| Office Lease | <b>1,238</b> | - | <b>1,238</b> | - |
|              | <b>1,238</b> | - | <b>1,238</b> | - |

**Non-current**

|              |              |   |              |   |
|--------------|--------------|---|--------------|---|
| Office Lease | <b>1,547</b> | - | <b>1,547</b> | - |
|              | <b>1,547</b> | - | <b>1,547</b> | - |

The STC office lease will expire on 30 September 2020 and the lease has been extended on a 12 month basis rather than a long-term lease period. On the assumption that STC's intentions change and it stays longer than the contractual lease period, the entity has recognised a right-of-use asset and an associated lease liability (note 7) for its business premises. The discount rate of 1.42% was adopted as published by NSW Treasury for agencies that do not borrow from the market. No impairment recognised during the year.

| <b>Right-of-Use Asset</b> | <b>Economic<br/>Entity<br/>2020<br/>\$'000</b> | <b>Economic<br/>Entity<br/>2019<br/>\$'000</b> | <b>Parent<br/>Entity<br/>2020<br/>\$'000</b> | <b>Parent<br/>Entity<br/>2019<br/>\$'000</b> |
|---------------------------|--|--|--|--|
|---------------------------|--|--|--|--|

**Premises**

|                      |                |   |                |   |
|----------------------|----------------|---|----------------|---|
| As at 1 July         | <b>4,023</b>   | - | <b>4,023</b>   | - |
| Depreciation expense | <b>(1,238)</b> | - | <b>(1,238)</b> | - |
| <b>As at 30 June</b> | <b>2,785</b>   | - | <b>2,785</b>   | - |

**SAS TRUSTEE CORPORATION**

**Notes to the financial Statements  
for the year ended 30 June 2020**

| <b>6. PAYABLES</b> | <b>Economic<br/>Entity<br/>2020<br/>\$'000</b> | <b>Economic<br/>Entity<br/>2019<br/>\$'000</b> | <b>Parent<br/>Entity<br/>2020<br/>\$'000</b> | <b>Parent<br/>Entity<br/>2019<br/>\$'000</b> |
|--------------------|--|--|--|--|
|--------------------|--|--|--|--|

**Current**

|   |              |              |               |               |
|---|--------------|--------------|---------------|---------------|
| Administration Fees Payables            | 1,759        | 1,921        | 1,759         | 1,921         |
| Other Payables (including Accruals)     | 4,045        | 4,049        | 4,045         | 4,049         |
| Intercompany Payable – STC Staff Agency | -            | -            | 4,921         | 4,799         |
|   | <b>5,804</b> | <b>5,970</b> | <b>10,725</b> | <b>10,769</b> |

All payables are within agreed trading terms.

| <b>7. LEASE LIABILITY</b> | <b>Economic<br/>Entity<br/>2020<br/>\$'000</b> | <b>Economic<br/>Entity<br/>2019<br/>\$'000</b> | <b>Parent<br/>Entity<br/>2020<br/>\$'000</b> | <b>Parent<br/>Entity<br/>2019<br/>\$'000</b> |
|---------------------------|--|--|--|--|
|---------------------------|--|--|--|--|

**Current**

|              |              |          |              |          |
|--------------|--------------|----------|--------------|----------|
| Office Lease | 1,218        | -        | 1,218        | -        |
|              | <b>1,218</b> | <b>-</b> | <b>1,218</b> | <b>-</b> |

**Non-current**

|              |              |          |              |          |
|--------------|--------------|----------|--------------|----------|
| Office Lease | 1,760        | -        | 1,760        | -        |
|              | <b>1,760</b> | <b>-</b> | <b>1,760</b> | <b>-</b> |

| <b>Lease Liability</b> | <b>Economic<br/>Entity<br/>2020<br/>\$'000</b> | <b>Economic<br/>Entity<br/>2019<br/>\$'000</b> | <b>Parent<br/>Entity<br/>2020<br/>\$'000</b> | <b>Parent<br/>Entity<br/>2019<br/>\$'000</b> |
|------------------------|--|--|--|--|
|------------------------|--|--|--|--|

**Premises**

|                      |              |          |              |          |
|----------------------|--------------|----------|--------------|----------|
| As at 1 July         | 4,023        | -        | 4,023        | -        |
| Interest expense     | 57           | -        | 57           | -        |
| Lease Payments       | (1,102)      | -        | (1,102)      | -        |
| <b>As at 30 June</b> | <b>2,978</b> | <b>-</b> | <b>2,978</b> | <b>-</b> |

| <b>Future Lease Payments</b> | <b>Economic<br/>Entity<br/>2020<br/>\$'000</b> | <b>Economic<br/>Entity<br/>2019<br/>\$'000</b> | <b>Parent<br/>Entity<br/>2020<br/>\$'000</b> | <b>Parent<br/>Entity<br/>2019<br/>\$'000</b> |
|------------------------------|--|--|--|--|
|------------------------------|--|--|--|--|

**Premises**

|   |              |          |              |          |
|---|--------------|----------|--------------|----------|
| Within one year                                   | 1,235        | -        | 1,235        | -        |
| Later than one year and not later than five years | 1,817        | -        | 1,817        | -        |
| <b>Total</b>                                      | <b>3,052</b> | <b>-</b> | <b>3,052</b> | <b>-</b> |

**The lease liability as at 1 July 2019 can be reconciled to the operating lease commitment as of 30 June 2019 as follows:**

|   | <b>Economic<br/>Entity<br/>\$'000</b> | <b>Parent<br/>Entity<br/>\$'000</b> |
|---|---------------------------------------|-------------------------------------|
| Operating lease commitment as at 30 June 2019                 | 268                                   | 268                                 |
| Weighted average incremental borrowing rate as at 1 July 2019 | 1.42%                                 | 1.42%                               |
| Discounted operating lease commitment as at 1 July 2019       | 264                                   | 264                                 |

## SAS TRUSTEE CORPORATION

### Notes to the financial Statements for the year ended 30 June 2020

|   |              |              |
|---|--------------|--------------|
| Add: Lease payments relating to renewal periods not included in the operating lease commitment as at 30 June 2019 | 3,759        | 3,759        |
| <b>Lease liability as at 1 July 2019</b>  | <b>4,023</b> | <b>4,023</b> |

| 8. PROVISIONS                  | Economic<br>Entity<br>2020<br>\$'000 | Economic<br>Entity<br>2019<br>\$'000 | Parent<br>Entity<br>2020<br>\$'000 | Parent<br>Entity<br>2019<br>\$'000 |
|--------------------------------|--------------------------------------|--------------------------------------|------------------------------------|------------------------------------|
| <b>Current</b>                 |                                      |                                      |                                    |                                    |
| Employee Benefits              |                                      |                                      |                                    |                                    |
| - Annual Leave                 | 667                                  | 490                                  | 427                                | 339                                |
| - Long Service Leave           | 379                                  | 231                                  | 310                                | 203                                |
|                                | <b>1,046</b>                         | 721                                  | <b>737</b>                         | 542                                |
| <b>Non-current</b>             |                                      |                                      |                                    |                                    |
| Employee Benefits              |                                      |                                      |                                    |                                    |
| - Long Service Leave           | 194                                  | 206                                  | 124                                | 137                                |
| Superannuation (refer Note 12) |                                      |                                      |                                    |                                    |
| - SSS                          | 4,542                                | 4,551                                | -                                  | -                                  |
|                                | <b>4,736</b>                         | 4,757                                | <b>124</b>                         | 137                                |

#### Employee Benefits

##### **Wages, salaries and annual leave**

The provision for employee benefits relating to wages, salaries and annual leave represents the amount which the Economic Entity has a present obligation to pay resulting from employees' services provided up to the balance date. These provisions are expected to be settled within 12 months and are measured at their nominal values using the remuneration rates expected to apply at the time of settlement. Such measurement provides a reliable estimate of the liability. Amounts include the salary of STC's Chief Executive Officer, whose contract is direct with STC.

##### **Long service leave**

The liability for employee benefits relating to long service leave is measured at their discounted value using the risk-free rate mandated by NSW Treasury. Such measurement provides a reliable estimate of the liability.

##### **Superannuation**

Any unfunded superannuation liability is recognised as a liability in the Statement of Financial Position and amounts representing pre-paid superannuation contributions are recognised as an asset. For the year ended 30 June 2020, the Economic Entity met in full the total superannuation liabilities for its employees. The contributions made to superannuation funds are charged against the operating result. In compliance with AASB 119 requirements, any actuarial gains and losses arising from changes to demographic assumptions, financial assumptions and liability experience, are recognised in comprehensive income in the year in which the gain or loss occurs.

## 9. FAIR VALUE AND FINANCIAL RISKS

STC is exposed to minimal financial risk as its governing legislation permits STC to recover all its costs from the Pooled Fund.

## SAS TRUSTEE CORPORATION

### Notes to the financial Statements for the year ended 30 June 2020

#### 10. KEY MANAGEMENT PERSONNEL AND KEY MANAGEMENT PERSONNEL COMPENSATION

The following were key management personnel of the STC Economic Entity during the year and the comparative year.

##### *Non-executive Trustees*

Ms C Austin  
 Ms C Bolger (term completed 24 September 2019 – term  
 recommenced 17 October 2019)  
 Mr A Claassens  
 Ms S Dave  
 Mr N Johnson  
 Ms C Keating  
 Mr S Little (term commenced 30 September 2019)  
 Mr G Maniatis (term completed 24 September 2019)  
 Mr T O'Grady  
 Ms R Ramwell (term completed 25 June 2019)  
 Ms L Rasmussen (term commenced 12 March 2020)

##### *Executive Officers*

Mr G Gabriel (from 1 February 2019)  
 Mr R Hedley (until 14 December 2018)  
 Mr J Livanas  
 Mr J Narayan  
 Mr A Parapuram  
 Mr N Patel  
 Ms A Samuel (until 30 September 2018)  
 Ms N Siratkov  
 Mr C Wu (from 1 December 2018)

| <b>The key management personnel<br/>compensation in relation to services to STC<br/>is as follows</b> | <b>Economic<br/>Entity<br/>2020<br/>\$'000</b> | Economic<br>Entity<br>2019<br>\$'000 | <b>Parent<br/>Entity<br/>2020<br/>\$'000</b> | Parent<br>Entity<br>2019<br>\$'000 |
|---|--|--------------------------------------|--|------------------------------------|
| Board member compensation   | <b>483</b>                                     | 527                                  | -  | -                                  |
| Short-term employee benefits  | <b>2,787</b>                                   | 2,625                                | -  | -                                  |
| Termination benefits  | -  | 475                                  | -  | -                                  |
| Other long-term employee benefits   | <b>11</b>                                      | 34                                   | -  | -                                  |
|   | <b>3,281</b>                                   | 3,661                                | -  | -                                  |

## SAS TRUSTEE CORPORATION

### Notes to the financial Statements for the year ended 30 June 2020

#### 11. RELATED PARTY INFORMATION

- a) Transactions entered during the year with Key Management Personnel and their Related Entities:

|   | 2020<br>\$'000 | 2019<br>\$'000 |
|---|----------------|----------------|
| Consulting fees paid to STC Board Member Ms. C Keating by Aware Super (formerly known as StatePlus), on normal commercial terms. Aware Super (formerly known as StatePlus) has various contractual arrangements with STC for the provision of Member Services | -              | 65             |
| Director fees paid to STC Board Member Ms. R Ramwell by Aware Super (formerly known as StatePlus), on normal commercial terms. Aware Super (formerly known as StatePlus) has various contractual arrangements with STC for the provision of Member Services   | -              | 70             |

- b) The following Board Members were members of the Fund schemes during the reporting period or up to the date of the financial statements (including comparative year): T O'Grady and A Claassens. Their membership terms and conditions were the same as those applied to other members of the Fund schemes. Mr. T O'Grady exited the Fund scheme as at 26 September 2019.
- c) Refer to note 4 and note 6 for other related party transactions.
- d) STC leases office space at 83 Clarence Street, Sydney on normal commercial terms from the Fund which owns the building. Refer to note 7 outlining lease payments made during the year which were fully reimbursed by the Fund.

## SAS TRUSTEE CORPORATION

### Notes to the financial Statements for the year ended 30 June 2020

#### 12. SUPERANNUATION

The Economic Entity participates in the State Superannuation Scheme (SSS) closed defined benefit superannuation scheme for some of its staff.

The scheme is a defined benefit scheme, whereby the benefit on retirement is directly related to a members' unit entitlement as dictated by their final salary. Members receive a pension on retirement and disablement. Upon death, there is provision for a reversionary pension benefit to an eligible spouse. If a member elects payment of a withdrawal benefit, this is paid as a lump sum and there is no further benefit payable.

The SSS scheme is closed to new members.

#### Description of risks

There are a number of risks to which the Fund exposes STC as a participating employer. The more significant risks relating to the defined benefits are;

- investment risk - The risk that investment returns will be lower than assumed and the participating employer will need to increase contributions to offset this shortfall
- longevity risk – The risk that pensioners live longer than assumed, increasing future pensions
- salary growth risk - The risk that wages or salaries (on which future benefit amounts for active members will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional contributions from the participating employer
- legislative risk - The risk is that legislative changes could be made which increase the cost of providing the defined benefits.

The defined benefit fund assets are invested with independent fund managers and have a diversified asset mix. The Fund has no significant concentration of investment risk or liquidity risk.

#### Description of significant events

There were no Fund amendments, curtailments or settlements during the year.

**SAS TRUSTEE CORPORATION**

**Notes to the financial Statements  
for the year ended 30 June 2020**

**12. SUPERANNUATION (Continued)**

The following information has been prepared by the Scheme actuary.

*Reconciliation of the Net Defined Benefit Liability/(Asset)*

| <b>SSS</b>   | <b>Economic Entity</b> | Economic Entity |
|--|------------------------|-----------------|
|  | <b>2020</b>            | 2019            |
|  | <b>\$'000</b>          | <b>\$'000</b>   |
| <b><i>Net Defined Benefit Liability/(Asset) at start of year</i></b>     | <b>4,551</b>           | 3,326           |
| Current service cost   | -                      | -               |
| Net interest on the net defined benefit liability/(asset)                | <b>60</b>              | 89              |
| Past service cost  | -                      | -               |
| (Gains)/losses arising from settlements                                  | -                      | -               |
| Actual returns on Fund assets less interest income                       | <b>(54)</b>            | (297)           |
| Actuarial (gains)/losses arising from changes in demographic assumptions | -                      | -               |
| Actuarial (gains)/losses arising from changes in financial assumptions   | <b>(17)</b>            | 1,530           |
| Actuarial (gains)/losses arising from liability experience               | <b>2</b>               | (97)            |
| Adjustment for effect of asset ceiling                                   | -                      | -               |
| Employer contributions   | -                      | -               |
| <b><i>Net Defined Benefit Liability/(Asset) at end of year</i></b>       | <b>4,542</b>           | 4,551           |

The Superannuation actuarial re-measurement gain of \$69,000 (2019 loss of \$1,136,000) comprises of actuarial gains/losses arising from changes to returns on Fund assets, financial assumptions and liability experience.

This amount is disclosed under Other Comprehensive Income in compliance with AASB119 requirements.

*Reconciliation of the fair value of fund assets*

| <b>SSS</b>   | <b>Economic Entity</b> | Economic Entity |
|--|------------------------|-----------------|
|  | <b>2020</b>            | 2019            |
|  | <b>\$'000</b>          | <b>\$'000</b>   |
| <b><i>Fair value of fund assets at beginning of the year</i></b> | <b>5,634</b>           | 5,521           |
| Interest income  | <b>72</b>              | 141             |
| Actual return on Fund assets less interest income                | <b>54</b>              | 297             |
| Employer contributions   | -                      | -               |
| Contributions by participants                                    | -                      | -               |
| Benefits paid  | <b>(385)</b>           | (378)           |
| Taxes, premiums and expenses paid                                | <b>21</b>              | 53              |
| Transfers in   | -                      | -               |
| Contributions to accumulation section                            | -                      | -               |
| Settlements  | -                      | -               |
| Exchange rate changes  | -                      | -               |
| <b><i>Fair value of fund assets at end of the year</i></b>       | <b>5,396</b>           | 5,634           |

SAS TRUSTEE CORPORATION

Notes to the financial Statements  
for the year ended 30 June 2020

12. SUPERANNUATION (Continued)

*Reconciliation of the Defined Benefit Obligation*

| SSS   | Economic Entity | Economic Entity |
|---|-----------------|-----------------|
|   | 2020<br>\$'000  | 2019<br>\$'000  |
| <i>Present value of defined benefit obligation at beginning of the year</i> | 10,185          | 8,848           |
| Current service cost  | -               | -               |
| Interest cost   | 132             | 229             |
| Contributions by participants   | -               | -               |
| Actuarial (gains)/losses arising from changes in demographic assumptions    | -               | -               |
| Actuarial (gains)/losses arising from changes in financial assumptions      | (17)            | 1,530           |
| Actuarial (gains)/losses arising from liability experience                  | 2               | (97)            |
| Benefits paid   | (385)           | (378)           |
| Taxes, premiums and expenses paid   | 21              | 53              |
| Transfers in  | -               | -               |
| Contributions to accumulation section                                       | -               | -               |
| Past service cost   | -               | -               |
| Settlements   | -               | -               |
| Exchange rate changes   | -               | -               |
| <i>Present value of defined benefit obligation at end of the year</i>       | <b>9,938</b>    | 10,185          |

*Reconciliation for the effect of the asset ceiling*

| SSS  | Economic Entity | Economic Entity |
|--|-----------------|-----------------|
|  | 2020<br>\$'000  | 2019<br>\$'000  |
| <i>Adjustment for effect of asset ceiling at beginning of the year</i> | -               | -               |
| Change in the effect of asset ceiling                                  | -               | -               |
| <i>Adjustment for effect of asset ceiling at end of the year</i>       | -               | -               |

## SAS TRUSTEE CORPORATION

### Notes to the financial Statements for the year ended 30 June 2020

#### 12. SUPERANNUATION (Continued)

##### *Fair value of Fund assets*

All of the Fund's assets are invested by STC (in its capacity as the Trustee Board) at arm's length through independent fund managers and assets are not separately invested for each participating employer. As such, the following disclosures relate to the Pooled Fund's total assets.

| Year ended 30 June 2020      | Total<br>(\$m) | Level 1<br>(\$m) | Level 2<br>(\$m) | Level 3<br>(\$m) |
|------------------------------|----------------|------------------|------------------|------------------|
| <b>Asset category</b>        |                |                  |                  |                  |
| Short term securities        | 4,096          | 1,889            | 2,207            | -                |
| Australian fixed interest    | 1,067          | -                | 1,067            | -                |
| International fixed interest | 1,909          | 30               | 1,879            | -                |
| Australian equities          | 7,294          | 6,902            | 392              | -                |
| International equities       | 11,950         | 11,487           | 463              | -                |
| Property                     | 3,353          | 645              | 16               | 2,692            |
| Alternatives                 | 10,523         | 24               | 4,337            | 6,162            |
| <b>Total</b>                 | <b>40,192</b>  | <b>20,977</b>    | <b>10,361</b>    | <b>8,854</b>     |

| Year ended 30 June 2019      | Total<br>(\$m) | Level 1<br>(\$m) | Level 2<br>(\$m) | Level 3<br>(\$m) |
|------------------------------|----------------|------------------|------------------|------------------|
| <b>Asset category</b>        |                |                  |                  |                  |
| Short term securities        | 4,042          | 2,136            | 1,906            | -                |
| Australian fixed interest    | 2,295          | 5                | 2,290            | -                |
| International fixed interest | 1,968          | 7                | 1,952            | 9                |
| Australian equities          | 8,369          | 7,818            | 548              | 3                |
| International equities       | 11,387         | 8,795            | 2,592            | -                |
| Property                     | 3,588          | 699              | 717              | 2,172            |
| Alternatives                 | 10,558         | 327              | 5,758            | 4,473            |
| <b>Total</b>                 | <b>42,207</b>  | <b>19,787</b>    | <b>15,763</b>    | <b>6,657</b>     |

##### Note

- Level 1 refers to assets and liabilities for which there are quoted prices in active markets for identical assets and liabilities. The assets in this level are short term securities; listed shares; listed unit trusts.
- Level 2 refers to assets and liabilities that have significant valuation inputs other than quoted prices observable for the asset or liability either directly or indirectly. The assets and liabilities in this level are notes; government, semi-government and corporate bonds; unlisted trusts where quoted prices are not available in active markets for identical assets or liabilities.
- Level 3 refers to assets and liabilities that are not based on observable market data. The assets and liabilities in this level are unlisted property; unlisted shares; unlisted infrastructure; distressed debt; hedge funds.

## SAS TRUSTEE CORPORATION

### Notes to the financial Statements for the year ended 30 June 2020

#### 12. SUPERANNUATION (Continued)

*The percentage of fund assets invested in each asset class at 30 June*

|                           | 2020        | 2019        |
|---------------------------|-------------|-------------|
| Short term securities     | 10%         | 10%         |
| Australian fixed interest | 3%          | 5%          |
| Overseas fixed interest   | 5%          | 5%          |
| Australian equities       | 18%         | 20%         |
| International equities    | 30%         | 27%         |
| Property                  | 8%          | 8%          |
| Alternatives              | 26%         | 25%         |
|                           | <b>100%</b> | <b>100%</b> |

Derivatives, including futures and options, can be used by investment managers. However, each manager's investment mandate clearly states that derivatives may only be used to facilitate efficient cashflow management or to hedge the portfolio against market movements and cannot be used for speculative purposes or gearing of the investment portfolio. As such, managers make limited use of derivatives.

The Fund does not hold any financial instruments issued by STC.

*Significant actuarial assumptions as at 30 June*

|  | 2020*   | 2019*  |
|--|---|--|
| Discount rate  | 0.87%   | 1.32%  |
| Salary increase rate (excluding promotional increases) | 3.20%   | 3.20%  |
| Rate of CPI increase                                   | 1.00%   | 1.75%  |
| Pensioner mortality                                    | <b>as per the 2018<br/>Actuarial Investigation<br/>of the Pooled Fund</b> | as per the 2018 Actuarial<br>Investigation of the Pooled<br>Fund |

\* All assumptions are long-term in nature, for the duration of the fund life, and may differ from short-term variations.

**SAS TRUSTEE CORPORATION**

**Notes to the financial Statements  
for the year ended 30 June 2020**

**12. SUPERANNUATION (Continued)**

*Sensitivity analysis*

In accordance with AASB 119, the total defined benefit obligation as at 30 June 2020 under several scenarios is presented below. Scenarios A to F relate to the sensitivity of the total defined benefit obligation to economic assumptions. Scenarios G and H relate to sensitivity to demographic assumptions.

|                                     | Base Case | Scenario A<br>Change in<br>Discount rate | Scenario B<br>Change in<br>Discount rate |
|-------------------------------------|-----------|--|--|
| Discount rate                       |           | -0.5%                                    | 0.5%                                     |
| Defined benefit obligation (\$'000) | 9,937     | 10,667                                   | 9,274                                    |

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|                                     | Base Case | Scenario C<br>Change in<br>Rate of CPI<br>increase | Scenario D<br>Change in<br>Rate of CPI<br>increase |
|-------------------------------------|-----------|--|--|
| Rate of CPI increase                |           | 0.5%   | -0.5%  |
| Defined benefit obligation (\$'000) | 9,937     | 10,670   | 9,265  |

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|                                     | Base Case | Scenario E<br>Change in<br>Salary<br>increase rate | Scenario F<br>Change in<br>Salary<br>increase rate |
|-------------------------------------|-----------|--|--|
| Salary increase rate                |           | 0.5%   | -0.5%  |
| Defined benefit obligation (\$'000) | 9,937     | 9,937  | 9,937  |

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|                                     | Base Case | Scenario G<br>Lower<br>Pensioner<br>mortality rates | Scenario H<br>Higher<br>Pensioner<br>mortality rates |
|-------------------------------------|-----------|---|--|
| Defined benefit obligation (\$'000) | 9,937     | 10,124  | 9,788  |

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

*Asset-liability matching strategies*

STC, in its capacity as trustee of the Fund, ensures it maintains an appropriate asset strategy.

## SAS TRUSTEE CORPORATION

### Notes to the financial Statements for the year ended 30 June 2020

#### 12. SUPERANNUATION (Continued)

##### *Funding arrangements*

Funding arrangements are reviewed at least every three years following the release of the triennial actuarial review. The last triennial review as at 30 June 2018 was completed in October 2018. Contribution rates are set after discussions between STC in its capacity as trustee of the Scheme and NSW Treasury. STC in its capacity of trustee of the scheme reviews funding positions annually and contributions may be adjusted in response to the review.

##### *Surplus/deficit*

The following is a summary of the 30 June financial position of the scheme calculated in accordance with AASB 1056 Superannuation Entities.

| <b>SSS</b>                           | <b>Economic Entity</b> | Economic Entity |
|--------------------------------------|------------------------|-----------------|
|                                      | <b>2020</b>            | 2019            |
|                                      | <b>\$'000</b>          | \$'000          |
| Accrued benefits                     | <b>4,977</b>           | 4,943           |
| Net market fair value of fund assets | <b>(5,395)</b>         | (5,634)         |
| <b><i>Net (surplus)/deficit</i></b>  | <b>(418)</b>           | (691)           |

##### *Funding arrangements for employer contributions – Recommended contribution rates*

| <b>SSS</b> | <b>Economic Entity</b>                  | Economic Entity                  |
|------------|---|----------------------------------|
|            | <b>2020</b>                             | 2019                             |
|            | <b>Multiple of member contributions</b> | Multiple of member contributions |
|            | -                                       | -                                |

## SAS TRUSTEE CORPORATION

### Notes to the financial Statements for the year ended 30 June 2020

#### 12. SUPERANNUATION (Continued)

*Additional notes reflecting uncertainty in conditions due to COVID-19*

In light of the current environment due to COVID-19, there is increased volatility in terms of expected outcomes especially in the short to medium term. The sensitivities information on page 21 under AASB 119 Paragraph 145 provides a guide to how this could affect the defined benefit obligation.

The assumptions for CPI, Salary and demographics are broadly the same under both reporting standards. While the underlying liability amounts for AASB 1056 are lower than for AASB 119, the sensitivity of results under AASB 119 gives an indication to the directional and proportional impact of the changes in these assumptions.

In accordance with AASB 1056, scenarios A and B relate to sensitivity of the total accrued benefits as presented below.

#### 30 June 2020

|  | Base Case* | Scenario A<br>-0.5% change in<br>Discount rate | Scenario B<br>+0.5% change<br>in<br>Discount rate |
|--|------------|--|---|
| Expected rate of return on Fund assets backing current pension liabilities (discount rate) | 7.0%       | 6.5%   | 7.5%  |
| Expected rate of return on Fund assets backing other liabilities (discount rate)           | 6.0%       | 5.5%   | 6.5%  |
| Rate of CPI increase   | 2.0%       | as base case                                   | as base case                                      |
| Salary inflation rate  | 3.2%       | as base case                                   | as base case                                      |
| Accrued benefits (\$,000)  | 4,977      | 5,199  | 4,772   |

#### 30 June 2019

|  | Base Case* | Scenario A<br>-0.5% change in<br>Discount rate | Scenario B<br>+0.5% change<br>in<br>Discount rate |
|--|------------|--|---|
| Expected rate of return on Fund assets backing current pension liabilities (discount rate) | 7.4%       | 6.9%   | 7.9%  |
| Expected rate of return on Fund assets backing other liabilities (discount rate)           | 6.4%       | 5.9%   | 6.9%  |
| Rate of CPI increase   | 2.2%       | as base case                                   | as base case                                      |
| Salary inflation rate  | 3.2%       | as base case                                   | as base case                                      |
| Accrued benefits (\$'000)  | 4,943      | 5,166  | 4,735   |

\* All assumptions are long-term in nature, for the duration of the fund life, and may differ from short-term variations.

**SAS TRUSTEE CORPORATION**

**Notes to the financial Statements  
for the year ended 30 June 2020**

**12. SUPERANNUATION (Continued)**

*Funding arrangements for employer contributions – Economic Assumptions*

| <b>Weighted average assumptions*</b>                                       | <b>2020 and following</b> |
|--|---------------------------|
| Expected rate of return on Fund assets backing current pension liabilities | <b>7.0%</b>               |
| Expected rate of return on Fund assets backing other liabilities           | <b>6.0%</b>               |
| Expected salary increase rate  | <b>3.2%</b>               |
| Expected rate of CPI increase  | <b>2.0%</b>               |

---

| <b>Weighted average assumptions*</b>                                       | <b>2019 and following</b> |
|--|---------------------------|
| Expected rate of return on Fund assets backing current pension liabilities | 7.4%                      |
| Expected rate of return on Fund assets backing other liabilities           | 6.4%                      |
| Expected salary increase rate  | 3.2%                      |
| Expected rate of CPI increase  | 2.2%                      |

\* All assumptions are long-term in nature, for the duration of the fund life, and may differ from short-term variations

*Funding arrangements for employer contributions – Nature of asset/liability:*

If a surplus exists in the Economic Entity's interest in the Fund, the Economic Entity may be able to take advantage of it in the form of a reduction in required contribution rate. STC in its capacity as the schemes' trustee and NSW Treasury must approve such a reduction. If a deficiency exists the Economic Entity recoups any difference between its share of scheme assets and the defined benefit obligation from the Pooled Fund.

The weighted average duration of the defined benefit obligation is 11.8 years.

*Expected contributions*

| <b>SSS</b>                             | <b>Economic Entity<br/>2020</b> | <b>Economic Entity<br/>2019</b> |
|--|---------------------------------|---------------------------------|
| <b>Expected Employer Contributions</b> | -                               | -                               |

## SAS TRUSTEE CORPORATION

### Notes to the financial Statements for the year ended 30 June 2020

#### 13. CASH FLOW INFORMATION

##### Reconciliation of the Operating Result to Net Cash Used in Operating Activities

|   | Economic<br>Entity<br>2020<br>\$'000<br>Inflows/<br>(Outflows) | Economic<br>Entity<br>2019<br>\$'000<br>Inflows/<br>(Outflows) | Parent<br>Entity<br>2020<br>\$'000<br>Inflows/<br>(Outflows) | Parent<br>Entity<br>2019<br>\$'000<br>Inflows/<br>(Outflows) |
|---|--|--|--|--|
| <b>Operating Result</b>                             | -  | -  | -  | -  |
| <b>Changes in Assets and Liabilities:</b>           |  |  |  |  |
| <b><u>(Increase)/Decrease in Assets</u></b>         |  |  |  |  |
| Other Current Assets                                | <b>(90)</b>  | 12   | <b>(90)</b>  | 12   |
| Receivables   |  |  |  |  |
| - Pooled Fund                                       | <b>203</b>   | (2,276)  | <b>203</b>   | (2,276)  |
| - Other   | <b>(113)</b>   | (112)  | <b>(113)</b>   | (112)  |
| <b><u>Increase/(Decrease) in Liabilities</u></b>    |  |  |  |  |
| Payables  |  |  |  |  |
| - Mercer Administration                             | <b>(161)</b>   | 108  | <b>(161)</b>   | 108  |
| - Other   | <b>(10)</b>  | (4,304)  | <b>293</b>   | (2,992)  |
| Provisions  | <b>303</b>   | 1,312  |  | -  |
| <b>Net Cash From/(Used) in Operating Activities</b> | <b>132</b>   | (5,260)  | <b>132</b>   | (5,260)  |

#### 14. CONTINGENT LIABILITIES

Broadly, two classes of contingent liabilities potentially exist in relation to either STC in its capacity as Trustee of the Pooled Fund, or the Fund itself:

- (i) Legal costs and related future benefit payments, if any, in relation to member benefit entitlement disputes, notified, but not resolved.
- (ii) Legal costs and damages arising from claims relating to the ownership and operation of physical assets.

In both cases, it is impractical to estimate the financial effect or the amount of any possible recovery from third parties relating to these contingent liabilities. The Trustee is indemnified out of the assets of the Fund, and in the case of Police Superannuation Scheme (PSS), by the legislation of the scheme which allows the Trustee to make a call on NSW Consolidated Revenues.

#### 15. EVENTS AFTER THE REPORTING DATE

There have been no events between 30 June 2020 and the date of approval of these financial statements that would significantly impact the financial statements.

**End of Audited Financial Statements**



## Part F

# Financial statements of the SAS Trustee Corporation Pooled Fund

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## INDEPENDENT AUDITOR'S REPORT

### SAS Trustee Corporation Pooled Fund

To Members of the New South Wales Parliament

#### Opinion

I have audited the accompanying financial statements of SAS Trustee Corporation Pooled Fund (the Fund), which comprises the Statement of Financial Position as at 30 June 2020, the Income Statement, the Statement of Changes in Member Benefits, the Statement of Changes in Equity and the Statement of Cash Flows for the year ended 30 June 2020, notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Fund as at 30 June 2020, and the results of its operations, changes in member benefits, changes in equity and cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

My opinion should be read in conjunction with the rest of this report.

#### Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Fund in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants (including Independence Standards)' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements for the year ended 30 June 2020. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, I do not provide a separate opinion on these matters.

| Key Audit Matter  | How my audit addressed the matter   |
|---|---|
| <p><b>Valuation of unlisted investment assets</b></p> <p>At 30 June 2020, the Fund held unlisted investments of \$9.0 billion classified as Level 3 assets within the fair value hierarchy under Australian Accounting Standards (i.e. significant unobservable inputs are used in the valuation).</p> <p>Level 3 assets require judgement to be applied in determining their fair value, as the valuation inputs for these assets are not based on observable market transactions or other readily available market data. The valuation of Level 3 assets has a greater degree of uncertainty and subjectivity as there are alternative assumptions and valuation methods that may result in a range of values.</p> <p>Valuation judgements at 30 June 2020 were impacted by uncertainty arising from the COVID-19 pandemic, the severity and duration of economic recession, the volatility in the investment markets and the response of governments to it. This resulted in a wider range of possible values than in previous valuations.</p> <p>I considered this to be a key audit matter because of the:</p> <ul style="list-style-type: none"> <li>• value of the investments balance relative to the Fund's net asset value</li> <li>• degree of judgement and estimation uncertainty associated with the valuation, including determination of future cash flows, discount rates and other assumptions, with limited comparable market information available.</li> </ul> <p>The level of judgement means that Level 3 asset values may change significantly and unexpectedly due to changes in assumptions.</p> <p>A description of the valuation techniques, inputs and assumptions is disclosed in Note 1 and 19.</p> | <p>Key audit procedures included the following:</p> <ul style="list-style-type: none"> <li>• obtained an understanding of the Fund's processes, policies and methodologies, including the use of industry specific valuation measures for valuing unlisted investments</li> <li>• obtained independent valuation reports and compared assumptions applied to ranges used in comparable infrastructure and property investments</li> <li>• tested the mathematical accuracy of the valuation models and consistency with the Fund's documented methodology and assumptions</li> <li>• engaged valuation specialists, for those investments with higher risk characteristics, to:               <ul style="list-style-type: none"> <li>– assess the reasonableness of management's judgements and valuation inputs against industry information/indices of comparable market transactions</li> <li>– determine whether the methodologies used to value the investments were consistent with methods commonly used by market participants for those types of investments</li> <li>– assess the competence, qualifications and objectivity of the external valuation experts used by the Trustee</li> <li>– assess methodologies used by external valuation experts to adjust, where appropriate, for the impact of COVID-19 on the investment valuation</li> </ul> </li> <li>• obtained valuation statements provided by external investment managers in respect of unit trusts and hedge funds, and assessed the reliability of the information received</li> <li>• obtained independent assurance reports to assess the existence and valuation of certain unlisted unit trusts investments</li> <li>• assessed the adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards.</li> </ul> |

## Key Audit Matter

## How my audit addressed the matter

### Valuation of defined benefit member liabilities

At 30 June 2020, the Fund reported total defined benefit member liabilities of \$58.5 billion.

I considered this to be a key audit matter because of the:

- liability valuation model is complex due to a high level of judgement and estimation involved in the valuation assumptions, including discount rates, salary inflation, mortality and other assumptions
- financial significance of the member liabilities, which impact the estimate of required future contributions and investment returns to fund future cash outflows
- *sensitivity of the defined benefit liabilities* balance to small changes in key valuation inputs.

A description of the measurement, key assumptions and sensitivity analysis of these liabilities are disclosed in Note 8.

With the assistance of an actuarial specialist, key audit procedures included the following:

- assessed the effectiveness of key controls and processes over the:
  - accuracy and completeness of member data used in the valuation model
  - mathematical accuracy of the valuation model
- assessed the reasonableness of the methodology, assumptions and judgements used by the Fund's independent actuary in valuing the defined benefit liabilities, including comparison against accepted industry benchmarks and practices and accounting standards
- evaluated the competence of the Fund's independent actuary by confirming they are appropriately qualified, experienced and registered with the Institute of Actuaries
- evaluated the judgements used by the Fund's independent actuary in assessing the impact of COVID-19 pandemic on assumptions adopted in the valuation of defined benefit member liabilities
- assessed the adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards.

## Other Information

The Fund's annual report for the year ended 30 June 2020 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Trustee of the Fund is responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the Statement by Members of the Trustee Board under section 41C of the PF&A Act.

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

## **The Trustee's Responsibilities for the Financial Statements**

The Trustee of the Fund is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Trustee determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: [www.auasb.gov.au/auditors\\_responsibilities/ar6.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar6.pdf). The description forms part of my auditor's report.

The scope of my audit does not include, nor provide assurance:

- that the Fund carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



Weini Liao  
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

12 October 2020  
SYDNEY

**SAS TRUSTEE CORPORATION POOLED FUND**

**ABN 29 239 066 746**

**Statement by Members of the Trustee Board**

**For the year ended 30 June 2020**

Pursuant to section 41C of the *Public Finance and Audit Act 1983* and in accordance with a resolution of the Board of the SAS Trustee Corporation, we state that in our opinion the financial statements:

1. give a true and fair view of the financial position of the Pooled Fund as at 30 June 2020 and income statement, statement of changes in member benefits, statement of changes in equity and statement of cash flows for the year ended 30 June 2020, and
2. have been prepared in accordance with the Australian Accounting Standards and Interpretations, the provisions of the *Public Finance and Audit Act 1983* and the Public Finance and Audit Regulation 2015.

Further, we are not aware of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

Signed at Sydney this 8<sup>th</sup> day of October 2020.



**Nicholas Johnson**  
*Chair*  
*SAS Trustee Corporation*



**Claire Keating**  
*Board Member and Chair of the Risk, Audit  
and Compliance Committee*  
*SAS Trustee Corporation*

## SAS TRUSTEE CORPORATION POOLED FUND

| Statement of Financial Position<br>As at 30 June 2020 | Note  | 2020<br>\$m     | 2019<br>\$m |
|---|-------|-----------------|-------------|
| <b>Assets</b>   |       |                 |             |
| Cash  |       | 30              | 32          |
| Receivables   | 3     | 269             | 375         |
| Investments   |       |                 |             |
| Short term securities                                 |       | 2,842           | 3,011       |
| Australian fixed interest                             |       | 1,091           | 2,338       |
| International fixed interest                          |       | 214             | 185         |
| Australian equities                                   |       | 7,570           | 8,577       |
| International equities                                |       | 12,360          | 11,723      |
| Property - indirect                                   |       | 1,835           | 1,601       |
| Investment properties - direct                        | 6(a)  | 1,993           | 2,138       |
| Infrastructure and other alternatives                 |       | 13,568          | 14,033      |
| Derivatives   | 7     | 305             | 87          |
| Employer sponsor receivable                           | 4     | 2,587           | 2,354       |
| <b>Total assets</b>                                   |       | <b>44,664</b>   | 46,454      |
| <b>Liabilities</b>                                    |       |                 |             |
| Payables  | 5     | 102             | 154         |
| Derivatives   | 7     | 19              | 20          |
| Income tax payable                                    |       | 236             | 56          |
| Deferred tax liabilities                              | 13(b) | 46              | 96          |
| <b>Total liabilities excluding member benefits</b>    |       | <b>403</b>      | 326         |
| <b>Net assets available for member benefits</b>       |       | <b>44,261</b>   | 46,128      |
| <b>Member liabilities</b>                             |       |                 |             |
| Defined benefit member liabilities                    | 8     | (58,549)        | (58,777)    |
| <b>Total member liabilities</b>                       |       | <b>(58,549)</b> | (58,777)    |
| <b>Total net liabilities</b>                          |       | <b>(14,288)</b> | (12,649)    |
| <b>Equity</b>   |       |                 |             |
| Defined benefit deficit                               | 8     | (14,288)        | (12,649)    |
| <b>Total equity</b>                                   |       | <b>(14,288)</b> | (12,649)    |

*The above Statement of Financial Position should be read in conjunction with the accompanying Notes.*

**SAS TRUSTEE CORPORATION POOLED FUND**

| <b>Income Statement<br/>For the Year Ended 30 June 2020</b> | <b>Note</b> | <b>2020<br/>\$m</b> | <b>2019<br/>\$m</b> |
|---|-------------|---------------------|---------------------|
| <b>Investment income</b>                                    |             |                     |                     |
| Interest revenue  |             | <b>204</b>          | 175                 |
| Dividend revenue  |             | <b>540</b>          | 891                 |
| Distribution revenue from unit trusts                       |             | <b>382</b>          | 598                 |
| Net rentals from investment property                        | 6(b)        | <b>82</b>           | 98                  |
| Other revenue   |             | <b>30</b>           | 35                  |
| Change in fair value of investments                         | 11          | <b>(414)</b>        | 1,863               |
| <b>Total revenue</b>  |             | <b>824</b>          | 3,660               |
| <b>Expenses</b>   |             |                     |                     |
| Direct investment expenses                                  |             | <b>(140)</b>        | (139)               |
| Administration expenses                                     | 12          | <b>(37)</b>         | (38)                |
| <b>Total expenses</b>                                       |             | <b>(177)</b>        | (177)               |
| <b>Operating result</b>                                     |             | <b>647</b>          | 3,483               |
| Net change in defined benefit member benefits               |             | <b>(2,417)</b>      | (2,941)             |
| <b>Operating result before income tax expense</b>           |             | <b>(1,770)</b>      | 542                 |
| Income tax benefit  | 13(a)       | <b>131</b>          | 230                 |
| <b>Operating result after income tax</b>                    |             | <b>(1,639)</b>      | 772                 |

*The above Income Statement should be read in conjunction with the accompanying Notes.*

**SAS TRUSTEE CORPORATION POOLED FUND**

| <b>Statement of Changes in Member Benefits<br/>For the Year Ended 30 June 2020</b> | <b>Note</b> | <b>2020<br/>\$m</b> | <b>2019<br/>\$m</b> |
|--|-------------|---------------------|---------------------|
| <b>Opening balance at 1 July</b>   |             | <b>58,777</b>       | 58,987              |
| Employer contributions   | 10          | <b>2,098</b>        | 1,977               |
| Member contributions   | 10          | <b>206</b>          | 226                 |
| Income tax on contributions  |             | <b>(311)</b>        | (291)               |
| <b>Net after tax contributions</b>   |             | <b>1,993</b>        | 1,912               |
| <br>   |             |                     |                     |
| Benefits paid to members   |             | <b>(4,871)</b>      | (4,872)             |
| Net change in employer sponsor receivable  |             | <b>233</b>          | (191)               |
| Net change in defined benefit member benefits                                      |             | <b>2,417</b>        | 2,941               |
| <b>Closing balance at 30 June</b>  |             | <b>58,549</b>       | 58,777              |

*The above Statement of Changes in Member Benefits should be read in conjunction with the accompanying Notes.*

**SAS TRUSTEE CORPORATION POOLED FUND**

| <b>Statement of Changes in Equity for<br/>the Year Ended 30 June 2020</b> | <b>2020<br/>\$m<br/>Surplus/(deficiency)</b> | <b>2019<br/>\$m<br/>Surplus/(deficiency)</b> |
|---|--|--|
| <b>Opening balance at 1 July</b>  | <b>(12,649)</b>                              | <b>(13,421)</b>                              |
| Operating result after income tax   | <b>(1,639)</b>                               | 772  |
| <b>Closing balance at 30 June</b>   | <b>(14,288)</b>                              | <b>(12,649)</b>                              |

*The above Statement of Changes in Equity should be read in conjunction with the accompanying Notes.*

**SAS TRUSTEE CORPORATION POOLED FUND**

| <b>Statement of Cash Flows<br/>For the year ended 30 June 2020</b> | <b>Note</b> | <b>2020<br/>\$m</b> | <b>2019<br/>\$m</b> |
|--|-------------|---------------------|---------------------|
| <b>Cash flows from operating activities</b>                        |             |                     |                     |
| Interest received  |             | 211                 | 166                 |
| Dividends received   |             | 550                 | 915                 |
| Distributions received from unit trusts                            |             | 403                 | 682                 |
| Net rentals received from investment property                      |             | 72                  | 99                  |
| Other receipts   |             | 23                  | 33                  |
| Direct investment expenses paid                                    |             | (126)               | (137)               |
| Trustee administration expenses paid                               |             | (35)                | (37)                |
| Income tax (paid)/refund   |             | 242                 | 124                 |
| <b>Net cash inflows/(outflows) from operating activities</b>       | 21          | <b>1,340</b>        | <b>1,845</b>        |
| <b>Cash flows from investing activities</b>                        |             |                     |                     |
| Purchase of investments  |             | (30,935)            | (23,088)            |
| Proceeds from sale of investments                                  |             | 32,432              | 24,201              |
| <b>Net cash inflows/(outflows) from investing activities</b>       |             | <b>1,497</b>        | <b>1,113</b>        |
| <b>Cash flows from financing activities</b>                        |             |                     |                     |
| Employer contributions received                                    |             | 2,085               | 1,967               |
| Member contributions received                                      |             | 215                 | 236                 |
| Benefits paid to members   |             | (4,848)             | (4,866)             |
| Income tax paid on contributions                                   |             | (291)               | (283)               |
| <b>Net cash inflows/(outflows) from financing activities</b>       |             | <b>(2,839)</b>      | <b>(2,946)</b>      |
| <b>Net increase/(decrease) in cash</b>                             |             | <b>(2)</b>          | <b>12</b>           |
| <b>Cash at the beginning of the year</b>                           |             | <b>32</b>           | <b>20</b>           |
| <b>Cash at the end of the year</b>                                 |             | <b>30</b>           | <b>32</b>           |

*The above Statement of Cash Flows should be read in conjunction with the accompanying Notes.*

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2020

#### 1. THE POOLED FUND

The SAS Trustee Corporation Pooled Fund (the Fund) was established under the *Superannuation Administration Act 1996* (the Act) and is governed by various Acts of the New South Wales Parliament. The schemes of the Fund comprise the State Authorities Non-contributory Superannuation Scheme (SANCS), the State Superannuation Scheme (SSS) and the Police Superannuation Scheme (PSS), which are defined benefit plans, and the State Authorities Superannuation Scheme (SASS), which has defined benefit members with some defined contribution components. All schemes in the Fund were closed by 1992.

These financial statements are general purpose financial statements of the Fund as a reporting entity. SAS Trustee Corporation (STC) is the trustee and holds in trust all assets of the Fund.

STC is responsible for the administration of the schemes, Mercer Administration Services (Australia) Pty Ltd provides the administration services.

NSW Treasury Corporation (TCorp) is the mandated investment manager and provides funds management services in relation to the Trustee Selection Strategy. The Trustee has engaged investment managers to manage the Fund's remaining investments in accordance with the provisions set out in Investment Management Agreements.

JP Morgan Chase Bank NA is the Fund's custodian for investments and related cash.

The Fund is domiciled and incorporated in NSW Australia with a registered address at Level 16, 83 Clarence Street, Sydney, NSW, 2000.

The Trustee Board has determined that the Fund is a not-for-profit entity for financial reporting purposes. The financial statements were authorised for issue by the Trustee Board on 8 October 2020.

#### **Coronavirus (COVID-19)**

COVID-19, which is a respiratory illness caused by a new virus, was declared a world-wide pandemic by the World Health Organisation in March 2020. COVID-19, as well as measures to slow the spread of the virus, have since had a significant impact on economies and financial markets globally. In March 2020, the Australian economy went into lock-down to contain the virus by implementing social distancing in the population. On 22 March 2020 the Australian federal government announced several fiscal measures to support the economy through the lock-down period.

Support was provided in the form of "Job-Keeper" and Job-Seeker" payments to eligible businesses and employees, and in addition, the Government also allowed individuals to access up to \$10,000 of their superannuation in 2019/20 and a further \$10,000 in 2020/21 to support their financial needs.

The NSW Government also announced a series of fiscal stimuli to support the NSW economy.

Given the significant nature of the pandemic and its associated economic and financial market implications, the Trustee has considered the impact of COVID-19 in preparing its financial statements and related disclosures as follows:

#### **a) Use of Judgements:**

The specific areas where judgement has been used in deriving asset values is provided in Note 19. The unique nature of the pandemic and its wide-ranging, and as yet uncertain implications on financial values required the application of further judgement, beyond the ordinary course of business, within those identified areas. Given the dynamic and evolving nature of COVID-19 as well as limited recent experience of the economic and financial impacts of such a pandemic, changes to assumptions, estimates and outcomes in the measurement of the Fund's assets and liabilities may result in different values to those recognised in the financial statements. Other than adjusting events and estimates that provide evidence of conditions that existed as at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods (refer Note 25).

Noting the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty of how COVID-19 and its social and economic consequences will flow, the use of judgement has been applied to represent reasonable and supportable forward- looking views as at the reporting date.

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2020

#### 1. THE POOLED FUND (Continued)

##### **(b) Liquidity:**

The management of liquidity risk is a key element of our investment process (see note 8). Due to the early release of superannuation measures introduced by the Federal Government the Trustee was required to pay additional vigilance to liquidity levels.

There were 265 applications from Members for early release of superannuation for the year ended 30 June 2020. The total amount of payments made for early release as at 30 June 2020 was \$2.3m. At the date of this report a further 242 applications were received for the financial year to 30 June 2021, totalling \$2.4m for early release. The eventual impact of early release measures on liquidity was insignificant.

##### **(c) Valuation of Unlisted Investments:**

Considering recent market volatility and the on-going adverse economic implications arising from lock-down and social isolation measures, management paid attention to the appropriateness of the inputs into its unlisted asset valuations, especially those relating to future estimations, to ensure that developing events and emerging market information was appropriately reflected in asset values as at 30 June 2020. In addition, management also undertook out of cycle independent valuations to avoid the incurrence of stale prices within its investment performance reporting. Management will continue to monitor the unlisted asset valuations and obtain out of cycle valuations as appropriate.

The impact of changes in valuation inputs has also been considered in relation to the classification of exposures in the fair value hierarchy, transfers within the fair value hierarchy and the Level 3 sensitivity analysis.

##### **(d) Defined Benefit Liabilities:**

Like unlisted asset valuations, Management reviewed the appropriateness of the short and long-term inputs to its actuarial defined benefit liability valuation. The impact of changes in actuarial assumptions and the impact this has had on the Fund's deficit/surplus is shown in Note 8.

##### **(e) Risk Management:**

The Trustee's risk management framework continues to be applied across the Fund's operations and Management continues to monitor the impact of COVID-19 on the Fund's risk profile. Non-financial risks emerging from global movement restrictions, and remote working by our staff, counterparties, clients and suppliers, are being identified, assessed, managed and governed through timely application of the Trustee's risk management framework.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

##### a) Statement of Compliance

The financial statements are general purpose financial statements and are prepared in accordance with:

- the requirements of Australian Accounting Standard AASB 1056 *Superannuation Entities* (AASB 1056)
- the requirements of other Australian Accounting Standards and Interpretations
- the *Public Finance and Audit Act 1983*
- the Public Finance and Audit Regulation 2015

All assets and liabilities are measured and recorded at fair value or an amount that approximates fair value except for the following:

- employer sponsor receivable which is measured at its intrinsic value as per AASB 1056. The intrinsic value is the difference between the defined benefit member liabilities and the amount of assets held to meet these liabilities
- defined benefit member liabilities are measured as the amount of a portfolio of investments that would be needed as at a reporting date to yield future net cash inflows that would be sufficient to meet accrued benefits as at the date when they are expected to fall due
- income taxes which are in accordance with AASB 112

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2020

#### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Fund has multiple investments it controls, these are shown in Note 23. However, the Fund has determined that it is an investment entity under the definition in AASB 10 *Consolidated Financial Statements* as it meets the following criteria:

- the Fund obtains funds from members and employers for the purpose of providing those members and employers with investment management services
- the Fund commits to its members and employers that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both
- the Fund measures and evaluates the performance of substantially all of its investments on a fair value basis

Therefore, these investments are not required to be consolidated and are valued at fair value with changes in the fair value recognised in the income statement.

The accounting policies adopted in preparing the financial statements are consistently applied in both the current and comparative year. For transactional accounting, financial instruments are recorded at the trade date. Assets and liabilities are recognised when STC becomes party to the instrument's contractual provisions.

Assets are derecognised when the contractual rights to cash flows from the asset expire or the risks and rewards are transferred to another party. Liabilities are derecognised when the contractual obligation relating to the liability is discharged, cancelled or expires.

#### b) Employer Sponsor Receivable

An employer sponsor receivable (ESR) is recognised for the difference between the defined benefit member liabilities and the fair value of the assets available to meet the liabilities, provided the receivable meets the definition and recognition criteria of an asset.

This would require specific contractual or statutory obligations between the superannuation fund and the relevant employer sponsor in relation to the funding of the defined benefit member liabilities. The asset is measured at its intrinsic value, being the difference between the defined benefit member liabilities and the amount of the recognised assets held to meet those liabilities.

#### c) Foreign Currency Transactions

Foreign currency transactions during the year are converted to Australian dollars at the rate of exchange applicable at the date of the transaction. Monetary amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date. Resulting exchange differences are recognised in the Income Statement in the period in which they arise. The functional and presentation currency of the Fund is Australian Dollars.

#### d) Use of Judgements and Estimates

The preparation of the Fund's financial statements requires management to make judgements, estimates and assumptions that affect the amounts recognised in the financial statements (also refer Note 1a).

However, uncertainty implicit in these estimates and assumptions could result in outcomes that could require an adjustment to the carrying value of the affected asset or liability in the future.

In valuing assets for which there is no observable market, STC is guided on appropriate valuation techniques by its Valuation Policy. The valuation techniques within the policies involve and rely on the expert judgement of independent valuers (refer Note 19).

In valuing deferred tax balances, STC applies the principles in AASB 112 – *Income Taxes* (refer Note 2e).

The amount of accrued and vested benefits/liabilities has been actuarially determined (refer Note 8).

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2020

#### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### e) Income Tax

The Fund is an exempt Public Sector superannuation fund and as such is treated as a complying superannuation fund for the purposes of the *Income Tax Assessment Act 1997 (Cth)*. Accordingly, the concessional tax rate of 15% has been applied. Income tax on the net profit for the year comprises current and deferred tax.

Current tax is the expected tax payable or recoverable on the taxable income for the year using the concessional tax rate of 15% and any adjustment to tax payable in respect of previous years. Deferred tax is provided for using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax provided uses the tax rate expected to apply when the benefit or liability is realised.

AASB 1056 *Superannuation Entities* requires that member related transactions are reflected separately from the Income Statement and are included in the Statement of Changes in Member Benefits. Income tax on contributions is therefore included in the Statement of Changes in Member Benefits with income tax on investment income included in the Income Statement.

##### f) Management Expenses

Management expenses charged to the Fund comprise:

**Direct Investment Expenses:** Investment manager and custody fee expenses are recognised on an accrual basis.

**Scheme Administration Expenses:** Expenses are allocated in accordance with Trustee policy and is based on the member numbers for each scheme and the level of scheme complexity.

##### g) Goods and services tax (GST)

Revenues are recognised net of the amount of GST where applicable. Expenses and assets are recognised net of the amount of GST to the extent that the GST is recoverable from the Australian Taxation Office as a reduced input tax credit (RITC). Where GST is not recoverable, it is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable. Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from the Australian Taxation Office is included as part of receivables in the Statement of Financial Position.

##### h) Rounding

All values reported in the financial statements have been rounded to the nearest million dollars, except where otherwise stated.

##### i) Comparative Figures

Where there have been changes in presentation in the current financial year, the comparative figures for the previous year have been restated to improve the presentation.

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2020

#### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### j) Revenue Recognition and Measurement

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. The following specific recognition criteria must also be met before revenue is recognised.

##### **Interest Revenue**

Interest is recognised on an accrual basis when a right to receive exists.

##### **Dividend Revenue**

Dividends are recognised on the date the shares are quoted ex-dividend, and if not received at reporting date are recognised as a receivable in the Statement of Financial Position at fair value.

##### **Distributions from unit trusts**

Distributions from unit trusts are recognised on the date the unit values are quoted ex-distribution, and if not received at reporting date are recognised as a receivable in the Statement of Financial Position at fair value.

##### **Rental Revenue**

Rental revenue from investment properties is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned. Lease incentives granted are recognised as part of total rental income.

##### **Changes in fair value of investments**

Changes in the fair value of investments are recognised as a gain/loss and are determined as the difference between the fair value at year end or consideration received (if sold during the year) and the fair value as at the prior year end or cost (if the investment was acquired during the period).

##### k) Benefit Payments

Benefit payments are recognised when the payment becomes due under scheme legislation and a benefit application has been received.

##### l) Superannuation Contributions

Superannuation contributions are recognised when the Fund obtains the right to receive the contribution or when the Fund receives cash and are recorded in the period to which they relate.

##### m) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position if there is currently an enforceable legal right to offset the recognised amounts and there is an intention to settle or realise the assets and liabilities simultaneously.

##### n) Defined benefit member liabilities

Member liabilities are measured at the amount of accrued benefits. Defined benefit member liabilities are measured as the amount of a portfolio of investments that would be needed as at a reporting date to yield future net cash inflows that would be sufficient to meet accrued benefits as at that date when they are expected to fall due.

##### o) Cash and cash equivalents

Cash and cash equivalents include cash at bank, deposits held at call with financial institutions and other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2020

#### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### p) Investment Properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions, at reporting date. Fair value is determined based on an annual evaluation performed by an accredited external independent valuer, applying a valuation model recommended by the International Valuation Standards Committee. Interim valuations are also performed as and when required. Gains or losses arising from changes in the fair value of investment properties (see note 18) are recognised in the income statement in the period in which they arise.

##### q) New Accounting Standards and interpretations

Australian Accounting Standards and Interpretations that became effective for the first time for the Pooled Fund for the annual reporting period ended 30 June 2020 and their impact on the financial statements is outlined below.

##### AASB 16 Leases

This standard became effective for the year ended 30 June 2020. The standard includes changes to lease accounting, particularly for lessees, as almost all leases will go on the balance sheet with the distinction between operating and finance leases being removed. The Fund currently does not have any lease commitments as a lessee therefore there are no material changes to these financial statements.

##### AASB 15 Revenue from Contracts with Customers

The standard has been implemented for the year ended 30 June 2020. There were no material changes to these financial statements.

##### AASB 1058 Income of Not-For-Profit Entities

The standard has been implemented for the year ended 30 June 2020. There were no material changes to these financial statements.

##### r) Standards issued applicable but not yet effective

At the date of authorisation of these financial statements there were no issued accounting standards that would materially impact these financial statements.

#### 3. RECEIVABLES

| Receivables                                       | 2020<br>\$m | 2019<br>\$m |
|---|-------------|-------------|
| Accrued income                                    | 95          | 134         |
| Contributions receivable                          | 8           | 4           |
| Margin call deposits                              | 49          | 117         |
| Due from brokers – receivable for securities sold | 99          | 83          |
| Other receivables                                 | 18          | 37          |
| <b>Total</b>                                      | <b>269</b>  | <b>375</b>  |

Within Other receivables is an impairment allowance of \$327,000 (2019: \$255,000). This allowance relates to amounts due from members or the estates of members where it has been assessed that the prospect of the Fund recovering the amount due is reduced.

## SAS TRUSTEE CORPORATION POOLED FUND

Notes to and forming part of the financial statements  
For the year ended 30 June 2020

### 4. EMPLOYER SPONSOR RECEIVABLE

| Employer Sponsor Receivable       | 2020<br>\$m  | 2019<br>\$m |
|-----------------------------------|--------------|-------------|
| Employer Sponsor Receivable - PSS | <b>2,587</b> | 2,354       |

The Employer Sponsor Receivable (ESR) recognised in the financial statements relates to the deficiency in the Police Superannuation Scheme (see note 8). This scheme has a statutory obligation by the employer to meet the shortfall when the defined benefit member liabilities exceed the fair value of the scheme's assets.

### 5. PAYABLES

| Payables  | 2020<br>\$m | 2019<br>\$m |
|---|-------------|-------------|
| Superannuation benefits to members                | 13          | 7           |
| Due to brokers – payable for securities purchased | 37          | 86          |
| Other creditors                                   | 24          | 28          |
| Contribution surcharge                            | 22          | 27          |
| Payable to SAS Trustee Corporation                | 6           | 6           |
| <b>Total</b>                                      | <b>102</b>  | 154         |

All payables are within agreed trading terms.

### 6. INVESTMENT PROPERTIES

| a) Investment Properties | 2020<br>\$m  | 2019<br>\$m |
|--------------------------|--------------|-------------|
| At 1 July                | 2,138        | 2,049       |
| Additions                | 6            | 5           |
| Changes in fair value    | (151)        | 84          |
| <b>Total</b>             | <b>1,993</b> | 2,138       |

| b) Net Rental Income                        | 2020<br>\$m | 2019<br>\$m |
|---|-------------|-------------|
| Rental income from investment property      | 141         | 150         |
| Direct operating expenses                   | (59)        | (52)        |
| <b>Net rentals from investment property</b> | <b>82</b>   | 98          |

## SAS TRUSTEE CORPORATION POOLED FUND

Notes to and forming part of the financial statements  
For the year ended 30 June 2020

### 7. DERIVATIVES – ASSETS AND LIABILITIES

| Derivatives                        | 2020                     |                               |                        | 2019                     |                               |                        |
|------------------------------------|--------------------------|-------------------------------|------------------------|--------------------------|-------------------------------|------------------------|
|                                    | Derivative Assets<br>\$m | Derivative Liabilities<br>\$m | Net Derivatives<br>\$m | Derivative Assets<br>\$m | Derivative Liabilities<br>\$m | Net Derivatives<br>\$m |
| Foreign Exchange Forward Contracts | 240                      | (3)                           | 237                    | 26                       | (12)                          | 14                     |
| Futures                            | 3                        | (5)                           | (2)                    | 9                        | (6)                           | 3                      |
| Options                            | 51                       | (5)                           | 46                     | 48                       | (2)                           | 46                     |
| Swaps                              | 11                       | (6)                           | 5                      | 4                        | -                             | 4                      |
| <b>Net Derivatives</b>             | <b>305</b>               | <b>(19)</b>                   | <b>286</b>             | <b>87</b>                | <b>(20)</b>                   | <b>67</b>              |

### 8. DEFINED BENEFIT MEMBER LIABILITIES

#### Liability for Accrued Benefits

The Fund engages actuaries on an annual basis to measure the defined benefit members' liabilities in each of the defined benefit schemes.

The amount of accrued benefits has been determined based on the present value of expected future payments which arise from membership of the Fund up to the measurement date. The figure reported has been determined by reference to expected future salary levels and by application of a market-based, risk-adjusted discount rate and relevant actuarial assumptions. The valuation of accrued benefits was undertaken by the independent scheme actuary. The financial assumptions applied for the calculations were:

| Valuation Assumptions*                       | 2020<br>% | 2019<br>% |
|--|-----------|-----------|
| Investment Return Rate                       |           |           |
| - assets backing current pension liabilities | 7.0       | 7.4       |
| - other                                      | 6.0       | 6.4       |
| CPI Increase Rate                            | 2.0       | 2.2       |
| Salary Increase Rate                         | 3.2       | 2.7       |

The actuarial valuation estimate at the reporting date shows accrued liabilities of \$58,549 million and an unfunded liability of \$16,875 million (before inclusion of ESR). The key assumptions and sensitivity analysis to 30 June 2020 estimates are provided below.

\* All assumptions are long-term in nature, for the duration of the fund life, and may differ from short-term variations.

**SAS TRUSTEE CORPORATION POOLED FUND**

Notes to and forming part of the financial statements  
For the year ended 30 June 2020

**8. DEFINED BENEFIT MEMBER LIABILITIES (Continued)**

**Sensitivity Analysis for 30 June 2020**

| Key Assumption*                     | Assumed at 30 June 2020  | Sensitivity Change | (Increase)/Decrease in Liability for Accrued Benefits \$m |
|-------------------------------------|--|--------------------|---|
| Investment return/<br>discount rate | 7.0% for all pensioners,<br>6.0% other members                 | +1.0% pa           | 3,996   |
|                                     |  | -1.0% pa           | (4,664)   |
| Inflationary salary<br>increases    | 3.2% pa to 30 June<br>2021 and 3.2% pa thereafter              | +1.0% pa           | (398)   |
|                                     |  | -1.0% pa           | 373   |
| CPI increases                       | 2.0% pa  | +1.0% pa           | (4,541)   |
|                                     |  | -1.0% pa           | 3,921   |
| Pensioner mortality                 | Consistent with a life expectancy<br>of 89.3 for a 65-year-old | +0.5 years         | (364)   |
|                                     |  | -0.2 years         | 339   |

\* All assumptions are long-term in nature, for the duration of the fund life, and may differ from short-term variations.

**SAS TRUSTEE CORPORATION POOLED FUND**

Notes to and forming part of the financial statements  
For the year ended 30 June 2020

**8. DEFINED BENEFIT MEMBER LIABILITIES (Continued)**

|   | 2020                    |   |                            | 2019                    |   |                            |
|---|-------------------------|---|----------------------------|-------------------------|---|----------------------------|
|   | Accrued Benefits<br>\$m | Net Assets Available to Pay Benefits<br>\$m | Over/(under) funded<br>\$m | Accrued Benefits<br>\$m | Net Assets Available to Pay Benefits<br>\$m | Over/(under) funded<br>\$m |
| State Authorities Superannuation Scheme                           | 14,194                  | 12,104                                      | (2,090)                    | 14,598                  | 12,911                                      | (1,687)                    |
| State Authorities Non-contributory Superannuation Scheme          | 2,145                   | 1,731                                       | (414)                      | 2,199                   | 1,893                                       | (306)                      |
| State Superannuation Scheme                                       | 34,589                  | 22,805                                      | (11,784)                   | 34,473                  | 23,817                                      | (10,656)                   |
| Police Superannuation Scheme                                      | 7,621                   | 5,034                                       | (2,587)                    | 7,507                   | 5,153                                       | (2,354)                    |
| <b>Actuarial estimates of under-funded benefits at 30 June</b>    | <b>58,549</b>           | <b>41,674</b>                               | <b>(16,875)</b>            | <b>58,777</b>           | <b>43,774</b>                               | <b>(15,003)</b>            |
| Employer Sponsor Receivable for PSS, in accordance with AASB 1056 | -                       | 2,587                                       | 2,587                      | -                       | 2,354                                       | 2,354                      |
| <b>Under-funded benefits AASB 1056</b>                            | <b>58,549</b>           | <b>44,261</b>                               | <b>(14,288)</b>            | <b>58,777</b>           | <b>46,128</b>                               | <b>(12,649)</b>            |

STC is working with the NSW Treasury to facilitate the Government's stated objective to fully fund the superannuation liabilities of the General Government Sector (excluding Universities).

The COVID-19 pandemic has placed unprecedented pressure on the State's finances over the medium term, however, in recognition of providing clarity to the Trustee about its obligations to its members and employer sponsors, the Treasurer has written to the Trustee reiterating the Government's commitment to achieving the objective of fully funding the State's defined benefit liabilities.

The Treasurer has further committed to maintaining an ongoing funding plan that will ensure all benefits continue to be paid when they fall due.

**Liquidity risk management**

STC's overall strategy to liquidity risk management is outlined in its Liquidity Policy. The Fund's liquidity risk exposures are managed in concert with the Fund's investment strategies. STC has set a number of minimum liquidity requirements which are tested at least annually.

These include maintaining a sufficient liquid asset buffer to meet two years' worth of expected benefit payments and an exposure of no less than 60% of assets invested in liquid asset classes at all times. STC also maintains adequate funding facilities and continuously monitors forecast and actual cash flows, including amounts required to fund its scheme and investment transactions and amounts expected from the Government.

**SAS TRUSTEE CORPORATION POOLED FUND**

Notes to and forming part of the financial statements  
For the year ended 30 June 2020

**9. VESTED BENEFITS**

Vested benefits are benefits which are not conditional upon continued membership of the Fund (or any factor other than resignation from the Fund) and include benefits which members were entitled to receive had they terminated their Fund membership at the reporting date. This is for disclosure purposes only.

|   | 2020                   |   |                             | 2019                   |   |                             |
|---|------------------------|---|-----------------------------|------------------------|---|-----------------------------|
|   | Vested Benefits<br>\$m | Net Assets Available to Pay Benefits<br>\$m | Over/ (under) funded<br>\$m | Vested Benefits<br>\$m | Net Assets Available to Pay Benefits<br>\$m | Over/ (under) funded<br>\$m |
| State Authorities Superannuation Scheme                           | 14,479                 | 12,104                                      | (2,375)                     | 15,093                 | 12,911                                      | (2,182)                     |
| State Authorities Non-contributory Superannuation Scheme          | 2,322                  | 1,731                                       | (591)                       | 2,429                  | 1,893                                       | (536)                       |
| State Superannuation Scheme                                       | 34,583                 | 22,805                                      | (11,778)                    | 34,469                 | 23,817                                      | (10,652)                    |
| Police Superannuation Scheme                                      | 7,398                  | 5,034                                       | (2,364)                     | 7,223                  | 5,153                                       | (2,070)                     |
| <b>Actuarial estimates of under-funded benefits at 30 June</b>    | <b>58,782</b>          | <b>41,674</b>                               | <b>(17,108)</b>             | <b>59,214</b>          | <b>43,774</b>                               | <b>(15,440)</b>             |
| Employer Sponsor Receivable for PSS, in accordance with AASB 1056 |                        | 2,587                                       | 2,587                       | -                      | 2,354                                       | 2,354                       |
| <b>Under-funded benefits AASB 1056</b>                            | <b>58,782</b>          | <b>44,261</b>                               | <b>(14,521)</b>             | <b>59,214</b>          | <b>46,128</b>                               | <b>(13,086)</b>             |

## SAS TRUSTEE CORPORATION POOLED FUND

Notes to and forming part of the financial statements  
For the year ended 30 June 2020

### 10. EMPLOYER AND MEMBER CONTRIBUTIONS

|                                | 2020        |              |              |            | Total<br>\$m |
|--------------------------------|-------------|--------------|--------------|------------|--------------|
|                                | SASS<br>\$m | SANCS<br>\$m | SSS<br>\$m   | PSS<br>\$m |              |
| Employer Contributions         | 281         | 74           | 1,418        | 325        | 2,098        |
| Salary Sacrifice Contributions | 119         | -            | 24           | 5          | 148          |
| Member Contributions           | 41          | -            | 15           | 2          | 58           |
| <b>Total Contributions</b>     | <b>441</b>  | <b>74</b>    | <b>1,457</b> | <b>332</b> | <b>2,304</b> |

|                                | 2019        |              |              |            | Total<br>\$m |
|--------------------------------|-------------|--------------|--------------|------------|--------------|
|                                | SASS<br>\$m | SANCS<br>\$m | SSS<br>\$m   | PSS<br>\$m |              |
| Employer Contributions         | 333         | 90           | 1,239        | 315        | 1,977        |
| Salary Sacrifice Contributions | 125         | -            | 32           | 6          | 163          |
| Member Contributions           | 42          | -            | 19           | 2          | 63           |
| <b>Total Contributions</b>     | <b>500</b>  | <b>90</b>    | <b>1,290</b> | <b>323</b> | <b>2,203</b> |

### 11. CHANGE IN FAIR VALUE OF INVESTMENTS

| Asset class                           | 2020<br>\$m  | 2019<br>\$m  |
|---------------------------------------|--------------|--------------|
| Short term securities                 | (4)          | 41           |
| Australian fixed interest             | 43           | 261          |
| International fixed interest          | 22           | 18           |
| Australian equities                   | (426)        | (116)        |
| International equities                | 533          | 1,128        |
| Property                              | (305)        | 60           |
| Infrastructure and other alternatives | (277)        | 471          |
| <b>Total</b>                          | <b>(414)</b> | <b>1,863</b> |

Changes in fair value of investments are recognised in the income statement and are determined as the difference between the fair value at year end or consideration received (if sold during the year) and the fair value as at the prior year end or cost (if the investment was acquired during the year). From the above \$616 million of losses (2019: \$2,351 million gains) relates to investments still held at 30 June 2020.

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2020

#### 12. SCHEME ADMINISTRATION EXPENSES

The *Superannuation Administration Act 1996* requires that STC recover its administration expenses from the Fund. Recoveries totalled \$35 million (2019: \$37 million).

Included in Scheme Administration Expenses are the following items:

|  | 2020<br>\$m | 2019<br>\$m |
|--|-------------|-------------|
| Actuarial Fees                                   | 0.6         | 0.7         |
| Audit Fees – The Audit Office of New South Wales | 0.5         | 0.4         |
| Scheme Administration Fees                       | 23.0        | 23.0        |

#### 13. INCOME TAX

Income tax expenses and assets and liabilities arising from the levying of income tax (including capital gains tax) on the Fund have been determined in accordance with the provisions of Australian Accounting Standard AASB 112 *Income Taxes*.

| a) Income Tax recognised in the Income Statement                                    | 2020<br>\$m    | 2019<br>\$m  |
|---|----------------|--------------|
| <b>Current tax benefit</b>  |                |              |
| Current income tax benefit  | (74)           | (236)        |
| Over provision of tax in prior years  | (7)            | (13)         |
|   | <b>(81)</b>    | <b>(249)</b> |
| <b>Deferred tax liability</b>   |                |              |
| Increase/(decrease) in deferred tax liabilities                                     | (50)           | 19           |
| <b>Total income tax (benefit) in Income Statement</b>                               | <b>(131)</b>   | <b>(230)</b> |
| <b>Reconciliation between operating results before income tax and tax (benefit)</b> |                |              |
| <b>Operating results before income tax</b>  | <b>(1,770)</b> | <b>542</b>   |
| Income tax expense using the superannuation fund tax rate of 15%                    | (266)          | 81           |
| <b>Change in tax expense/(benefit) due to:</b>                                      |                |              |
| - Assessable investment income  | 285            | (120)        |
| - Pension related investment income   | (405)          | (347)        |
| - Tax credits   | (101)          | (272)        |
| - Net change in defined benefit member liabilities                                  | 363            | 441          |
| - (Over) provision of tax benefit in prior years                                    | (7)            | (13)         |
| <b>Income tax (benefit) in Income Statement</b>                                     | <b>(131)</b>   | <b>(230)</b> |

**SAS TRUSTEE CORPORATION POOLED FUND**

**Notes to and forming part of the financial statements  
For the year ended 30 June 2020**

**13. INCOME TAX (Continued)**

| <b>b) Deferred Tax Liability</b>                                       | <b>2020<br/>\$m</b> | <b>2019<br/>\$m</b> |
|--|---------------------|---------------------|
| Unrealised capital loss/(gains)  | (45)                | (97)                |
| Income receivable  | (1)                 | (1)                 |
| Unrealised loss/(gains) on traditional securities and foreign exchange | (2)                 | (6)                 |
| Unrealised franking credits  | 2                   | 8                   |
| <b>Deferred Tax Liability</b>  | <b>(46)</b>         | <b>(96)</b>         |

**14. KEY MANAGEMENT PERSONNEL AND KEY MANAGEMENT PERSONNEL COMPENSATION**

The Trustee of the Fund is STC. The names of the STC Board members and STC executive officers in office during the year ended 30 June 2020 and the comparative year are as follows:

***Non-executive Trustees***

Ms C Austin  
 Ms C Bolger (term completed 24 September 2019 – term recommenced 17 October 2019)  
 Mr A Claassens  
 Ms S Dave  
 Mr N Johnson  
 Ms C Keating  
 Mr S Little (term commenced 30 September 2019)  
 Mr G Maniatis (term completed 24 September 2019)  
 Mr T O’Grady  
 Ms R Ramwell (term completed 25 June 2019)  
 Ms L Rasmussen (term commenced 12 March 2020)

***Executive Officers***

Mr G Gabriel (from 1 February 2019)  
 Mr R Hedley (until 14 December 2018)  
 Mr J Livanas  
 Mr J Narayan  
 Mr A Parapuram  
 Mr N Patel  
 Ms A Samuel (until 30 September 2018)  
 Ms N Siratkov  
 Mr C Wu (from 1 December 2018)

| <b>The key management personnel compensation in relation to services to STC is as follows</b> | <b>2020<br/>\$’000</b> | <b>2019<br/>\$’000</b> |
|---|------------------------|------------------------|
| Board member compensation   | 436                    | 527                    |
| Short-term employee benefits  | 3,786                  | 2,625                  |
| Termination benefits  | -                      | 475                    |
| Other long-term employee benefits   | 11                     | 34                     |
| <b>Total</b>  | <b>4,233</b>           | <b>3,661</b>           |

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2020

#### 15. RELATED PARTY INFORMATION

- a) The following Board Members were members of the Fund schemes during the reporting period or up to the date of the financial statements (including comparative year): T O'Grady and A Claassens. Their membership terms and conditions were the same as those applied to other members of the Fund's schemes. Mr. T O'Grady exited the Fund Scheme on 26 September 2019.
- b) Transactions entered into during the year with Board Members and their Related Entities are disclosed below.

|   | 2020<br>\$000 | 2019<br>\$000 |
|---|---------------|---------------|
| Consulting fees paid to STC Board Member Ms. C Keating by Aware Super (formerly known as StatePlus), on normal commercial terms. Aware Super (formerly known as StatePlus) has various contractual arrangements with STC for the provision of Member Services | -             | 65            |
| Director fees paid to STC Board Member Ms. R Ramwell by Aware Super (formerly known as StatePlus), on normal commercial terms. Aware Super (formerly known as StatePlus) has various contractual arrangements with STC for the provision of Member Services   | -             | 70            |

- c) The Fund reimbursed STC \$37 million (2019: \$38 million) for operating expenses including key management personnel compensation costs. The amount payable to STC at 30 June 2020 is disclosed in note 5.
- d) The Fund has an investment in a commercial office building at 83 Clarence Street, Sydney. Part of this building is leased on normal commercial terms to the Trustee.

#### 16. CONTINGENT LIABILITIES

Contingent liabilities potentially exist in relation to either the Trustee in its capacity as Trustee of the Fund, or the Fund itself. Classes of contingent liabilities may include:

- a) Legal costs and related future benefit payments, if any, in relation to member benefit entitlement disputes, notified, but not resolved.
- b) Legal costs and damages arising from claims relating to the ownership and operation of physical assets.

In both cases, it is impractical to estimate the financial effect or the amount of any possible recovery from third parties relating to these contingent liabilities. The Trustee is indemnified out of the assets of the Fund, and in the case of contingent liabilities arising from PSS, by the legislation of the scheme which allows the Trustee to make a call on NSW Government Consolidated Revenues.

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2020

#### 17. SECURITIES LENDING PROGRAM

The Fund participates in an indemnified Securities Lending Program managed by the custodian. The Fund received \$3.4 million (2019: \$6 million) fee income from this program, which adds to the Fund's overall yearly return.

At 30 June, the total value of the loaned securities was \$1.2 billion (2019: \$1.8 billion) while the total value of the collateral was \$1.3 billion (2019: \$1.9 billion). The lent securities represented 6.48% of the lendable assets (2019: 10.09%) and is within the Fund's allowable limit of 20% of the lendable assets.

The collateral comprised of non-cash sovereign securities of \$0.9 billion (2019: \$1.4 billion) and cash of \$446 million (2019: \$546 million). The collateral is invested in a fund managed by the custodian.

The custodian's indemnification of the program covers any shortfalls in securities collateral.

#### 18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Fund is exposed to a variety of risk factors as a result of its investment activities. These risks include:

- (a) market risk (including currency risk; interest rate risk; and price risk)
- (b) credit risk
- (c) liquidity risk

The Fund's risk management and investment policies are designed to minimise the potential adverse effects of these risks on the Fund's financial performance. STC maintains a Risk Management Framework (RMF) and an anti-money laundering and counter terrorism financing program (AML/CTF program). These systems address material risks, both financial and non-financial that could potentially be faced by the Fund.

The Fund's assets are invested in accordance with the Fund's investment strategy. STC regularly reviews the investment strategy to ensure the strategy's continued relevance to the Fund's objectives given prevailing investment markets. An objective of the investment strategy is to avoid undue concentrations of risk. STC ensures that the portfolio is diversified across and within asset classes, across investment managers, countries, individual asset types and risk factors.

As required by its governing legislation, the investments of the Fund are managed by specialist fund managers. The activities of the fund managers are governed by investment instructions and investment constraints as set out in documented agreements with the fund managers or, in the case of a unit trust, a trust deed.

STC and TCorp (as the mandated investment manager for the Trustee Selection assets), constantly monitor the investment managers to ensure compliance with investment instructions and investment constraints.

For the purpose of these financial statements, a financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments include both primary instruments (such as receivables but excluding ESR, payables and equity securities) and derivative instruments (such as financial options, foreign exchange transactions, forward rate agreements and interest rate and currency swaps). Such derivative instruments are only used for hedging purposes and to efficiently implement asset allocation changes.

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2020

#### 18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

##### Accounting Policies

Assets and liabilities of the Fund are predominantly valued at reporting date at fair values. Fair value comprises of market value but excludes estimated costs of disposal. Changes in fair values, representing gains or losses, are recognised in the Income Statement in the period in which they occur.

Accounting policies and valuation methods for each financial instrument are as follows:

| Financial instruments                              | Accounting policies/valuation methods  |
|--|--|
| 1. Receivables                                     | Receivables include income receivable and unsettled sales of securities.   |
| 2. Futures   | Futures are stated at market value using the daily closing price.  |
| 3. Managed Trusts/Managed Property Trusts          | The fair value of Managed Trusts is determined on the basis of the withdrawal or net asset value unit prices as advised by the relevant fund manager.  |
| 4. Unlisted Equity Interests                       | Unlisted Equity Interests are carried at fair value as determined by independent expert valuers. Valuations are done on an annual basis and as required.   |
| 5. Listed Shares and Trusts                        | Listed shares and trusts are carried at fair value. The basis for valuation of listed securities is the last bid price quoted at close of business on the last day of the period on the relevant securities exchange. Certain costs incurred in acquiring the investment, such as brokerage and stamp duty, are capitalised in the cost of the investments. Dividend income and trust distributions are recognised on the ex-date.   |
| 6. Bills of exchange and other discount securities | Carried at fair value using market rates as at 30 June.  |
| 7. Promissory Notes                                | Carried at fair value as at 30 June.   |
| 8. Mortgages                                       | Mortgages are stated at fair value. Interest income is recognised in the Income Statement when earned.   |
| 9. Bank Deposits                                   | Stated at fair value. Interest income is recognised in the Income Statement when earned.   |
| 10. Government Bonds                               | Carried at fair value based on discounted cash flow.   |
| 11. Semi Government Bonds                          | Carried at fair value based on discounted cash flow.   |
| 12. Domestic Bonds                                 | Carried at fair value based on discounted cash flow.   |
| 13. International Bonds                            | Carried at fair value based on discounted cash flow.   |
| 14. Options  | Options are stated at market value using the daily closing price.  |
| 15. Investment Purchases                           | Liabilities are recognised for amounts to be paid for under investment commitments.  |
| 16. Foreign Exchange Forward Contracts             | Foreign exchange forward contracts are undertaken to hedge against adverse foreign exchange movements. Gains or losses on these contracts are recognised through the translation of underlying transactions and/or instruments at hedge rates.   |
| 17. Payables                                       | Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Fund.  |
| 18. Investment Properties                          | The fair value of the Fund's investment property as at 30 June 2020 and 30 June 2019 has been arrived at on the basis of a valuation carried out on the respective dates by independent valuers. All independent valuers were appropriately qualified and experienced and authorised to practise as a valuer. In performing the valuation, the independent valuer considered the requirements of the Australian Accounting Standard Board, in particular, AASB13 Fair Value Measurement. Valuations are done on an annual basis and as required. |

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2020

#### 18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

##### Accounting Policies (Continued)

The Fund recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument. Changes in the fair value of the financial assets and liabilities are recognised from that date.

The Fund derecognises a financial asset or a financial liability when the rights or obligation under the asset or liability is discharged, transferred, cancelled or expires.

##### a) Market Risk

Market risk is the risk that changes in factors such as foreign currency exchange rates (currency risk), interest rates (interest rate risk) and equity prices (price risk) will affect the Fund's income or the value of its financial instruments. Through its management of market risk, STC seeks to manage and control its market risk exposures to within acceptable parameters while optimising risk adjusted returns.

In managing market risk, STC's fund managers trade in derivatives and securities. The fund managers also incur liabilities in the ordinary course of business. All such transactions are within the investment management mandates granted by STC to its managers.

##### a.i) Currency Risk

Foreign Currency risk is the risk that the net market value of offshore assets and future cash flows derived from existing offshore financial instruments will fluctuate because of changes in foreign exchange rates.

The Fund is exposed to foreign currency risk on financial instruments, receivables and liabilities that are denominated in currencies other than Australian Dollars. The main currencies to which the Fund is exposed are:

- US Dollar (USD)
- Japanese Yen (JPY)
- Euro (EUR)
- British Pound (GBP)

The Fund's foreign currency risk is managed in accordance with strict parameters as set out in its investment policy. Under the policy, investments are hedged as follows:

- international equities – developed market equities are hedged from 0% to 100% in Australian dollars
- international equities – emerging market equities are unhedged
- international property, infrastructure and alternative assets are hedged from 0% to 100% in Australian dollars
- International fixed interest assets (sovereign debt) are hedged from 0% to 100% in Australian dollars

STC's currency overlay manager uses a range of counterparties. If a counterparty failed to satisfy its contractual obligation to deliver on a currency hedging contract, the Fund would remain exposed to the foreign currency risk.

The hedging strategy is continually reviewed and refined for the management of risk factors faced by the Fund through foreign currency risk.

**SAS TRUSTEE CORPORATION POOLED FUND**

Notes to and forming part of the financial statements  
For the year ended 30 June 2020

**18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**

**a.i) Currency Risk (continued)**

The Fund's total net exposure to fluctuations in foreign currency exchange rates as at the financial year end is as follows:

| YEAR ENDED 30 JUNE 2020<br>FAIR VALUE  |               |               |               |               |               |                 |                 |
|--|---------------|---------------|---------------|---------------|---------------|-----------------|-----------------|
|  | USD<br>AUD\$m | JPY<br>AUD\$m | EUR<br>AUD\$m | GBP<br>AUD\$m | AUD<br>AUD\$m | Other<br>AUD\$m | TOTAL<br>AUD\$m |
| <b>Financial assets and liabilities at fair value through the income statement</b> | 10,002        | 681           | 1,330         | 1,008         | 25,392        | 3,346           | 41,759          |
| <b>Cash</b>  | -             | -             | -             | -             | 30            | -               | 30              |
| <b>Payables</b>  | (17)          | (1)           | (3)           | (1)           | (74)          | (6)             | (102)           |

| YEAR ENDED 30 JUNE 2019<br>FAIR VALUE  |               |               |               |               |               |                 |                 |
|--|---------------|---------------|---------------|---------------|---------------|-----------------|-----------------|
|  | USD<br>AUD\$m | JPY<br>AUD\$m | EUR<br>AUD\$m | GBP<br>AUD\$m | AUD<br>AUD\$m | Other<br>AUD\$m | TOTAL<br>AUD\$m |
| <b>Financial assets and liabilities at fair value through the income statement</b> | 8,310         | 570           | 1,430         | 1,181         | 30,121        | 2,061           | 43,673          |
| <b>Cash</b>  | -             | -             | -             | -             | 32            | -               | 32              |
| <b>Payables</b>  | (36)          | (14)          | (3)           | (3)           | (90)          | (8)             | (154)           |

## SAS TRUSTEE CORPORATION POOLED FUND

Notes to and forming part of the financial statements  
For the year ended 30 June 2020

### 18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### a.i) Currency Risk (continued)

The currency risk disclosure reflects the Fund's assets that are subject to active currency management. These assets comprise both directly held investments and most of the assets held indirectly through unit trusts.

Assuming no hedging of international exposures, a 9 percent (2019: 15 percent) strengthening of the Australian Dollar against the following currencies at financial year end would have decreased the monetary assets (i.e. assets that are units of currency or assets that are to be received in a fixed or determinable number of units of currency) within the Fund's Income Statement by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. In practice, STC partially hedges against the adverse effects of currency movements. The analysis is calculated on the same basis for 2020 and 2019.

| All amounts are in Australian Dollars | Change in Net<br>Assets<br>2020<br>\$m | Change in Net<br>Assets<br>2019<br>\$m |
|---------------------------------------|--|--|
| USD                                   | (188)                                  | (216)                                  |
| JPY                                   | (1)                                    | (1)                                    |
| EUR                                   | (9)                                    | (12)                                   |
| GBP                                   | (34)                                   | (60)                                   |
| Other                                 | (43)                                   | (89)                                   |
| <b>Total</b>                          | <b>(275)</b>                           | <b>(378)</b>                           |

Assuming no hedging of international exposures, a 9 percent (2019: 15 percent) weakening of the Australian Dollar against the above currencies at financial year end would have the equal but opposite effect on the above currencies to the amounts shown above, assuming that all other variables remain constant.

#### a.ii) Interest Rate Risk

The Fund's investments in debt and short-term money market instruments are subject to interest rate risk and the return on these investments will fluctuate in accordance with movements in the interest rates.

The Fund's exposure to interest rate risk, including contractual repricing or maturity dates (whichever dates are earlier) associated with these financial instruments as at 30 June, are shown in the tables below. All other financial assets and liabilities are non-interest bearing.

SAS TRUSTEE CORPORATION POOLED FUND

Notes to and forming part of the financial statements  
For the year ended 30 June 2020

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

a.ii) Interest Rate Risk (continued)

YEAR ENDED 30 JUNE 2020 – INTEREST RATE RISK DISCLOSURE

|                                       | Floating Interest<br>\$m | Fixed Interest<br>\$m | Non-Interest-Bearing<br>\$m | Total (per Statement of Financial Position)<br>\$m |
|---------------------------------------|--------------------------|-----------------------|-----------------------------|--|
| <b>Assets</b>                         |                          |                       |                             |  |
| Short Term Securities                 | 665                      | 2,207                 | -                           | 2,872  |
| Australian Fixed Interest             | -                        | 1,091                 | -                           | 1,091  |
| International Fixed Interest          | -                        | 214                   | -                           | 214  |
| Australian Equities                   | -                        | -                     | 7,570                       | 7,570  |
| International Equities                | -                        | -                     | 12,360                      | 12,360   |
| Property - indirect                   | -                        | -                     | 1,835                       | 1,835  |
| Investment Properties - direct        | -                        | -                     | 1,993                       | 1,993  |
| Infrastructure and other alternatives | -                        | -                     | 13,568                      | 13,568   |
| Net Derivatives                       | -                        | -                     | 286                         | 286  |
| <b>Total Assets</b>                   | <b>665</b>               | <b>3,512</b>          | <b>37,612</b>               | <b>41,789</b>                                      |
| <b>Liabilities</b>                    |                          |                       |                             |  |
| Payables                              | -                        | -                     | 102                         | 102  |
| <b>Total Liabilities</b>              | <b>-</b>                 | <b>-</b>              | <b>102</b>                  | <b>102</b>   |
| <b>Net Assets</b>                     | <b>665</b>               | <b>3,512</b>          | <b>37,510</b>               | <b>41,687</b>                                      |

YEAR ENDED 30 JUNE 2019 – INTEREST RATE RISK DISCLOSURE

|                                       | Floating Interest<br>\$m | Fixed Interest<br>\$m | Non-Interest-Bearing<br>\$m | Total (per Statement of Financial Position)<br>\$m |
|---------------------------------------|--------------------------|-----------------------|-----------------------------|--|
| <b>Assets</b>                         |                          |                       |                             |  |
| Short Term Securities                 | 725                      | 2,318                 | -                           | 3,043  |
| Australian Fixed Interest             | -                        | 2,338                 | -                           | 2,338  |
| International Fixed Interest          | -                        | 185                   | -                           | 185  |
| Australian Equities                   | -                        | -                     | 8,577                       | 8,577  |
| International Equities                | -                        | -                     | 11,723                      | 11,723   |
| Property - indirect                   | -                        | -                     | 1,601                       | 1,601  |
| Investment Properties - direct        | -                        | -                     | 2,138                       | 2,138  |
| Infrastructure and other alternatives | -                        | -                     | 14,033                      | 14,033   |
| Net Derivatives                       | -                        | -                     | 67                          | 67   |
| <b>Total Assets</b>                   | <b>725</b>               | <b>4,841</b>          | <b>38,139</b>               | <b>43,705</b>                                      |
| <b>Liabilities</b>                    |                          |                       |                             |  |
| Payables                              | -                        | -                     | 154                         | 154  |
| <b>Total Liabilities</b>              | <b>-</b>                 | <b>-</b>              | <b>154</b>                  | <b>154</b>   |
| <b>Net Assets</b>                     | <b>725</b>               | <b>4,841</b>          | <b>37,985</b>               | <b>43,551</b>                                      |

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2020

#### 18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

##### a.ii) Interest Rate Risk (continued)

The following tables illustrate the effect from possible changes in interest rates and price risk that were reasonably possible based on the risk to which the Fund was exposed. The sensitivity factors were developed by the Fund's Asset Consultant. The Asset Consultant's recommended volatility factors have been determined after considering historical data series and are calculated by considering what is 'reasonably possible'. The analysis is calculated on the same basis for 2020 and 2019.

The effect of a 100-basis point increase (2019: 175-basis points) in interest rates for variable rate financial assets and for fixed interest securities is as follows. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is calculated on the same basis for 2020 and 2019 and takes into consideration portfolio duration.

| All amounts are in Australian Dollars | Change in Net<br>Assets<br>2020<br>\$m | Change in Net<br>Assets<br>2019<br>\$m |
|---------------------------------------|--|--|
| Fixed Interest                        | (137)                                  | (397)                                  |
| Floating Interest                     | 7                                      | 13                                     |
| <b>Total</b>                          | <b>130</b>                             | <b>(384)</b>                           |

A 100-basis point (2019: 175-basis points) decrease in interest rates at financial year end would have the equal but opposite effect on the amounts shown above, assuming that all other variables remains constant.

##### a.iii) Price Risk

Price risk is the risk that the total value of investments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment and/or its issuer or all factors affecting all instruments traded in the market. As the majority of the Fund's financial instruments are carried at fair value in the Statement of Financial Position and all changes in fair value are recognised in the Income Statement, all changes in market conditions will directly affect net assets available for member benefits and operating results.

Price risk is mitigated by the Fund having a formal investment strategy which diversifies the Fund's investments across various sectors, managers, risk factors, asset classes and countries.

## SAS TRUSTEE CORPORATION POOLED FUND

Notes to and forming part of the financial statements  
For the year ended 30 June 2020

### 18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### a.iii) Price Risk (continued)

| All amounts are in Australian Dollars | Change in<br>Price Risk<br>Variable | Change in<br>Operating<br>Results<br>2020<br>\$m | Change in<br>Operating<br>Results<br>2019<br>\$m |
|---------------------------------------|-------------------------------------|--|--|
| Australian Equities                   | +38%                                | 2,884  | 3,268  |
| International Equities                | +40%                                | 4,918  | 4,701  |
| <b>Total</b>                          |                                     | <b>7,802</b>                                     | 7,696  |

| All amounts are in Australian Dollars | Change in<br>Price Risk<br>Variable | Change in<br>Operating<br>Results<br>2020<br>\$m | Change in<br>Operating<br>Results<br>2019<br>\$m |
|---------------------------------------|-------------------------------------|--|--|
| Australia Equities                    | -22%                                | (1,673)  | (1,896)  |
| International Equities                | -23%                                | (2,846)  | (2,727)  |
| <b>Total</b>                          |                                     | <b>(4,519)</b>                                   | (4,423)  |

#### b) Credit Risk

Credit (or counterparty) risk is the risk that a counterparty will fail to perform contractual obligations to a financial instrument and cause the Fund to incur a financial loss. Counterparty risk is governed by the Exposure and Counterparty Limit Policy. The Fund primarily invests in debt securities which are rated by a known rating agency. The Fund manages its exposure to credit risk by setting minimum grade ratings by investment type and a minimum overall weighted average credit rating in its investment mandates.

The Fund is exposed to credit risk in the following areas:

- the holding of currency hedging contracts, derivatives, short term securities, Australian fixed interest securities and international fixed interest securities
- contributions receivable
- accrued income
- margin call deposits
- unsettled investment sales
- securities lending (refer to Note 17)

The Fund's maximum exposure to credit risk at balance date in relation to each of the above listed items is the carrying amount of those assets as stated in the Statement of Financial Position.

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2020

#### 18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

For short term securities, Australian fixed interest securities, international fixed interest securities and cash, STC controls credit risk by explicitly setting out in its investment instructions the assets that fund managers may invest in. The restrictions are based around rating agency assessments and/or the securities that make up the relevant industry benchmark for the sector being invested in. For forward foreign exchange contracts, investment managers must deal only with counterparties that have greater than nominated rating agency assessment and are also limited to relative dollar limits with any particular counterparty to ensure that credit risk is well diversified.

Credit risk associated with contributions receivable, margin call deposits and investment sales are minimal as all have a short settlement period and:

- contributions receivable comprises mainly Government Agency employer sponsors, hence risk is mitigated.
- for margin call deposits, STC transacts only with counterparties rated as credit worthy by credit rating agencies, and
- for investment sales, in line with market practice the Fund's custodian does not release the sold assets until full payment has been received from the purchaser.

The Fund does not have significant concentrations of credit risk that arises from an exposure to a single counterparty or group of counterparties having similar characteristics. The net exposure of the Fund to a group of related entities has not been greater than ten percent of the Fund's net assets during the years ended 30 June 2020 or 30 June 2019. Also, STC ensures that in its hedging activities it diversifies its exposure to individual counterparties.

#### c) Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due.

The relevant statutes require that all benefits be paid in full when they fall due.

In managing liquidity risk STC continuously monitors forecast and actual cash flows, including amounts required to fund its scheme and investment transactions and amounts expected from the Crown. Forecast Fund cash flows are based around the triennial actuarial assessment of the Fund, adjusted for actual cash flows. STC is able to estimate benefit outflows because most members cannot roll out of the Fund at will, but rather must satisfy a condition of release. The Fund maintains funding facilities adequate to allow the payment of its obligations as they fall due.

The Fund's strategic asset allocations at 30 June 2020 targeted the following allocations to cash and short-term securities:

- DC Growth Option 6.5%
- DC Balanced Option 26.5%
- DC Conservative Option 45%
- Trustee Selection 4%
- University Diversified 75%

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2020

#### 18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The following tables summarise the maturity profile of the Fund's financial liabilities.

| 2020 Financial liabilities                                 | Less than 1<br>month<br>\$m | 1 – 12<br>months<br>\$m | 1+ years<br>\$m | Fair Value<br>\$m |
|--|-----------------------------|-------------------------|-----------------|-------------------|
| Trade and other payables                                   | 85                          | 17                      | -               | 102               |
| Current tax liabilities                                    | -                           | 236                     | -               | 236               |
| <b>Total financial liabilities (excluding derivatives)</b> | <b>85</b>                   | <b>253</b>              | <b>-</b>        | <b>338</b>        |
| Net settled derivatives                                    |                             |                         |                 |                   |
| Forward foreign exchange contracts                         | 135                         | 101                     | -               | 236               |
| Futures  | -                           | (1)                     | -               | (1)               |
| Swaps  | -                           | 5                       | -               | 5                 |
| Options  | (2)                         | 48                      | -               | 46                |
| <b>Total derivatives inflow/(outflow)</b>                  | <b>133</b>                  | <b>153</b>              | <b>-</b>        | <b>286</b>        |

| 2019 Financial liabilities                                 | Less than 1<br>month<br>\$m | 1 – 12<br>months<br>\$m | 1+ years<br>\$m | Fair Value<br>\$m |
|--|-----------------------------|-------------------------|-----------------|-------------------|
| Trade and other payables                                   | 133                         | 21                      | -               | 154               |
| Current tax liabilities                                    | -                           | 56                      | -               | 56                |
| <b>Total financial liabilities (excluding derivatives)</b> | <b>133</b>                  | <b>77</b>               | <b>-</b>        | <b>210</b>        |
| Net settled derivatives                                    |                             |                         |                 |                   |
| Forward foreign exchange contracts                         | (4)                         | 17                      | -               | 13                |
| Futures  | 4                           | -                       | -               | 4                 |
| Options  | -                           | 50                      | -               | 50                |
| <b>Total derivatives inflow/(outflow)</b>                  | <b>-</b>                    | <b>67</b>               | <b>-</b>        | <b>67</b>         |

#### 19. FAIR VALUE DISCLOSURES

The Statement of Financial Position is prepared in accordance with AASB 1056 *Superannuation Entities*. All investment assets are valued at fair values at 30 June. All other assets and other liabilities are recorded at historical cost which, in the opinion of the Trustees, approximates their fair value.

##### Assets and Liabilities by Measurement Hierarchy

For financial reporting, fair value measurements are categorised into Level 1, 2 or 3 based on whether inputs in determining fair value are observable and the significance to the measurement. The levels are described as follows:

- Level 1 – quoted prices in active markets for identical assets or liabilities. The assets in this level are short term securities; listed shares; listed unit trusts.
- Level 2 – inputs other than quoted prices observable for the asset or liability either directly or indirectly. The assets in this level are loan notes, government, semi-government and corporate bonds; unlisted trusts where quoted prices are available in active markets for identical assets or liabilities.
- Level 3 – inputs for the asset or liability that are not based on observable market data. The assets in this level are unlisted property; unlisted shares; and unlisted infrastructure.

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2020

#### 19. FAIR VALUE DISCLOSURES (Continued)

STC has a valuation policy that sets out how all the Fund's assets are to be valued to ensure that valuations are materially accurate, fair and equitable. The Policy reflects the requirements of APRA Prudential Practice Guide SPG 531 – *Valuation*.

The fair value of direct infrastructure and property assets are based on valuations performed by independent valuers. Each independent valuer is appointed in line with the valuation policy. The valuation models used are designed in accordance with the International Valuation Standards Committee's recommendations.

#### Valuation techniques and significant unobservable inputs

The unobservable inputs into the valuation of the Fund's level 3 assets are determined on the best information available. Examples of unobservable inputs include discount rates, cash flow forecasts and rental forecasts.

Investments held at fair value through profit and loss for which there is no active market are valued making as much use of available and supportable market data as possible whilst keeping judgemental inputs to a minimum.

The following summarises the quantitative information regarding the significant unobservable inputs used in the Fund's level 3 fair value valuation methodologies, and include where applicable:

- Market based methods – which estimate fair value by considering the market price of similar assets or transactions
- Discounted cash-flow methods – which estimate fair value by discounting future cash flows to a net present value. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. The discount rate used to equate the future cash flows to their net present value reflects the risk adjusted rate of return demanded by a hypothetical investor for the assets being valued. Selecting an appropriate discount rate is a matter of judgement having regard to relevant available market data and the risks and circumstances specific to the asset being valued
- Asset based methods – which estimate the fair value based on the realisable value of identifiable net assets assuming an orderly realisation

The analysis below indicates the effect on the income statement and statement of financial position arising from possible changes of the noted unobservable inputs to level 3 assets.

| Asset Description | Unobservable inputs used in analysis | Sensitivity used | Effect on fair value 2020<br>\$m | Effect on fair value 2019<br>\$m | Relationship to fair value  |
|-------------------|--------------------------------------|------------------|----------------------------------|----------------------------------|---|
| Infrastructure    | Discount rate                        | +/- 50bp         | <b>(225)/253</b>                 | (262)/294                        | an increase in the discount rate will reduce fair value, a decrease in the discount rate will increase fair value             |
| Direct property   | Discount rate                        | +/- 25bp         | <b>(40)/40</b>                   | (41)/41                          | an increase in the discount rate will reduce fair value, a decrease in the discount rate will increase fair value             |
| Direct property   | Capitalisation rate                  | +/- 25bp         | <b>(94)/104</b>                  | (97)/104                         | an increase in the capitalisation rate will reduce fair value, a decrease in the capitalisation rate will increase fair value |
| Unit Trusts       | Unit price                           | +/- 5%           | <b>143/(143)</b>                 | 80/(80)                          | an increase in the unit price will increase fair value, a decrease in the unit price will decrease fair value                 |

**SAS TRUSTEE CORPORATION POOLED FUND**

**Notes to and forming part of the financial statements  
For the year ended 30 June 2020**

**19. FAIR VALUE DISCLOSURES (Continued)**

The following tables categorise the Fund's assets using the above valuation hierarchy. All disclosures are at fair value and excludes cash balances of approximately \$1.6B (2019: \$1.6B) which are embedded within the asset class portfolios, as cash is not subject to fair value considerations.

| Year ended 30 June 2020               | Level 1<br>\$m | Level 2<br>\$m | Level 3<br>\$m | Total<br>\$m  |
|---------------------------------------|----------------|----------------|----------------|---------------|
| <b>Assets</b>                         |                |                |                |               |
| Short Term Securities                 | 1,889          | 2,207          | -              | 4,096         |
| Australian Fixed Interest             | -              | 1,066          | -              | 1,066         |
| International Fixed Interest          | 30             | 1,879          | -              | 1,909         |
| Australian Equities                   | 6,902          | 392            | -              | 7,294         |
| International Equities                | 11,487         | 463            | -              | 11,950        |
| Property                              | 645            | -              | 2,707*         | 3,352         |
| Infrastructure and other alternatives | 24             | 4,163          | 6,336*         | 10,523        |
| <b>Total</b>                          | <b>20,977</b>  | <b>10,170</b>  | <b>9,043</b>   | <b>40,190</b> |

| Year ended 30 June 2019               | Level 1<br>\$m | Level 2<br>\$m | Level 3<br>\$m | Total<br>\$m  |
|---------------------------------------|----------------|----------------|----------------|---------------|
| <b>Assets</b>                         |                |                |                |               |
| Short Term Securities                 | 2,136          | 1,907          | -              | 4,043         |
| Australian Fixed Interest             | 5              | 2,290          | -              | 2,295         |
| International Fixed Interest          | 7              | 1,961          | -              | 1,968         |
| Australian Equities                   | 7,818          | 551            | -              | 8,369         |
| International Equities                | 8,795          | 2,592          | -              | 11,387        |
| Property                              | 699            | 180            | 2,710          | 3,589         |
| Infrastructure and other alternatives | 327            | 5,080          | 5,151          | 10,558        |
| <b>Total</b>                          | <b>19,787</b>  | <b>14,561</b>  | <b>7,861</b>   | <b>42,209</b> |

\* Post balance date valuations do not indicate any new conditions that may impact the 30 June 2020 valuations.

Reconciliation of level 3 fair value measurements of financial assets

| Level 3 Fair Value Reconciliation                     | 2020<br>\$m  | 2019<br>\$m  |
|---|--------------|--------------|
| Balance at 1 July                                     | 7,861        | 7,366        |
| Total gains and losses recognised in income statement | (601)        | 406          |
| Purchases   | 1,518        | 358          |
| Redemptions/Disposals                                 | (133)        | (298)        |
| Transfer into Level 3                                 | 398          | 98           |
| Transfer out of Level 3                               | -            | (69)         |
| <b>Balance at 30 June</b>                             | <b>9,043</b> | <b>7,861</b> |

Unrealised losses recognised in the 2020 income statement is \$598 million, (2019: \$406 million gain).

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2020

#### 20. COMMITMENTS

As at 30 June 2020, the Fund had commitments for uncalled additions to existing investments of \$442 million (2019: \$342 million). The amounts can be called at the discretion of the fund managers involved and will be funded from the cash holdings of the Fund's diversified investment options.

#### 21. NOTES TO CASH FLOW STATEMENT

Reconciliation of net cash flows from operating activities to the operating result after income tax

|  | 2020<br>\$m  | 2019<br>\$m  |
|--|--------------|--------------|
| Operating result after income tax for the year             | (1,639)      | 772          |
| Net change in fair value of investments                    | 414          | (1,863)      |
| Net change in receivables and other assets                 | (99)         | (132)        |
| Net change in payables and other liabilities               | 67           | 244          |
| Net change in defined benefit member benefits              | 2,417        | 2,941        |
| Net change in provision for income tax                     | 180          | (117)        |
| <b>Net cash inflow/(outflow) from operating activities</b> | <b>1,340</b> | <b>1,845</b> |

#### 22. OPERATING LEASE

The future minimum lease payments receivable by the Fund excluding GST are:

|   | 2020<br>\$m | 2019<br>\$m |
|---|-------------|-------------|
| No later than one year                            | 115         | 117         |
| Later than one year but not later than five years | 330         | 302         |
| Later than five years                             | 157         | 109         |
| <b>Total</b>                                      | <b>602</b>  | <b>528</b>  |

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2020

#### 23. CONTROLLED ENTITIES

The entities that comprise the SAS Trustee Corporation Pooled Fund economic entity are detailed below. The entities are special purpose trusts established to hold some of the Fund's unlisted infrastructure and property investments.

| Name                                    | Country of Incorporation | Equity Holding |           | Commitments for Investment |              |
|---|--------------------------|----------------|-----------|----------------------------|--------------|
|   |                          | 2020<br>%      | 2019<br>% | 2020<br>\$'m               | 2019<br>\$'m |
| Alfred Unit Trust                       | Australia                | 100            | 100       | -                          | -            |
| Southern Way Unit Trust                 | Australia                | 100            | 100       | -                          | -            |
| Duquesne Utilities Trust                | Australia                | 100            | 100       | 13                         | 69           |
| Pisco STC Funds Unit Trust No.1         | Australia                | 100            | 100       | -                          | -            |
| Pisco STC Funds Unit Trust No.2         | Australia                | 100            | 100       | -                          | -            |
| Valley Commerce Pty Limited             | Australia                | 100            | 100       | -                          | -            |
| Buroba Pty Limited                      | Australia                | 100            | 100       | -                          | -            |
| State Infrastructure Trust              | Australia                | 100            | 100       | -                          | -            |
| State Infrastructure Holdings 1 Pty Ltd | Australia                | 100            | 100       | -                          | -            |
| Project Cricket State Super Unit Trust  | Australia                | 100            | 100       | -                          | -            |
| A-Train Trust                           | Australia                | 100            | 100       | -                          | -            |

#### 24. CLIMATE CHANGE

The Fund acknowledges climate change presents significant long-term investment risks. The Fund endorses the 'Paris Agreement' and acknowledges the principles of a 'Just Transition' to a low carbon economy.

The Fund is committed to effectively integrating climate change risks and opportunities into its investment processes across the Pooled Fund and expects its investment managers and advisors to integrate these throughout their investment process.

While we continue to consider our approach to climate change over time, the research we have undertaken to incorporate climate risks and opportunities into the investment and valuation process, includes the following.

##### *Rising temperature modelling:*

We worked with specialist advisors to assess potential risk exposure under 2-degree, 3-degree and 4-degree scenarios, and what impact that may have on the strategic asset allocation as well as individual asset classes and assets. This research included consideration of potential climate related spending, transition costs to a lower carbon economy, development of technology and impact of physical risks like weather patterns. As a result of this research, our focus has been on public equities and real assets.

##### *Real assets and climate risks:*

For our infrastructure and real estate assets the Fund has incorporated consideration of climate change risks and opportunities in several ways. Physical climate risk analysis was undertaken across all Infrastructure and real estate assets. Assets were assessed against exposure to Heat Stress, Water Stress, Floods, Sea Level Rise and Hurricanes & Typhoons. Of these assets, 5 of those most exposed (representing approx. \$1,500 million) were further analysed and mitigation strategies raised with investment management teams. A similar analysis is also undertaken as part of due diligence consideration for all new investments.

##### *Real assets and Fair value assessment incorporating climate risk:*

In arriving at the fair value of our real assets (primarily Infrastructure and Property assets), climate related risks are incorporated in the valuation process. The management teams for each individual asset will consider climate-related risk matters when preparing business plans and long-term forecasts, including impact of climate change on revenues, operating expenses, capex and financing.

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2020

#### 24. CLIMATE CHANGE (Continued)

In addition to climate-related risks being incorporated into the forecasts for each individual asset, the independent valuer will also consider climate-related risks when undertaking the valuation of each individual asset. In this regard, we specifically request (and require) each independent valuer to consider and comment upon climate-related risks when undertaking their independent valuations.

The consideration of climate-related risks by the valuer is typically made when the valuer is determining the discount rate that will use to calculate the value of the asset using the discounted cash flow methodology.

##### *Listed assets and climate risk:*

We have also undertaken physical climate risk analysis for our domestic and international listed equity holdings representing approximately \$19,100 million.

Across the ASX 300, the Fund engages with companies on climate change as a priority to encourage those with greater exposure to climate change risks to address them – we have 7 of the ASX 20 as a climate change priority.

Internationally, Hermes EOS was engaged to further our climate change engagement across our international holdings.

#### 25. EVENTS AFTER THE REPORTING DATE

In July 2020 the Trustee was informed by the Treasurer that the COVID-19 pandemic has placed unprecedented pressure on the State's finances over the medium-term.

In September 2020, the Treasurer wrote to the Trustee confirming the significant financial impact from COVID-19 on the State's finances. The Treasurer indicated the Government is currently determining how best to respond to the financial impact of COVID-19, including reviewing the timing of contributions required to achieve full funding.

NSW Treasury and its actuary are working with STC and its actuary in order to agree on the timing of the contributions required, and in the meantime, the current rates of contributions commencing 1 July 2020 have been placed in abeyance while the review is being completed.

The NSW Government remains committed to maintaining an ongoing funding plan that will ensure all benefits continue to be paid when they fall due.

**End of Audited Financial Statements**

# Appendix 1

## Statistical information about GIPA access applications processed by or on behalf of State Super in 2019-20

**Table A: Number of applications by type of applicant and outcome\***

|   | Access granted in full | Access granted in part | Access refused in full | Information not held | Information already available | Refuse to deal with application | Refuse to confirm/deny whether information is held | Application withdrawn |
|---|------------------------|------------------------|------------------------|----------------------|-------------------------------|---------------------------------|--|-----------------------|
| Media   | 0                      | 0                      | 0                      | 0                    | 0                             | 0                               | 0  | 0                     |
| Members of Parliament                                       | 0                      | 0                      | 0                      | 0                    | 0                             | 0                               | 0  | 0                     |
| Private sector business                                     | 0                      | 0                      | 0                      | 0                    | 0                             | 0                               | 0  | 0                     |
| Not for profit organisations or community groups            | 0                      | 2                      | 0                      | 0                    | 0                             | 0                               | 0  | 0                     |
| Members of the public - application by legal representative | 29                     | 127                    | 1                      | 1                    | 0                             | 0                               | 0  | 0                     |
| Members of the public (others)                              | 25                     | 111                    | 0                      | 0                    | 0                             | 0                               | 0  | 0                     |

\* More than one decision can be made in respect of a particular access application. If so, a recording must be made in relation to each such decision. This also applies to Table B

**Table B: Number of applications by type of application and outcome**

|   | Access granted in full | Access granted in part | Access refused in full | Information not held | Information already available | Refuse to deal with application | Refuse to confirm/deny whether information is held | Application withdrawn |
|---|------------------------|------------------------|------------------------|----------------------|-------------------------------|---------------------------------|--|-----------------------|
| Personal information applications*  | 54                     | 238                    | 1                      | 1                    | 0                             | 0                               | 0  | 0                     |
| Access applications (other than personal information applications)        | 0                      | 2                      | 0                      | 0                    | 0                             | 0                               | 0  | 0                     |
| Access applications that are partly personal information and partly other | 0                      | 0                      | 0                      | 0                    | 0                             | 0                               | 0  | 0                     |

\* A **personal information application** is an access application for personal information (as defined in clause 4 of Schedule 4 to the Act) about the applicant (the applicant being an individual).

**Table C: Invalid applications**

| Reason for invalidity   | Number of Applications |
|---|------------------------|
| Application does not comply with formal requirements (section 41 of the Act)  | 0                      |
| Application is for excluded information of the agency (section 43 of the Act) | 1                      |
| Application contravenes restraint order (section 110 of the Act)              | 0                      |
| Total number of invalid applications received                                 | 1                      |
| Invalid applications that subsequently became valid applications              | 0                      |

**Table D: Conclusive presumption of overriding public interest against disclosure: matters listed in Schedule 1 to Act**

|  | Number of times consideration used * |
|--|--------------------------------------|
| Overriding secrecy laws  | 0                                    |
| Cabinet information  | 0                                    |
| Executive Council information  | 0                                    |
| Contempt   | 0                                    |
| Legal professional privilege   | 21                                   |
| Excluded information   | 0                                    |
| Documents affecting law enforcement and public safety  | 3                                    |
| Transport safety   | 0                                    |
| Adoption   | 0                                    |
| Care and protection of children  | 0                                    |
| Ministerial code of conduct  | 0                                    |
| Aboriginal and environmental heritage  | 0                                    |
| Information about complaints to Judicial Commission  | 0                                    |
| Information about authorised transactions under <i>Electricity Network Assets (Authorised Transactions) Act 2015</i> | 0                                    |
| Information about authorised transaction under <i>Land and Property NSW (Authorised Transaction) Act 2016</i>        | 0                                    |

\* More than one public interest consideration may apply in relation to a particular access application and, if so, each such consideration is to be recorded (but only once per application). This also applies in relation to Table E.

**Table E: Other public interest considerations against disclosure: matters listed in table to section 14 of Act**

|  | Number of occasions when application not successful |
|--|---|
| Responsible and effective government                                 | 0   |
| Law enforcement and security   | 0   |
| Individual rights, judicial process and natural justice              | 229   |
| Business interests of agencies and other persons                     | 0   |
| Environment, culture, economy and general matters                    | 0   |
| Secrecy provisions   | 0   |
| Exempt documents under interstate Freedom of Information legislation | 0   |

**Table F: Timeliness**

|  | Number of Applications |
|--|------------------------|
| Decided within the statutory timeframe (20 days plus any extensions) | 282                    |
| Decided after 35 days (by agreement with applicant)                  | 14                     |
| Not decided within time (deemed refusal)                             | 0                      |
| Total  | 296                    |

**Table G: Number of applications reviewed under Part 5 of the Act (by type of review and outcome)**

|   | Decision varied | Decision upheld | Total |
|---|-----------------|-----------------|-------|
| Internal review   | 2               | 0               | 2     |
| Review by Information Commissioner*                               | 0               | 0               | 0     |
| Internal review following recommendations under section 93 of Act | 0               | 0               | 0     |
| Review by NCAT  | 0               | 0               | 0     |
| Total   | 0               | 0               | 0     |

\* The Information Commissioner does not have the authority to vary decisions but can make recommendations to the original decision-maker. The data in this case indicates that a recommendation to vary or uphold the original decision has been made by the Information Commissioner.

**Table H: Applications for review under Part 5 of the Act (by type of applicant)**

|  | Number of Applications for review |
|--|-----------------------------------|
| Applications by access applicants  | 2                                 |
| Application by persons to whom information the subject of access application relates (see section 54 of the Act) | 0                                 |

**Table I: Applications transferred to other agencies under Division 2 of Part 4 of the Act (by type of transfer)**

|                                 | Number of Applications transferred |
|---------------------------------|------------------------------------|
| Agency - initiated transfers    | 0                                  |
| Applicant - initiated transfers | 0                                  |

## Compliance index for disclosure requirements

In accordance with the *Annual Reports (Statutory Bodies) Regulation 2015*, this index has been prepared to facilitate identification of compliance with statutory disclosure requirements.

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## GLOSSARY

- **ECPI** means Exempt Current Pension Income.
- **Executive** means the executive staff of State Super.
- **HOGA** means the Heads of Government Agreement between the Federal and State Governments relating to state public sector superannuation schemes.
- **Mercer** means Mercer Administration Services (Australia) Pty Limited.
- **PSS** means Police Superannuation Scheme.
- **SANCS** means State Authorities Non-contributory Superannuation Scheme.
- **SASS** means State Authorities Superannuation Scheme.
- **SAS Trustee Corporation Pooled Fund** (also referred to as the STC Pooled Fund or Fund) means the amalgamated fund of the State Super Schemes referred to in s. 81 of the *Superannuation Administration Act 1996*.
- **SSS** means State Superannuation Scheme.
- **State Super** means SAS Trustee Corporation.
- **STC** means SAS Trustee Corporation.
- **TCorp** means New South Wales Treasury Corporation.
- **Trustee Board** means the Board of State Super, appointed under s. 69 of the *Superannuation Administration Act 1996*.

## Customer service

Between 8:30am and 5:30pm, Monday to Friday for the cost of a local call (unless calling from a mobile or pay phone).

|  |              |
|--|--------------|
| State Authorities Superannuation Scheme (SASS) | 1300 130 095 |
| State Superannuation Scheme (SSS)              | 1300 130 096 |
| Police Superannuation Scheme (PSS)             | 1300 130 097 |
| Deferred benefit members                       | 1300 130 094 |
| Pension members                                | 1300 652 113 |

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## Personal interview service

Personal interviews are available by appointment only 9.00am to 5.00pm on Fridays. Appointments are via telephone/video call during the COVID-19 crisis but will resume in-person in 2021 at State Super, Level 16, 83 Clarence Street, Sydney, NSW 2000 and at selected Aware Super locations (Parramatta, Newcastle and Wollongong).

To arrange an appointment, call one of the Customer Service numbers above.

This report contains general information. Relevant information is subject to the *State Authorities Superannuation Act 1987*, the *Superannuation Act 1916*, the *Police Regulation (Superannuation) Act 1906* and the *State Authorities Non-contributory Superannuation Act 1987* that govern the schemes mentioned in this report and those Acts will prevail to the extent of any inconsistency. In preparing the report, SAS Trustee Corporation (STC) has not taken into account your objectives, financial situation or needs and you should consider your personal circumstances and possibly seek professional advice before making any decision that affects your future. To the extent permitted by law, STC, its Board members and employees do not warrant the accuracy, reliability or completeness of the information contained in or omitted in this report. STC cannot guarantee any particular rate of return and past investment performance is not a reliable guide to future investment performance.