



**STATE SUPER**  
SAS Trustee Corporation

# ANNUAL REPORT

## 2020 - 21

# 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.**

## 2020-21 HIGHLIGHTS

### Investments

- The State Super Pooled Fund had assets totalling \$43 billion (excluding the Employer Sponsor Receivable) on 30 June 2021.
- The Pooled Fund's net investment revenue for 2020-21 was \$5,698 million.
- The 1, 3, 5, and 10yr performance for DB and DC continued to outperform their respective benchmarks for both risk and return.
- The Trustee Selection Strategy for the Pooled Fund earned net investment revenue that resulted in an estimated rate of return credited to Crown employers of **14.9%** (after adjustment for exempt current pension income tax).
- The Trustee credited a **14.3%** return to members in the Growth Strategy (after superannuation tax). These performances significantly exceeded their return objectives, and consistently are amongst the best performing funds on a risk adjusted basis, delivering better dollar returns to members.
- The Trustee developed specific metrics to monitor investment managers approach to ESG including Modern Slavery, Climate and Safety and is working towards a 'net zero' carbon objective.
- At 30 June 2021, total Fund assets (excluding the Employer Sponsor Receivable) improved to 73% of accrued liabilities versus 2018 (actuarially measured using the assumed earning rate of the Fund).
- Key investment activities were undertaken to increase resilience in the post Covid-19 pandemic world. These included:
  - A review of investment objectives to confirm suitability for the expected uncertain investment environment
  - An additional emphasis on liquidity modelling of the Fund's liquidity requirements
  - Enhancement in the Fund's risk management framework including further scenario testing
  - The implementation of the carbon reduction strategy for the equities portfolios.

### Members

- State Super's annual member satisfaction rating from the 2020 survey remained consistently high at 8 out of a possible 10.
- Our member publications, such as SuperViews and PensionViews have increased readership from **85% in 2019 to 96% in 2020**, demonstrating that members are engaged with the articles that are intended to inform and educate.
- State Super is developing an ongoing program of continuous improvement of the member website including a reengineering of the design, navigation and content.
- Over **2,600** SASS and SSS members attended one of the **63 free education seminars/webinars** on their schemes. The replacement of face to face seminars with an online reengineered version has been successful.
- The novel State Super Member Advisory Forum program was launched as an online forum for 2 member groups – Department of Education in October 2020 and Health workers in April 2021. These forums have generated key insights that will enhance our member service delivery.
- The State Super Academic Scholarship program continued with Phase 3 resulting in 61 requests for an application form, 5 applications submitted and 2 scholarships awarded. The successful students are from the University of New South Wales and the University of Wollongong.
- Our Member Beliefs continue to be promoted 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 has introduced online channels to improve member experiences for some of the services, such as seminars.

## Governance

- An independent review was conducted of the member outcomes test to meet APRA SPS515. The review supported State Super's activities in delivering appropriate products and services to members, noting that State Super is not a regulated fund. This review is part of the extensive program by State Super to provide Treasury (acting as State Super's regulator) with information regarding conformance to the Heads of Government Agreement (HOGA).

## Stakeholders

- On demand webinars are being developed by our Administrator to provide relevant training and information to our employers.
- State Super's media engagement strategy continues to be focussed on providing information as required in response to member inquiries, and to reinforce State Super's presence.

## People

- The State Super Enterprise Agreement has been effectively integrated across all relevant people related processes.
- New staff have now been appointed in our new office in Wollongong, focussed on supporting member related administration issues, and enhancing our knowledge base regarding the Defined Benefit schemes.

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# Report to the Minister

## October 2021

The Hon. Matthew John Kean, 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 2020 to 30 June 2021.

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 *Government Sector Finance Act 2018*, 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: 2020-21

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# Part A

## About State Super

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## A message from the Chairperson

At the outset, I want to highlight State Super's excellent investment results and the high levels of operational efficiency delivered over the past financial year. In any normal year these results would be highly commendable, but 2020/21 has not been normal. It is easy to forget that we have been and continue to be greatly challenged by the global COVID-19 pandemic.

Working from home, massively unsettled financial markets, fundamental shifts in the nature of the superannuation industry, all these factors have presented State Super with huge and unusual challenges. So, I acknowledge and thank the State Super team for their performance, delivered in these remarkably difficult circumstances.

I equally recognise that the last year has brought multiple economic and social challenges for our members.

On behalf of the Board and State Super I send our sincere condolences to all our members and their families who have been impacted by COVID-19.

### Structure of Chair's report

I will comment on three themes which have been the focus of particular attention from the Board over the past year. These are the accelerating rate of change in the structure of the Australian superannuation industry, Responsible Investment issues, and some consequences of worldwide governmental policy responses to COVID-19.

### Structure of the Australian superannuation industry

Following from the Hayne Royal Commission inquiry into the financial services sector, there has been an evident increase in governmental attention on the behaviour and the performance of all industry participants.

The increased attention has resulted in a series of new directives, policy statements and regulatory initiatives from the primary prudential regulator for the superannuation industry, APRA. Specifically, APRA has said that it expects small superannuation funds to actively seek to merge with larger funds both to achieve economies of scale in operational efficiency and costs and to deliver potentially superior investment returns to members.

APRA has recently published a list of funds whose performance has consistently underperformed their stated benchmark, with the result that their members are materially worse off than other funds' members. APRA has directed those underperforming funds to write to their members advising them of the poor outcomes.

While State Super is not regulated by APRA, the Board requires the fund to be managed and to report to similar regulatory standards as set by APRA. Consequently the Board has considered the performance of the Pooled Fund over the past five years against the benchmark standards set by APRA. That investigation concluded that the Pooled Fund's absolute performance has consistently

been at or above the median performance of APRA regulated funds.

The Board notes that the above average performance has been achieved while simultaneously adopting an above average level of downside protection in the portfolio and while holding high levels of liquidity needed for pension payments and withdrawals as members move into retirement. In that context the Board is satisfied that the Pooled Fund has delivered very good risk adjusted returns to members.

Another practical consequence of the drive for small funds to merge is that the resultant larger funds are tending to move away from outsourced service providers, taking more investment and administration functions in-house. This change in operating model is resulting in increased hiring by the larger funds and a drift of investment and administration personnel away from the independent service providers. State Super has a high reliance on external service suppliers and while there is no immediate threat to the operations of State Super, the Board and Management are developing various contingency plans to ensure the Pooled Fund enjoys high levels of service across all its business functions.

### Responsible Investment

During the year I participated in several focus group meetings with State Super members who expressed the consistent desire for State Super to adopt a strong proactive approach to Responsible Investing, while still delivering above average investment returns to members. I was pleased to have been able to say that the Board takes a similar view to environmental, social and governance issues ('ESG') without sacrificing investment performance.

The Board has encouraged Management during the year in a broad work plan towards establishing tangible benchmarks to measure the carbon footprint associated with the Pooled Fund's current and prospective investment footprint.

Having established a reference carbon footprint benchmark, State Super is now developing a practical 'road map' to plan a pathway to a net zero footprint in its portfolio by 2050. The pathway will take account of the social transition consequences of associated shifts to a low carbon economy. The work on this Net Zero Project is being done with the active collaboration of our prime financial advisor, TCorp.

As our investment strategy evolves to reflect the drive to a net zero carbon footprint we will correspondingly update our investment risk appetite statement, a fundamental policy document that underpins how we allocate our risk budget to invest members' funds to best effect.

## Worldwide governmental policy responses to COVID-19

Major governments and their agencies have responded to the potential adverse economic consequences of COVID-19 by increasing money supply and setting interest rates very low.

The short and long term impact of these very significant actions have been, and will continue to be, material for State Super.

Short term effects have included the extraordinary speed of recovery in global stock markets, the so-called 'V-shaped' equity market bounce, as investors used abnormally high levels of liquidity sometimes in conjunction with ultra low cost of debt to purchase higher yielding or growth stocks. High demand for investments has pushed equity prices to very high levels.

In these favourable investment conditions investors have been equally attracted to purchasing unlisted assets like property and infrastructure assets which have the potential to deliver inflation linked returns for many years.

State Super holds various unlisted assets which are generally considered to be relatively illiquid, and are intended to be held for long periods. While there is usually no direct market price to use in valuing these assets on the fund's balance sheet, the Board is conscious of the potential for these unlisted asset values to be subject to substantial movement during the current unprecedented economic environment. Underlying unlisted asset values will tend to have increased as a result of the low interest rates and high market liquidity, but conversely specific unlisted asset values may have been adversely affected as a result of the adverse economic trading conditions resulting from COVID-19, such as decreased traffic through shopping malls or airports.

The valuation of unlisted assets has been, and continues to be, subject to heightened levels of review both within the Management Investment Committee and the Board Investment Committee.

Finally, I must acknowledge that it is our people who make State Super what it is. Our operating model has provided a strong sustainable platform which has resulted in a high staff retention rate - good people stay with us for longer. Our Employee Engagement survey scores have been consistently in the top 5 of all NSW government departments and organisations. Keeping our people longer has the additional benefit of underpinning the retention of our intellectual property, an asset which is of importance to a complex defined benefit fund like State Super.

I thank my fellow Board members and the State Super Executive team for their dedication during these extraordinary times. This team has made State Super a high performing organisation, responsive to member needs and to the regulatory environment, whilst maintaining integrity and strong governance.

Thank you.

Nicholas Johnson



Chairperson

October 2021

## Chief Executive Officer's report

Our last financial year was characterised by a significant 'bounce back' by investment markets, driven by ultra-low interest rates and the expectation of improvements in economic activity as the effects of COVID-19 ameliorated. It now seems that we will continue to have uncertainty over the speed of opening, in light of the 'Delta' variant. However, interest rates are likely to stay low, which will continue to support financial markets.

The non-financial costs of COVID-19 will, however, take some time to redress. In particular we worry about the effects on young people and on those who are at the front line. Our thoughts go out to all who have suffered during this period and especially in the current lockdown.

### Appreciation

We are so grateful to all of our members who work and continue to provide services to our citizens.

I'd like to call out our members who work in the health services sector, tirelessly supporting patients, assisting in vaccinations, and testing and providing mental health support.

I'd also like to call out our educators, who have adapted to the new world of online teaching, and who still staff schools in support of frontline workers.

Our police members have had to endure unenviable situations to keep our communities safe in the face of difficult decisions to limit movement. Our train and bus drivers, who have continued to provide a transport lifeline for those needing to work away from home.

And of course, the front-line services staff who have tirelessly worked to distribute aid to those in need. And so many others including those in Human Services who support our more vulnerable in the community; our regional support staff; our infrastructure, water and power generation staff; our communities and justice staff, and as well as those who support the citizens of NSW to make this a great State!

I would also like to acknowledge all our employees who have continued to work hard to deliver the member services and investment returns that our members need and expect. Our employees have adapted to the new way of working whilst still focusing on the end objective to: "provide high quality superannuation services to members to maximise their superannuation benefits and to support the NSW Government in meeting its funding objective".

### Our members

With the pandemic came many new challenges in meeting all our member services. This has meant adapting to new ways of delivering the services that would have otherwise been face to face.

COVID-19, Mercer Administration Services (MAS) software upgrades and staffing levels impacted service levels over the course of this financial year. State Super has worked with MAS to address these issues.

We will continue to oversee the service level agreements – and in particular pension and benefit payments and call centre operations.

During 2020/21, we continued our extensive oversight of the MAS platform migration. While MAS has had to delay the delivery date, our formal risk management process has mitigated risks to our members.

During the last financial year, we introduced our Member Advisory Forums which provide members with the ability to have a say, to provide suggestions and to ask questions of State Super leadership. These forums have proved very popular with members and we are grateful for members' contributions.

Last year, as many would know, Sydney reported a negative CPI for the year ending June 2020. Prior to amendment, our legislation would have required us to reduce members pensions. However, with the support of our Board and NSW Government, our legislation was amended and rapidly passed by Parliament to avoid a reduction.

We are grateful to our representatives in both the legislative assembly and legislative council for approving this important change.

### Our investments

Our investment returns have continued to exceed our objectives and perform well in down markets. 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 14.9% (after adjustment for exempt current pension income tax). In addition, the Trustee credited a 14.3% return to members in the Growth Strategy (after superannuation tax).

State Super is unique in that it has to manage a closed fund in outflow and therefore our focus is on member dollar balances, rather than just investment percentage returns. These can be different. A fund in outflow will achieve higher dollar balances for members, with a lower volatility investment strategy, even if it has lower percentage returns.

It is worth noting that State Super's investment returns never fell below zero on a 12-month rolling basis at ANY point during the COVID-19 investment fall. In contrast, the 12-month rolling investment returns for the median industry fund fell below zero over a 12-month rolling period, *three* times during the same period.

### Helping NSW, our great financial results

As I noted last year, the impact on NSW of the pandemic resulted in extraordinary economic stress. Last year we accepted a two-year moratorium on Crown contributions and a tailored recovery in contributions from 1 July 2022, with the aim of achieving full funding by a later target of 2040.

Our performance over 2020/21 was such, that as at 30 June 2021, our total investment assets in our funds went up by over \$1.5bn, while paying all benefits due, and without the benefit of any contributions by the NSW Crown.

This was possible because of our investment strategy which focused on good returns and specifically dollar outcomes, our management of our liquidity and risk

appetite to account for the two-year contribution holiday and longer contribution plan.

### Our employees

Last year we quickly adapted to the new working environment and have continued to improve on that by meeting employee needs wherever possible and to ensure that we have good work, health and safety measures in place. I am mindful of the impact that working remotely may have on some of our employees and we have instituted increased and regular all-staff meetings. The Board, Executive team and I continue to offer support to our employees in every way we can. We implemented Covid-safe processes in our office so that when we do open, staff can have the flexibility to choose how they wish to work.

Our technology has worked well and validates our decision several years ago to upgrade our facilities to a cloud based, 'work anywhere' model.

### What drives us?

I think it's important to always reiterate that, at the core, our member beliefs and investment beliefs drive us in servicing members.

Our Member Beliefs are embedded throughout State Super, and we continue to promote them to our partner organisations, encouraging all decisions and interactions with our members to be conducted according to these beliefs. Our Investment Beliefs continue to drive State Super's and TCorp's development of our investment processes and outcomes.

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

State Super has been committed to Responsible Investing as a core element of our investment process, believing that taking into the account risks relating to ESG can significantly improve risk adjusted investment returns. In addition, we have been working extensively to assess the investment risks caused by Climate Change and are planning to significantly revise and announce our Investment Strategy relating to climate change risk in the course of this financial year.

What a year. Thank you.

John Livanas



Chief Executive Officer

October 2021

## 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 \$43 billion at 30 June 2021.

### Membership

With 93,271 members at 30 June 2021, 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.  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 2021	Contributing members: 15,269 Deferred benefit members: 8,688 Pension members: 4,848 Total members: 28,805
Financial position at 30 June 2021	Net assets: \$12,554 million Accrued benefits: \$14,441 million* Unfunded liabilities: \$1,887 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 2021	Contributing members: 1,260 Deferred benefit members: 948 Pension members: 54,919 Total members: 57,127

\*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 2021	Net assets: \$23,620 million Accrued benefits: \$34,644 million* Unfunded liabilities: \$11,024 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.  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 2021	Contributing members: 534 Deferred benefit members: 70 Pension members: 6,735 Total members: 7,339
Financial position at 30 June 2021	Net assets: \$5,257 million** Accrued benefits: \$7,769 million* Unfunded liabilities: \$2,512 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 2021	Current active members: 17,063 Deferred benefit members: 9,191 Total members: 26,254
Financial position at 30 June 2021	Net assets: \$1,747 million Accrued benefits: \$2,079 million* Unfunded liabilities: \$332 million
Member benefits	SASS, SSS and PSS members receive the SANCS benefit in addition to their main scheme benefit.  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).  Members may also be eligible for the Additional Employer Contribution (AEC), an accumulation style superannuation benefit.

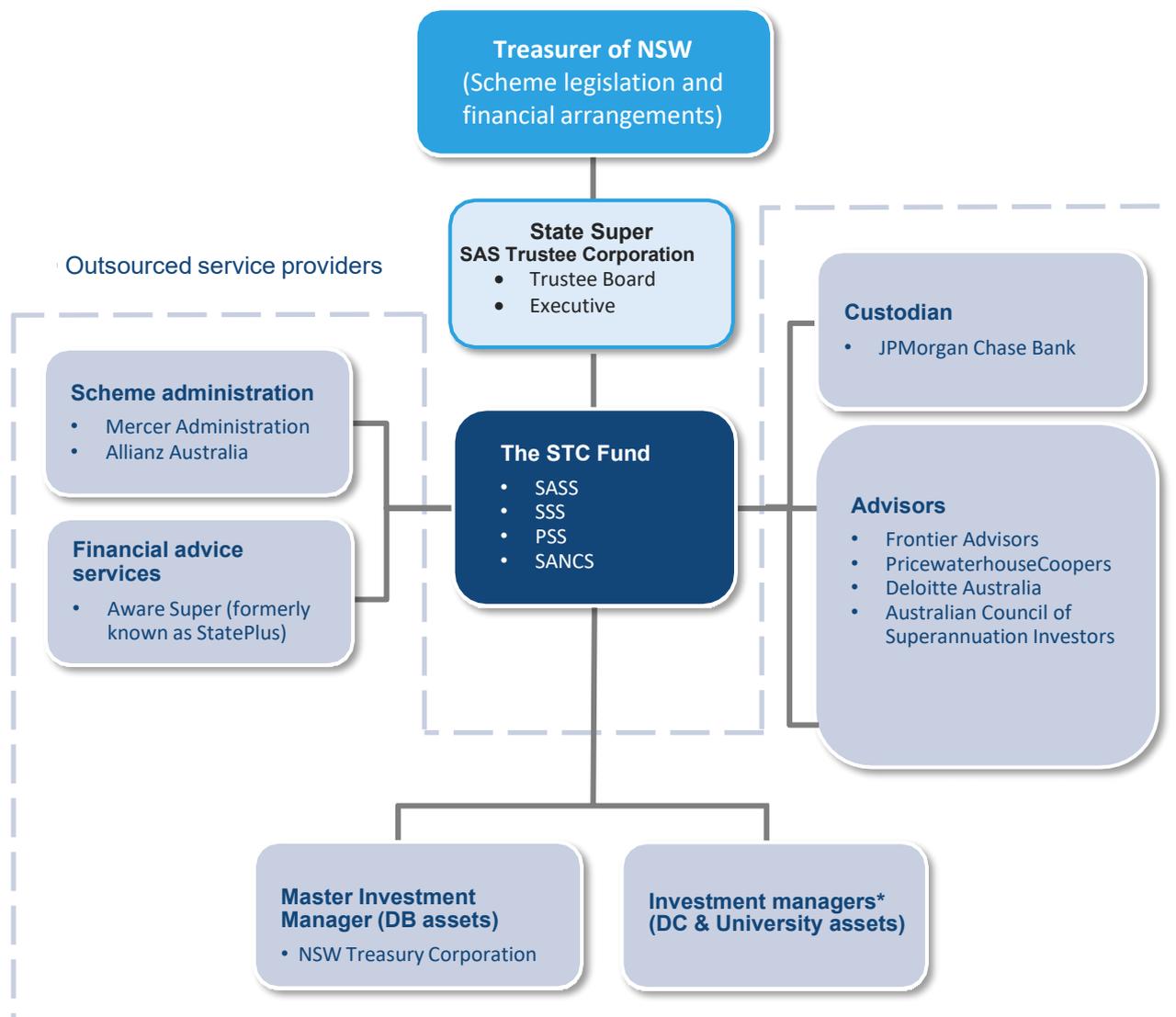
\*Accrued benefits as measured by the Actuary using the assumed earning rate of the Fund as the discount rate. Accounting standards require employers to report accrued benefits in their financial statements using a risk-free discount rate that results in a higher estimate of accrued benefits.

\*\*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 2021 are set out below:



\* Refer to pages 48, 49 and 50 for a full list of investment managers at 30 June 2021.

# 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 Strategic 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's previous appointments include a member of the NSW Generations Fund Advisory Board, 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. Since July 2021, she is also a Director on the boards of Infoxchange and Connecting Up Inc.

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. She was previously the Chair of the Audit Risk and Compliance Committee of Mine Super, a member of the Audit and Compliance Committee for the State Water Corporation and a previous member of State Super's Risk Audit and Compliance Committee.

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. From July 2021, she is also a member of the QIC Global Infrastructure Investment Committee. 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.

Ms Keating 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 and is a Graduate Member of the Australian Institute of Superannuation Trustees.

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

Mr O’Grady has over 13 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.

Mr O’Grady 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.

Mr O’Grady 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 is currently the 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 Together 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.

## 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 2020-21 reporting period are listed in the table below.

	Appointed	Term end date	Meetings attended during 2020-21 (actual / possible)
Mr N Johnson ( <i>Chairperson</i> )	26 Jun 2015	25 Jun 2023	9 / 9
<b>Employee representatives</b>			
Mr A Claassens*	5 Nov 2012	4 Nov 2024	9 / 9
Mr T O'Grady	14 Sep 2017	13 Sep 2021	9 / 9
Ms C Bolger	25 Sep 2015	16 Oct 2023	9 / 9
Mr S Little	30 Sep 2019	29 Sep 2023	9 / 9
<b>Employer representatives</b>			
Ms C Austin	28 Jun 2018	27 Jun 2022	9 / 9
Ms L Rasmussen	12 Mar 2020	11 Mar 2024	9 / 9
Ms S Dave	26 May 2016	25 May 2022	8 / 9
Ms C Keating	10 Nov 2016	4 Nov 2022	8 / 9

*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:*

- Mr Claassens' term as Employee Representative expired on 4 November 2020 and was reappointed.*

## 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 monitoring 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 2020-21

Member	Attendance actual / possible
Mr N Johnson ( <i>Chairperson</i> )	7 / 7
Ms C Austin	7 / 7
Ms C Bolger	7 / 7
Ms Rasmussen	7 / 7

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

Ms Keating (Chairperson), 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 2020-21

Member	Attendance actual / possible
Ms C Keating ( <i>Chairperson</i> )	4 / 4
Ms S Dave	4 / 4
Mr T O'Grady	4 / 4

### Member Services Committee members during the reporting period

Messrs Claassens (Chairperson), 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 2020-21

Member	Attendance actual / possible
Mr A Claassens (Chairperson)	4 / 4
Mr S Little	4 / 4
Mr T O'Grady	4 / 4

### 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 the administration of the *Police Regulation (Superannuation) Act 1906* that are referred to it by the Trustee Board.

#### Meetings attended during 2020-21

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), 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 2020-21

Member	Attendance actual / possible
Mr A Claassens (Chairperson)	3 / 3
Ms C Bolger	3 / 3
Mr N Johnson	3 / 3
Mr S Little	3 / 3

## 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 2021 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 \$43 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, holding the position of Financial, Risk and Audit Committee Chair (FRAC).

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 Member 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. He is a Graduate Member of the Institute of Company Directors.

## Allan Parapuram

### General Counsel and Company Secretary

Mr Parapuram provides State Super with legal and governance counsel services, 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. He is 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 and a Graduate Member of the Australian Institute of Company Directors.

## 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.

## Keri Pratt

### General Manager, Defined Benefits, Assets & Liabilities

Ms Pratt was appointed in her current role January 4, 2021 and is responsible for ensuring that State Super meets its asset-liability management objectives in negotiation with State and Federal governments and working with the CIO and the Prime Advisor (TCorp) to develop investment strategies. Ms Pratt also oversees implementation and effectiveness of the \$35 billion investment outsourcing arrangement with TCorp, manages key stakeholder relationships, and leads State Super's actuarial function.

Ms Pratt joined State Super in 2017, and prior to that time was Head of Institutional, Australia & NZ, at global asset manager, Franklin Templeton Investments, held an equivalent role and was a partner at GMO Australia Ltd, as well as working in superannuation, product and consulting roles with NAB, MLC & Lend Lease.

Ms Pratt holds a MBA (Exec.) and a Graduate Diploma in Applied Finance & Investment, TFASFA and is a Graduate Member of the Australian Institute of Company Directors. She is also a Non-Executive Director of Guild Trustee Services Ltd (Guild Super) and ACT Government DSSF Advisory Board and serves/ has served on several industry associations and investment committees.

## 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 Member of the Australian Institute of Company Directors.

## **Charles Wu**

### **Chief Investment Officer**

Mr Wu was appointed CIO in December 2020 and leads State Super's internal Investment team. He is responsible for determining and executing the Fund's investment policies and objectives, determining asset allocation, and implementing and monitoring the Fund's investment arrangements. Mr Wu is acknowledged across the industry for his expertise in the use of machine learning (artificial intelligence) within pension funds and has helped bring State Super to the forefront of this exciting development.

Mr Wu joined State Super in 2015 and was previously an Investment Manager at Media Super and an analyst at Mercer. He holds a Master of Commerce and a Bachelor of Computer Engineering and is a Chartered Financial Analyst holder. In 2020 he was appointed President of the Chartered Financial Analyst (CFA) 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 five strategic priorities for 2021-22 to 2025-26. The strategic priorities cover the two fundamental aspects of State Super's business: investment strategy and member experience. They are supported by crucial enablers: governance, stakeholder relationships, and operating model.

## 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

### State Super challenges:

In many ways, State Super has already responded to challenges that the rest of the superannuation industry will only face over the next ten years.

1. State Super is the trustee for four closed defined benefit schemes previously open to NSW public sector employees with the oldest being the Police Superannuation Scheme commencing in 1906. The benefit design of these schemes are amongst the most complex in Australia. As a closed fund, State Super's membership and Pooled Fund assets will continue to decline over the next 20 years. Negative cash flow significantly complicates State Super's investment challenge. The requirement to have the necessary liquid assets to pay member benefits, while the overall asset position of the fund is falling, creates two challenges. The need for liquidity acts as a drag on investment performance, and negative cashflow magnifies sequencing risk.
2. On the member side, current legislative restrictions place substantial constraints on State Super's flexibility to make choices to ensure member administration services continue to best meet the needs of members. The challenges caused by this constraint are compounded by the risks inherent in the current member administration platform upgrade.
3. State Super also continues to face significant challenges recruiting and retaining experienced talent in a shrinking yet demanding fund. These challenges are compounded by the constraints imposed by the GSE Act.

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

State Super has consistently prioritised high levels of member satisfaction through considering the best interests of members and delivering quality services that meet member expectations. This has been achieved through the continued oversight of Mercer's administration platform migration so as to gain advance notice of impending risks and projected outcomes, providing insight for better managing Mercer Administration Services.

Members continue to report high levels of satisfaction for the services we provide, including benefit payments, member engagement forums and our communication during the COVID-19 pandemic.

In 2020, State Super, working with Mercer, TCorp and Aware Super, embedded our Member Beliefs in our partner organisations, encouraging all interactions with our members to be conducted according to these beliefs.

Although State Super is not a regulated entity, we are committed to conform with the principles of the Commonwealth's retirement income policy to the best of our endeavours as set out in the Heads of Government Agreement (HOGA) and from time to time in Commonwealth legislation. During the course of the year State Super conducted an independent gap analysis and review to assess State Super's alignment with the APRA Prudential Standard (SPS 515) for Member Outcomes. The outcome was very good and only minor opportunities for improvement were noted – these have been implemented or are in progress.

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

Over the 2020-21 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.

superannuation liabilities of the General Government Sector (excluding Universities), despite the continuing impacts on the State's finances of the COVID-19 pandemic.

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 is currently underway. In between formal reviews, the actuary's annual asset/liability model has been utilised to assess and monitor the impact of the COVID-19 pandemic on asset values, changes in liabilities, the funding position, contribution changes, and resulting liquidity requirements.

The Trustee Selection Investment Option exceeded its primary investment objective over three-, five- and ten- year periods to 30 June 2021, although its return for the 1- year period lagged comparable superannuation balanced/ growth funds' performance. It should be noted that the focus of the Option is to deliver the best risk-adjusted return for the schemes given the aging membership, negative cashflow profile and the challenge of managing sequencing risk, all of which result in stronger performance in down markets and weaker performance in up markets.

Each of the diversified Member Investment Choice Strategies, except for the Cash option, exceeded its investment objective over one-, three-, five- and ten-year periods to 30 June 2021 and delivered the highest one year net returns to members since 2013 (aside from the Cash option). Similarly, all the diversified investment options underperformed in a strong up market versus funds with comparable allocations to growth assets over a one year period for the same reasons noted above (defensiveness), and each delivered strong returns over the longer term. The Cash option's performance reflects the very low interest rate environment.

Risk settings and asset allocation for the Fund investment options are reviewed regularly, and heightened monitoring continues given the greater demands on liquidity brought on by the COVID-19 pandemic. The asset allocation for each investment strategy is well diversified across asset classes, risk premia, 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 the possibility of any 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, which is published on the website along with the Board's gender diversity and tenure, which continues to be well represented and provides continuity. The internal Board annual performance assessment for FY2020 concluded 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 is regularly 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 has been fully operationalised with regular and productive relationships in place with Treasury, Treasury Managed Fund (TMF), our suppliers, other government agencies (including IR) and more connectivity with broader agency groups including employers.

We have increased our participation and engagement with AIST, AICD, FEAL, ACSI, RIAA, IGCC and policy group forums with other similar funds. Our engagement with universities has become more systematic on the back of the State Super Scholarship and participation in the Scholarship has both improved in terms of quality of proposals and the number of submissions.

We have commenced the development of the data science narrative with participation of the State Super Investment team in various forums and the formation of the Advisory Oversight Body (AOB). As part of this we have implemented a media engagement strategy with key media identified for niche Investment and AI/Machine Learning content participation and distribution.

We have expanded our industry recognition by participating in member focused industry conferences and our online following on LinkedIn where we have provided insights from our Member Advisory Forums and we are progressing participation in Industry Awards such as PRI, AIST and FEAL.

In this past year we were proactive in our engagement with Treasury to amend legislation to avert negative impacts of the application of a negative CPI to 67,000 pension members and we continue to work with Treasury to explore optionality for State Super discretion within the governing legislation.

## 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 remained stable over the reporting period with an attrition rate of 8%. Key staffing changes include the appointment of a new Chief Investment Officer and General Manager, Defined Benefits Assets and Liabilities.

The State Super Enterprise Agreement 2020-2022 which was approved by the Industrial Relations Commission in early February 2020 was fully implemented during the reporting period.

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.

3) *Developing a workplace culture that promotes employee wellbeing and engagement*: State Super achieved full participation in the 2020 People Matter Employee Survey and continued to show strong results across all areas surveyed. Employee engagement at 82% (+2%) compared favourably against the Treasury Cluster and Sector both at 67%. Satisfaction scores across key topic areas assessed was 80% or above and improvement actions are ongoing.

# Part C

## Operations overview

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# Investments

This section provides an overview of State Super's investment management structure and its performance and management activities during 2020–21.

## 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 by both parties annually, and was updated in December 2018, with an updated consolidated agreement executed in February 2020 and a further update to be executed in August 2021.

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. TCorp's responsibilities include 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 University Cash strategy in which the Universities' Employer reserves are invested.

## Investment market overview

### A strong year of economic and market recovery

The 2020-21 financial year saw significant asset price appreciation stemming from record low interest rates and record government fiscal stimulus globally in response to the COVID-19 pandemic. Confidence was also boosted in November 2020 when the successful development of several effective vaccines was announced. We have also gone through the first year of the two-year contribution holiday. A strong market performance has helped with maintaining the portfolio funding status.

Global equity markets achieved new highs over the year. Markets had been narrowly led prior to the vaccine announcements in November with technology and online platforms such as Facebook, Apple, Microsoft, Google and Amazon accounting for much of the markets rise. However, the focus of investors broadened after the vaccine announcements to include pro-cyclical sectors and companies more exposed to the improving economic cycle.

US and Australian government bond yields fell to historical lows during the year but ended the financial year at around pre-pandemic levels driven by news of the rollout of vaccines and improving economic growth outlook. This has led to slight negative returns from Australian and global bonds over the year. Credit spreads have also contracted materially over the last 12 months leading to positive returns from corporate bonds.

The sharp recovery in global demand has driven commodity prices higher over the last 12 months. The standout was the iron ore price which started the financial year a little over \$100 USD/tonne but ended above \$200. As a result of the higher iron ore price and improved market sentiment, the Australian dollar appreciated over the financial year.

### The year ahead

We expect the investment environment to remain challenging with investors faced with some key uncertainties globally. With inflation jumping to multi-decade highs, the pathway and persistence of inflation will be critical. Meanwhile, the highly contagious Delta variant of COVID-19 is delaying economies from reopening. Also, one of the biggest triggers of the current recovery, the massive, coordinated, and rapid fiscal and monetary policy stimulus, is unlikely to last forever.

However, we remain cautiously optimistic on the near-term outlook for risk assets as low interest rates continue to support valuations and as economies gradually reopen.

## Investment performance

### 2020-21 performance

The 2020-21 annual crediting rates for the various investment options were as follows:

Strategy	Crediting rate p.a.* %
<b>Defined Benefit</b>	
Trustee Selection	13.1**
University Diversified Conservative	3.3***
University Cash	0.1
<b>Member Investment Choice</b>	
Growth	14.3
Balanced	8.9
Conservative	5.6
Cash	0.1

\*Net of fees and taxes

\*\*This excludes the benefit of the ECPI, please refer to the table on page 35 for the inclusion of ECPI returns.

\*\*\*The University Conservative Option closed on 28 February 2021.

The 2020-21 financial year saw most major asset classes provide a positive contribution to performance. Unhedged international equities were the strongest performer, while Australian equities produced lower and still solid returns for the year. Infrastructure, property and other unlisted assets also performed well and made strong contributions to total returns for the year. Defensive assets like Australian and International bonds detracted slightly from performance, as bond yields increased and ended the financial year at around pre-pandemic levels.

Over the twelve-month reporting period, the use of downside protection detracted marginally from performance given the strong market performance.

## 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 2021 against investment objectives for each of the State Super strategies are provided in the table below.

Strategy	Objective (at 30 June 2021)	Period	Average annual compound crediting rate p.a. %	Objective p.a. %
<b>Defined Benefit</b>				
Trustee Selection	CPI + 5.0%*	10 years	8.4	6.5
University Diversified Conservative**	Cash + 1.0%	4 years	2.7	2.2
University Cash	Cash	3 years	0.9	1.0
<b>Member Investment Choice</b>				
Growth	CPI + 3.0%	7 years	8.1	5.4
Balanced	CPI + 2.0%	7 years	6.5	4.1
Conservative	CPI + 1.0%	4 years	4.6	2.6
Cash	Cash	3 years	1.0	1.0

\*Objective based on returns after pension tax.

\*\*The University Conservative Option closed on 28 February 2021.

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.) %
30 June 2021	13.1
30 June 2020	1.3
30 June 2019	8.5
30 June 2018	8.2
30 June 2017	9.5
<b>Average annual compound crediting rate (p.a.)</b>	
Over 3 years	7.5
Over 5 years	8.1
Over 10 years	8.4

Trustee Selection returns for Crown employers after the benefit of ECPI tax	Crediting rate including ECPI * benefit to employer reserves (p.a.) %
30 June 2021	14.9
30 June 2020	1.6
30 June 2019	9.2
30 June 2018	9.3
30 June 2017	10.5
<b>Average annual compound crediting rate (p.a.)</b>	
Over 3 years	8.6
Over 5 years	9.1
Over 10 years	9.6

\*Tax benefit arising from Exempt Current Pension Income

### University Diversified Conservative Strategy

Year ending	Crediting rate to employer reserves (p.a.) %
30 June 2021**	3.3
30 June 2020	0.3
30 June 2019	4.0
30 June 2018	3.3
30 June 2017	1.9
<b>Average annual compound crediting rate (p.a.)</b>	
Over 3 years	2.5
Over 5 years	3.0
Over 10 years	N/A

\*\*The University Conservative Option closed on 28 February 2021

### University Cash Strategy

Year ending	Crediting rate to employer reserves (p.a.) %
30 June 2021	0.1
30 June 2020	0.8
30 June 2019	1.8
30 June 2018	1.6
30 June 2017	1.6
<b>Average annual compound crediting rate (p.a.)</b>	
Over 3 years	0.9
Over 5 years	1.2
Over 10 years	N/A

## Crediting rates for member investment choice strategies

SASS is a hybrid scheme, with the member-financed benefit component being an accumulation of member contributions with investment earnings and the employer-financed benefit component being a defined benefit. 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.) %
30 June 2021	14.3
30 June 2020	1.5
30 June 2019	7.6
30 June 2018	9.4
30 June 2017	9.0
<b>Average annual compound crediting rate (p.a.)</b>	
Over 3 years	7.7
Over 5 years	8.3
Over 10 years	8.6

### Balanced Strategy

Year ending	Crediting rate to members (p.a.) %
30 June 2021	8.9
30 June 2020	2.7
30 June 2019	5.9
30 June 2018	6.9
30 June 2017	6.9
<b>Average annual compound crediting rate (p.a.)</b>	
Over 3 years	5.8
Over 5 years	6.2
Over 10 years	7.2

### Conservative Strategy

Year ending	Crediting rate to members (p.a.) %
30 June 2021	5.6
30 June 2020	3.0
30 June 2019	4.7
30 June 2018	5.0
30 June 2017	4.4
<b>Average annual compound crediting rate (p.a.)</b>	
Over 3 years	4.4
Over 5 years	4.5
Over 10 years	5.6

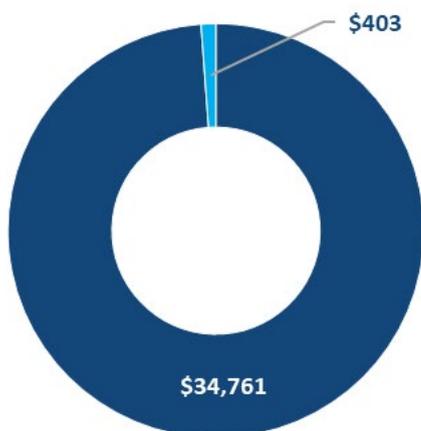
### Cash Strategy

Year ending	Crediting rate to members (p.a.) %
30 June 2021	0.1
30 June 2020	0.9
30 June 2019	1.9
30 June 2018	1.7
30 June 2017	1.9
<b>Average annual compound crediting rate (p.a.)</b>	
Over 3 years	1.0
Over 5 years	1.3
Over 10 years	2.1

## Funds under management (FUM)

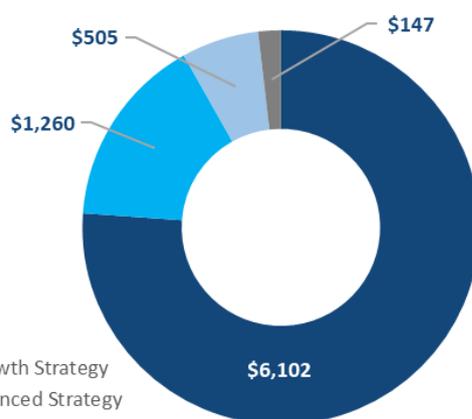
FUM per investment strategy at 30 June 2021 (\$ millions) \*

### DEFINED BENEFIT STRATEGIES



- Trustee Selection
- 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. Alternatives comprises property, infrastructure, corporate debt and absolute return strategies.

**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 any dynamic asset allocation tilts on a quarterly basis. 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 require 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, centrally 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.

State Super continued to enhance its Responsible Investment Policy over the 2021 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 and international voting has transitioned from managers to TCorp. State Super continues to publish six-monthly proxy voting activities on its website.
- Climate modelling – With its advisors, State Super modelled alternative climate change scenarios in depth for the second time 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 continue to be used to inform future investment and asset management decisions.
- Modern Slavery – State Super has engaged with investment managers regarding modern slavery risks and has requested reporting from them to assist in monitoring and addressing this on an annual basis.
- Carbon footprint analysis – State Super implemented analysis to measure and monitor the carbon footprint of the listed equities portfolios within the DC fund and implemented carbon reduction strategies for quantitative equities strategies. This will form part of the ongoing management of ESG risk. At reporting date, TCorp have also implemented a low carbon benchmark for the passively managed developed market equities portion of the DB portfolio.
- 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 and other related policies. The team formulates investment and risk management strategies for all pooled fund options. Additionally, the team sets dynamic asset allocation and select investment opportunities for the Member Investment Choice and Universities strategies. With the Trustee Selection, the team sets the investment strategy and oversees the Master Investment Manager.

**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 reports on the triennial review to the State Super Board.

**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
- Investment Risk Appetite 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 2021

### 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 2021:** \$34,761 million

**Asset allocation at 30 June 2021:**

	Strategic %	Actual %
<b>Liquid growth</b>	<b>55.0</b>	<b>55.1</b>
Australian equities	19.0	19.0
International equities	36.0	36.1
<b>Alternatives</b>	<b>33.0</b>	<b>33.3</b>
Infrastructure	12.0	11.2
Property	7.0	8.0
Other alternatives	14.0	14.1
<b>Liquid defensive</b>	<b>12.0</b>	<b>11.5</b>
Australian fixed interest	2.0	1.8
International fixed interest	0.0	0.0
Defensive Strategies	6.0	3.9
Cash	4.0	5.8
<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 rates 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 2021:** \$403 million

**Asset allocation at 30 June 2021:**

	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 2021

### 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 2021:** \$6,102 million

**Asset allocation at 30 June 2021:**

	Strategic %	Actual %
<b>Liquid growth</b>	<b>51.0</b>	<b>55.1</b>
Australian equities	22.5	25.0
International equities	28.5	30.1
<b>Alternatives</b>	<b>36.0</b>	<b>34.7</b>
Infrastructure	10.5	9.1
Property	8.0	6.9
Other alternatives	17.5	18.7
<b>Liquid defensive</b>	<b>13.0</b>	<b>10.3</b>
Australian fixed interest	4.0	1.5
International fixed interest	2.0	1.0
Income	2.0	2.4
Defensive Strategies	0.5	0.2
Cash	4.5	6.0
<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 2021:** \$1,260 million

**Asset allocation at 30 June 2021:**

	Strategic %	Actual %
<b>Liquid growth</b>	<b>34.5</b>	<b>37.5</b>
Australian equities	12.5	14.8
International equities	22.0	22.7
<b>Alternatives</b>	<b>28.5</b>	<b>29.1</b>
Infrastructure	10.5	10.1
Property	8.0	6.9
Other alternatives	10.0	12.1
<b>Liquid defensive</b>	<b>37.0</b>	<b>33.4</b>
Australian fixed interest	7.5	3.9
International fixed interest	2.5	2.6
Income	8.0	9.7
Defensive Strategies	0.5	0.2
Cash	18.5	17.5
<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 2021:** \$505 million

**Asset allocation at 30 June 2021:**

	Strategic %	Actual %
<b>Liquid growth</b>	<b>21.0</b>	<b>22.7</b>
Australian equities	8.5	10.7
International equities	12.5	12.0
<b>Alternatives</b>	<b>24.5</b>	<b>25.0</b>
Infrastructure	10.5	10.1
Property	8.0	7.0
Other alternatives	6.0	7.9
<b>Liquid defensive</b>	<b>54.5</b>	<b>52.3</b>
Australian fixed interest	6.0	3.4
International fixed interest	3.0	3.1
Income	18.0	18.5
Defensive Strategies	0.5	0.2
Cash	27.0	27.5
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>

## 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 2021:** \$147 million

**Asset allocation at 30 June 2021:**

	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>

## 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 six investment strategies for 2021-22 are shown below. These estimates are broadly similar to the previous year. (Note, the indirect cost percentages for 2021-22 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 2020-21	Estimated 2021-22
<b>Defined benefit investment strategies</b>		
Trustee Selection	0.39%	0.39%
University Diversified Conservative	0.03%*	-
University Cash	0.04%	0.05%
<b>Member Investment Choice investment strategies</b>		
Growth	0.35%**	0.45%**
Balanced	0.29%	0.36%
Conservative	0.29%	0.33%
Cash	0.03%	0.04%
	<b>**0.35% + nil performance fee paid</b>	<b>**estimated 0.37% + 0.08% performance fee</b>

\*University Diversified Conservative Option has been closed effective 28 February 2021

## Changes to investment strategies effective 1 July 2021

In June 2021, 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 2020	Return Objectives effective 1 July 2021
Growth Strategy	CPI + 3.0% p.a. over rolling 7-year periods	CPI + 3.0% p.a. over rolling 7-year periods
Balanced Strategy	CPI + 2.0% p.a. over rolling 7-year periods	CPI + 2.0% p.a. over rolling 7-year periods
Conservative Strategy	CPI + 1.0% p.a. over rolling 4-year periods	CPI + 1.0% p.a. over rolling 4-year periods
Cash Strategy	Cash return over rolling 3-year periods	Cash return over rolling 3-year periods
Trustee Selection Strategy*	CPI + 5.0% p.a. over rolling 10-year periods	CPI + 3.7% p.a. over rolling 10-year periods

*\*2021 investment objective is net of superannuation tax whilst 2020 objective is post pension tax. The equivalent post pension tax objective for 2021 would be CPI +4.5%.*

### 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 Member Investment Choice 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

As part of the review, a few strategic asset allocation changes have been made to the DC Options. This includes an increase in Liquid Growth, modest reduction in alternatives and Liquid Defensives. Particularly, we have reduced illiquid assets such as infrastructure and property to ensure we continue to maintain the portfolio liquidity in anticipation of negative cashflow. 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. We have increased allocation to growth assets to take advantage of dislocation in valuation created by COVID-19, this has been funded by a modest reduction in the Alternatives.

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 2021, 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>53.0</b>	<b>30.0 – 65.0</b>
Australian equities	16.0	
International equities	37.0	
<b>Alternatives</b>	<b>37.0</b>	<b>15.0 – 49.0</b>
Infrastructure	12.0	
Property	7.0	
Other alternatives	18.0	
<b>Liquid defensive</b>	<b>10.0</b>	<b>1.0 – 35.0</b>
Australian fixed interest	2.0	
International fixed interest	0	
Other defensive strategies	4.0	
Cash	4.0	
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>

### University Cash Strategy

Effective from 1 July 2021, 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 2021, the strategic asset allocation for the Growth Strategy remains as follows:

	Strategic asset allocation %	Dynamic asset allocation range %
<b>Liquid growth</b>	<b>55.5</b>	<b>39.5 – 71.5</b>
Australian equities	24.0	
International equities	31.5	
<b>Alternatives</b>	<b>35.5</b>	<b>27.5 – 43.5</b>
Infrastructure	9.0	
Property	5.0	
Other alternatives	21.5	
<b>Liquid defensive</b>	<b>9.0</b>	<b>1.0 – 19.0</b>
Australian fixed interest	3.0	
International fixed interest	0.0	
Income	2.0	
Defensive strategies	0.3	
Cash	3.7	
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>

### Balanced Strategy

Effective from 1 July 2021, the strategic asset allocation for the Balanced Strategy remains as follows:

	Strategic asset allocation %	Dynamic asset allocation range %
<b>Liquid growth</b>	<b>43.0</b>	<b>33.0 – 53.0</b>
Australian equities	15.5	
International equities	27.5	
<b>Alternatives</b>	<b>27.0</b>	<b>19.0 – 35.0</b>
Infrastructure	9.0	
Property	5.0	
Other alternatives	13.0	
<b>Liquid defensive</b>	<b>30.0</b>	<b>20.0 – 40.0</b>
Australian fixed interest	7.0	
International fixed interest	0.0	
Income	8.0	
Defensive strategies	0.3	
Cash	14.7	
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>

## Conservative Strategy

Effective from 1 July 2021, the strategic asset allocation for the Conservative Strategy remains as follows:

	Strategic asset allocation %	Dynamic asset allocation range %
<b>Liquid growth</b>	<b>24.0</b>	<b>16.0 – 32.0</b>
Australian equities	9.5	
International equities	14.5	
<b>Alternatives</b>	<b>23.0</b>	<b>15.0 – 31.0</b>
Infrastructure	9.0	
Property	5.0	
Other alternatives	9.0	
<b>Liquid defensive</b>	<b>53.0</b>	<b>43.0 – 63.0</b>
Australian fixed interest	9.0	
International fixed interest	0.0	
Income	19.0	
Defensive strategies	0.3	
Cash	24.7	
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>

## Cash Strategy

Effective from 1 July 2021, 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 2021

	Trustee Selection Strategy	Member Investment Choice Strategies	University Strategies
<b>Australian Equities</b>			
Aberdeen Standard Investments	–	✓	–
Alphinity Investment Management Pty Ltd	✓	–	–
Ausbil Investment Management Limited	✓	–	–
BlackRock Asset Management Australia Limited	✓	–	–
Citigroup Global Markets Australia Pty Ltd	✓	✓	–
Cooper Investors Pty Ltd	✓	–	–
Lazard Asset Management Pacific Co	–	✓	–
Macquarie Group Limited	✓	✓	–
Martin Currie Investment Management Ltd	–	✓	–
Northcape Capital Pty Ltd	✓	–	–
Omega Global Investors	–	✓	–
Pendal Group Limited	✓	✓	–
Platypus Asset Management Pty Ltd	✓	✓	–
State Street Bank & Trust Company	–	✓	–
<b>International Equities</b>			
Ardevora Asset Management LLP	✓	–	–
Artisan Partners Limited Partnership	✓	–	–
AQR Capital Management LLC	–	✓	–
AXA Rosenberg (via Equity Trustees Ltd)	✓	–	–
BlackRock Asset Management Australia Limited	✓	–	–
Citigroup Global Markets Australia Pty Ltd	✓	✓	–
C Worldwide Asset Management Fondsmæglersekskrab A/S	–	✓	–
Harris Associates Limited Partnership	✓	–	–
MFS International Australia Pty Ltd	✓	–	–
Neuberger Berman Australia Ltd	–	✓	–
Ninety One UK Limited	✓	✓	–
Northcape Capital Pty Ltd	✓	–	–
Northern Trust Company of Hong Kong Limited	✓	–	–
Robeco Hong Kong Limited	✓	–	–
Schroder Investment Management Australia Limited	✓	–	–
State Street Bank & Trust Company	–	✓	–
State Street Global Advisors Australia Limited	–	✓	–
<b>Property</b>			
AEW Capital Management, LP (via Equity Trustees Ltd)	–	✓	–
Brookfield Premier Real Estate Partners L.P	✓	–	–
Charter Hall Investment Management Limited	–	✓	–
Citigroup Global Markets Australia Pty Ltd	–	✓	–
Dexus Property Group (Take over of AMP Capital Investors Ltd)	–	✓	–
EG Funds Management Pty Ltd	✓	–	–

	Trustee Selection Strategy	Member Investment Choice Strategies	University Strategies
<b>Property con't</b>			
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)	–	✓	–
LendLease Investment Management (AFSL) Pty Limited	✓	–	–
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)	✓	✓	–
Pendal Group Limited	✓	–	–
State Street Global Advisors Australia Limited	–	✓	✓
<b>Alternative Assets</b>			
Bentham Asset Management Pty Limited	–	✓	–
Challenger Investment Partners Limited	–	✓	–
CIP Asset Management (previously Challenger Investment Solutions Pty Ltd)	–	✓	–
Fulcrum Asset Management LLP	–	✓	–
GMO Australia Limited	✓	–	–
HarbourVest Partners, LLC	–	✓	–
Kohlberg Kravis Roberts & Co. L.P.	–	✓	–
Macquarie Investment Management Limited	✓	–	–
MAN Group plc	–	✓	–
New South Wales Treasury Corporation	✓	–	–
Pendal Group Limited	–	✓	–
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	✓	–	–
William Blair Investment Management, LLC	–	✓	–
York Distressed Asset Holdings IV, LLC	–	✓	–
<b>Currency</b>			
Macquarie Investment Management Global Limited	✓	–	–
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	✓	–	–
KKR Australia Investment Management Pty Limited	✓	–	–
Lazard Asset Management Pacific Co	✓	–	–
Ninety One UK Limited	✓	–	–
PineBridge Investments LLC	✓	–	–
<b>Infrastructure</b>			
Citigroup Global Markets Australia Pty Ltd	–	✓	–
First Sentier Investors (previously Colonial)	–	✓	–
H.R.L. Morrison & Co Limited	–	✓	–
Macquarie Specialised Asset Management Limited	✓	–	–
New South Wales Treasury Corporation	✓	✓	–
QIC Limited	–	✓	–

# Member Engagement

## Overview of scheme membership

The membership of the State Super schemes at 30 June 2021 is set out below.

Scheme	At 30 June 2016	At 30 June 2021	Movement % over 5 years
<b>Active members</b>			
SASS	26,076	15,269	-41%
SSS	5,653	1,260	-78%
PSS	1,166	534	-54%
<b>Total</b>	<b>32,895</b>	<b>17,063</b>	<b>-48%</b>
<b>Deferred benefit members</b>			
SASS	10,112	8,688	-14%
SSS	1,838	948	-48%
PSS	107	70	-35%
<b>Total</b>	<b>12,057</b>	<b>9,706</b>	<b>-19%</b>
<b>Pension members</b>			
SASS	4,241	4,848	14%
SSS	54,230	54,919	1%
PSS	6,557	6,735	3%
<b>Total</b>	<b>65,028</b>	<b>66,502</b>	<b>2%</b>
<b>Total</b>	<b>109,980</b>	<b>93,271</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 15,832, while the number of pension members increased by 1,474. Refer to page 72 for membership statistics over the past five years.

## The next five years

Over the coming five-year period to 30 June 2026, the membership of the State Super schemes will continue to fall to a projected 75,257 members, while the contributory or active membership is expected to more than halve to 7,060 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 2026, the deferred benefit membership is projected to fall to 4,714 members, as these members reach the age when they can claim their benefit.

The number of pension members is projected to fall from 66,502 to 63,483 in 2026. 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.

	2018–19	2019–20	2020–21
Telephone calls	75,322	75,835	84,397
Letters	4,949	5,491	5,912
Emails*	23,026	13,456	29,195
Seminar attendance	2,092	1,971	2,635
Personal interviews	208	183	63
Financial planning advice	13,994	13,263	12,573

*\*In 2019-20 the method to calculate email enquiries was changed to include only emails sent to the administrator. In 2020-21, the increase in emails received was due to Centrelink Schedule enquiries.*

#### Member contact

Over 119,000 phone calls, letters and emails were managed by our external administrator. State Super carefully manages member services delivered by Mercer Administration Services.

There were 143,281 users who visited the State Super website 285,486 times and spent an average 2:57 minutes per session. Our members clicked the link to login to view their account over 99,577 times, clicked to call us from a mobile 3,714 times and submitted 4,124 enquiry forms. There were also 165 view of videos on the site and 553 clicks on calculators.

#### 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 2020–21, State Super provided 63 personal interviews. 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 2020–21, Aware Super made 12,573 financial planner appointments for State Super members or relatives of State Super members.

#### Retirement planning seminars

During 2020-21, Aware Super delivered retirement planning seminars across NSW metropolitan and regional areas on behalf of State Super. There were 73 webinars hosted, of these, 57 were SASS-based seminars and 16 were SSS based. These were attended by 2,635 SASS and SSS members. The seminar program is split into 2 webinar sessions - each one-hour duration.

## 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 2021 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	2018-19 %	2019-20 %	2020-21 %
SASS	72	71	71
SSS	79	78	77
PSS	70	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 2020 \$ million	%	30 June 2021 \$ million	%
Growth	5,713	76	6,102	76
Balanced	1,090	14	1,260	16
Conservative	525	7	505	6
Cash	230	3	147	2
<b>Total</b>	<b>7,558</b>	<b>100</b>	<b>8,014</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 2020–21, 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.

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 has been put on hold awaiting APRA to re-commence their review program. However, there have been a range of changes to the federal regulation of superannuation funds which, although we are not APRA-regulated, we nevertheless have an obligation through HOGA (Heads of Government Agreement) to remain closely aligned with 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 2020/21, State Super's overall employee engagement was significantly higher than the public sector equivalent averages. In addition, State Super conducts regular risk culture surveys which note a strong risk culture.

### 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. Exempt schemes on a best endeavours basis, are required to conform to the principles of the Commonwealth's retirement income policy. These requirements are reflected in the attachment to the HOGA and from time to time in Commonwealth legislation. State Super considers that the Commonwealth legislation (and 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 operations. The framework is a structured set of systems, 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. Internal Audit reviewed the State Super Compliance Framework in 2021 and raised no material issues.

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 and the APRA Superannuation Prudential Standards.
- 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 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 Trustee appraisals to assess governance and control practices along with other key elements for Board Trustee 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. This 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, Internal Audit and representatives of the NSW Audit Office (External Audit). 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 management. It represents the systems, structures, policies, processes and people within State Super's business operations that identify, assess, manage, and mitigate risks. This includes the monitoring of internal and external sources of 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 the APRA Superannuation Prudential Standard SPS220 Risk Management and includes the following:

- Risk Appetite Statement (including Risk Tolerances)
- Risk Management Strategy
- Other supporting risk management policies, procedures and controls to identify, assess, monitor, report on, mitigate and manage material risks
- 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 Trustee Board's 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 and reporting 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 as well as relevant risk and compliance training, which encourages 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 was carried out by the Internal Auditor in February 2020 and found our framework to be relatively mature, balancing the challenges of a large fund with high member base and a highly outsourced business model.

### Insurance

During the 2020–21 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 2020–21 Financial Year for the SAS Trustee Corporation**

**Internal Audit and Risk Management Attestation Statement for the  
2020 - 2021 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 seven (7) core requirements set out in the *Internal Audit and Risk Management Policy for the NSW Public Sector TPP 20-08*, 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 ISO 31000:2018 | COMPLIANT |

**Internal Audit Function**

- |     |  |           |
|-----|--|-----------|
| 2.1 | STC has established and maintained an internal audit function that is appropriate and fit for purpose  | COMPLIANT |
| 2.2 | The operation of the internal audit function for STC is consistent with the International Standards for the Professional Practice of Internal Auditing | COMPLIANT |
| 2.3 | STC has an Internal Audit Charter that is consistent with the content of the 'model charter' in line with TPP 20-08                                    | COMPLIANT |

**Audit and Risk Committee**

- |     |  |           |
|-----|--|-----------|
| 3.1 | STC has established and maintained efficient and effective arrangements for an independent Risk, Audit and Compliance Committee. The Committee provides advice and guidance to the STC Board, based on its oversight of STC's governance processes, risk management and control frameworks, and external accountability obligations. | COMPLIANT |
| 3.2 | The STC Risk, Audit and Compliance Committee has a Charter that is consistent with the content of the 'model charter' in line with TPP 20-08   | COMPLIANT |

This ATTESTATION was executed on 15 October 2021 following a resolution of the STC Board on 7 October 2021

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



*[Handwritten signature of John Livanas]*

*[Handwritten signature of Allan Parapuram]*

.....  
Signature of John Livanas

.....  
Signature of Allan Parapuram

John Livanas  
CEO

Allan Parapuram  
General Counsel

## 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 2020-21 year nor were there any finalised during that year.

## Significant judicial decisions

In the 2020-21 year, State Super successfully defended an appeal to the Court of Appeal of NSW against a decision made in its favour in the District Court of NSW. The appeal was in the matter of *Day v SAS Trustee Corporation* [2021] NSWCA 71. The unanimous (3-0) decision of the Court of Appeal confirmed the decision of the Police Superannuation Advisory Committee (PSAC) as delegate for State Super that a former Police officer was not incapable by reason of an infirmity of mind of performing his duties of office at the time of his resignation.

## 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 2020, there were no disputes pending. During the year ending 30 June 2021, 3 new disputes were lodged. All 3 disputes were determined by the Member Services Committee during the year. No disputes were withdrawn or discontinued.

<b>Disputes on hand at 1 July 2020</b>	0
<b>Disputes lodged in 2020–21</b>	3
<b>Disputes determined in 2020–21</b>	
Confirmation of State Super delegate's decision	2
Delegate's decision set aside and new decision made	1
Settled	0
Disputes withdrawn or discontinued in 2020–21	0
<b>Disputes on hand at 30 June 2021</b>	0

### Appeals to the Supreme Court

There is one (1) appeal to the Supreme Court from a determination by the Member Services Committee of a dispute outstanding at the end of the 2020-21 year. That appeal will be heard by the Court in late 2021. There were no such appeals decided or settled in the 2020-21 year.

### 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 2020-21 year as set out below:

	PSAC/CEO	Allianz
Decided in favour of State Super	3	-
Decided in favour of the member/beneficiaries	2	-
Withdrawn or discontinued	2	-
Settled	14	1
<b>Total</b>	<b>21</b>	<b>1</b>

As at 30 June 2021 there were 21 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.

Appeals to the Court of Appeal against decisions in favour of State Super in the District Court resulted in outcomes in the 2020-21 year as set out below:

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

## 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 2020-21 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 2020-21 year, State Super did not **directly** receive any formal valid applications for access to information under the GIPA Act (an invalid application was received). All of the formal valid applications for access to information under the GIPA Act received by State Super in the 2020-21 year were received on behalf of State Super by Mercer. The statistics for the applications for access to information received by or on behalf of State Super in the 2020-21 year are set out in Appendix 1 to this Annual Report.

## **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 2020-21 year, there were:

- 255 formal applications for information (under the GIPA Act) received by or on behalf of State Super, (including withdrawn applications, but excluding invalid applications).
- 278 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 were only refused in part.
- There were 7 applications still in progress as at 30 June 2021 (there had been 30 applications in progress at 1 July 2020).

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 2020-21 year.

## Relevant legislative changes

There were changes to some of State Super's constituent legislation and the governing legislation of the State Super schemes in the 2020-21 year (the relevant pieces of legislation and a brief description of the changes are set out below).

The most significant changes during 2020-21 were contained in the *Superannuation Legislation Amendment Act 2020*. This Act amended the governing legislation for PSS, SASS and SSS (the Acts marked with an asterisk in the table below and other legislation and regulations governing former schemes that were previously merged into those schemes). The amendments were to prevent superannuation pensions and allowances payable from PSS, SASS and SSS from being reduced because of a fall in the Consumer Price Index (All Groups – Sydney) in the 2019-20 year. This Act was assented to on 23 September 2020 and had the effect that there was no annual adjustment to those pensions in October 2020 despite the decrease in the CPI.

### Other changes to Acts governing schemes

Principal Act	Description
<i>Superannuation Administration Act 1996</i> (NSW)	No changes during year.
<i>Police Regulation (Superannuation) Act 1906</i> (NSW)*	*No other changes during year.
<i>Police Association Employees (Superannuation) Act 1969</i> (NSW)	No changes during year.
<i>State Authorities Superannuation Act 1987</i> (NSW)*	*Minor changes during year.
<i>State Authorities Non-contributory Superannuation Act 1987</i> (NSW)	Only minor changes during year.
<i>Superannuation Act 1916</i> (NSW)*	*Minor changes during year.

### Changes to regulations made under Acts governing schemes

Regulations have been made under some of the Acts listed above.

The following regulations made under Acts listed above were automatically repealed under the *Subordinate Legislation Act 1989* and then re-made during the 2020-21 year.

*Police Superannuation Regulation 2015* (repealed) *Police Superannuation Regulation 2020* (re-made).

*State Authorities Superannuation Regulation 2015* (repealed) *State Authorities Superannuation Regulation 2020* (re-made).

*State Authorities Non-contributory Superannuation Regulation 2015* (repealed) *State Authorities Non-contributory Superannuation Regulation 2020* (re-made).

There were no changes made to the *Superannuation Regulation 2016* in the 2020-21 year.

## Human resource management

As the COVID-19 situation evolved with the spread of the delta variant and further lockdowns, our leaders embraced the complexity of dealing with the unknown and leading differently and with greater awareness and compassion for the ongoing impacts of the pandemic on the health and wellbeing of staff.

Fortnightly all-staff meetings provided the opportunity to check in, provide updates and talk candidly about the challenges posed by COVID-19 and encouraged staff to connect with each other. Employee recognition and profiling the various functions further developed knowledge of the organisation's functions.

In early 2021, State Super rolled out a new Employee Assistance Program with an enhanced range of support services for employees and their families, including wellbeing coaching, nutritional advice, financial coaching, counselling, initial legal advice, and manager support.

During the reporting period, State Super successfully embedded its new industrial instrument, the State Super Enterprise Agreement 2020- 2022, which will continue to govern the employment terms for the organisation's non-executive staff until August 2022.

Key employee services including the administration of salary and entitlements and the provision of reporting was provided by Mercer Administration Services. General recruitment support continued to be provided by Mercer and specialist recruiters were utilised for roles in investment and investment operations.

### Salary movement

The NSW government's financial relief measures in the wake of Covid-19 saw a reduction in remuneration increases in 2020. State Super applied a 0.3% increase for its non-executive employees in line with the Public Sector Wages Policy 2011 and the State Super Enterprise Agreement 2020-2022. Remuneration increases for senior executive staff, for the same period were put on hold.

### Employee remuneration levels

The table below shows remuneration levels and number of staff by gender and salary range as at 30 June 2021. The salary ranges for 2021 are in accordance with the State Super Enterprise Agreement 2020 – 2022.

Salary range	2021			Salary range	2020			Salary range	2019		
	Men	Women	Total staff		Men	Women	Total staff		Men	Women	Total staff
\$66,427 - \$94,106	0	5	5	\$66,228 - \$93,825	0	4	4	\$64,613 - \$91,536	0	4	4
\$94,107 - \$119,571	0	0	0	\$93,826 - \$119,213	0	0	0	\$91,537 - \$116,304	0	0	0
\$119,572 - \$132,303	1	0	1	\$119,214 - \$131,907	1	0	1	\$116,305- \$128,689	1	1	2
\$132,304 - \$154,998	1	5	6	\$131,908- \$154,534	1	4	5	\$128,690 - \$150,764	3	2	5
\$155,999 - \$182,040	11	9	20	\$155,535 - \$181,496	11	9	20	\$150,765- \$177,069	9	9	18
<b>Totals</b>	<b>13</b>	<b>19</b>	<b>32</b>		<b>13</b>	<b>17</b>	<b>30</b>		<b>13</b>	<b>16</b>	<b>29</b>
	<b>41%</b>	<b>59%</b>			<b>43%</b>	<b>57%</b>			<b>45%</b>	<b>55%</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 2021.

In FY 2021 35% of State Super's employee-related expenditure related to senior executives, compared to 42% in FY2020. The variance is driven by a change in executives during the reporting period.

Band* and salary range	2021				2020				2019			
	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	1	0	0	\$568,250	1	0	1	\$534,390
Band 3 (Deputy Secretary) \$345,551 - \$487,050	1	0	1	\$410,000	1	0	1	\$430,500	1	0	1	\$420,000
Band 2 (Executive Director) \$274,701 - \$345,550	2	0	2	\$323,647	3	0	3	\$323,187	3	0	3	\$315,305
Band 1 (Director) \$192,600 - \$274,700	1	2	3	\$266,467	1	1	2	\$274,700	1	1	2	\$267,657
	5	2	7		6	1	7		5	2	7	

## Industrial relations

Public Sector Industrial Relations continued to provide industrial coverage for State Super during the review period, and there were no disputes or industrial issues during the year.

## Training and development

Throughout the reporting period, State Super continued to maintain its focus on developing employee and organisational capability. Performance and coaching conversations were embedded as business as usual activities across the organisation. Whilst a number of face-to-face development programs remained on hold due to COVID related safety precautions, on-line programs were available to address the majority of training requirements across all functions. 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.

## Work health and safety

With the COVID-19 situation continuing and a greater awareness of the mental health impacts on staff, the organisation prioritised a regular rhythm and frequency of employee communication, providing information and resources on staying well and broadening application of the Employee Assistance Program to include employee's extended families.

To minimise the risk of employee infection and community transmission, State Super maintained and encouraged its strict COVID safety protocols both in the office and the home office. Flexible working continued to be the norm with the majority of staff choosing to work from home for some part of the week, outside of lockdown.

In April, State Super facilitated the annual on-site flu vaccination which was well attended. During the reporting period, the WHS Committee completed a review and update of the organisation's Work Health and Safety Management System (WHSMS) to ensure documentation and safety practices will remain current and fit for purpose over the coming years.

An external audit of State Super's WHSMS was undertaken in December 2020, with the organisation achieving a compliance rating of 92% against the industry average of 85%. Improvement recommendations from the audit will continue to be implemented over the next reporting period.

The WHSMS, its implementation and program of works is led by State Super's WHS Committee which provide regular

updates to employees and reports to the CEO on a monthly basis.

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

## Budgets

### State Super's budget for the year ended 30 June 2022 and 2021

	Budget FY 2022 \$'000	Budget FY 2021 \$'000	Actual FY 2021 \$'000
<b>Income (reimbursement)</b>			
Income (reimbursement)	41,359	40,875	33,815
<b>Expenditure</b>			
<b>Member administration costs</b>	<b>22,791</b>	<b>23,942</b>	<b>21,196</b>
<b>Overheads, Executive and Board</b>			
Board expenses	711	705	602
Staff related costs	**6,692	**5,750	*4,096
Accommodation/premises costs	1,410	1,392	1,280
Other administration expenses	6,786	6,471	5,262
Regulatory, governance and process improvement initiatives	2,969	2,615	1,379
<b>Total Overheads, Executive and Board expenses</b>	<b>18,568</b>	<b>16,933</b>	<b>12,619</b>
<b>Total expenditure</b>	<b>41,359</b>	<b>40,875</b>	<b>33,815</b>
<b>Net income/loss</b>	<b>-</b>	<b>-</b>	<b>-</b>

\*Includes Superannuation re-measurement gains of \$1.4m which is determined by the Actuary in compliance with AASB119.

\*\*Assumed zero Superannuation re-measurement gains or losses.

\*\*Assumed zero Superannuation re-measurement gains or losses.

## Expenditure disclosure information

### Overseas visits

No overseas travel expenditure was incurred for the 2020/2021 financial year period.

### Payments to consultants

Area	Project	Consultant	Total Cost \$
<b>STC</b>			
Member Engagement	IT advisory for Administration Platform Transition*	PwC Consulting (Australia) Pty Ltd	\$457,050
Member Engagement	Contact Centre Review**	PwC Consulting (Australia) Pty Ltd	\$148,390
Member Engagement	Member Outcomes Analysis**	PwC Consulting (Australia) Pty Ltd	\$43,890
Member Engagement	Data Risk Management Framework**	KPMG Australia	\$55,000
CEO	Assessment of Strategic Options**	Nous Group Pty Ltd	\$43,450
<b>Total</b>			<b>\$747,780</b>

\*Subjected to procurement process including probity auditor

\*\*Subject to competitive quote process

## Account payment performance

### Accounts due or paid within each quarter

Measure	Sep-20	Dec-20	Mar-21	Jun-21
<b>All suppliers</b>				
Number of accounts due for payment	333	270	354	422
Number of accounts paid on time	333	270	352	406
Actual percentage of accounts paid on time (based on number of accounts)	100%	100%	99.44%	96.21%
Dollar amount of accounts due for payment	\$9,268,000	\$8,346,000	\$16,483,000	\$12,007,000
Dollar amount of accounts paid on time	\$9,268,000	\$8,346,000	\$16,481,000	\$11,963,000
Actual percentage of accounts paid on time (based on \$)	100%	100%	99.98%	99.63%
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	0	3	3	4
Number of accounts due to small businesses paid on time	0	3	3	4
Actual percentage of small business accounts paid on time (based on number of accounts)	N/A	100%	100%	100%
Dollar amount of accounts due for payment to small businesses	-	\$1,000	\$1,000	\$1,000
Dollar amount of accounts due to small businesses paid on time	-	\$1,000	\$1,000	\$1,000
Actual percentage of small business accounts paid on time (based on \$)	N/A	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 21-02. 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 Deloitte in July 2021 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.

## Part E

# Five-year membership and financial statistical tables

Five years at a glance – to 30 June 2021

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## Five years at a glance – to 30 June 2021

Member statistics	2017	2018	2019	2020	2021
Active members – SASS	23,394	21,038	18,875	17,009	15,269
Active members – SSS	4,219	3,080	2,313	1,741	1,260
Active members – PSS	1,043	913	784	649	534
<b>Total active members</b>	<b>28,656</b>	<b>25,031</b>	<b>21,972</b>	<b>19,399</b>	<b>17,063</b>
Deferred benefit members – SASS	9,852	9,606	9,293	9,004	8,688
Deferred benefit members – SSS	1,607	1,412	1,228	1,094	948
Deferred benefit members – PSS	99	93	85	79	70
<b>Total deferred benefit members</b>	<b>11,558</b>	<b>11,111</b>	<b>10,606</b>	<b>10,177</b>	<b>9,706</b>
Pension members – SASS	4,353	4,479	4,620	4,737	4,848
Pension members – SSS	54,934	55,403	55,455	55,170	54,919
Pension members – PSS	6,569	6,610	6,659	6,697	6,735
<b>Total pension members</b>	<b>65,856</b>	<b>66,492</b>	<b>66,734</b>	<b>66,604</b>	<b>66,502</b>

Gender ratios – active members	2017	2018	2019	2020	2021
Females – SASS	50%	50%	50%	49%	49%
Males – SASS	50%	50%	50%	51%	51%
Females – SSS	39%	42%	43%	46%	48%
Males – SSS	61%	58%	57%	54%	52%
Females – PSS	13%	13%	14%	14%	15%
Males – PSS	87%	87%	86%	86%	85%

Contributions – \$ million	2017	2018	2019	2020	2021
Employer contributions	357	420	400	442	451
Employee contributions	305	255	226	206	173
Crown contributions	1,431	1,502	1,577	1,656	31
<b>Total contributions</b>	<b>2,093</b>	<b>2,177</b>	<b>2,203</b>	<b>2,304</b>	<b>655</b>
Benefits paid – \$ millions	4,825	4,794	4,872	4,871	4,857
Net contributions – \$ millions	(2,732)	(2,617)	(2,669)	(2,567)	(4,202)
Investment revenue – \$ millions	3,887	3,681	3,483	647	5,698

<b>Assets/liabilities*</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Accrued benefits – SASS	14,597	14,693	14,598	14,194	14,441
Net assets to pay benefits	13,358	12,950	12,911	12,104	12,554
<b>Over (under) funding – SASS</b>	<b>(1,239)</b>	<b>(1,743)</b>	<b>(1,687)</b>	<b>(2,090)</b>	<b>(1,887)</b>
Accrued benefits – SSS	34,787	34,556	34,473	34,589	34,644
Net assets to pay benefits	22,626	23,226	23,817	22,805	23,620
<b>Over (under) funding – SSS</b>	<b>(12,161)</b>	<b>(11,330)</b>	<b>(10,656)</b>	<b>(11,784)</b>	<b>(11,024)</b>
Accrued benefits – PSS	7,402	7,445	7,507	7,621	7,769
Net assets to pay benefits	4,661	4,900	5,153	5,034	5,257
<b>Over (under) funding – PSS</b>	<b>(2,741)</b>	<b>(2,545)</b>	<b>(2,354)</b>	<b>(2,587)</b>	<b>(2,512)</b>
Accrued benefits – SANCS	2,367	2,293	2,199	2,145	2,079
Net assets to pay benefits	1,499	1,945	1,893	1,731	1,747
<b>Over (under) funding – SANCS</b>	<b>(868)</b>	<b>(348)</b>	<b>(306)</b>	<b>(414)</b>	<b>(332)</b>
Total accrued benefits	59,153	58,987	58,777	58,549	58,933
Total net assets to pay benefits	42,144	43,021	43,774	41,674	43,178
<b>Over (under) funding – Total</b>	<b>(17,009)</b>	<b>(15,966)</b>	<b>(15,003)</b>	<b>(16,875)</b>	<b>(15,755)</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

## Triennial Actuarial Valuation Report

The Triennial Actuarial Valuation of the STC Pooled Fund and each of the individual schemes at 30 June 2021 was carried out by Catherine Nance FIAA and Janice Jones FIAA of PricewaterhouseCoopers Securities Ltd. A summary of this valuation is provided. A full version of the Actuarial Valuation Report will be made available on the State Super website, [www.statesuper.nsw.gov.au](http://www.statesuper.nsw.gov.au).

# Triennial Actuarial Valuation as at 30 June 2021

## Introduction

As requested by the SAS Trustee Corporation (STC) we have carried out a triennial review as at 30 June 2021 to report on the operation and state of funding of the STC Pooled Fund and its constituent Schemes:

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

The previous report as at 30 June 2018, dated October 2018, was prepared by Catherine Nance FIAA, Janice Jones FIAA and Mike Clough FIA of PricewaterhouseCoopers Securities Ltd.

Our advice to STC constitutes Actuarial Advice and has been prepared in accordance with the Institute of Actuaries of Australia Code of Conduct.

The figures in this report are calculated in accordance with the Australian Accounting Standards AASB1056 Superannuation Entities.

This report together with the accompanying work, has been prepared in accordance with Professional Standards 400, 402, 404 and 410 issued by the Institute of Actuaries of Australia.



Catherine Nance FIAA

Retirement Incomes and Asset Consulting  
*Authorised Representative (#265248) of  
PricewaterhouseCoopers Securities Ltd*



Janice Jones FIAA

Retirement Incomes and Asset Consulting  
*Authorised Representative (#283988) of  
PricewaterhouseCoopers Securities Ltd*

## Funding position by Scheme at 30 June 2021

The total assets for the STC Pooled Fund as at 30 June 2021 are \$43.2bn:

Scheme	Assets			
	Employer Reserve (\$m)	Contributor Reserve (\$m)	Deferred Reserve (\$m)	Total (\$m)
SASS	5,147.9	4,480.3	2,916.5	12,544.7
SSS	23,000.8	619.1	-	23,619.9
PSS	5,002.6	254.8	-	5,257.4
SANCS	1,034.0 <sup>2</sup>	106.4 <sup>2</sup>	606.1	1,746.5
<b>Total Assets<sup>1</sup></b>	<b>34,185.3</b>	<b>5,460.6</b>	<b>3,522.6</b>	<b>43,168.5</b>

<sup>1</sup> Total STC Pooled Fund assets of \$43,168.5m are based on the total net assets from the audited financial statements (\$45,690m), less the allowance for the Employer Sponsor Receivable which relates to the PSS deficiency (\$2,512m) and the SASS Additional Benefits Reserve (\$9.2m). These adjustments are made for consistency with the liabilities. The SASS Additional Benefit Reserve is a self-insurance arrangement to cover the member's proportion of the SASS Additional Benefits and this is subject to a further actuarial investigation.

<sup>2</sup> We have adjusted the presentation of the assets above by moving the SANCS Other Accounts (estimated to be \$42.1m) from the SANCS employer reserves to the SANCS member reserves as they relate to accumulation-style benefits and do not count towards the funding of employer past service liabilities.

The total past service liabilities as at 30 June 2021 are \$58.9bn. This is made up of \$49.9bn employer past service liabilities, \$5.5bn contributor reserves and \$3.5bn deferred reserves:

Scheme	Past Service Liabilities (Accrued Benefits)			
	Employer (\$m)	Contributor Reserve (\$m)	Deferred Reserve (\$m)	Total (\$m)
SASS	7,044.1	4,480.3	2,916.5	14,440.9
SSS	34,024.9	619.1	-	34,644.0
PSS	7,514.4	254.8	-	7,769.2
SANCS	1,366.0	106.4	606.1	2,078.6
<b>Total Past Service Liabilities</b>	<b>49,949.4</b>	<b>5,460.6</b>	<b>3,522.6</b>	<b>58,932.6</b>

The employer past service liabilities by Scheme for each type of membership are as follows:

Scheme	Employer Past Service Liabilities (Accrued Benefits)			
	Contributors (\$m)	Deferred (\$m)	Pensioners (\$m)	Total (\$m)
SASS	5,219.0	-	1,825.1	7,044.1
SSS	625.2	160.0	33,239.7	34,024.9
PSS	660.1	11.5	6,842.9	7,514.4
SANCS	1,366.0	-	-	1,366.0
<b>Total Past Service Liabilities</b>	<b>7,870.3</b>	<b>171.4</b>	<b>41,907.7</b>	<b>49,949.4</b>

The Scheme-level assets and liabilities for the employer reserve are compared in the table below, at both 30 June 2021 and 30 June 2018 (the date of the previous triennial review):

Scheme	30 June 2021				30 June 2018			
	Employer Past Service Liabilities (\$m)	Employer Reserve (\$m)	Employer Unfunded Liabilities (\$m)	Asset coverage B/A	Employer Past Service Liabilities (\$m)	Employer Reserve (\$m)	Employer Unfunded Liabilities (\$m)	Asset coverage B/A
	A	B	B-A		A	B	B-A	
SASS	7,044.1	5,147.9	(1,896.2)	73%	7,375.8	5,625.0	(1,750.8)	76%
SSS	34,024.9	23,000.8	(11,024.1)	68%	33,391.8	22,062.7	(11,329.1)	66%
PSS	7,514.4	5,002.6	(2,511.8)	67%	7,110.1	4,565.3	(2,544.8)	64%
SANCS	1,366.0	1,034.0	(332.1)	76%	1,660.1	1,311.7	(348.4)	79%
<b>Total</b>	<b>49,949.4</b>	<b>34,185.3</b>	<b>(15,764.1)</b>	<b>68%</b>	<b>49,537.8</b>	<b>33,564.7</b>	<b>(15,973.1)</b>	<b>68%</b>

The asset cover for employer past service liabilities has remained at 68% from 30 June 2018 to 30 June 2021.

This was due to a number of offsetting impacts, with key noteworthy items including:

- \$3.2bn improvement in funding due to the payment of \$4.6bn employer contributions, which exceeded the cost of new benefits accrued over the period by \$3.2bn.
- \$2.6bn improvement in funding due to the higher than expected investment returns and lower than expected pension increases.
- \$3.0bn deterioration due to the impact of 3 years of interest applied to the 2018 deficit.

A more detailed reconciliation of the movement in unfunded liabilities from 30 June 2018 to 30 June 2021 is set out in a later section.

## Funding position by Sector

The funding position results have been repeated below by sector:

Scheme	Employer Past Service Liabilities (Accrued Benefits)			
	Contributors (\$m)	Deferred (\$m)	Pensioners (\$m)	Total (\$m)
General Government	6,416.4	134.8	36,666.4	43,217.6
Universities	179.0	15.4	3,105.3	3,299.6
PTEs/Other <sup>1</sup>	1,275.0	21.2	2,135.9	3,432.1
<b>Total Past Service Liabilities</b>	<b>7,870.3</b>	<b>171.4</b>	<b>41,907.7</b>	<b>49,949.4</b>

The sector-level assets and liabilities for the employer reserve are compared in the table below, at both 30 June 2021 and 30 June 2018 (the date of the previous triennial review):

Scheme	30 June 2021				30 June 2018			
	Employer Past Service Liabilities (\$m)	Employer Reserve (\$m) <sup>2</sup>	Employer Unfunded Liabilities (\$m)	Asset coverage B/A	Employer Past Service Liabilities (\$m)	Employer Reserve (\$m)	Employer Unfunded Liabilities (\$m)	Asset coverage B/A
	A	B	B-A		A	B	B-A	
General Government	43,217.6	30,205.3	(13,012.3)	70%	42,587.0	29,607.6	(12,979.3)	70%
Universities	3,299.6	418.2	(2,881.4)	13%	3,539.8	544.3	(2,995.5)	15%
PTEs/Other <sup>1</sup>	3,432.1	3,561.7	129.6	104%	3,411.1	3,412.8	1.7	100%
<b>Total</b>	<b>49,949.4</b>	<b>34,185.3</b>	<b>(15,764.1)</b>	<b>68%</b>	<b>49,537.8</b>	<b>33,564.7</b>	<b>(15,973.1)</b>	<b>68%</b>

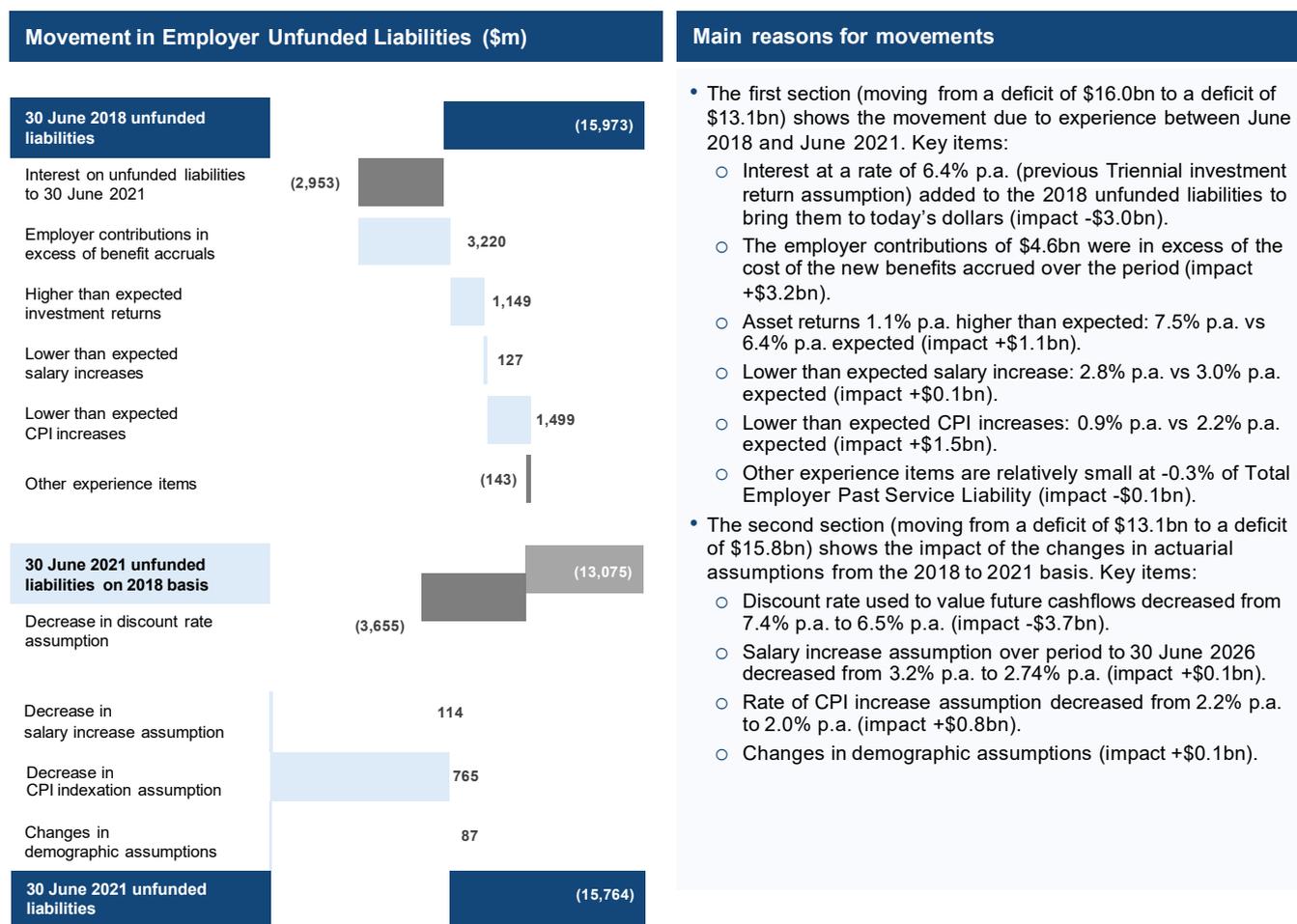
Notes relating to both tables in this section:

<sup>1</sup> Public Trading Enterprises, Public Financial Corporations and Other employers Sector (PTEs/Other)

<sup>2</sup> The asset splits by sector have been estimated by taking the total assets from the audited financial statements and apportioning these in line with the asset splits taken from provisional asset data.

## Reconciliation of unfunded liabilities, from 30 June 2018 to 30 June 2021

The employer funding position has improved since 2018 by \$0.2bn from a \$16.0bn deficit to a \$15.8bn deficit:



The table below shows the same movement in employer unfunded liabilities, broken down by Scheme:

Movement in Employer Unfunded Liabilities (\$m)						Additional Scheme-level commentary on movements
	SASS	SSS	PSS	SANCS	Total	
<b>30 June 2018 unfunded liabilities</b>	<b>(1,751)</b>	<b>(11,329)</b>	<b>(2,545)</b>	<b>(348)</b>	<b>(15,973)</b>	
Interest on unfunded liabilities to 30 June 2021	(331)	(2,078)	(474)	(69)	(2,953)	
Employer contributions in excess of benefit accruals	275	2,453	473	18	3,220	
Higher than expected investment returns	176	767	166	38	1,149	
Lower than expected salary increases	60	23	27	17	127	
Lower than expected pension increases	58	1,202	239	-	1,499	
Other experience items	(105)	(179)	115	27	(143)	
<b>30 June 2021 unfunded liabilities on 2018 basis</b>	<b>(1,618)</b>	<b>(9,141)</b>	<b>(1,999)</b>	<b>(317)</b>	<b>(13,075)</b>	
Decrease in investment return / discount rate assumption	(363)	(2,546)	(701)	(44)	(3,655)	
Decrease in salary increase assumption	78	7	10	20	114	
Decrease in CPI indexation assumption	43	568	154	0	765	
Changes in demographic assumptions	(37)	89	25	9	87	

### Additional Scheme-level commentary on movements

- The main explanations above apply across all Schemes. We discuss below the items for which we have further Scheme level commentary.
- The salary increase experience by Scheme over the 3 years was as follows: SASS 2.8% p.a. actual; SSS 2.8% p.a. actual; PSS: 2.4% p.a. actual; and Total 2.8% p.a. actual (all compared to 3.0% p.a. expected).
- The main items reflected in the changes in demographic assumptions are:
  - All Schemes – changes to pensioner mortality assumptions to align them to a percentage of ALT 2015-17 based on experience and consolidating the SASS assumptions to match SSS across all ages (instead of until age 75). This has generally increased the liability for SASS and decreased the liability for SSS and PSS.
  - All Schemes - an increase to the percentage married at death for males in line with experience. This has increased the liabilities for all Schemes.
  - SASS and SSS – removal of allowance for retrenchments as this was not material. This has reduced the liability for SASS and SSS.
- Other experience items are relatively small at -0.3% of Total Employer Past Service Liability or -1.5% for SASS, -0.4% for SSS, 1.7% for PSS and 2.0% for SANCS. These would be mainly due to demographic experience during the period.

## Recommended contribution rates

### General Government sector

The Fiscal Responsibility Act 2012 sets out a legislative target for the NSW Government to fully fund all General Government Sector liabilities by 2030. However due to the economic impact on NSW Government's finances caused by COVID-19, a revised funding plan was adopted. In addition to a two-year contribution holiday from 1 July 2020 to 30 June 2022, the NSW Government is looking to fully fund all General Government Sector liabilities by 2040 instead of 2030. While this is not yet amended in the Fiscal Responsibility Act 2012 due to continued uncertainty of COVID-19, the NSW Treasury's FY22 Budget has affirmed this change. The revised funding plan from the FY22 Budget has been provided by NSW Treasury. The contributions under this plan will recommence in FY23 of \$1.193bn and will grow at 5% p.a. until FY40.

The Government's long-term funding program is projected to result in a \$4.6bn surplus for the General Government sector at 30 June 2040. However it should be noted that there is significant variability in the projected funding level depending on unfolding experience (e.g. investment returns).

We recommend that the current Crown funding plan is maintained and that STC continue to review the funding position annually and adjust as necessary. We also recommend rebalancing the Crown funding plan contributions by Scheme so that they are in line with the proportions of the General Government Sector employer unfunded liabilities: SASS 13.5%, SSS 64.7%, PSS 19.3% and SANCS 2.5%.

Non-Crown General Government Sector employers are assumed to continue to contribute at recent levels of contributions.

Individual funding plans for Non-Crown General Government Sector employers were reviewed as at 30 June 2021 and recommendations were provided separately in October 2021.

### Universities

The Commonwealth and NSW Governments entered into a Memorandum of Understanding (MoU) in December 2014 to provide financial assistance for the unfunded superannuation liabilities of the NSW Universities.

Under the agreement the Commonwealth and NSW Governments have agreed to assist the universities with their unfunded superannuation liabilities through the provision of funds on a 78/22 per cent basis. The universities will continue to contribute at their current rate of 17% of salaries per annum and further additional contributions in respect of 'Excess salaries' as set out in the MoU.

The Commonwealth and NSW Governments will make payments to the Fund on a pay-as-you-go basis with the aim of maintaining a one-year asset buffer at all times to meet expected benefit payments.

A similar arrangement is in place for University of NSW (UNSW) Australian Defence Force Academy (ADFA), under which pay-as-you-go contributions are funded by UNSW, with the aim of maintaining a 3-year asset buffer.

### Public Trading Enterprises and other employers

Funding plans for each of these employers are reviewed annually. Individual employer funding plans were reviewed as at 30 June 2021 and recommendations were provided separately in October 2021.

## Valuation assumptions

An experience review was carried out and reported on separately in order to inform the economic and demographic assumptions for the 2021 triennial valuation, which are set as a best estimate. The review considered the current long-term market outlook for future investment returns and CPI increases, actual vs expected experience for the Fund over recent years, and broader superannuation industry practices and research.

The economic assumptions, together with those from the 2020 annual valuation and the previous triennial valuation are summarised below:

Economic assumption	30 June 2018 triennial valuation	30 June 2020 AASB1056 valuation	30 June 2021 triennial valuation
Discount rate			
Non-pensioner	6.4% p.a.	6.0% p.a.	<b>5.7% p.a.</b>
Pensioner	7.4% p.a.	7.0% p.a.	<b>6.5% p.a.</b>
Rate of CPI increase	2.2% p.a.	2.0% p.a.	<b>2.0% p.a.</b>
Pensioner gap = pensioner discount rate less CPI	5.2% p.a.	5.0% p.a.	<b>4.5% p.a.</b>
General salary increase			
Short term	2.7% p.a. to 30 June 2019	3.2% p.a.	<b>2.7% p.a. to 30 June 2026</b>
Long term	3.2% p.a.	3.2% p.a.	<b>3.2% p.a.</b>
Expenses	1.0% of benefit payments	1.0% of benefit payments	<b>1.0% of benefit payments</b>

The key economic driver of the valuation is the difference between the discount rate and the assumptions underlying liability growth (salary inflation and CPI increases). This difference has decreased by 0.7% p.a. from 5.2% p.a. in 2018 to 4.5% p.a. in 2021, based on the pensioner discount rate and the rate of CPI increase.

The table below shows the key demographic assumptions as well as brief commentary on some of the recent experience seen:

Assumption	30 June 2021 triennial valuation updates
<b>Pensioner mortality</b> All Schemes	Consolidate assumptions across all Schemes and align them to a percentage of ALT 2015-17 (with mortality improvements to 2021) based on experience
<b>Invalidity pensioner mortality</b> All Schemes	Align assumptions to a percentage of ALT 2015-17 based on experience
<b>Pensioner mortality future improvements</b> All Schemes	Update assumption to ALT 2015-17 mortality improvement factors; continued to apply 6 years of short-term and thereafter long-term improvement factors <sup>1</sup>
<b>Percentage married at death</b> All Schemes	Increase percentage married for males in line with experience
<b>Retirements</b> SSS and SASS contributors	No change
<b>Retirement and hurt on duty</b> PSS contributors	Extended hurt of duty invalidity retirements through to age 69 and adjust standard retirement rates accordingly
<b>Retirement</b> SASS deferreds	Updated in line with recent experience to assume 100% retirement retirement at age 70
<b>Retrenchment</b> All Schemes	No allowance for retrenchments, given small proportion of membership that would be affected

<sup>1</sup> The pensioner mortality future improvement factors allow for mortality rates to continue to improve into the future. The rates used have been taken from the latest Australia Life Tables 2015-17 (ALT15-17) produced by the Australian Government Actuary. The following two scenarios are published and these are both used in our projections: short-term improvement rates which considered improvements seen over the past 25 years; and long-term improvement rates which considered improvements seen over the past 125 years. The short-term improvement rates have generally higher year-on-year mortality improvements than the long-term rates (with some differences by age).

The demographic assumption changes above resulted in a \$0.1bn (0.2%) increase in the employer past service liabilities of \$49.9bn.

## Risks and sensitivities

A description of key risks as faced by the STC Pooled Fund as well as sensitivity results which highlight the possible impact of changes in assumptions in these areas are shown below. The largest risks relate to investment risk and pension increase risk. Note that the sensitivities shown above reflect a possible alternative assumption rather than the size of the risk itself.

	Comments	Sensitivity
Level of risk ↑	<b>Investment risk</b>	The employer past service liabilities of <b>\$49.9 billion</b> would increase by:
	<b>Pension increase risk</b>	
	<b>Salary increase risk</b>	
	<b>Longevity risk</b>	
	<b>Catastrophe risk</b>	
	<b>Legislative risk</b>	
	<ul style="list-style-type: none"> <li>A key risk faced by STC Pooled Fund</li> <li>Moving to a more cautious investment strategy could reduce volatility to help mitigate this</li> <li>However this would also result in lower expected investment returns and increased employer liabilities and costs</li> </ul>	<b>Investment risk</b> 1% p.a. decrease in investment returns \$4.8bn 9.5%
	<ul style="list-style-type: none"> <li>RBA has adopted inflation target of 2-3%</li> <li>Monetary policy used to keep within target</li> <li>Strong pensioner presence in STC Pooled Fund (84% of liability)</li> </ul>	<b>Pension increase risk</b> 1% p.a. increase in inflation \$4.6bn 9.3%
	<ul style="list-style-type: none"> <li>Employer has control over this</li> <li>Historically been less volatile than investments</li> <li>Contributors make up small (16%) of liability so salary increase risk is relatively low and declining</li> </ul>	<b>Salary increase risk</b> 1% p.a. increase in salary increase \$0.4bn 0.8%
	<ul style="list-style-type: none"> <li>Future life expectancies continue to increase</li> <li>Allowance has been made in assumptions</li> <li>Strong pensioner presence in STC Pooled Fund (currently 84% of liability). This will also impact contributors who are eligible for pension benefits in the future.</li> </ul>	<b>Longevity risk</b> Higher mortality improvements \$0.3bn 0.6%
	<ul style="list-style-type: none"> <li>Death and TPD self-insured</li> <li>Potential for catastrophic event to lead to multiple claims</li> <li>Offset by pensioners (who could also be impacted)</li> </ul>	
	<ul style="list-style-type: none"> <li>Continual changes, such as increasing Superannuation Guarantee and APRA prudential standards could increase costs</li> <li>However, good governance may reduce risk</li> </ul>	

Further details of the sensitivity results by Scheme are shown below:

Employer Past Service Liabilities (\$m)	SASS	SSS	PSS	SANCS	Total
<b>Central assumptions</b>	<b>7,044</b>	<b>34,025</b>	<b>7,514</b>	<b>1,366</b>	<b>49,949</b>
<b>Investment return / Discount rate plus 1%</b> (central assumption 6.5% p.a. / 5.7% p.a. <sup>1</sup> )	6,593 (-452 or -6.4%)	31,248 (-2,776 or -8.2%)	6,735 (-779 or -10.4%)	1,304 (-62 or -4.6%)	<b>45,880</b> <b>(-4,069 or -8.1%)</b>
<b>Investment return / Discount rate minus 1%</b> (central assumption 6.5% p.a. / 5.7% p.a. <sup>1</sup> )	7,560 (+516 or +7.3%)	37,259 (+3,234 or +9.5%)	8,453 (+939 or +12.5%)	1,434 (+68 or +5.0%)	<b>54,706</b> <b>(+4,757 or +9.5%)</b>
<b>CPI increases plus 1%</b> (central assumption 2.0% p.a.)	7,309 (+265 or +3.8%)	37,436 (+3,411 or +10.0%)	8,479 (+965 or +12.8%)	1,366 (no impact)	<b>54,591</b> <b>(+4,641 or +9.3%)</b>
<b>CPI increases minus 1%</b> (central assumption 2.0% p.a.)	6,816 (-228 or -3.2%)	31,059 (-2,966 or -8.7%)	6,704 (-811 or -10.8%)	1,366 (no impact)	<b>45,944</b> <b>(-4,005 or -8.0%)</b>
<b>Salary increases plus 1%</b> (central assumption 2.74% p.a. / 3.2% p.a. <sup>2</sup> )	7,310 (+266 or +3.8%)	34,043 (+18 or +0.1%)	7,541 (+27 or +0.4%)	1,434 (+68 or +5.0%)	<b>50,328</b> <b>(+379 or +0.8%)</b>
<b>Salary increases minus 1%</b> (central assumption 2.74% p.a. / 3.2% p.a. <sup>2</sup> )	6,796 (-248 or +3.5%)	34,007 (-18 or -0.1%)	7,489 (-26 or -0.3%)	1,303 (-63 or -4.6%)	<b>49,595</b> <b>(-354 or -0.7%)</b>
<b>Short term pensioner mortality improvements (+0.4 years)</b> (central assumption consistent with a life expectancy of 88.8 for a 65 year old) <sup>3</sup>	7,064 (+19 or +0.3%)	34,228 (+203 or +0.6%)	7,592 (+78 or +1.0%)	1,366 (no impact)	<b>50,250</b> <b>(+301 or +0.6%)</b>
<b>Long term pensioner mortality improvements (-0.3 years)</b> (central assumption consistent with a life expectancy of 88.8 for a 65 year old) <sup>4</sup>	7,027 (-17 or -0.2%)	33,798 (-227 or -0.7%)	7,457 (-57 or -0.8%)	1,366 (no impact)	<b>49,649</b> <b>(-301 or -0.6%)</b>

<sup>1</sup> Central assumption for discount rate is 6.5% p.a. for all pensioners / 5.7% p.a. for other members

<sup>2</sup> Central assumption of 2.74% p.a. to 30 June 2026 and 3.2% p.a. thereafter

<sup>3</sup> Assumes the short term pensioner mortality improvement factors used for projection years 2021-2027, are also applied for years after 2027. This change is consistent with a life expectancy of 89.2 (i.e. a 0.4 year increase) for a 65 year old pensioner in 2021.

<sup>4</sup> Assumes the long term pensioner mortality improvement factors used for projection years post 2027, are also applied for years 2021 to 2027. This change is consistent with a life expectancy of 88.5 (i.e. a 0.3 year decrease) for a 65 year old pensioner in 2021.

The changes in each row above are applied individually, while leaving the other assumptions unchanged.

## Membership

The table below shows the STC Pooled Fund membership by Scheme and member type, and compares it with the membership at 2018. The total membership in the table below is based on the total of the SASS, SSS and PSS memberships. Contributor and deferred members in these Schemes are generally also members of SANCS (see note 4 below for more details).

Scheme	30 June 2021 <sup>1</sup>				30 June 2018			
	Contributors	Deferreds	Pensioners	Total	Contributors	Deferreds	Pensioners	Total
SASS	15,100	8,559	4,811	28,470	20,945	9,516	4,455	34,916
SSS	1,310	584 <sup>2</sup>	54,755 <sup>3</sup>	56,649	3,175	957 <sup>2</sup>	55,233 <sup>3</sup>	59,365
PSS	538	61	6,731	7,330	916	84	6,605	7,605
SANCS	16,948	9,084	-	26,032	25,034	10,436	-	35,470
<b>Total<sup>4</sup></b>	<b>16,948</b>	<b>9,204</b>	<b>66,297</b>	<b>92,449</b>	<b>25,036</b>	<b>10,557</b>	<b>66,293</b>	<b>101,886</b>

<sup>1</sup> 2021 membership based on 30 April 2021 administrative data, projected to 30 June 2021 (as such, figures may differ slightly to Annual Accounts)

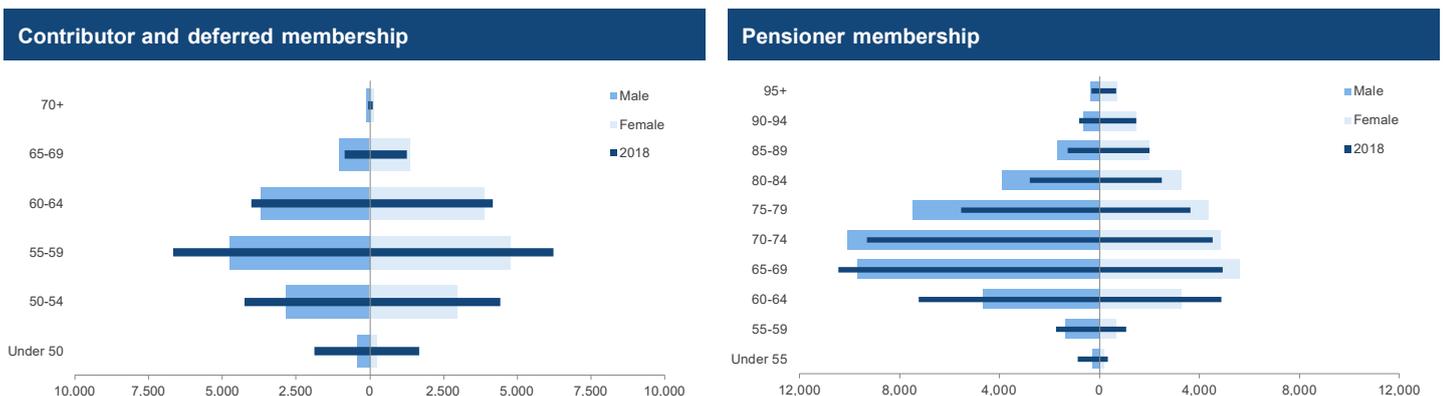
<sup>2</sup> SSS deferreds who are currently receiving pension payments have been excluded from deferreds and included in pensioners. There were 368 such members in 2021 and 453 in 2018

<sup>3</sup> Excludes SSS fully commuted pensioners who are not currently in receipt of a pension payment. The spouses of these fully commuted pensioners are eligible for a reversionary pension and the past service liabilities for SSS include a liability provision for these spouse reversions. There were 16,217 such pensioners in 2021 and 16,809 in 2018

<sup>4</sup> As noted above this total is based on the total of the SASS, SSS and PSS memberships. All SASS, SSS and PSS contributors are also members of SANCS (with the exception of Sydney Grammar). There are no SANCS contributory members who are not members of SASS, SSS or PSS. Nearly all of the SASS, SSS and PSS deferred members are also deferred members of SANCS. Thus the totals have been determined as the sum of SASS, SSS and PSS only.

The total membership has decreased by 9.3% from 101,886 to 92,449. Contributor membership has decreased by 32.3% from 25,036 to 16,948 which reflects the fact that the Fund is closed and members are leaving.

The charts below show an age profile of the combined contributor and deferred membership (26,152 people) and of the pensioner membership (66,297 people). The average age for both of these groups has increased since 2018, from 56.6 to 58.1 for contributors and deferreds, and from 71.3 to 72.9 for pensioners.



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## Part G

# 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 SAS Trustee Corporation (the Corporation), which comprises the Statement by the Accountable Authority, the Statement of Comprehensive Income for the year ended 30 June 2021, the Statement of Financial Position as at 30 June 2021, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, notes comprising a Statement 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:

- have been prepared in accordance with Australian Accounting Standards and the applicable financial reporting requirements of the *Government Sector Finance Act 2018* (GSF Act), the *Government Sector Finance Regulation 2018* (GSF Regulation) and the Treasurer's Directions
- presents fairly the financial position, financial performance and cash flows of the Corporation and the consolidated entity.

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 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.

## Members of the Trustee 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 GSF Act, GSF Regulations and Treasurer's Directions. The Members of the Trustee Board's responsibility also includes such internal control as the Members of the Trustee 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 Trustee 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.



Weini Liao  
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

12 October 2021  
SYDNEY

**SAS TRUSTEE CORPORATION**

**ABN 29 239 066 746**

**Statement by the Accountable Authority  
for the year ended 30 June 2021**

Pursuant to section 7.6(4) of the *Government Sector Finance Act 2018* and in accordance with a resolution of the Board of the SAS Trustee Corporation, we state that in our opinion the financial statements:

1. present fairly the financial position of the SAS Trustee Corporation as at 30 June 2021, the financial performance and cash flows 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 applicable requirements of the *Government Sector Finance Act 2018*, the Government Sector Finance Regulation 2018 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 11<sup>th</sup> day of October 2021.



**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 for the year ended 30 June 2021</b>	<b>Note</b>	<b>Economic Entity 2021 \$'000</b>	<b>Economic Entity 2020 \$'000</b>	<b>Parent Entity 2021 \$'000</b>	<b>Parent Entity 2020 \$'000</b>
<b>Revenue</b>					
Operating Revenue	3	<b>36,780</b>	37,662	<b>33,815</b>	35,024
<b>Expense excluding Losses</b>					
Operating Expenses	3	<b>(38,158)</b>	(37,674)	<b>(33,773)</b>	(34,967)
Finance Costs	3	<b>(42)</b>	(57)	<b>(42)</b>	(57)
<b>Net Result</b>		<b>(1,420)</b>	(69)	-	-
<b>Other Comprehensive Income</b>					
<b>Items that will not be reclassified into Net Result in subsequent periods:</b>					
Net superannuation actuarial re-measurement gains	12	<b>1,420</b>	69	-	-
<b>Total Other Comprehensive Income</b>		<b>1,420</b>	69	-	-
<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 as at 30 June 2021</b>	<b>Note</b>	<b>Economic Entity 2021 \$'000</b>	<b>Economic Entity 2020 \$'000</b>	<b>Parent Entity 2021 \$'000</b>	<b>Parent Entity 2020 \$'000</b>
<b>Current Assets</b>					
Cash and Cash Equivalents		5,096	4,181	5,096	4,181
Receivables	4	5,754	7,087	5,754	7,087
Other Current Assets		549	511	549	511
Right-of-Use Asset	5	1,238	1,238	1,238	1,238
<b>Total Current Assets</b>		<b>12,637</b>	<b>13,017</b>	<b>12,637</b>	<b>13,017</b>
<b>Non-Current Assets</b>					
Right-of-Use Asset	5	309	1,547	309	1,547
<b>Total Non-Current Assets</b>		<b>309</b>	<b>1,547</b>	<b>309</b>	<b>1,547</b>
<b>Total Assets</b>		<b>12,946</b>	<b>14,564</b>	<b>12,946</b>	<b>14,564</b>
<b>Current Liabilities</b>					
Payables	6	6,256	5,804	9,939	10,725
Lease Liability	7	1,273	1,218	1,273	1,218
Provisions	8	1,544	1,046	1,079	737
<b>Total Current Liabilities</b>		<b>9,073</b>	<b>8,068</b>	<b>12,291</b>	<b>12,680</b>
<b>Non-Current Liabilities</b>					
Lease Liability	7	515	1,760	515	1,760
Provisions	8	3,358	4,736	140	124
<b>Total Non-Current Liabilities</b>		<b>3,873</b>	<b>6,496</b>	<b>655</b>	<b>1,884</b>
<b>Total Liabilities</b>		<b>12,946</b>	<b>14,564</b>	<b>12,946</b>	<b>14,564</b>
<b>Net Assets</b>		-	-	-	-
<b>Equity</b>					
<b>Accumulated Funds</b>		-	-	-	-
<b>Total Equity</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 for the year ended 30 June 2021</b>	<b>Note</b>	<b>Economic Entity 2021 \$'000</b>	<b>Economic Entity 2020 \$'000</b>	<b>Parent Entity 2021 \$'000</b>	<b>Parent Entity 2020 \$'000</b>
<b>Balance at 1 July</b>		-	-	-	-
Net Result for the year		<b>(1,420)</b>	(69)	-	-
<b>Total Other Comprehensive Income</b>					
Net superannuation actuarial re-measurement gains	12	<b>1,420</b>	69	-	-
Total Comprehensive Income for the year		-	-	-	-
<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**

<b>Consolidated Statement of Cash Flows for the year ended 30 June 2021</b>	<b>Note</b>	<b>Economic Entity 2021 \$'000</b>	<b>Economic Entity 2020 \$'000</b>	<b>Parent Entity 2021 \$'000</b>	<b>Parent Entity 2020 \$'000</b>
<b>Cash Flows from Operating Activities</b>					
Receipts from Pooled Fund		<b>36,981</b>	36,634	<b>34,016</b>	33,995
Interest Received		<b>15</b>	43	<b>15</b>	43
Payments to Suppliers and Employees		<b>(36,081)</b>	(36,545)	<b>(33,116)</b>	(33,906)
<b>Net Cash Flows from Operating Activities</b>	13	<b>915</b>	132	<b>915</b>	132
<b>Cash Flows from Financing Activities</b>					
Receipts from Pooled Fund		<b>1,232</b>	1,102	<b>1,232</b>	1,102
Payments of the principal portion of Lease Liability		<b>(1,232)</b>	(1,102)	<b>(1,232)</b>	(1,102)
<b>Net Cash Flows from Financing Activities</b>		-	-	-	-
<b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents</b>		<b>915</b>	132	<b>915</b>	132
Opening Cash & Cash Equivalents		<b>4,181</b>	4,049	<b>4,181</b>	4,049
<b>Closing Cash &amp; Cash Equivalents</b>		<b>5,096</b>	4,181	<b>5,096</b>	4,181

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 2021

#### 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)

The COVID-19 pandemic continued to have a significant impact on the global economy and the general business environment, particularly during the first half of the financial year ended 30 June 2021. Vaccines have become more readily available in Australia and globally throughout the second half of 2021, and this is expected to help the global economy in its recovery phase now taking place.

Given the significant nature of the pandemic and its associated economic and financial market implications, the Trustee has continued to consider the impact of COVID-19 in preparing its financial statements and related disclosures. There were no significant impacts on financial outcomes for the year ended 30 June 2021.

#### 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 *Government Sector Finance Act 2018*
- the *Government Sector Finance Regulation 2018*
- 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.

## SAS TRUSTEE CORPORATION

### Notes to the financial Statements for the year ended 30 June 2021

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

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 7<sup>th</sup> October 2021.

##### 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.

In the process of preparing the consolidated financial statements for the economic entity, consisting of the controlling and controlled entities, all inter-entity transactions and balances have been eliminated, and like transactions and other events are accounted for using uniform accounting policies.

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 Government Sector Finance Regulation 2018.

##### c) Revenue Recognition

In accordance with AASB 15 *Revenue from Contracts with Customers*, 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 and cash equivalents 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 financial position and 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.

## SAS TRUSTEE CORPORATION

### Notes to the financial Statements for the year ended 30 June 2021

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

##### f) Taxation

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

Income, expenses and assets are recognised net of the amount of goods and services tax (GST), except that the:

- amount of GST incurred by the entity as a purchaser that is not recoverable from the Australian Taxation Office (ATO) is recognised as part of an asset's cost of acquisition or as part of an item of expense and
- receivables and payables are stated with the amount of GST included.

Cash flows are included in the Statement of Cash Flows on a gross basis. However, the GST components of cash flows arising from financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

##### 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.

The entity applies the short-term lease recognition exemption to its short-term leases. It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

## SAS TRUSTEE CORPORATION

### Notes to the financial Statements for the year ended 30 June 2021

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

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

Australian Accounting Standards and Interpretations that became effective for the first time for the Trustee for the annual reporting period ended 30 June 2021 and their impact on the financial statements is outlined below.

##### AASB 2018-7 Amendments to Australian Accounting Standards: Definition of Material

The amendment has been implemented for the year ended 30 June 2021. There were no material changes to these financial statements.

##### AASB 2019-1 Amendments to Australian Accounting Standards: References to the Conceptual Framework

The amendment has been implemented for the year ended 30 June 2021. There were no material changes to these financial statements.

##### AASB 2020-4 COVID-19-Related Rent Concessions

The standard has been implemented for the year ended 30 June 2021. STC did not receive any COVID-19 related rent concessions. Therefore, there were no impact to these financial statements.

##### AASB 1059 Service Concession Arrangements: Grantors

The standard has been implemented for the year ended 30 June 2021. The AASB has introduced AASB 1059 to provide accounting guidance for public sector entities who enter into service concession arrangements with private sector operators. STC has not entered any service concession arrangements. Therefore, there were no impact to these financial statements.

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

##### AASB 2020-1 Amendments to Australian Accounting Standards: Classification of Liabilities as Current or Non-current

The standard is effective for the year ending 30 June 2024. A liability is classified as current if the entity has no right at the end of the reporting period to defer settlement for at least 12 months after the reporting period. No material changes to these financial statements are expected.

##### AASB 2020-3 Amendments to AASB 3: Reference to the Conceptual Framework

The standard is effective for the year ending 30 June 2023. No material changes to these financial statements are expected.

##### AASB 2020-8 Amendments to Australian Accounting Standards: Interest Rate Benchmark Reform – Phase 2

The standard is effective for the year ending 30 June 2022. The AASB made amendments to address issues that arise during the reform of an interest rate benchmark (IBOR), including the replacement of one benchmark with an alternative one. No material changes to these financial statements are expected.

##### 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 2021. 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 2021**

<b>3. OPERATING RESULT</b>	<b>Economic Entity 2021 \$'000</b>	Economic Entity 2020 \$'000	<b>Parent Entity 2021 \$'000</b>	Parent Entity 2020 \$'000
<b>Revenue</b>				
Management Fees	36,490	37,285	33,525	34,647
Interest revenue	15	43	15	43
Other revenue	275	334	275	334
<b>Total Revenue</b>	<b>36,780</b>	37,662	<b>33,815</b>	35,024
<b>Executive and Board Expenses</b>				
Employee Related Expenses	7,459	7,238	-	-
Superannuation	668	657	-	-
Personnel Services Expenses	-	-	3,742	5,188
Depreciation charge for Right-of-Use Asset/Premises	1,238	1,238	1,238	1,238
Other Overhead Expenses	2,284	2,269	2,284	2,269
Board Expenses	601	571	601	571
<b>Total Executive and Board Expenses</b>	<b>12,250</b>	11,973	<b>7,865</b>	9,266
<b>Fund Expenses</b>				
Scheme Administration Fees	20,688	20,981	20,688	20,981
Regulatory, Governance & Process Improvement Initiatives	1,379	1,368	1,379	1,368
Professional Fees	3,417	2,689	3,417	2,689
Other Administration Fees	424	663	424	663
<b>Total Fund Expenses</b>	<b>25,908</b>	25,701	<b>25,908</b>	25,701
<b>Total Operating Expenses</b>	<b>38,158</b>	37,674	<b>33,773</b>	34,967
<b>Finance Costs</b>				
Interest expense on Lease Liability/Premises	42	57	42	57
<b>Total Finance Costs</b>	<b>42</b>	57	<b>42</b>	57
<b>Net Result</b>	<b>(1,420)</b>	(69)	-	-

External audit fees of \$25,000 (2020: \$24,500) 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 2021

4. RECEIVABLES	Economic Entity 2021 \$'000	Economic Entity 2020 \$'000	Parent Entity 2021 \$'000	Parent Entity 2020 \$'000
<b>Current</b>				
Receivables from Pooled Fund	4,576	6,339	4,576	6,339
Other Receivables	1,178	748	1,178	748
	<b>5,754</b>	<b>7,087</b>	<b>5,754</b>	<b>7,087</b>

Receivables are initially recognised at fair value plus any directly attributable transaction costs. Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

5. RIGHT-OF-USE ASSET	Economic Entity 2021 \$'000	Economic Entity 2020 \$'000	Parent Entity 2021 \$'000	Parent Entity 2020 \$'000
<b>Current</b>				
Office Lease	1,238	1,238	1,238	1,238
	<b>1,238</b>	<b>1,238</b>	<b>1,238</b>	<b>1,238</b>
<b>Non-current</b>				
Office Lease	309	1,547	309	1,547
	<b>309</b>	<b>1,547</b>	<b>309</b>	<b>1,547</b>

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.

Right-of-Use Asset	Economic Entity 2021 \$'000	Economic Entity 2020 \$'000	Parent Entity 2021 \$'000	Parent Entity 2020 \$'000
<b>Premises</b>				
As at 1 July	2,785	4,023	2,785	4,023
Depreciation expense	(1,238)	(1,238)	(1,238)	(1,238)
<b>As at 30 June</b>	<b>1,547</b>	<b>2,785</b>	<b>1,547</b>	<b>2,785</b>

6. PAYABLES	Economic Entity 2021 \$'000	Economic Entity 2020 \$'000	Parent Entity 2021 \$'000	Parent Entity 2020 \$'000
<b>Current</b>				
Administration Fees Payables	1,806	1,759	1,806	1,759
Other Payables (including Accruals)	4,450	4,045	4,450	4,045
Intercompany Payable – STC Staff Agency	-	-	3,683	4,921
	<b>6,256</b>	<b>5,804</b>	<b>9,939</b>	<b>10,725</b>

Payables represent liabilities for goods and services provided to the entity and other amounts. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

**SAS TRUSTEE CORPORATION**

**Notes to the financial Statements  
for the year ended 30 June 2021**

<b>7. LEASE LIABILITY</b>	<b>Economic Entity 2021 \$'000</b>	Economic Entity 2020 \$'000	<b>Parent Entity 2021 \$'000</b>	Parent Entity 2020 \$'000
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**Current**

Office Lease	<b>1,273</b>	1,218	<b>1,273</b>	1,218
	<b>1,273</b>	1,218	<b>1,273</b>	1,218

**Non-current**

Office Lease	<b>515</b>	1,760	<b>515</b>	1,760
	<b>515</b>	1,760	<b>515</b>	1,760

<b>Lease Liability</b>	<b>Economic Entity 2021 \$'000</b>	Economic Entity 2020 \$'000	<b>Parent Entity 2021 \$'000</b>	Parent Entity 2020 \$'000
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**Premises**

As at 1 July	<b>2,978</b>	4,023	<b>2,978</b>	4,023
Interest expense	<b>42</b>	57	<b>42</b>	57
Lease Payments	<b>(1,232)</b>	(1,102)	<b>(1,232)</b>	(1,102)
<b>As at 30 June</b>	<b>1,788</b>	2,978	<b>1,788</b>	2,978

<b>Future Lease Payments</b>	<b>Economic Entity 2021 \$'000</b>	Economic Entity 2020 \$'000	<b>Parent Entity 2021 \$'000</b>	Parent Entity 2020 \$'000
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**Premises**

Within one year	<b>1,291</b>	1,235	<b>1,291</b>	1,235
Later than one year and not later than five years	<b>526</b>	1,817	<b>526</b>	1,817
<b>Total</b>	<b>1,817</b>	3,052	<b>1,817</b>	3,052

## SAS TRUSTEE CORPORATION

### Notes to the financial Statements for the year ended 30 June 2021

8. PROVISIONS	Economic Entity 2021 \$'000	Economic Entity 2020 \$'000	Parent Entity 2021 \$'000	Parent Entity 2020 \$'000
<b>Current</b>				
Employee Benefits				
- Annual Leave	1,002	667	682	427
- Long Service Leave	542	379	397	310
	<b>1,544</b>	1,046	<b>1,079</b>	737
<b>Non-current</b>				
Employee Benefits				
- Long Service Leave	196	194	140	124
Defined Benefit Superannuation Fund (refer Note 12)				
- State Superannuation Scheme (SSS)	3,162	4,542	-	-
	<b>3,358</b>	4,736	<b>140</b>	124

#### Employee Benefits and related on-costs

##### **Salaries and wages, annual leave and sick leave**

Salaries and wages (including non-monetary benefits) and paid sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the service are recognised and measured at the undiscounted amounts of the benefits.

All annual leave is classified as a current liability even where the entity does not expect to settle the liability within 12 months as the entity does not have an unconditional right to defer settlement.

Unused non-vesting sick leave does not give rise to a liability as it is not considered probable that sick leave taken in the future will be greater than the benefits accrued in the future.

##### **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**

The Economic Entity participates in the State Superannuation Scheme (SSS) closed defined benefit superannuation scheme for some of its past employees. For the purposes of determining the level of funding of the defined benefits superannuation liability, *AASB 119 Employee Benefits* requires the amount of accrued liabilities to be determined based on the present value of expected future payments which arise from membership of the Fund up to the measurement date. This is determined by the application of the Government Bond Rate (provided by NSW Treasury) as the discount rate, and other relevant actuarial assumptions (refer to note 12).

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 2021 the *AASB119 Employee Benefits* unfunded liability was \$3,162,000.

In compliance with *AASB 119 Employee Benefits* 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 (refer to note 12).

Contributions made to superannuation funds are charged against the operating result.

## SAS TRUSTEE CORPORATION

### Notes to the financial Statements for the year ended 30 June 2021

#### 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.

#### 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 L Rasmussen (term commenced 12 March 2020)

##### *Executive Officers*

Mr G Gabriel (until 23 October 2020)  
Mr J Livanas  
Mr J Narayan  
Mr A Parapuram  
Mr N Patel  
Ms K Pratt (from 4 January 2021)  
Ms N Siratkov  
Mr C Wu

<b>The key management personnel compensation in relation to services to STC is as follows</b>	<b>Economic Entity 2021 \$’000</b>	<b>Economic Entity 2020 \$’000</b>
Board member compensation	525	483
Short-term employee benefits	2,887	2,787
Other long-term employee benefits	-	11
	<b>3,412</b>	<b>3,281</b>

## SAS TRUSTEE CORPORATION

### Notes to the financial Statements for the year ended 30 June 2021

#### 11. 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 schemes. Mr. T O'Grady exited the Fund scheme as at 26 September 2019.
- b) Refer to note 4 and note 6 for other related party transactions.
- c) 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.

#### 12. SUPERANNUATION

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

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
- CPI risk – The risk that CPI will be higher than assumed, increasing CPI related pension payments
- 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 2021**

**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>2021</b>	2020
	<b>\$'000</b>	<b>\$'000</b>
<b><i>Net Defined Benefit Liability/(Asset) at start of year</i></b>	<b>4,542</b>	4,551
Current service cost	-	-
Net interest on the net defined benefit liability/(asset)	<b>40</b>	60
Past service cost	-	-
(Gains)/losses arising from settlements	-	-
Actual returns on Fund assets less interest income	<b>(636)</b>	(54)
Actuarial (gains)/losses arising from changes in demographic assumptions	<b>(145)</b>	-
Actuarial (gains)/losses arising from changes in financial assumptions	<b>(378)</b>	(17)
Actuarial (gains)/losses arising from liability experience	<b>(261)</b>	2
Adjustment for effect of asset ceiling	-	-
Employer contributions	-	-
<b><i>Net Defined Benefit Liability/(Asset) at end of year</i></b>	<b>3,162</b>	4,542

The Superannuation actuarial re-measurement gain of \$1,420,000 (2020 gain of \$69,000) 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>2021</b>	2020
	<b>\$'000</b>	<b>\$'000</b>
<b><i>Fair value of Fund assets at beginning of the year</i></b>	<b>5,396</b>	5,634
Interest income	<b>45</b>	72
Actual return on Fund assets less interest income	<b>636</b>	54
Employer contributions	-	-
Contributions by participants	-	-
Benefits paid	<b>(384)</b>	(385)
Taxes, premiums and expenses paid	<b>70</b>	21
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>5,763</b>	5,396

SAS TRUSTEE CORPORATION

Notes to the financial Statements  
for the year ended 30 June 2021

12. SUPERANNUATION (Continued)

Reconciliation of the Defined Benefit Obligation

SSS	Economic Entity	Economic Entity
	2021 \$'000	2020 \$'000
<i>Present value of defined benefit obligation at beginning of the year</i>	9,938	10,185
Current service cost	-	-
Interest cost	85	132
Contributions by participants	-	-
Actuarial (gains)/losses arising from changes in demographic assumptions	(145)	-
Actuarial (gains)/losses arising from changes in financial assumptions	(378)	(17)
Actuarial (gains)/losses arising from liability experience	(261)	2
Benefits paid	(384)	(385)
Taxes, premiums and expenses paid	70	21
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>8,925</b>	9,938

Reconciliation for the effect of the asset ceiling

SSS	Economic Entity	Economic Entity
	2021 \$'000	2020 \$'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 2021

#### 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 2021	Total (\$m)	Level 1 (\$m)	Level 2 (\$m)	Level 3 (\$m)
<b>Asset category</b>				
Short term securities	5,108	2,398	2,710	-
Australian fixed interest	904	-	904	-
International fixed interest	1,755	45	1,710	-
Australian equities	8,310	8,308	2	-
International equities	13,890	13,885	5	-
Property	3,288	627	-	2,661
Alternatives	8,530	1	2,710	5,819
<b>Total</b>	<b>41,785</b>	<b>25,264</b>	<b>8,041</b>	<b>8,480</b>

Year ended 30 June 2020	Total (\$m)	Level 1 (\$m)	Level 2 (\$m)	Level 3 (\$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>

##### 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 2021

#### 12. SUPERANNUATION (Continued)

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

	2021	2020
Short term securities	12%	10%
Australian fixed interest	2%	3%
Overseas fixed interest	4%	5%
Australian equities	20%	18%
International equities	33%	30%
Property	8%	8%
Alternatives	21%	26%
	<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 AASB 119 Employee Benefits*

	2021*	2020*
Discount rate	1.50%	0.87%
Salary increase rate (excluding promotional increases)	2.74%	3.20%
Rate of CPI increase	1.50%	1.00%
Pensioner mortality	<b>as per the 2021 Actuarial Investigation of the Pooled Fund</b>	as per the 2018 Actuarial Investigation of the Pooled 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 2021**

**12. SUPERANNUATION (Continued)**

*Sensitivity analysis AASB 119 Employee Benefits*

In accordance with AASB 119, the total defined benefit obligation as at 30 June 2021 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 Change in Discount rate	Scenario B Change in Discount rate
Discount rate		-0.5%	0.5%
Defined benefit obligation (\$'000)	8,925	9,542	8,362

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	Base Case	Scenario C Change in Rate of CPI increase	Scenario D Change in Rate of CPI increase
Rate of CPI increase		0.5%	-0.5%
Defined benefit obligation (\$'000)	8,925	9,547	8,352

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	Base Case	Scenario E Change in Salary increase rate	Scenario F Change in Salary increase rate
Salary increase rate		0.5%	-0.5%
Defined benefit obligation (\$'000)	8,925	8,925	8,925

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	Base Case	Scenario G Lower Pensioner mortality rates	Scenario H Higher Pensioner mortality rates
Defined benefit obligation (\$'000)	8,925	9,051	8,802

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

## SAS TRUSTEE CORPORATION

### Notes to the financial Statements for the year ended 30 June 2021

#### 12. SUPERANNUATION (Continued)

##### *Funding arrangements for the Economic Entity under AASB 1056 Superannuation Entities*

The funding arrangements for the purposes of determining contribution levels for past employees of the defined benefits scheme are reviewed based on *AASB 1056 Superannuation Entities* requirements. The amount of accrued benefits for *AASB 1056* purposes is based on the present value of expected future payments which arise from membership of the Fund up to the measurement date. This is determined by the application of a market-based, risk-adjusted discount rate and other relevant actuarial assumptions.

For the year ended 30 June 2021, in accordance with *AASB 1056* the economic entity met in full the total superannuation liabilities for its past employees.

Funding arrangements are reviewed at least every three years following the release of the triennial actuarial review. The triennial review as at 30 June 2021 is in progress and will be completed by end of 2021. 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 AASB 1056 Superannuation Entities*

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

<b>SSS</b>	<b>Economic Entity</b>	Economic Entity
	<b>2021</b>	2020
	<b>\$'000</b>	<b>\$'000</b>
Accrued benefits	<b>4,950</b>	4,977
Net market fair value of Fund assets	<b>(5,763)</b>	(5,395)
<b><i>Net (surplus)/deficit</i></b>	<b>(813)</b>	(418)

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

<b>SSS</b>	<b>Economic Entity</b>	Economic Entity
	<b>2021</b>	2020
	<b>Multiple of member contributions</b>	Multiple of member contributions
	-	-

**SAS TRUSTEE CORPORATION**

**Notes to the financial Statements  
for the year ended 30 June 2021**

**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 sensitivity analysis information on page 20 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 2021**

	Base Case*	Scenario A -0.5% change in Discount rate	Scenario B +0.5% change in Discount rate
Expected rate of return on Fund assets backing current pension liabilities (discount rate)	<b>6.50%</b>	<b>6.0%</b>	<b>7.0%</b>
Expected rate of return on Fund assets backing other liabilities (discount rate)	<b>5.7%</b>	<b>5.2%</b>	<b>6.2%</b>
Rate of CPI increase	<b>2.0%</b>	<b>as base case</b>	<b>as base case</b>
Salary inflation rate	<b>2.74%</b>	<b>as base case</b>	<b>as base case</b>
Accrued benefits (\$,000)	<b>4,950</b>	<b>5,169</b>	<b>4,746</b>

**30 June 2020**

	Base Case*	Scenario A -0.5% change in Discount rate	Scenario B +0.5% change in 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

\* 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 2021

#### 12. SUPERANNUATION (Continued)

*Funding arrangements for employer contributions – Economic Assumptions AASB 1056 Superannuation Entities*

Weighted average assumptions*	2021 and following
Expected rate of return on Fund assets backing current pension liabilities	6.5%
Expected rate of return on Fund assets backing other liabilities	5.7%
Expected salary increase rate	2.74%
Expected rate of CPI increase	2.0%

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

\* 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 11.4 years.

*Expected contributions*

SSS	Economic Entity 2021	Economic Entity 2020
<b>Expected Employer Contributions</b>	-	-

## SAS TRUSTEE CORPORATION

### Notes to the financial Statements for the year ended 30 June 2021

#### 13. CASH FLOW INFORMATION

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

	<b>Economic Entity 2021 \$'000 Inflows/ (Outflows)</b>	<b>Economic Entity 2020 \$'000 Inflows/ (Outflows)</b>	<b>Parent Entity 2021 \$'000 Inflows/ (Outflows)</b>	<b>Parent Entity 2020 \$'000 Inflows/ (Outflows)</b>
<b>Net Result</b>	-	-	-	-
<b>Changes in Assets and Liabilities:</b>				
<b><u>(Increase)/Decrease in Assets</u></b>				
Other Current Assets	<b>(38)</b>	(90)	<b>(38)</b>	(90)
Receivables				
- Pooled Fund	<b>1,811</b>	203	<b>1,811</b>	203
- Other	<b>(428)</b>	(113)	<b>(428)</b>	(113)
<b><u>Increase/(Decrease) in Liabilities</u></b>				
Payables				
- Mercer Administration	<b>46</b>	(161)	<b>46</b>	(161)
- Other	<b>404</b>	(10)	<b>(476)</b>	293
Provisions	<b>(880)</b>	303	-	-
<b>Net Cash From/(Used) in Operating Activities</b>	<b>915</b>	132	<b>915</b>	132

#### 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 Government Consolidated Revenues.

#### 15. EVENTS AFTER THE REPORTING DATE

There have been no events between 30 June 2021 and the date of approval of these financial statements that would significantly impact the financial statements.

**End of Audited Financial Statements**

## Part G

# Financial statements of the SAS Trustee Corporation Pooled Fund

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## INDEPENDENT AUDITOR'S REPORT

### SAS Trustee Corporation Pooled Fund

To the Treasurer and Members of the Trustee Board

#### 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 2021, the Income Statement for the year ended 30 June 2021, the Statement of Changes in Member Benefits, the Statement of Changes in Equity and the Statement of Cash Flows, for the year then ended, notes comprising Significant Accounting Policies and other explanatory information.

In my opinion, the financial statements:

- have been prepared in accordance with Australian Accounting Standards and the applicable financial reporting requirements of the *Government Sector Finance Act 2018* (GSF Act) and the *Government Sector Finance Regulation 2018* (GSF Regulation)
- presents fairly the Fund's financial position, financial performance and cash flows.

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 2021. 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
<b>Valuation of unquoted investment assets</b>	
<p>At 30 June 2021, the Fund reported \$16.5 billion of unquoted investments valued using unobservable inputs. Of this total, \$8.5 billion were categorised within Level 3 of the fair value hierarchy under Australian Accounting Standards.</p> <p>I considered this to be a key audit matter because:</p> <ul style="list-style-type: none"> <li>• the high level of judgement and estimation involved in the valuation approach, including determination of future cash flows, discount rates and other assumptions, with limited comparable market information available</li> <li>• complexities in applying the requirements of AASB 13 'Fair Value Measurement'</li> <li>• financial significance of the assets valued, which are a key driver of the Fund's net asset value and total return.</li> </ul> <p>A description of the valuation techniques, inputs and assumptions is disclosed in Notes 1 and 19.</p>	<p>Key audit procedures included:</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 measures for valuing unquoted investments</li> <li>• obtained independent valuation reports and compared assumptions applied to ranges for 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> </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 prepared for the existence and valuation of certain unitised investments</li> <li>• assessed the adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards.</li> </ul>
<b>Valuation of defined benefit member liabilities</b>	
<p>At 30 June 2021, the Fund reported total defined benefit member liabilities of \$58.9 billion (\$58.5 billion at 30 June 2020).</p> <p>I considered this to be a key audit matter because:</p> <ul style="list-style-type: none"> <li>• the high level of judgement and estimation involved in the valuation approach, including determination of discount rates, salary inflation, mortality and other assumptions</li> </ul>	<p>With the assistance of audit actuarial specialists, key audit procedures included:</p> <ul style="list-style-type: none"> <li>• assessed the effectiveness of key controls and processes over the: <ul style="list-style-type: none"> <li>– accuracy and completeness of member data used in the valuation model</li> <li>– mathematical accuracy of the valuation model</li> </ul> </li> </ul>

<b>Key Audit Matter</b>	<b>How my audit addressed the matter</b>
<ul style="list-style-type: none"> <li>• the financial significance of the member liabilities, which impact the estimate of required future contributions and investment returns to fund future outflows</li> <li>• the sensitivity of the defined benefit liabilities balance to small changes in any of the valuation inputs.</li> </ul> <p>A description of the measurement, key assumptions and sensitivity analysis of these liabilities are disclosed in Note 8.</p>	<ul style="list-style-type: none"> <li>• 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</li> <li>• evaluated the competence of the Fund's actuary by confirming they are appropriately qualified, experienced and registered with the Institute of Actuaries</li> <li>• assessed the adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards.</li> </ul>

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

The Trustee Board is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, the GSF Act and GSF Regulations. The Trustee Board's responsibility also includes such internal control as the Trustee Board 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 Board 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.

A handwritten signature in blue ink, appearing to be 'W. Liao', written in a cursive style.

Weini Liao  
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

12 October 2021  
SYDNEY

**SAS TRUSTEE CORPORATION POOLED FUND**

**ABN 29 239 066 746**

**Statement by Members of the Trustee Board**

**For the year ended 30 June 2021**

Pursuant to section 7.6 (4) of the *Government Sector Finance Act 2018* and in accordance with a resolution of the Board of the SAS Trustee Corporation, we state that in our opinion the financial statements:

1. present fairly the Pooled Funds financial position as at 30 June 2021 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 2021, and
2. have been prepared in accordance with the Australian Accounting Standards and Interpretations, the provisions of the *Government Sector Finance Act 2018* and the Government Sector Finance Regulation 2018.

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 11<sup>th</sup> day of October 2021.



**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 as at 30 June 2021	Note	2021 \$m	2020 \$m
<b>Assets</b>			
Cash		27	30
Receivables	3	320	269
Investments			
Short term securities		3,046	2,842
Australian fixed interest		1,043	1,091
International fixed interest		228	214
Australian equities		8,387	7,570
International equities		14,188	12,360
Property - indirect		1,901	1,835
Investment properties - direct	6(a)	2,049	1,993
Infrastructure and other alternatives		12,380	13,568
Derivatives	7	28	305
Employer sponsor receivable	4	2,512	2,587
<b>Total assets</b>		<b>46,109</b>	<b>44,664</b>
<b>Liabilities</b>			
Payables	5	249	102
Derivatives	7	129	19
Income tax payable		7	236
Deferred tax liabilities	13(b)	34	46
<b>Total liabilities excluding member benefits</b>		<b>419</b>	<b>403</b>
<b>Net assets available for member benefits</b>		<b>45,690</b>	<b>44,261</b>
<b>Member liabilities</b>			
Defined benefit member liabilities	8	<b>(58,933)</b>	(58,549)
<b>Total member liabilities</b>		<b>(58,933)</b>	(58,549)
<b>Total net liabilities</b>		<b>(13,243)</b>	(14,288)
<b>Equity</b>			
Defined benefit deficit	8	<b>(13,243)</b>	(14,288)
<b>Total equity</b>		<b>(13,243)</b>	(14,288)

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

**SAS TRUSTEE CORPORATION POOLED FUND**

<b>Income Statement for the year ended 30 June 2021</b>	<b>Note</b>	<b>2021 \$m</b>	<b>2020 \$m</b>
<b>Investment income</b>			
Interest revenue		<b>126</b>	204
Dividend revenue		<b>461</b>	540
Distribution revenue from unit trusts		<b>407</b>	382
Net rentals from investment property	6(b)	<b>92</b>	82
Other revenue		<b>22</b>	30
Change in fair value of investments	11	<b>4,756</b>	(414)
<b>Total revenue</b>		<b>5,864</b>	824
<b>Expenses</b>			
Direct investment expenses		<b>(128)</b>	(140)
Administration expenses	12	<b>(38)</b>	(37)
<b>Total expenses</b>		<b>(166)</b>	(177)
<b>Operating result</b>		<b>5,698</b>	647
Net change in defined benefit member benefits		<b>(4,729)</b>	(2,417)
<b>Operating result before income tax expense</b>		<b>969</b>	(1,770)
Income tax benefit	13(a)	<b>76</b>	131
<b>Operating result after income tax</b>		<b>1,045</b>	(1,639)

*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 for the year ended 30 June 2021</b>	<b>Note</b>	<b>2021 \$m</b>	<b>2020 \$m</b>
<b>Opening balance at 1 July</b>		<b>58,549</b>	<b>58,777</b>
Employer contributions	10	<b>482</b>	2,098
Member contributions	10	<b>173</b>	206
Income tax on contributions		<b>(68)</b>	(311)
<b>Net after tax contributions</b>		<b>587</b>	1,993
Benefits paid to members		<b>(4,857)</b>	(4,871)
Net change in employer sponsor receivable		<b>(75)</b>	233
Net change in defined benefit member benefits		<b>4,729</b>	2,417
<b>Closing balance at 30 June</b>		<b>58,933</b>	<b>58,549</b>

*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 the year ended 30 June 2021</b>	<b>2021 \$m Surplus/(deficiency)</b>	<b>2020 \$m Surplus/(deficiency)</b>
<b>Opening balance at 1 July</b>	<b>(14,288)</b>	<b>(12,649)</b>
Operating result after income tax	<b>1,045</b>	<b>(1,639)</b>
<b>Closing balance at 30 June</b>	<b>(13,243)</b>	<b>(14,288)</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 for the year ended 30 June 2021</b>	<b>Note</b>	<b>2021 \$m</b>	<b>2020 \$m</b>
<b>Cash flows from operating activities</b>			
Interest received		128	211
Dividends received		445	550
Distributions received from unit trusts		406	403
Net rentals received from investment property		92	72
Other receipts		18	23
Direct investment expenses paid		(126)	(126)
Trustee administration expenses paid		(36)	(35)
Income tax (paid)/refund		78	242
<b>Net cash inflows/(outflows) from operating activities</b>	21	<b>1,005</b>	<b>1,340</b>
<b>Cash flows from investing activities</b>			
Purchase of investments		(25,992)	(30,935)
Proceeds from sale of investments		29,489	32,432
<b>Net cash inflows/(outflows) from investing activities</b>		<b>3,497</b>	<b>1,497</b>
<b>Cash flows from financing activities</b>			
Employer contributions received		474	2,085
Member contributions received		181	215
Benefits paid to members		(4,849)	(4,848)
Income tax paid on contributions		(311)	(291)
<b>Net cash inflows/(outflows) from financing activities</b>		<b>(4,505)</b>	<b>(2,839)</b>
<b>Net increase/(decrease) in cash</b>		<b>(3)</b>	<b>(2)</b>
<b>Cash at the beginning of the year</b>		<b>30</b>	<b>32</b>
<b>Cash at the end of the year</b>		<b>27</b>	<b>30</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 2021

#### 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 7 October 2021.

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

The COVID-19 pandemic continued to have a significant impact on the global economy and the general business environment, particularly during the first half of the financial year ended 30 June 2021. Vaccines have become more readily available in Australia and globally during the second half of 2021, and this is expected to help the global economic recovery now taking place.

Given the significant nature of the pandemic and its associated economic and financial market implications, the Trustee has continued to consider 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. As a result of the ongoing pandemic, Management has continued to apply further judgement, where appropriate, beyond the ordinary course of business.

Given the evolving nature of COVID-19 experienced to date, 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 23).

##### **(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.

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2021

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

Total early release payments made for the year ended 30 June 2021 was \$3.4 million (2020: \$2.3m). The total impact of the early release measures on liquidity was insignificant.

In addition, the COVID-19 pandemic has placed unprecedented pressure on the NSW State's finances over the medium term. In response to this, the NSW Treasurer, exercised his discretion and initiated a two-year (1 July 2020 to 30 June 2022) contributions holiday to assist with the State's budgetary position. The Fund received \$1.7 billion as Crown contributions during the financial year ended June 2020. Following the contributions holiday, the Fund continues to closely monitor its cashflows and liquidity levels to ensure that benefits are paid as and when due.

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

Management has continued to evaluate the appropriateness of the inputs into its unlisted asset valuations, especially for assets that are adversely impacted by COVID-19, such as transport and retail property sectors. The evaluation included close scrutiny of future estimations, to ensure that developing events and emerging market information was appropriately reflected in asset values as at 30 June 2021.

In addition, management continued targeted 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 where 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:**

Management reviewed the appropriateness of the short and long-term inputs to its actuarial defined benefit liability valuation. Note 8 shows the impact of changes in actuarial assumptions and the impact this has had on the Fund's deficit/surplus.

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

The Trustee's risk management framework continued to be applied across the Fund's operations and Management continues to monitor the impact of COVID-19 on the Fund's risk profile.

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2021

#### 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 *Government Sector Finance Act 2018*
- the Government Sector Finance Regulation 2018.

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, and
- income taxes which are in accordance with AASB 112.

The Fund has multiple investments it controls, these are shown in Note 22. 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, and
- 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.

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2021

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

##### 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).

##### 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 exempt pension income. 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.

## SAS TRUSTEE CORPORATION POOLED FUND

Notes to and forming part of the financial statements  
For the year ended 30 June 2021

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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.

#### 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.

#### 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).

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2021

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

##### 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.

##### 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 19) 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 2021 and their impact on the financial statements is outlined below.

##### AASB 2018-7 Amendments to Australian Accounting Standards: Definition of Material

The amendment has been implemented for the year ended 30 June 2021. There were no material changes to these financial statements.

##### AASB 2019-1 Amendments to Australian Accounting Standards: Refence to the Conceptual Framework

The amendment has been implemented for the year ended 30 June 2021. There were no material changes to these financial statements.

## SAS TRUSTEE CORPORATION POOLED FUND

Notes to and forming part of the financial statements  
For the year ended 30 June 2021

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### r) Standards issued applicable but not yet effective

AASB 2020-1 Amendments to Australian Accounting Standards: Classification of Liabilities as Current or Non-current

The standard is effective for the year ending 30 June 2024. A liability is classified as current if the entity has no right at the end of the reporting period to defer settlement for at least 12 months after the reporting period. No material changes to these financial statements are expected.

AASB 2020-3 Amendments to AASB 3: Reference to the Conceptual Framework

The standard is effective for the year ending 30 June 2023. No material changes to these financial statements are expected.

### 3. RECEIVABLES

Receivables	2021 \$m	2020 \$m
Accrued income	111	95
Contributions receivable	7	8
Margin call deposits	47	49
Due from brokers – receivable for securities sold	147	99
Other receivables	8	18
<b>Total</b>	<b>320</b>	<b>269</b>

Trade receivables for securities sold are recognised on trade date and normally settled within three business days. Within other receivables is an impairment allowance of \$264,000 (2020: \$327,000). 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.

### 4. EMPLOYER SPONSOR RECEIVABLE

Employer Sponsor Receivable	2021 \$m	2020 \$m
Employer Sponsor Receivable - PSS	2,512	2,587

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.

**SAS TRUSTEE CORPORATION POOLED FUND**

**Notes to and forming part of the financial statements  
For the year ended 30 June 2021**

**5. PAYABLES**

<b>Payables</b>	<b>2021 \$m</b>	<b>2020 \$m</b>
Superannuation benefits to members	10	13
Due to brokers – payable for securities purchased	193	37
Other creditors	22	24
Contribution surcharge	19	22
Payable to SAS Trustee Corporation	5	6
<b>Total</b>	<b>249</b>	<b>102</b>

Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at the end of the reporting period. All payables are non-interest bearing and generally short-term in nature. Payables are recognised at their nominal value which is equivalent to fair value.

**6. INVESTMENT PROPERTIES**

<b>a) Investment Properties</b>	<b>2021 \$m</b>	<b>2020 \$m</b>
At 1 July	1,993	2,138
Additions	80	6
Changes in fair value	(24)	(151)
<b>Total</b>	<b>2,049</b>	<b>1,993</b>

<b>b) Net Rental Income</b>	<b>2021 \$m</b>	<b>2020 \$m</b>
Rental income from investment property	158	141
Direct operating expenses	(66)	(59)
<b>Net rentals from investment property</b>	<b>92</b>	<b>82</b>

**7. DERIVATIVES – ASSETS AND LIABILITIES**

<b>Derivatives</b>	<b>2021</b>			<b>2020</b>		
	<b>Derivative Assets \$m</b>	<b>Derivative Liabilities \$m</b>	<b>Net Derivatives \$m</b>	<b>Derivative Assets \$m</b>	<b>Derivative Liabilities \$m</b>	<b>Net Derivatives \$m</b>
Foreign Exchange Forward Contracts	-	(118)	(118)	240	(3)	237
Futures	1	-	1	3	(5)	(2)
Options	27	(2)	25	51	(5)	46
Swaps	-	(9)	(9)	11	(6)	5
<b>Net Derivatives</b>	<b>28</b>	<b>(129)</b>	<b>(101)</b>	<b>305</b>	<b>(19)</b>	<b>286</b>

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2021

#### 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*	2021 %	2020 %
Investment Return Rate		
- assets backing current pension liabilities	6.5	7.0
- other	5.7	6.0
CPI Increase Rate	2.0	2.0
Salary Increase Rate	2.7	3.2

The actuarial valuation estimate at the reporting date shows accrued liabilities of \$58,933 million and an unfunded liability of \$15,755 million (before inclusion of ESR). The key assumptions and sensitivity analysis to 30 June 2021 estimates are provided below.

##### Sensitivity Analysis for 30 June 2021

Key Assumption*	Assumed at 30 June 2021	Sensitivity Change	(Increase)/Decrease in Liability for Accrued Benefits \$m
Investment return/ discount rate	6.5% for all pensioners, 5.7% other members	+1.0% pa	4,069
		-1.0% pa	(4,757)
Inflationary salary increases	2.74% pa to 30 June 2026 and 3.2% pa thereafter	+1.0% pa	(379)
		-1.0% pa	355
CPI increases	2.0% pa	+1.0% pa	(4,642)
		-1.0% pa	4,005
Pensioner mortality	Consistent with a life expectancy of 88.8 for a 65-year-old	+0.4 years	(301)
		-0.3 years	301

\* 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 2021

**8. DEFINED BENEFIT MEMBER LIABILITIES (Continued)**

	2021			2020		
	Accrued Benefits \$m	Net Assets Available to Pay Benefits \$m	Over/ (under) funded \$m	Accrued Benefits \$m	Net Assets Available to Pay Benefits \$m	Over/ (under) funded \$m
State Authorities Superannuation Scheme	14,441	12,554	(1,887)	14,194	12,104	(2,090)
State Authorities Non-contributory Superannuation Scheme	2,079	1,747	(332)	2,145	1,731	(414)
State Superannuation Scheme	34,644	23,620	(11,024)	34,589	22,805	(11,784)
Police Superannuation Scheme	7,769	5,257	(2,512)	7,621	5,034	(2,587)
<b>Actuarial estimates of under-funded benefits at 30 June</b>	<b>58,933</b>	<b>43,178</b>	<b>(15,755)</b>	58,549	41,674	(16,875)
Employer Sponsor Receivable for PSS, in accordance with AASB 1056	-	2,512	2,512	-	2,587	2,587
<b>Under-funded benefits AASB 1056</b>	<b>58,933</b>	<b>45,690</b>	<b>(13,243)</b>	58,549	44,261	(14,288)

STC continues to work with the NSW Treasury to facilitate the Government's objective to fully fund the superannuation liabilities of the General Government Sector (excluding Universities).

The NSW Budget papers for 2021/22 states the following:

"As noted in the 2020/21 Budget, the economic shock caused by COVID-19 put the State's finances under considerable pressure. In order to ease some pressure on the State's borrowing requirements, a revised contribution plan was adopted which included a two-year contribution holiday and a re-anchoring of the superannuation (full funding) target to 2040 (from 2030). Once the heightened uncertainty is over, the NSW Government will table amendments to the Fiscal Responsibility Act 2012."

NSW Treasury has also informed the Trustee that the Crown contribution payments are scheduled to recommence in July 2022.

**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 projected 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 NSW Government.

**SAS TRUSTEE CORPORATION POOLED FUND**

Notes to and forming part of the financial statements  
For the year ended 30 June 2021

**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.

	2021			2020		
	Vested Benefits \$m	Net Assets Available to Pay Benefits \$m	Over/(under) funded \$m	Vested Benefits \$m	Net Assets Available to Pay Benefits \$m	Over/(under) funded \$m
State Authorities Superannuation Scheme	14,881	12,554	(2,327)	14,479	12,104	(2,375)
State Authorities Non-contributory Superannuation Scheme	2,252	1,747	(505)	2,322	1,731	(591)
State Superannuation Scheme	34,675	23,620	(11,055)	34,583	22,805	(11,778)
Police Superannuation Scheme	7,610	5,257	(2,353)	7,398	5,034	(2,364)
<b>Actuarial estimates of under-funded benefits at 30 June</b>	<b>59,418</b>	<b>43,178</b>	<b>(16,240)</b>	<b>58,782</b>	<b>41,674</b>	<b>(17,108)</b>
Employer Sponsor Receivable for PSS, in accordance with AASB 1056		2,512	2,512		2,587	2,587
<b>Under-funded benefits AASB 1056</b>	<b>59,418</b>	<b>45,690</b>	<b>(13,728)</b>	<b>58,782</b>	<b>44,261</b>	<b>(14,521)</b>

## SAS TRUSTEE CORPORATION POOLED FUND

Notes to and forming part of the financial statements  
For the year ended 30 June 2021

### 10. EMPLOYER AND MEMBER CONTRIBUTIONS

	2021				Total \$m
	SASS \$m	SANCS \$m	SSS \$m	PSS \$m	
Employer Contributions	141	42	298	1	482
Salary Sacrifice Contributions	104	-	17	4	125
Member Contributions	36	-	10	2	48
<b>Total Contributions</b>	<b>281</b>	<b>42</b>	<b>325</b>	<b>7</b>	<b>655</b>

	2020				Total \$m
	SASS \$m	SANCS \$m	SSS \$m	PSS \$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>

### 11. CHANGE IN FAIR VALUE OF INVESTMENTS

Asset class	2021 \$m	2020 \$m
Short term securities	(1)	(4)
Australian fixed interest	(49)	43
International fixed interest	(9)	22
Australian equities	1,813	(426)
International equities	2,766	533
Property	190	(305)
Infrastructure and other alternatives	46	(277)
<b>Total</b>	<b>4,756</b>	<b>(414)</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 \$3,142 million gains (2020: \$616 million losses) relates to investments still held at 30 June 2021.

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2021

#### 12. SCHEME ADMINISTRATION EXPENSES

The *Superannuation Administration Act 1996* requires that STC recover its administration expenses from the Fund. Recoveries totalled \$34 million (2020: \$35 million).

Included in Scheme Administration Expenses are the following items:

	2021 \$m	2020 \$m
Actuarial Fees	0.7	0.6
Audit Fees – The Audit Office of New South Wales	0.4	0.5
Scheme Administration Fees	24.4	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	2021 \$m	2020 \$m
<b>Current tax benefit</b>		
Current income tax benefit	(61)	(74)
Over provision of tax in prior years	(3)	(7)
	<b>(64)</b>	<b>(81)</b>
<b>Deferred tax liability</b>		
Decrease in deferred tax liabilities	(12)	(50)
<b>Total income tax (benefit) in Income Statement</b>	<b>(76)</b>	<b>(131)</b>
<b>Reconciliation between operating results before income tax and tax (benefit)</b>		
<b>Operating results before income tax</b>	<b>969</b>	<b>(1,770)</b>
Income tax expense using the superannuation fund tax rate of 15%	145	(266)
<b>Change in tax expense/(benefit) due to:</b>		
- Non assessable investment income	(205)	285
- Exempt pension related investment income	(640)	(405)
- Tax credits	(82)	(101)
- Net change in defined benefit member liabilities	709	363
- (Over) provision of tax benefit in prior years	(3)	(7)
<b>Income tax (benefit) in Income Statement</b>	<b>(76)</b>	<b>(131)</b>

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2021

#### 13. INCOME TAX (Continued)

b) Deferred Tax Liability	2021 \$m	2020 \$m
Unrealised capital gains	(43)	(45)
Income receivable	-	(1)
Unrealised loss/(gains) on traditional securities and foreign exchange	1	(2)
Unrealised franking credits	8	2
<b>Deferred Tax Liability</b>	<b>(34)</b>	<b>(46)</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 2021 and the comparative year are as follows:

##### *Non-executive Trustees*

Ms C Austin  
 Ms C Bolger (term completed 24 September 2019 – term recommended 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 L Rasmussen (term commenced 12 March 2020)

##### *Executive Officers*

Mr G Gabriel (until 23 October 2020)  
 Mr J Livanas  
 Mr J Narayan  
 Mr A Parapuram  
 Mr N Patel  
 Ms K Pratt (from 4 January 2021)  
 Ms N Siratkov  
 Mr C Wu

The key management personnel compensation in relation to services to STC is as follows	2021 \$'000	2020 \$'000
Board member compensation	525	483
Short-term employee benefits	2,887	2,787
Other long-term employee benefits	-	11
<b>Total</b>	<b>3,412</b>	<b>3,281</b>

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2021

#### 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) The Fund reimbursed STC \$38 million (2020: \$37 million) for operating expenses including key management personnel compensation costs. The amount payable to STC at 30 June 2021 is disclosed in note 5.
- c) 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.

#### 17. SECURITIES LENDING PROGRAM

The Fund participates in an indemnified Securities Lending Program managed by the custodian. The Fund received \$3.2 million (2020: \$3.4 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 \$1.5 billion (2020: \$1.2 billion) while the total value of the collateral was \$1.6 billion (2020: \$1.3 billion). The lent securities represented 6.53% of the lendable assets (2020: 6.48%) and is within the Fund's allowable limit of 20% of the lendable assets.

The collateral comprised of non-cash sovereign securities of \$1.4 billion (2020: \$0.9 billion) and cash of \$138 million (2020: \$446 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.

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2021

#### 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, and
- (d) climate change 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 2021

#### 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 in accordance with AASB13 *Fair Value Measurement*. 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 into Australian Dollars at the 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 2021 and 30 June 2020 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. 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 2021

#### 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.

For the purposes of these financial statements, the sensitivity factors applied to illustrate the extent of risk from possible changes in currency, interest rates and price risk 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 2021 and 2020.

##### 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 2021

**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 2021 FAIR VALUE							
	USD AUD\$m	JPY AUD\$m	EUR AUD\$m	GBP AUD\$m	AUD AUD\$m	Other AUD\$m	TOTAL AUD\$m
<b>Financial assets and liabilities at fair value through the income statement</b>	11,002	710	1,642	1,076	24,904	3,787	43,121
<b>Cash</b>	-	-	-	-	27	-	27
<b>Payables</b>	(65)	(1)	(3)	(2)	(139)	(39)	(249)

YEAR ENDED 30 JUNE 2020 FAIR VALUE							
	USD AUD\$m	JPY AUD\$m	EUR AUD\$m	GBP AUD\$m	AUD AUD\$m	Other AUD\$m	TOTAL 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)

## SAS TRUSTEE CORPORATION POOLED FUND

Notes to and forming part of the financial statements  
For the year ended 30 June 2021

### 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 reasonably possible 9% (2020: 9%) 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 2021 and 2020.

All amounts are in Australian Dollars	Change in Net Assets 2021 \$m	Change in Net Assets 2020 \$m
USD	(123)	(188)
JPY	(1)	(1)
EUR	(11)	(9)
GBP	(13)	(34)
Other	(40)	(43)
<b>Total</b>	<b>(188)</b>	<b>(275)</b>

Assuming no hedging of international exposures, a reasonably possible 9% (2020: 9%) 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 2021

**18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**

**a.ii) Interest Rate Risk (continued)**

**YEAR ENDED 30 JUNE 2021 – INTEREST RATE RISK DISCLOSURE**

	Floating Interest \$m	Fixed Interest \$m	Non- Interest- Bearing \$m	Total (per Statement of Financial Position) \$m
<b>Assets</b>				
Short Term Securities	291	2,782	-	3,073
Australian Fixed Interest	-	1,043	-	1,043
International Fixed Interest	-	228	-	228
Australian Equities	-	-	8,387	8,387
International Equities	-	-	14,188	14,188
Property - indirect	-	-	1,901	1,901
Investment Properties - direct	-	-	2,049	2,049
Infrastructure and other alternatives	-	-	12,380	12,380
Derivatives assets	-	-	28	28
<b>Total Assets</b>	<b>291</b>	<b>4,053</b>	<b>38,933</b>	<b>43,277</b>
<b>Liabilities</b>				
Payables	-	-	249	249
Derivatives liabilities	-	-	129	129
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>378</b>	<b>378</b>
<b>Net Assets</b>	<b>291</b>	<b>4,053</b>	<b>38,555</b>	<b>42,899</b>

**YEAR ENDED 30 JUNE 2020 – INTEREST RATE RISK DISCLOSURE**

	Floating Interest \$m	Fixed Interest \$m	Non- Interest- Bearing \$m	Total (per Statement of Financial Position) \$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
Derivatives assets	-	-	305	305
<b>Total Assets</b>	<b>665</b>	<b>3,512</b>	<b>37,631</b>	<b>41,808</b>
<b>Liabilities</b>				
Payables	-	-	102	102
Derivatives liabilities	-	-	19	19
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>121</b>	<b>121</b>
<b>Net Assets</b>	<b>665</b>	<b>3,512</b>	<b>37,510</b>	<b>41,687</b>

## SAS TRUSTEE CORPORATION POOLED FUND

Notes to and forming part of the financial statements  
For the year ended 30 June 2021

### 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 effect of a 100-basis point increase (2020: 100-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 2021 and 2020 and takes into consideration portfolio duration.

All amounts are in Australian Dollars	Change in Net Assets 2021 \$m	Change in Net Assets 2020 \$m
Fixed Interest	(128)	(137)
Floating Interest	3	7
<b>Total</b>	<b>(125)</b>	<b>(130)</b>

A 100-basis point (2020: 100-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 remain 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 2021

### 18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### a.iii) Price Risk (continued)

The following tables illustrate the effect from possible changes in market prices that were reasonably possible based on the risk to which the Fund was exposed.

All amounts are in Australian Dollars	Change in Price Risk Variable	Change in Operating Results 2021 \$m	Change in Operating Results 2020 \$m
Australian Equities	+38%	3,195	2,884
International Equities	+40%	5,653	4,918
<b>Total</b>		<b>8,848</b>	<b>7,802</b>

All amounts are in Australian Dollars	Change in Price Risk Variable	Change in Operating Results 2021 \$m	Change in Operating Results 2020 \$m
Australia Equities	-22%	(1,854)	(1,673)
International Equities	-23%	(3,273)	(2,846)
<b>Total</b>		<b>(5,127)</b>	<b>(4,519)</b>

#### 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 2021

#### 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 2021 or 30 June 2020. 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 2021 targeted the following allocations to cash and short-term securities:

- DC Growth Option 4.5%
- DC Balanced Option 18.5%
- DC Conservative Option 27%
- Trustee Selection 4%

## SAS TRUSTEE CORPORATION POOLED FUND

Notes to and forming part of the financial statements  
For the year ended 30 June 2021

### 18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The following tables summarise the maturity profile of the Fund's financial liabilities.

2021 Financial liabilities	Less than 1 month \$m	1 – 12 months \$m	1+ years \$m	Fair Value \$m
Trade and other payables	230	19	-	249
Current tax liabilities	-	7	-	7
<b>Total financial liabilities (excluding derivatives)</b>	<b>230</b>	<b>26</b>	<b>-</b>	<b>256</b>
Net settled derivatives				
Forward foreign exchange contracts	(43)	(75)	-	(118)
Futures	-	1	-	1
Swaps	(3)	(3)	(3)	(9)
Options	-	25	-	25
<b>Total derivatives inflow/(outflow)</b>	<b>(46)</b>	<b>(52)</b>	<b>(3)</b>	<b>(101)</b>

2020 Financial liabilities	Less than 1 month \$m	1 – 12 months \$m	1+ years \$m	Fair Value \$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>

#### d) Climate Change Risk

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.

We acknowledge that our approach to climate change will continue to evolve over time and we continue to build on 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 exposures under a 2-degree, 3-degree and 4-degree scenario test (including a 1.5-degree stress test), 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 continues to be 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

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2021

#### 18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

##### d) Climate Change Risk (continued)

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. We request managers measure their carbon footprint and report to us, at least annually.

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 \$21,284 million. We measure the scope 1 and 2 carbon emissions of the Fund and have introduced carbon reduction strategies for our systematic mandates.

We believe in active ownership and 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.

Internationally, Hermes EOS was engaged to further our climate change engagement across our international holdings.

#### 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 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 2021

#### 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:

- 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 reasonably possible changes of the noted unobservable inputs to level 3 assets.

Asset Description	Unobservable inputs used in analysis	Sensitivity used	Effect on fair value 2021 \$m	Effect on fair value 2020 \$m	Relationship to fair value
Infrastructure	Discount rate	+/- 50bp	<b>(341)/377</b>	(225)/253	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>(39)/40</b>	(40)/40	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>(56)/64</b>	(94)/104	an increase in the capitalisation rate will reduce fair value, a decrease in the capitalisation rate will increase fair value
Unlisted Unit Trusts	Unit price	+/- 5%	<b>109/(109)</b>	143/(143)	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 2021

#### 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 \$1.3 billion (2020: \$1.6 billion) which are embedded within the asset class portfolios, as cash is not subject to fair value considerations.

Year ended 30 June 2021	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>Assets</b>				
Short Term Securities	2,399	2,710	-	5,109
Australian Fixed Interest	-	904	-	904
International Fixed Interest	45	1,710	-	1,755
Australian Equities	8,308	2	-	8,310
International Equities	13,885	5	-	13,890
Property	627	-	2,661	3,288
Infrastructure and other alternatives	1	2,694	5,834	8,529
<b>Total</b>	<b>25,265</b>	<b>8,025</b>	<b>8,495</b>	<b>41,785</b>

Year ended 30 June 2020	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$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>

#### Reconciliation of level 3 fair value measurements of financial assets

Level 3 Fair Value Reconciliation	2021 \$m	2020 \$m
Balance at 1 July	9,043	7,861
Total gains and losses recognised in income statement	126	(601)
Purchases	309	1,518
Redemptions/Disposals	(973)	(133)
Transfer into Level 3	-	398
Transfer out of Level 3	(10)	-
<b>Balance at 30 June</b>	<b>8,495</b>	<b>9,043</b>

Unrealised gains recognised in the 2021 income statement is \$118 million, (2020: \$598 million losses).

## SAS TRUSTEE CORPORATION POOLED FUND

### Notes to and forming part of the financial statements For the year ended 30 June 2021

#### 20. COMMITMENTS

As at 30 June 2021, the Fund had commitments for uncalled additions to existing investments of \$417 million (2020: \$442 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

	2021 \$m	2020 \$m
Operating result after income tax for the year	1,045	(1,639)
Net change in fair value of investments	(4,756)	414
Net change in receivables and other assets	(95)	(99)
Net change in payables and other liabilities	311	67
Net change in defined benefit member benefits	4,729	2,417
Net change in provision for income tax	(229)	180
<b>Net cash inflow/(outflow) from operating activities</b>	<b>1,005</b>	<b>1,340</b>

#### 22. 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	
		2021 %	2020 %	2021 \$'m	2020 \$'m
Alfred Unit Trust	Australia	100	100	-	-
Southern Way Unit Trust	Australia	100	100	-	-
Duquesne Utilities Trust	Australia	100	100	-	13
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	-	-

## **SAS TRUSTEE CORPORATION POOLED FUND**

**Notes to and forming part of the financial statements  
For the year ended 30 June 2021**

### **23. EVENTS AFTER THE REPORTING DATE**

In July 2021 (post balance date), the Trustee announced its intention to sell its interest in the Port of Geelong which is one of the Fund's unlisted investments. The outcome of a potential transaction is unknown as at the date of the signing of the Financial Statements. The asset could potentially sell at a price higher than that recognised in the Financial Statements.

**End of Audited Financial Statements**

# Appendix 1

## Statistical information about GIPA access applications processed by or on behalf of State Super in 2020-21

**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	0	0	0	0	0	0	0
Members of the public - application by legal representative	23	102	0	0	0	0	0	1
Members of the public (others)	18	134	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*	41	236	0	0	0	0	0	1
Access applications (other than personal information applications)	0	0	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)	2
Application is for excluded information of the agency (section 43 of the Act)	0
Application contravenes restraint order (section 110 of the Act)	0
Total number of invalid applications received	2
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	24
Excluded information	0
Documents affecting law enforcement and public safety	0
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)	135
Decided after 35 days (by agreement with applicant)	143
Not decided within time (deemed refusal)	0
Total	278

**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	0	0	0
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	0
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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**Postal address** PO Box 1229  
Wollongong NSW 2500

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## Personal interview service

Personal interviews are available by appointment only 9.00am to 5.00pm Monday to Friday. Appointments are via telephone/Zoom video call during the COVID-19 crisis but will likely resume in-person in 2022 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.