



**FIRST STATE SUPER**

FSS Trustee Corporation  
ABN 11 118 202 672 AFSL 293340

# Annual Report Highlights

A challenging year for  
investment markets



## INSIDE...

2007-08 results | market update | legislative update



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Important note: This document has been prepared by FSS Trustee Corporation ABN 11 118 202 672, AFSL 293340, the trustee of the First State Superannuation Scheme, ABN 53 226 460 365, SPIN FSS 0100AU. It contains general information only and does not take into account your specific objectives, financial situation or needs. It is therefore important, before making a decision in relation to your interest in the Fund that you consider the First State Super Product Disclosure Statement (PDS) for the First State Super product you currently hold having regard to your own situation. Each PDS is available by visiting [www.firststatesuper.com.au](http://www.firststatesuper.com.au) or by calling 1300 650 873.

Some photos in this report are real life member photos. These photographs are not directly related to the text.

# Chairman's report — the year in review

2007-08 was a disappointing year for superannuation funds because many members received lower returns. Share markets, both here and overseas, were largely to blame as higher local interest rates, rising oil prices, a credit crisis in the US housing market, fears of a US recession, and slower growth forecasts for the Australian economy all took their toll.



Periods of poor returns are a normal part of the investment cycle but nevertheless, it is disappointing when we have to report lower earnings to members. It is also important to view these returns in the context of the four preceding years' very strong returns across all strategies. While we are hopeful that the worst is behind us, there is no guarantee that returns in the current year will show significant improvement. What we can guarantee is that we will continue to maintain a careful watch over markets to lessen, as much as possible, the impact of any market weakness, while still positioning the Fund to benefit from any market rallies that may occur when conditions improve and confidence returns. Remember that superannuation is a long term investment.

We encourage you to visit our website to keep up to date with the latest developments in the investment markets and if you have not done so already, register for our email newsletter.

## **Members continue to support the Fund**

Our regular surveys show that members have a high level of trust in the Fund and consider our not-for-profit philosophy and low fee structure to be important benefits. This positive perception of the Fund contributed to the strong growth during the year, with members showing good support for the Fund by increasing their level of after-tax contributions, salary sacrifice contributions and the amount of money they transferred from other funds.

## **New insurance arrangements**

On 1 December 2007, following an independent review of the Fund's insurance arrangements, the Fund introduced a number of new insurance benefits. The changes are designed to ensure that all members have access to adequate levels of insurance cover at a competitive cost through the Fund.

## **Pension products prove popular**

Our income stream products (previously called allocated pensions) have been well supported by members either preparing for retirement or entering retirement. The new transition rules allow members to draw income from their super fund when they reach their preservation age, regardless of whether or not they have retired. This can be a very effective strategy for members who want to either reduce their working hours or top up their super balance without greatly reducing their take-home pay. For more information on our income stream products, see the Pensions section of the website or call Customer Service<sup>1</sup>.

## **Tax file numbers**

There are now serious consequences for anyone who hasn't supplied their tax file number (TFN) to their superannuation fund. Before-tax contributions (employer and salary sacrifice contributions) will be taxed at a higher rate while after-tax contributions will not be accepted. So if you haven't yet supplied your TFN to the Fund, you should do so as soon as possible.

## Retirement Product of the Year

In November 2007, First State Super was awarded SelectingSuper's<sup>2</sup> Retirement Product of the Year for 2007. This follows last year's Fund of the Year award.

## Financial planning

Our financial planning service was implemented during the year and the results so far have been very positive. We are continuing to expand and promote the service to ensure that what members require from a financial planning service is available. We'll keep you informed of the progress of this very important initiative.

## Philippa Smith joins Board

On 1 October 2007, Philippa Smith joined our Trustee Board, having spent the previous 10 years or so as Chief Executive Officer with the Association of Superannuation Funds of Australia (ASFA). Her experience and industry knowledge will be a great benefit to the Fund. Philippa replaced Mark Duffy, who resigned after seven years as a Trustee. His contribution to the Board and the Fund is gratefully acknowledged.

## Employer visits and member seminars continue

The number of employer visits and member seminars grew strongly during the year. Our transition to retirement seminars have been very popular with members looking to reduce their working hours and top up their super balances as they prepare for retirement. For more information about the seminars, visit the website (see 'Seminars').

## More members support email

Communicating via email is a cost-effective, quick and convenient way to communicate with members.

We're working hard to capture email addresses for all members who prefer to receive communications this way and many of our members have provided email details. It was pleasing to see our efforts rewarded at the ASFA Communications Awards in August 2007, when we received an Excellence Award for email marketing.

If you would like to receive information from us electronically, you can register for an email newsletter by visiting the website. Of course, paper copies of all our documents will continue to be available on request.

Finally, I would like to thank the Trustee Directors and all the staff of the Executive for their enormous contribution to the running of First State Super. And on behalf of the Trustee, I would like to thank you for your support during what has been a busy and challenging year. One thing I can guarantee: the entire First State Super team will continue to deliver cost effective and innovative product and service initiatives that will meet your superannuation and retirement needs well into the future.



**Thomas Parry**  
Chairman

<sup>1</sup> The retirement income stream and transition to retirement income stream are issued by the Trustee. Before making a decision about either of these products, you should consider the Superannuation Income Stream Product Disclosure Statement, which can be obtained from the website [www.firststatesuper.com.au](http://www.firststatesuper.com.au) or by calling Customer Service on 1300 650 873.

<sup>2</sup> SelectingSuper, a company of Rainmaker Information Pty Limited ABN 86 095 610 996; [www.selectingsuper.com.au](http://www.selectingsuper.com.au)



## First State Super's objectives

- To provide members with competitive investment returns.
- To support the wellbeing of members through the provision of high quality services and information.
- To provide investment choice.
- To maintain a strong focus on keeping costs low.

## The Fund at a glance

- One of Australia's ten largest superannuation funds based on funds under management<sup>1</sup>
- Over 500,000 members
- Approximately \$15 billion in funds under management at 30 June 2008
- You can contribute to the Fund wherever you work
- The best fee deal across all funds open to the public<sup>2</sup>
- You can stay with the Fund when you retire
- First State Super is a not-for-profit fund
- First State Super does not pay commissions to advisers
- Income stream products before and after retirement

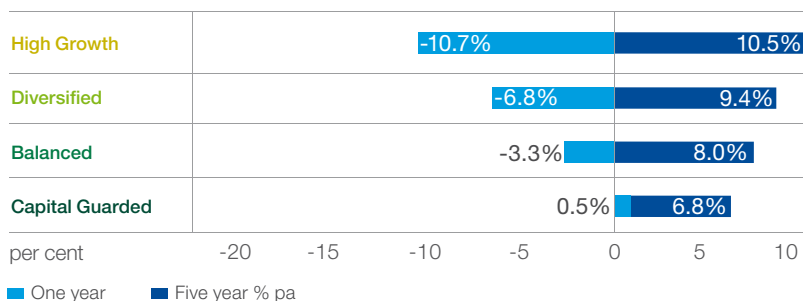
<sup>1</sup> Source: SelectingSuper, [www.selectingsuper.com.au](http://www.selectingsuper.com.au)

<sup>2</sup> Source: SelectingSuper – describes the best overall fees payable for funds open to the public where overall fees are calculated for a member earning around \$50,000 pa. who has had \$50,000 in their super fund's default investment option. Current as at date of printing.

# First State Super key facts

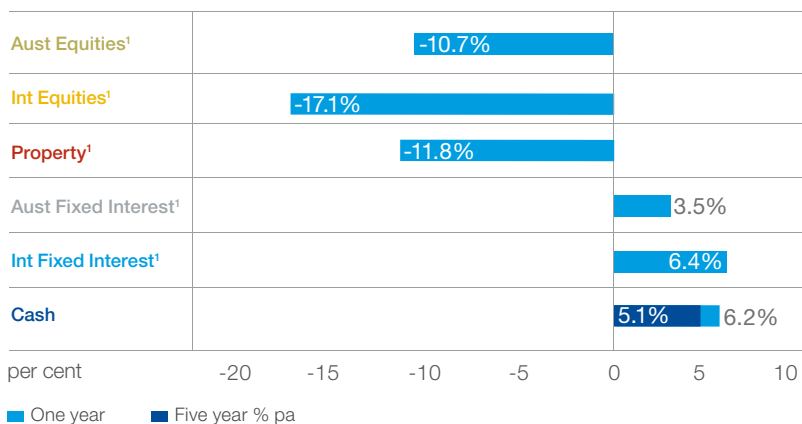
## Pre-mixed options

One-year and five-year returns to 30 June 2008



## Single asset class options

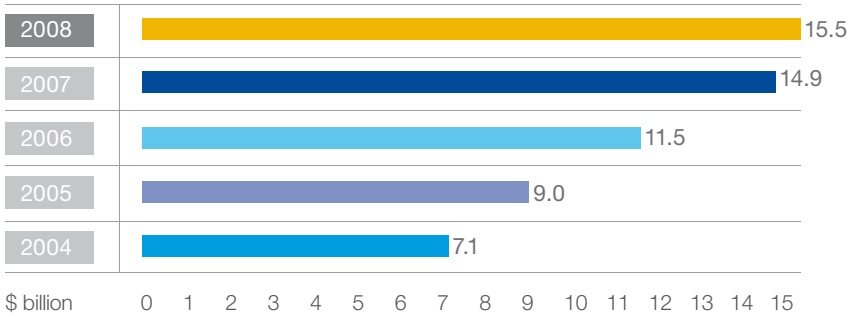
One-year and five-year (cash only) returns to 30 June 2008



Important note: Past performance is not a reliable indicator nor is it a guarantee of future performance. The returns set out above have been calculated after allowing for income tax on investment income, and investment management expenses but before deduction of administration fees from members' account balances. Neither the investments of First State Super nor payments of capital to members are guaranteed by the Trustee. The value of investments can rise or fall. Nothing in this report is intended to convey any guarantees or forecasts as to the future performance of First State Super or any of its investments. You are encouraged to seek advice from a licensed or authorised financial adviser before selecting an investment strategy to suit your personal circumstances.

<sup>1</sup> These investment strategies were launched in October 2006 and five-year performance figures are not available.

## Funds under management at 30 June



### Members continue to show good support for the Fund

- After-tax contributions and salary sacrifice contributions continue to grow strongly.
- Many members are consolidating their super from other funds into First State Super.
- More members aged 55 and over are taking up a retirement income stream product.
- First State Super's regular investment and retirement seminars continue to attract large numbers of members.
- More members are checking their First State Super details on the website.



## Your Trustee

Our mission is to support the future wellbeing of members and their families by the delivery of superannuation benefits, retirement advice and services, with optimal investment returns and member service.

### About the Trustee

FSS Trustee Corporation is the Trustee of First State Super. The Board of the Trustee consists of:

- An independent director who also holds the position of chairperson.
- Four employer representative directors appointed by the Director General of the Department of Premier and Cabinet of NSW and the Secretary of the Treasury of NSW acting jointly.
- Four member representative directors appointed by Unions NSW.

To be eligible for appointment as a director, a person must have knowledge of, and experience in, one or more of the following: the conduct of superannuation schemes, investments, financial management or public administration.

The Fund, the Trustee and the directors and officers of the Trustee are covered by professional indemnity insurance.

The Trustee of First State Super holds all assets of the Fund in trust. The Trustee is required by law to act in the best interests of First State Super members.



**Thomas Parry**  
Chairman.



**Cristina Cifuentes**  
Employer Representative, Director, NSW Treasury Corporation, consultant in economics and finance.



**Russ Collison**  
Member Representative, State Secretary of the Australian Workers' Union of NSW.



**Philippa Smith**  
Employer Representative, Company Director and former Chief Executive Officer of the Association of Superannuation Funds of Australia (ASFA).



**Bruce Foy**  
Employer Representative, professional non-executive company director, former managing director and country manager of an international investment bank.



**Patria Mann**  
Employer Representative, chartered accountant, professional non-executive director, former partner of an international accounting firm.



**Sandra Moait**  
Member Representative, President of Unions NSW and registered nurse.



**Maurie O'Sullivan**  
Member Representative, Chairman of the State Government Employees' Credit Union and a member of the Administrative Decisions Tribunal.



**Michael Williamson**  
Member Representative, General Secretary of the Health Services Union of NSW (HSU).



## A challenging year for markets

The financial year ended June 2008 has seen growth-based investments deliver their first negative investment result since the 2001-03 period. Superannuation investment options which have a significant allocation to shares suffered a range of impacts over the twelve months, with only the cash-based investment options able to earn solid positive investment results.

### The cause

While the initial cause for the share market falls was an increasing level of homeowners defaulting on their mortgage payments in the United States, this feature quickly gave way to concerns about the level of borrowings in the banking and financial sectors within the US and a range of other countries, including the UK and Australia.

With banks finding that they had to pay considerably more for their deposits, they passed these costs on to their business and personal customers, causing an increase in the level of defaults.

At the same time, and for a variety of reasons, oil and other commodities such as food items were undergoing sharp increases in prices.

This combination of higher credit costs, and higher costs of living, has squeezed both business and consumers alike on virtually a worldwide basis. The prospects that this would lead to a global

economic slowdown began to weigh heavily on investment markets as the financial year drew to a close, and those influences are still being felt into the new 2008-09 financial year.

During the year to 30 June 2008, interest rates were cut in the US, Britain and Canada, left unchanged in Europe and Japan, and raised in Australia. In the US and UK, interest rates were cut to ease pressures on their banking system. Those same pressures were not yet evident in Europe and Australia, and the prospects for similar interest rate cuts did not emerge until the new financial year.

### Superannuation funds

Negative returns to 30 June 2008 from Australian shares, international shares, and listed property trusts contributed to a poor performance from most Australian superannuation funds. Investment market sentiment has been understandably negative with concerns over rising inflation, record high oil prices and difficulties in global credit markets.



To put this in perspective, however, the investment returns for the years 2003-2007 have generally been high, and so the average returns over the last few years are still quite high. The poor investment returns for the last year reinforces the nature of risk, which emerges in any investment portfolio exposed to the share and property markets.

### The outlook

It is difficult to predict what will happen over the next 12-18 months or so. We need to be cautious because it may be some time before the banking/credit system returns to normal. A number of companies whose recent growth was driven by the ability to access cheap borrowings are now having to sell assets to reduce their level of debt.

The Fund has been conservatively invested, with an emphasis on the larger capitalisation companies and the more liquid end of the fixed income and cash markets. While this does not stop disappointing investment returns during wholesale market sell-offs, it should place the Fund in a good position to respond to investment opportunities as and when they emerge. It will take time for the market to adjust to the tighter credit conditions and it should be no surprise if superannuation funds experience difficult conditions in the current year.

# Investment returns

## Pre-mixed investment strategies

### Annual effective earning rate by year to 30 June

Investment strategy	2008 %	2007 %	2006 %	2005 %	2004 %
High Growth	-10.7	15.2	18.6	15.6	16.6
Diversified	-6.8	13.1	15.1	13.7	13.4
Balanced	-3.3	10.6	11.6	11.7	10.4
Capital Guarded	0.5	8.1	8.2	9.9	7.5

### Compound average effective earning rate for the period ending 30 June 2008

Investment strategy	1 year %	2 years % pa	3 years % pa	5 years % pa	7 years %	10 years % pa
High Growth	-10.7	1.4	6.9	10.5	5.7	6.8
Diversified	-6.8	2.7	6.7	9.4	6.1	6.9
Balanced	-3.3	3.4	6.1	8.0	6.1	6.5
Capital Guarded	0.5	4.3	5.6	6.8	5.9	6.1

**Important note:** Past performance is not a reliable indicator nor is it a guarantee of future performance. The returns set out above have been calculated after allowing for income tax on investment income, and investment management expenses but before deduction of administration fees from members' account balances. Neither the investments of First State Super nor payments of capital to members are guaranteed by the Trustee. The value of investments can rise or fall. Nothing in this report is intended to convey any guarantees or forecasts as to the future performance of First State Super or any of its investments. You are encouraged to seek advice from a licensed or authorised financial adviser before selecting an investment strategy to suit your personal circumstances.

# Investment returns

## Single asset class investment strategies

### Annual effective earning rate by year to 30 June

Investment strategy	2008 %	Since inception on 31 Oct 2006 to 30 Jun 2007 (%)	2007 %	2006 %	2005 %	2004 %
Australian Equities	-10.7	18.8	The single asset class strategies (other than Cash) were launched in October 2006, so longer term past performance figures are not available.			
International Equities	-17.1	4.1				
Property	-11.8	11.4				
Australian Fixed Interest	3.5	2.0				
International Fixed Interest	6.4	0.8				
Cash <sup>1</sup>	6.2	N/A				

### Compound average effective earning rate for the period ending 30 June 2008

Investment strategy	1 year %	Since inception on 31 Oct 2006 to 30 Jun 2008 (%)	2 years % pa	3 years % pa	5 years % pa	7 years % pa	10 years % pa
Australian Equities	-10.7	3.6	The single asset class strategies (other than Cash) were launched in October 2006, so longer term past performance figures are not available.				
International Equities	-17.1	-8.4					
Property	-11.8	-1.1					
Australian Fixed Interest	3.5	3.3					
International Fixed Interest	6.4	4.3					
Cash <sup>1</sup>	6.2	N/A					

**Important note:** Past performance is not a reliable indicator nor is it a guarantee of future performance. The returns set out above have been calculated after allowing for income tax on investment income, and investment management expenses but before deduction of administration fees from members' account balances. Neither the investments of First State Super nor payments of capital to members are guaranteed by the Trustee. The value of investments can rise or fall. Nothing in this report is intended to convey any guarantees or forecasts as to the future performance of First State Super or any of its investments. You are encouraged to seek advice from a licensed or authorised financial adviser before selecting an investment strategy to suit your personal circumstances.

<sup>1</sup> The Cash investment strategy was called Cash Plus until October 2006, when the name was changed to reflect a small adjustment to the asset allocation. Previously, the asset allocation for the Cash Plus investment strategy was 100% cash and short-term income-producing assets, including 15% invested in one or two-year bonds. This was changed to be 100% cash and short-term income-producing assets with a duration of up to one year.

# Investment objectives, target returns and asset allocations

The broad strategic asset allocation shows the percentage of growth assets (such as shares and property) and income assets (cash deposits and fixed interest) for each pre-mixed investment strategy. The proportions allocated to growth and income assets for each strategy were managed to remain within a margin of + or – 5% of the percentages shown until 30 July 2008. From this date, the Trustee has increased the margin to remain within a margin of + or - 10% of the percentages shown. The Trustee will review the strategic asset allocation of a pre-mixed investment strategy from time to time. You will be advised of any changes in future First State Super Annual Report Highlights or earlier in the event of a significant change. Go to *What's new at First State Super* on our website for up to date information about our investment strategies.

**NOTE:**

\* These objectives and target returns do not constitute a forecast or guarantee of future performance of the investment strategy or the future rates of return of the investment strategy.

## Pre-mixed investment strategies

### Strategic asset allocation

■ Growth ■ Income

## High Growth



90% growth assets  
10% income assets

### Investment objective and target return\*

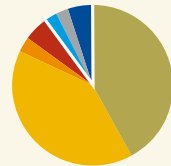
This strategy aims to achieve high long-term real (above inflation) investment growth.

Target return: 4% pa. above inflation over 5-year periods.\*

### Risk profile

Higher risk.

### Sector allocation



### Sector allocation at 30 June 2008




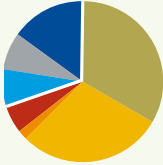
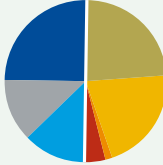
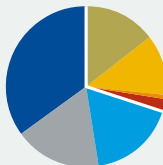
- 42.0% Australian equities
- 40.0% International equities
- 3.0% Alternative assets
- 5.0% Property trusts
- 2.5% International fixed interest
- 2.5% Australian fixed interest
- 5.0% Cash and short-term income-producing assets

### Investment time horizon

Long term (10+ years)

### Most suitable for

Members with an investment timeframe of at least 10 years or a member whose financial situation allows a higher degree of risk.

Diversified	Balanced	Capital Guarded
 <p>70% growth assets 30% income assets</p>	 <p>50% growth assets 50% income assets</p>	 <p>30% growth assets 70% income assets</p>
<p>This strategy aims to achieve high long-term real (above inflation) investment growth.</p> <p>Target return: 3.75% pa. above inflation over 5-year periods.*</p>	<p>This strategy aims to achieve medium-term real (above inflation) growth with a balance of growth and income assets.</p> <p>Target return: 3.25% pa. above inflation over 3-year periods.*</p>	<p>This strategy aims to achieve consistent returns with an emphasis on income assets.</p> <p>Target return: 2.75% pa. above inflation over 3-year periods.*</p>
<p>High risk.</p>	<p>Medium risk.</p>	<p>Low risk.</p>
		
<p><b>Sector allocation at 30 June 2008</b></p> <ul style="list-style-type: none"> <li><span style="color: #808000;">■</span> 33.5% Australian equities</li> <li><span style="color: #FFD700;">■</span> 29.0% International equities</li> <li><span style="color: #FF8C00;">■</span> 2.0% Alternative assets</li> <li><span style="color: #DC143C;">■</span> 5.5% Property trusts</li> <li><span style="color: #00BFFF;">■</span> 7.5% International fixed interest</li> <li><span style="color: #A9A9A9;">■</span> 7.5% Australian fixed interest</li> <li><span style="color: #000080;">■</span> 15.0% Cash and short-term income-producing assets</li> </ul>	<p><b>Sector allocation at 30 June 2008</b></p> <ul style="list-style-type: none"> <li><span style="color: #808000;">■</span> 23.7% Australian equities</li> <li><span style="color: #FFD700;">■</span> 21.0% International equities</li> <li><span style="color: #FF8C00;">■</span> 1.3% Alternative assets</li> <li><span style="color: #DC143C;">■</span> 4.0% Property trusts</li> <li><span style="color: #00BFFF;">■</span> 12.5% International fixed interest</li> <li><span style="color: #A9A9A9;">■</span> 12.5% Australian fixed interest</li> <li><span style="color: #000080;">■</span> 25.0% Cash and short-term income-producing assets</li> </ul>	<p><b>Sector allocation at 30 June 2008</b></p> <ul style="list-style-type: none"> <li><span style="color: #808000;">■</span> 14.7% Australian equities</li> <li><span style="color: #FFD700;">■</span> 12.0% International equities</li> <li><span style="color: #FF8C00;">■</span> 0.8% Alternative assets</li> <li><span style="color: #DC143C;">■</span> 2.5% Property trusts</li> <li><span style="color: #00BFFF;">■</span> 17.5% International fixed interest</li> <li><span style="color: #A9A9A9;">■</span> 17.5% Australian fixed interest</li> <li><span style="color: #000080;">■</span> 35.0% Cash and short-term income-producing assets</li> </ul>
<p>Medium to long term (5–10 years)</p>	<p>Medium term (3–5 years)</p>	<p>Short to medium term (up to 3 years)</p>
<p>Members seeking returns above the rate of inflation over the long term.</p>	<p>Members with an investment timeframe of at least 3–5 years and who are looking for real growth.</p>	<p>Members with an investment horizon of 3–5 years and seeking less volatile returns.</p>

## Investment objectives, target returns and asset allocations (cont.)

Single asset class	Australian Equities	International Equities	Property
<b>Asset allocation</b>	100% Australian equities.	100% international equities.	100% listed and unlisted property trust units.
<b>Objective*</b>	This strategy aims to achieve high long-term real (above inflation) investment growth. The portfolio is designed to deliver returns typical of a diversified range of listed Australian shares and will be benchmarked against the Australian S&P ASX 300 Accumulation (ie. with dividends re-invested) Index.	This strategy aims to achieve high long-term real (above inflation) investment growth. The portfolio is designed to deliver returns typical of a diversified range of shares listed on a range of international markets, and will be benchmarked against the Morgan Stanley Capital International (MSCI) World Equity Index. The Fund adopts a policy towards the hedging of the currency exposures of this portfolio which is designed to reduce the effects of an adverse movement in the value of the Australian dollar. The currency hedge ratio can, therefore, vary over time.	This portfolio invests in a range of both listed and unlisted property trusts, with diversification by fund manager and by type of property exposure (eg commercial/office, retail and/or industrial). Property tends to produce investment returns which generally reflect both rental income (which behaves like fixed income securities) and capital growth (through potential for rising rental streams).
<b>Risk profile</b>	Higher risk – can deliver negative returns over short-term time horizons.	Higher risk – can deliver negative returns over short-term time horizons.	Moderate to high – can deliver negative returns over short-term time horizons.
<b>Investment time horizon</b>	Longer term (10+ years)	Longer term (10+ years)	Medium to long term (5–10 years)
<b>Most suitable for</b>	Members with an investment timeframe of at least 10 years, or whose financial position allows a higher level of risk.	Members with an investment timeframe of at least 10 years, or whose financial position allows a higher level of risk.	Members with an investment timeframe of 5–10 years, or whose financial position allows a moderate to higher level of risk.

### NOTE:

\* These objectives do not constitute a forecast or guarantee of future performance of the investment strategy or the future rates of return of the investment strategy.

Australian Fixed Interest	International Fixed Interest	Cash
100% Australian fixed interest securities.	100% international fixed interest securities.	100% cash and short-term income-producing assets with a duration of up to one year.
<p>This strategy aims to achieve investment returns above inflation over the medium term. The portfolio is designed to hold a diversified range of interest-bearing securities, and its performance is benchmarked against the UBSW Composite Bond Index. Although fixed income securities typically deliver a steady stream of investment returns, over short time periods fixed income portfolios can deliver low or even negative investment returns.</p>	<p>This strategy aims to achieve investment returns above inflation over the medium term. The portfolio is designed to hold a diversified range of interest-bearing securities, and its performance is benchmarked against the JP Morgan World Government Bond Index. Although fixed income securities typically deliver a steady stream of investment returns, over short time periods fixed income portfolios can deliver low or even negative investment returns.</p>	<p>To achieve investment returns which match the returns available on cash investments. This strategy focuses on short-term assets.</p>
Medium risk – can deliver low or negative returns over short-term time horizons.	Medium risk – can deliver low or negative returns over short-term time horizons.	Low risk.
Moderate term (3–5 years)	Moderate term (3–5 years)	Short term (up to 2 years)
Members with an investment timeframe of 3–5 years, or whose financial position allows a moderate level of risk.	Members with an investment timeframe of 3–5 years, or whose financial position allows a moderate level of risk.	Members with a short-term investment horizon, or those seeking less volatile returns.

## Who manages my First State Super investments?

The Trustee employs the services of a number of external consultants to assist in managing your super. The table shows the external investment managers as at 30 June 2008.

### Investment managers as at 30 June 2008

Asset class	Manager	% of total funds managed
<b>Australian equities</b>	Balanced Equity Management Pty Ltd	22
	BT Investment Management (RE) Limited	8
	Macquarie Investment Management Limited	12
	Northcape Capital Pty Ltd	8
	State Street Global Advisors, Australia, Limited	30
	Vanguard Investments Australia Limited	20
<b>Total</b>		<b>100</b>
<b>International equities</b>	Alliance Bernstein Investment Management Australia Limited	20
	Baillie Gifford Overseas Ltd	7
	Barclays Global Investors Australia Limited	26
	Deutsche Asset Management (Australia) Limited	13
	GMO Australia Limited	21
	Vanguard Investments Australia Limited	13
<b>Total</b>		<b>100</b>
<b>Alternative assets</b>	Vanguard Investments Australia Limited	2
	Macquarie Specialised Asset Management Limited	98
<b>Total</b>		<b>100</b>
<b>Listed and unlisted property trusts</b>	Deutsche Asset Management (Australia) Limited	5
	Investa Properties Limited	16
	Lend Lease Real Estate Investments Limited	10
	Goodman Funds Management Australia Limited	8
	Macquarie Investment Management Limited	8
	Vanguard Investments Australia Limited	20
GPT Funds Management Limited	33	
<b>Total</b>		<b>100</b>
<b>International fixed interest</b>	BlackRock Financial Management Inc	30
	Mondrian Investment Partners Limited	20
	PIMCO Australia Pty Ltd	19
	Vanguard Investments Australia Limited	31
<b>Total</b>		<b>100</b>
Australian fixed interest	Vanguard Investments Australia Limited	100
<b>Total</b>		<b>100</b>
<b>Cash</b>	Vanguard Investments Australia Limited	100
<b>Total</b>		<b>100</b>



### The investment managers

The Trustee appoints external managers to manage the Fund's investments. These managers at 30 June 2008 are set out in the table on page 16.

### The asset consultant

The current asset consultant is JANA Investment Advisers Pty Ltd. The asset consultant:

- Advises on an appropriate asset allocation for each of the investment strategies.
- Provides research on eligible managers in each of the asset sectors.
- Evaluates the investment styles of managers and their suitability to blend with other potential investment managers.

### The Fund's custodian

The current custodian is JP Morgan Chase Bank and Pillar Administration for operational cash assets. The custodian:

- Holds the Fund's assets.
- Values the portfolio daily.
- Monitors each investment manager's daily activity.

## Other investment issues

### Investment management expenses

Investment management expenses include the fees paid to asset consultants, investment managers, the custodian and other costs of managing the investments of the Fund.

The cost for each investment strategy varies according to the cost of managing the underlying investment portfolios. For example, it is more expensive to manage share (equity) investments than cash investments.

The table shows the estimate of investment management expenses for the year ended 30 June 2008.

### Investment management expenses

Investment strategy	Estimated %	\$ per \$50,000
High Growth	0.36%	180
Diversified	0.30%	150
Balanced	0.24%	120
Capital Guarded	0.19%	95
Australian Equities	0.27%	135
International Equities	0.42%	210
Property	0.48%	240
Australian Fixed Interest	0.06%	30
International Fixed Interest	0.24%	120
Cash	0.05%	25

### No investment reserves

The Trustee has determined that no investment earnings will be placed in an investment reserve to smooth the member investment returns. All investment earnings or losses in the various investment strategies, after providing for taxes and investment expenses, are reflected in the unit prices. First State Super does not smooth returns because, with a choice of investment strategy available to members, it is appropriate that members experience the actual returns of their chosen strategy.

### Hedging

First State Super hedges 100% of its international fixed interest investments into Australian dollars. The current policy of First State Super is to hedge 25% of its international shares back to the Australian dollar.

### Large investments

First State Super's investments fall into two categories:

1. Mandates – individual securities held in our own name. None of these securities represented more than 5% of funds under management.
2. Unit trusts – we also hold units in trusts that, in turn, hold individual securities. No unit trust investment exceeded 5% of funds under management at 30 June 2008.



## Use of derivatives

Derivatives, such as futures or options, are investment products whose value is derived from other investments. For example, the value of a share option is linked to the value of the underlying share. Investment managers may use derivatives in managing investment portfolios for the Trustee and in managing pooled investment vehicles in which the Trustee invests. The Trustee may use derivative instruments for purposes such as managing risk (for currency hedging among other things). Losses from derivatives can occur due to market movements.

For the operation of the Fund, derivatives can only be used:

- as hedging instruments against existing positions,
- as a way to implement investment positions efficiently, and
- for asset allocation purposes.

The Trustee does not use derivatives for speculative purposes. However, where the investment is in a unit trust offered by an investment manager, particularly in the alternative investment asset class sector, it is possible that the governing deeds and documentation of the unit trust allow for derivatives to be used for speculative purposes. They can only do so as part of a very broadly diversified investment strategy. Investment managers must not hold derivative contracts unless there are, at all times, sufficient assets in the relevant sector of the portfolio to support the underlying liability under each contract.



## Important changes to your super

### Summary of *Better Super* changes

As detailed in last year's annual report, the Better Super changes took effect on 1 July 2007. A range of important changes were made, including the introduction of caps on concessional-tax contributions; a new basis for calculating the tax free amount to apply to superannuation benefit payments; the abolition of tax on benefits received by persons aged 60 or more, and the abolition of reasonable benefit limits.

The changes also made the provision of your tax file number (TFN) to your super fund much more important. Members who had not previously provided their TFN had until 30 June 2008 to do so, following which the fund is required to deduct additional tax from concessional contributions (eg. employer SG and salary sacrifice contributions) paid since 30 June 2007. In addition, non-concessional (personal after-tax contributions) cannot be accepted for a member who has not supplied their TFN.

### New 'proof of identity' rules

Commonwealth legislation now requires superannuation funds to obtain specific 'proof of identity' (POI) documentation from members applying for payment of superannuation benefits. The main reason behind the new requirements is the *Anti-Money Laundering and Counter-Terrorism Financing* (AML) legislation. The new POI rules are included in the 'know your customer' requirements of that legislation.

Funds have always conducted some form of member identity check in order to lessen the risk of fraudulent activity. Those checks varied between funds. However, the new AML provisions standardise the

requirements by listing the minimum amount of POI documentation that must be obtained from benefit applicants.

Broadly speaking, the Commonwealth rules require benefit applicants to provide **either one** photographic identification document eg. a driver's licence or permit issued by a State or Territory; a passport, **or two** non-photographic identification documents. At least one of these documents must be from a 'primary' source (eg. birth certificate or citizenship certificate) and one may be from a 'secondary' source (eg. Centrelink benefits letter; council rates notice, tax assessment notice).

If the document provided is **not the original**, it must be a **certified copy**. A document that has not been certified as a true copy by an authorised person cannot be accepted.

A full list of acceptable POI documents and of persons authorised to certify copies of original documents is available from Customer Service.

### Tax free benefit payment – terminal medical condition

On 11 September 2007, the Commonwealth Government announced that lump sum superannuation benefits paid to individuals under the age of 60 who have a terminal medical condition will be exempt from tax. The legislation has now been passed by the Federal Government and is effective from 1 July 2007.

In order for a benefit payment to be tax exempt, a benefit applicant must supply two medical certificates – at least one from a specialist in the relevant illness – which confirm that the person is suffering from an illness that in the normal course would result in their death within 12 months.

You cannot receive a terminal illness benefit in cash unless you meet a condition of release. On 14 February 2008, the Federal Government passed legislation to add a new condition of release for individuals suffering from a terminal medical condition. The requirements for accessing a lump sum benefit under the new condition of release are the same as the requirements under the tax legislation listed above.

## Superannuation guarantee contributions change

From 1 July 2008, all employers are required to pay their compulsory superannuation contributions for employees at the rate of 9% of a common wages or 'earnings' standard, called Ordinary Time Earnings (OTE).

Contributions calculated on other earnings bases contained in industrial instruments or trust deeds, applicable when the superannuation guarantee (SG) was introduced in the early 1990s, will no longer be allowed under Commonwealth legislation.

OTE is what employees generally earn for their ordinary hours of work and includes over-award payments, commissions, shift allowances and paid leave. Overtime is not included. Most employers already base their SG contributions on OTE. However, other earnings bases have been used by certain employers, typically in cases where their employees were already covered by existing superannuation arrangements when SG was first introduced.

The ATO has notified all employers of the requirement to calculate their SG contributions on the common OTE basis from 1 July 2008.

## New bankruptcy laws

Certain provisions of Commonwealth bankruptcy legislation took effect during the review year. The intention of the new provisions is to allow bankruptcy trustees to recover superannuation contributions made prior to bankruptcy with the intention to defeat creditors.

## Removal of tax rebate

Currently, the Fund receives a tax credit in respect of the administration fees paid by members to meet the operating costs of the Fund. Each year on 30 June or when a member exits the Fund, a tax credit equal to 15% of the administration fees paid by the member is credited to their account. The maximum amount credited to the account of a member who has been in the Fund for a full year is 15% of \$52 or \$7.80. The Trustee has decided to cease this arrangement such that no rebate will be provided after 1 January 2009. However, members who exit the Fund on or before 31 December 2008 will continue to receive a proportional tax credit on exit.

## Changes to asset allocation

From 30 July 2008, the Trustee determined to increase the margin, in which the proportions allocated to growth and income assets are managed, to remain within a margin of + or - 10% of the percentages shown on pages 12-13. Prior to this date, the proportions allocated to growth and income assets for each strategy were managed to remain within a margin of + or - 5% of the percentages shown on pages 12-13.



# Important information about your super

## Member protection

Federal Government legislation limits the amount of fees and charges that can be applied to certain small superannuation account balances. If your account balance is less than \$1,000 at the end of a member reporting period (generally 30 June each year or at your date of exit from the Fund) the Trustee currently applies member protection to limit the total fees (excluding investment management fees, insurance premiums and taxes) charged to your account during the period. In the event that the total earnings of the Fund are less than the total administration fees for all members in a year, we may debit each account in the Fund to pay for the operating costs of the Fund. In these years, account balances below \$1,000 may be charged a maximum of \$10 in fees. Member protection may result in an administration fee or withdrawal fee being partly or fully rebated.

## Small account balances

The Trustee may automatically transfer your benefit to an eligible rollover fund (ERF) if:

- the balance of your account is less than \$1,000 and either:
  - your employer has advised First State Super that your employment has been terminated; or
  - no contributions to your account have been received by First State Super for six months; or
- the Trustee receives a tax offset for you as a result of receiving your TFN after you have left the Fund.

Before transferring a benefit, First State Super will advise you in writing that your benefit will be transferred to an ERF. Unless you advise First State Super within 28 days that you wish your benefit to be rolled over to another complying superannuation fund, it will be transferred to the ERF nominated by First State Super. The ERF currently used by First State Super is AUSfund. You can access your benefit at any time (subject to preservation requirements) on application to AUSfund. Set out below is a summary of the key features of AUSfund, current at the date of this annual report.

- The assets of AUSfund are invested with a number of different investment managers and the strategic asset allocation is 70% growth assets and 30% income assets.
- AUSfund does not provide investment choice.
- Rates of return are not guaranteed and investment returns provided to members depend on the performance of the underlying investment markets. Investment returns may be positive or negative, which means that account balances may fall in value in times of poor investment returns.
- Members with an account balance below \$50 and 'Limited Information Members' (members whose identity cannot be verified on the basis of the information currently held by AUSfund) are not charged the administration fee and do not receive interest.
- As AUSfund is an ERF all members' accounts are generally protected from erosion by administration fees. This is known as 'member protection' and



under these rules the administration fee (not including government taxes and investment management fees) cannot exceed the interest credited in any review period (the financial year).

- There is one exception to the member protection requirement. In any review period, when total investment earnings to be distributed to members are insufficient to cover the total administration fee to be deducted from members' benefits, an administration fee of no more than \$10 may be deducted from account balances. This does not apply to members with balances below \$50 and 'Limited Information Members' for the reasons outlined above.
- You can make voluntary contributions or roll over other superannuation moneys to AUSfund, but it cannot accept contributions from your employer (or salary sacrifice contributions).
- There are no entry or exit fees and no agent's commissions.
- AUSfund does not provide insurance cover.

For more information, contact AUSfund directly or visit [www.unclaimedsuper.com.au](http://www.unclaimedsuper.com.au).

If your account is transferred to AUSfund, your personal information will be used or disclosed by AUSfund to administer your fund benefits. This means the information may be used to establish your membership account, manage your superannuation benefits, process any additional contributions or rollovers, pay benefits, report to the regulator, provide you with membership benefits and services, and correspond with you.

#### Contact details for AUSfund:

AUSfund, Australia's Unclaimed Super Fund, Trustee – Industry Funds Investments Limited  
ABN 17 006 883 227, AFSL 229881

#### Contact address:

AUSfund Administrator  
AUSfund PO Box 2468  
Kent Town South Australia 5071  
Phone 1300 361 798  
[www.unclaimedsuper.com.au](http://www.unclaimedsuper.com.au)

If your benefit is rolled over to AUSfund, you will cease to be a member of First State Super and any First State Super insurance cover you may have will also cease. If your benefit is transferred, AUSfund will apply investment earnings to your benefit and is required to protect benefits from erosion by management fees. AUSfund may charge members an administration fee (currently \$10 pa), investment fees (currently 0.44% pa) and other incidental fees. Contact AUSfund or visit [www.unclaimedsuper.com.au](http://www.unclaimedsuper.com.au) for details.

## Unclaimed money

If your super becomes 'unclaimed money', it will be paid to the Australian Taxation Office and can be claimed directly from the ATO. Your super will be treated as unclaimed money if:

- you have reached age 65;
- your superannuation account has been inactive for a period of at least two years; and
- there has been a period of five years since the Trustee last had contact with you, and the Trustee has been unable to contact you again after making reasonable efforts.

## Compliance

The First State Superannuation Scheme (ABN 53 226 460 365, SPIN FSS 0100AU) is a resident regulated superannuation fund within the meaning of the *Superannuation Industry (Supervision) Act* (SIS) and a complying superannuation fund for the purposes of the *Income Tax Assessment Act*. Transfers and rollovers can be accepted by the Trustee under the Trust Deed and Rules of First State Super. The Trustee will, upon receipt of the benefits transferred/rolled over, maintain and preserve the benefits in First State Super to the extent required by SIS and the SIS regulations.

## Surcharge

The contributions surcharge tax, which was payable by high-income earners on employer contributions and termination

payments, was abolished from 1 July 2005. Further assessments for the 2004-05 financial year and earlier years may still be received by the Trustee if a member, who has rolled over money into the Fund before the surcharge was deducted in the member's previous super fund. Any surcharge will be debited from the member's superannuation account.

## Tax file numbers

### How to provide your tax file number

You can provide your TFN directly to the Fund by contacting Customer Service on 1300 650 873 and following the TFN prompts. You can also download and complete the *Tax file number collection* form from the website. Your completed form should be sent to First State Super, PO Box 1229, Wollongong NSW 2500.

Alternatively, you can quote your TFN to your employer when starting employment after 1 July 2007 and it will automatically be taken to be quoted for superannuation purposes. Your employer is obliged to give your TFN to the superannuation fund within 14 days of the TFN being quoted. You can check if your employer has provided your TFN by referring to your Welcome Letter or most recent Fund Statement which will indicate whether a valid TFN has been provided, or by contacting Customer Service on 1300 650 873. If your TFN has not been provided, you can provide it to the Fund at any time by the direct methods indicated above.



### What we can do with your TFN

Under the *Superannuation Industry (Supervision) Act 1993*, your superannuation fund is authorised to collect your TFN, which will only be used for lawful purposes. These purposes may change in the future as a result of legislative change.

The trustee of your superannuation fund may disclose your TFN to another superannuation provider, when your benefits are being transferred, unless you request the trustee of your superannuation fund in writing that your TFN not be disclosed to any other provider.

It is not an offence not to quote your TFN. However giving your TFN to your superannuation fund will have the following advantages (which may not otherwise apply):

- your superannuation fund will be able to accept all types of contributions to your account/s;
- the tax on contributions to your superannuation account/s will not increase;
- other than the tax that may ordinarily apply, no additional tax will be deducted when you start drawing down your superannuation benefits; and
- it will make it much easier to trace different superannuation accounts in your name so that you receive all your superannuation benefits when you retire.

Otherwise your TFN will be treated confidentially.

## Financial reports at 30 June 2008

To keep you informed about the financial position of your Fund, the following tables provide abridged financial information about First State Super's operations for the last two accounting periods to 30 June 2008 and 30 June 2007.

The 2007-08 statutory accounts are being audited by the Auditor-General of NSW and an unqualified audit report is expected to be issued in September 2008.

Members can receive, on request, a copy of the Auditor-General's Report to the FSS Trustee Corporation and the 2007-08 audited accounts for First State Super after they have been tabled before the Trustee.

Statement of Financial Position at 30 June 2008	2008 \$'000	2007 \$'000
<b>Investments</b>		
Short term securities	3,482,225	3,105,252
Australian fixed interest	1,379,521	1,201,799
Australian equities	4,460,723	4,276,413
International equities	3,685,199	3,749,552
International fixed interest	1,265,815	1,208,190
Property trusts	816,780	815,052
Alternative investments	331,989	574,871
<b>Total investments</b>	<b>15,422,252</b>	<b>14,931,129</b>
<b>Other assets</b>		
Cash and cash equivalents	89,094	178,011
Receivables	148,994	261,474
Prepayments	131	65
Plant & equipment	1,475	1,658
Deferred tax assets	227,987	34,116
<b>Total other assets</b>	<b>467,681</b>	<b>475,324</b>
<b>Total assets</b>	<b>15,889,933</b>	<b>15,406,453</b>
Less:		
<b>Liabilities</b>		
Payables	106,858	128,305
Provision – current	383	296
Provision – non current	473	566
Provision for income tax	89,270	93,740
Deferred tax liabilities	214,566	237,153
<b>Total liabilities</b>	<b>411,550</b>	<b>460,060</b>
<b>Net assets available to pay benefits</b>	<b>15,478,383</b>	<b>14,946,393</b>
Represented by:		
<b>Liability for accrued benefits</b>		
Funds allocated to members' accounts	15,458,509	14,890,891
Funds not yet allocated to members' accounts	1,543	37,422
Administration reserve	18,331	18,080
<b>Total liability for accrued benefits</b>	<b>15,478,383</b>	<b>14,946,393</b>



## Operating Statement for the year ended 30 June 2008

	2008 \$'000	2007 \$'000
<b>Investment revenue</b>		
Short term securities	7,282	23,375
Australian fixed interest	74,046	60,882
Australian equities	240,351	225,919
International equities	89,651	175,474
International fixed interest	81,493	69,000
Property trusts	52,021	47,222
Alternative investments	32,575	24,409
	577,419	626,281
Increase/(decrease) in net market value of investments	(1,698,889)	1,095,847
<b>Total investment revenue / (loss)</b>	<b>(1,121,470)</b>	<b>1,722,128</b>
Interest received	5,421	3,915
Investment expenses	(34,496)	(31,994)
<b>Net investment revenue / (loss)</b>	<b>(1,150,545)</b>	<b>1,694,049</b>
<b>Contribution revenue</b>		
Employer contributions	1,894,210	1,585,920
Member contributions	204,424	500,622
Transfers from other superannuation funds	617,478	605,440
Government co-contributions	23,724	35,015
<b>Total contribution revenue</b>	<b>2,739,836</b>	<b>2,726,997</b>
<b>Total revenue</b>	<b>1,589,291</b>	<b>4,421,046</b>
Less expenses:		
Administration expenses	(29,478)	(24,732)
Insurance premiums	(85,127)	(46,438)
Superannuation contributions surcharge tax	(773)	(7,172)
Income tax expenses	(118,747)	(366,240)
<b>Total expenses</b>	<b>(234,125)</b>	<b>(444,582)</b>
Net revenue	1,355,166	3,976,464
<b>Net assets available to pay benefits at the beginning of the year</b>	<b>14,946,393</b>	<b>11,483,144</b>
Less benefits paid	(823,176)	(513,215)
<b>Net assets available to pay benefits at the end of the year</b>	<b>15,478,383</b>	<b>14,946,393</b>

## Reserves

The Trustee maintains reserves to manage the Fund's liabilities. The reserve accounts include interest received from various sources and administration fees. Interest earned on unallocated contributions is credited to the reserve account. The Trustee uses this account to pay the administrator's fees and any other administration and operating expenses of the Trustee or Fund. Any excess retained in the account is ultimately applied for the benefit of the membership as a whole.

Reserves are held in low risk interest bearing cash at call accounts to satisfy the reserves' objective of investing with a minimal risk of any decreases in capital.

Movement in Death or Invalidity Reserve	For the year ended 30 June		
	2008 \$'000	2007 \$'000	2006 \$'000
<b>Balance at the beginning of the year</b>	–	<b>6,311</b>	<b>6,263</b>
Current year increase	–	–	48
Transfer to administration reserve	–	(6,311)	–
<b>Balance at the end of the year</b>	–	–	<b>6,311</b>

The Death or Invalidity Reserve was merged with the Administration Reserve in October 2006. All self-insured claims will be funded by the Administration Reserve.

Movement in Administration Reserve	For the year ended 30 June		
	2008 \$'000	2007 \$'000	2006 \$'000
<b>Balance at the beginning of the year</b>	<b>18,080</b>	<b>7,430</b>	<b>6,185</b>
Transfer from Death or Invalidity Reserve	–	6,311	–
Current year increase	251	4,339	1,245
<b>Balance at the end of the year</b>	<b>18,331</b>	<b>18,080</b>	<b>7,430</b>

## Need help with English?

For members who need help with the English language, Customer Service can make arrangements for information to be translated.

### **Vietnamese**

Đối với các thành viên nào gặp trở ngại về Anh ngữ, Dịch vụ Tư Vấn (Advisory Service) có thể giúp thu xếp để họ nhận được bản dịch tin liệu.

### **Arabic**

(Advisory Service) بإمكان "الخدمة الإستشارية" أيضاً تأمين ترجمة خطية للمعلومات للأعضاء الذين يجدون صعوبة باللغة الإنكليزية.

### **Chinese**

會員如果閱讀英語有困難，諮詢服務部可安排發放資料的譯本。

### **Greek**

*Για τα Μέλη που δυσκολεύονται στα αγγλικά, η Υπηρεσία Πελατών μπορεί να κανονίσει για τη μετάφραση των πληροφοριών.*

### **Italian**

Per i contribuenti che hanno difficoltà nel comprendere l'inglese il servizio clienti può provvedere alla traduzione dei dati informativi.



ABN 80 976 223 967  
AFSL 245 591

## Customer service

Phone: 1300 650 873

8.30 am to 5.30 pm

Monday to Friday for the cost of a local call (except from a mobile or pay phone).

**F** 1300 722 072

**E** [enquiries@firststatesuper.com.au](mailto:enquiries@firststatesuper.com.au)

**W** [www.firststatesuper.com.au](http://www.firststatesuper.com.au)

## Personal interview service

To arrange a personal interview at our Sydney Office, please call (02) 9238 5540.

## Postal service

For Customer Service and Pillar Administration:  
PO Box 1229, Wollongong NSW 2500

For the FSS Trustee Corporation:  
PO Box R1827, Royal Exchange NSW 1225

[www.firststatesuper.com.au](http://www.firststatesuper.com.au)