



Annual Report

to 30 June 2018





Our goal is simple: to provide our members with a better financial future through safe and secure superannuation and quality financial advice.

Issued by FSS Trustee Corporation ABN 11 118 202 672, AFSL 293340, the trustee of the First State Superannuation Scheme ABN 53 226 460 365. Financial planning services are provided by our financial planning business State Super Financial Services Australia Limited, trading as StatePlus, ABN 86 003 742 756, AFSL No. 238430. StatePlus is wholly owned by First State Super.

About us

First State Super is one of Australia's largest superannuation funds. Our goal is simple: to provide our members with a better financial future through safe and secure superannuation and quality financial advice.

We were established in 1992 to provide superannuation and retirement services to NSW public sector employees and their families. In 2006, we opened our doors to everyone, providing low-cost superannuation for all Australians. In 2011, we merged with Health Super to create one of Australia's largest super funds and in 2016, we purchased financial planning company StatePlus. We currently manage a combined asset pool of over \$90 billion on behalf of over 800,000 members and clients¹.

Our size allows us to invest in ways that have a positive impact on the economy, the environment and the communities in which our members live, work and retire. Our large scale allows us to offer security and benefits through competitive fees, value-for-money insurance rates, and financial advice.

We're driven by the fundamental belief that all Australians should retire in comfort and dignity. We believe this can be achieved by helping our members make educated decisions about their super.

Being a profit-for-member organisation means our profits are invested back into the fund rather than distributed to shareholders. Our decisions and strategies have always centred on delivering the best possible outcomes for members.

So while we've changed in size, we always stay true to our philosophy of putting members first.

¹ As at 31 July 2018

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A message from our Chairman

On behalf of the First State Super board, executive and staff, I would like to thank you for trusting our team to look after your superannuation, retirement and financial planning needs over the past year.

Solid growth in the global economy produced strong returns across all our investment options for the year to 30 June 2018. Our default Growth and Balanced Growth options earned 10.2% and 8.3% respectively, finishing near the top of the tables in industry performance comparisons¹.

One of our priorities was the integration of our two financial planning businesses – StatePlus and First State Super Financial Services. The integration brings together the best both organisations have to offer in the provision of quality advice, superannuation and retirement solutions.

This successful combination of our financial planning businesses makes advice much more widely available. Our members now have access to more than 220 financial planners in 44 offices and 115 appointment locations in New South Wales, the ACT, Victoria and Western Australia. It's been very pleasing to see that the cultures of our two organisations are so clearly complementary.

Keeping members informed is also a top priority for us. We hosted nearly 300 education seminars around the country and introduced website enhancements that allow members to self-serve wherever and whenever they choose. Targeted newsletters and promotional campaigns were also effective ways of keeping members informed.

In a recent survey² of the climate change strategies and disclosures of the world's hundred-largest public pension funds, First State Super was ranked 13th, making it the highest-ranked fund in Australia and the Asia-Pacific region. We have worked diligently to develop a coherent and workable Climate Change Adaptation Plan that articulates our approach to protecting our members' retirement assets from

the negative impacts of climate change. It is pleasing to see our approach recognised in these high rankings.

At First State Super, we strive to build a culture that celebrates diversity and equality in the workplace and the wider community. This was recognised by the Workplace Gender Equality Agency, who awarded First State Super the Employer of Choice for Gender Equality citation for the second year in a row.

The impact of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has been felt widely. While the Commission's recommendations have not been finalised, we believe that ultimately, they will help build greater certainty and transparency right across the industry.

Finally, I would like to thank my fellow board members, the executive team and all staff for their dedication and hard work over the last 12 months. Board members Trevor Carr, Lisa Fitzpatrick and Gary Thomas stepped down at the end of the year after contributing their much-valued skills and deep commitment to our Members First values. I warmly welcome Pip Carew, Glenn Bunney and Tom Symondson to the board.

While I am sad to see our long-serving CEO Michael Dwyer move into retirement (see pullout) I am confident that Michael's successor, Deanne Stewart, has the attributes, experience and most importantly, the personal values that are critical for this role. I look forward to working with Deanne as she leads the First State Super team.

Best wishes

Neil Cochrane | Chairman

¹ SuperRatings Crediting Rate Survey June 2018.

² 'Pensions in a changing climate' is the first in a series of four reports on the pensions sector produced by the Asset Owners Disclosure Project (AODP), which is part of the responsible investment organisation ShareAction. The report assesses the world's 100 largest public pension funds with combined assets worth over \$11 trillion.

Thank you, Michael

After 14 years at the helm of First State Super, our Chief Executive Officer Michael Dwyer will retire at the end of November.

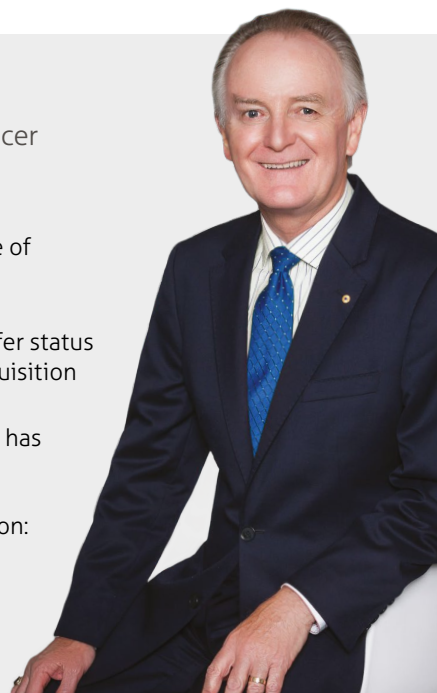
Michael began his tenure as CEO in 2004 when the fund managed \$9 billion in retirement savings on behalf of 450,000 members. Today, First State Super is one of Australia's largest superannuation funds managing combined assets in excess of \$90 billion on behalf of over 800,000 members and clients.

Michael and his team can point to a long list of achievements, including public offer status in 2006, the merger with Victorian-based fund Health Super in 2013 and the acquisition of financial planning company StatePlus in 2016.

But possibly Michael's most enduring legacy will be the Members First ethos that has become the single organising principle guiding our strategic thinking, and the development of products and services we provide to members. I have lost count of the number of times we have resolved an impasse by asking the simple question: 'What's the best possible outcome for members?'

Thank you, Michael, for your dedication, your passion, and your friendship. On behalf of my colleagues on the board, I wish you a long and happy retirement.

Neil



6 For us, it's all
about our members. **9**

Feel future ready

Our guiding philosophy

For us, it's all about our members. Their needs, goals and future. Our responsibility is to make our members 'feel future ready'. Our members first philosophy is at the heart of our culture; it guides every decision we make.

In practical terms, this means:

We listen, understand and respond to members' needs

Members can talk to us online, over the phone or face-to-face via our network of member service centres and regional offices.



We give members the support they need to make the right decisions

We provide useful articles, seminars, online tools and financial advice. We take pride in helping our members achieve a better financial future.



We are open, transparent and informative

We keep members informed about super, investment markets, pension and retirement policy, and changes to legislation that are relevant to their super account.



We help more members benefit from financial advice

We offer simple advice about members' accounts at no additional cost through to fee-based comprehensive advice. Our investment in financial planning firm StatePlus demonstrates our belief in the value of financial advice.



We negotiate competitive fee deals on behalf of members

We use our scale to negotiate competitive fees with our investment managers and insurance provider, which means more of our members' money is invested for their future.



We offer a range of investment options that can be mixed and matched to meet members' needs

We offer pre-mixed and single asset class investment choices, including two socially responsible options.



Our numbers at 30 June 2018

Member accounts



First State Super

Accumulation	733,805
Income Stream	27,471
Defined benefit/Lifetime pension	7,160
TOTAL First State Super	768,436

StatePlus¹

Accumulation	19,907
Income Stream	48,149
Investment (non-super)	9,287
TOTAL StatePlus	77,343

¹ Some StatePlus members are included in more than one category

Funds under management



First State Super

Accumulation	\$62.2 bn
Income Stream	\$7.8 bn
Defined benefit/Lifetime pension	\$1.2 bn
TOTAL First State Super	\$71.2 bn

StatePlus

Accumulation	\$3.3 bn
Income Stream	\$14.5 bn
Investment (non-super)	\$1.2 bn
TOTAL StatePlus	\$19.0 bn

The following numbers are for First State Super

Average account balance

Accumulation **\$84,723** Income Stream **\$285,261**



Gender split

Accumulation Income Stream
 ♀ **67%** ♀ **65%**
 ♂ **33%** ♂ **35%**



One-year returns to 30 June 2018



	Growth	Balanced Growth
Accumulation	10.2%	8.3%
Income Stream	11.1%	9.0%

Seminars

296 seminars
were held
attended by 11,418 members



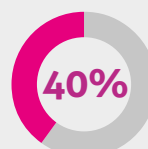
Contributing employers

51,500 employers
made SG contributions on
behalf of employees

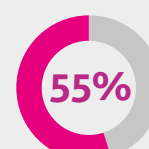


Online engagement

303,764
members
have registered
for online access



417,746
members
have provided
their email address



Our strategic plan

Our strategic plan is the roadmap that helps us deliver on our purpose, promise and **members first** philosophy. We operate in a complex environment and our strategic plan helps clarify our future direction.



Strategic themes and initiatives



Realise the ongoing benefit from the StatePlus acquisition

Complete and leverage the StatePlus acquisition to benefit our members both as an investment of the fund and through increased ability to offer advice to more members that need it.



Improve our offer to members

Enhance relevance to our members through our range of products, services, financial education and advice. Deliver exceptional member experiences through our touchpoints across all channels.



Maintain relative scale

Ensure the fund maintains sustainable scale relative to our peers, through member growth, member retention, employer relationships and a structured approach to merger opportunities.



Build a differentiated, recognisable brand position

Members, employers and the market should know what we do, how we do it and why we are different.



Deliver competitive, value-for-money investment returns

Deliver risk-adjusted returns that are highly competitive with peers, and support value-for-money outcomes for members. Pursue stakeholder-relevant investments where consistent with fiduciary duty.



Maintain and enhance stakeholder relationships

Continue to build our relevance, credibility and authority with stakeholders and influencers. Establish a systematic approach to managing stakeholder relationships.

Member outcomes

Our strategy helps deliver better outcomes for members and supports the sustainability of the fund.

Members' financial best interests, including investment returns

Information and advice

Insurance

Access and engagement

Fund sustainability



Strategic enablers



Attract, retain and develop the best people



Ensure financial prudence and discipline



Enhance our current Risk and Compliance culture



Continue to build technology, data and delivery capabilities



Underpinned by maintenance of our strong members first culture

Our model for creating value

Inputs

Contributions and savings

We manage the super contributions and retirement savings for more than 760,000 members.

Our people

Our team has the skills and knowledge to deliver an exceptional member experience, and our workplace culture is founded on diversity and inclusion.

Our relationships

Our business is driven by the quality of our relationships with key stakeholders including:

- ➔ our sponsoring employers
- ➔ Federal and State governments
- ➔ our investment managers and insurers
- ➔ our administrator
- ➔ our custodian.

What we offer

Products and services to help members 'feel future ready'

Our products and services are:

- ➔ value for money
- ➔ tailored to the age and stage of life of members
- ➔ always developed in accordance with our members first philosophy.

Convenient access to advice and education

We want all our members to be confident making decisions about their superannuation. We offer advice over the phone and in person, and we provide easy-to-understand education material on our website.

Investments that consider more than returns

Good returns are our primary investment objective but we also consider the impact our decisions can have on the community and the environment.

Value for money insurance solutions

We offer a range of low-cost, flexible insurance options including income protection, life cover and disablement cover.

Accessible and responsive customer service

Members have access to an experienced phone-based customer service team. We have opened Member Service Centres in metropolitan and regional locations in NSW and Victoria, and we have offices in the ACT and Perth.

The protection of a robust risk management framework

Our risk management framework protects the fund and its members by identifying, monitoring and managing the risks associated with our business operations, financial capacity, reputation and strategic plan.

A voice that speaks for members

We seek to influence policy on behalf of members by participating in industry discussions and responding to proposals that will shape the future of the super industry.

Outputs

A dignified retirement for our members

Our primary purpose is to help our members accumulate sufficient savings for a comfortable and financially secure retirement. We want to be a source of trusted advice before and during retirement.

A better community

Not only do we look for investments that offer solid returns, we also look for investments that are sustainable, generate jobs, foster innovation and

contribute to a more productive economy. Our diverse investments are contributing to communities where our employers and members live, work and retire.

A trusted and responsible fund

Our profile as a good corporate citizen, a responsible investor, and a trusted source of advice will help retain and attract members, employers and staff. These characteristics will also give us a point of differentiation in an increasingly competitive market.



Investments

Our investment approach is founded on the principle of universal ownership. The investments made by very large funds, such as First State Super, have a real impact on markets, the environment, corporations and communities where the investments take place. Universal ownership is where funds take active responsibility for this investment footprint, to manage risks and opportunities on behalf of the members whose capital is being invested.

A key pillar of universal ownership is active ownership. This means actively engaging with the companies we invest in. We want to make sure these companies are sustainable and provide long term returns to our members. We want to ensure that issues like climate change, executive pay, worker safety and other environmental, social and governance (ESG) issues are properly addressed.

Other factors that drive our approach include our belief that:

- getting the allocation to the different asset sectors right is the main driver of returns
- high-quality research underpins and improves our investment decisions
- there are niche or unique opportunities that we have access to that others don't.

Most importantly, we want to use our influence as a large investor to improve the world our members retire into – we're conscious of the legacy we leave for future generations.

Growing your superannuation

Our responsibility is to grow the value of your superannuation by delivering competitive returns while managing investment risk and volatility. As one of Australia's largest superannuation funds, we face a significant challenge generating competitive risk-adjusted returns. To meet this challenge, we focus on:

- offering our members a mix of growth and income-generating investments
- choosing investment managers who understand the importance of balancing the need for competitive returns with the need to invest sustainably.

Responsible investment

We are committed to better ESG practices across all asset classes. Our ESG team reviews and considers the long-term sustainability of our investments. This means considering investments that:

- create long-term value;
- promote stewardship of our natural resources; and
- have a positive impact on the communities in which our members retire.

Over the last year, the team has:

- actively reviewed our external managers' approach to integrating ESG;
- engaged with companies we invest in;
- exercised our voting rights; and
- researched issues such as executive remuneration, worker safety, climate change risks and opportunities, and long-term value creation.

Climate change

Our Climate Change Adaptation Plan outlines how we build climate change resilience into our portfolio. We are currently reviewing our assets to assess exposure to the physical impacts of climate change risk and identified businesses to actively engage with. We continue to engage with companies on reducing emissions and other climate-related risks. We also invested in renewable energy and technologies, including wind projects in Brazil.

Executive remuneration

As a large shareholder in many of Australia's listed companies, we have a responsibility to ensure executive remuneration is set in a way that supports sustainable returns over the long term. Our active engagement with companies and voting at their AGMs helps achieve compensation outcomes that bring better alignment of the interests of executives and shareholders.

Engagement

We look to incorporate our views around universal ownership and have a responsibility to our members to ensure the delivery of strong risk adjusted returns and help our members over the long term to meet their individual objectives. One way of achieving this goal is through engaging companies and working together with companies to improve ESG practices.

Over the year, engagement took place with over 40 listed companies on executive remuneration, climate change, workers' rights and supply chain management, board composition and diversity, and public disclosure.

Voting

We view voting as an important part of our ownership of both domestic and international companies. We continue to actively exercise our voting rights. While usually supporting resolutions, we occasionally vote against, for example on issues relating to remuneration, equity grants and director elections.

Sustainable investments

We look for investments that not only offer good returns, but are sustainable, generate jobs, foster innovation and contribute to a more productive economy. Our recent investments in the Sunshine Coast and Bendigo hospitals are good examples.

Policy advocacy

We participate in regulatory processes, industry working groups and public debate. We continue to advocate for better disclosure of climate-related information, diversity on corporate boards and the importance of culture in creating long-term value.

The year in review

Global economic growth was reasonably strong during 2017-18 and the economic upswing that began in mid-2016 continued to strengthen. Across the globe, investment and world trade increased, supported by the low interest rate policies of most central banks and, later in the year, increased spending by governments.

The domestic economy's expansion was driven by solid export growth. Wages continued to grow at a slow but steady pace, while government spending continued to support economic activity. The Federal government outlined a 10-year, \$75 billion infrastructure plan in the May 2018 budget.

2018 marked a decade since the 2008 global financial crisis and the impact has lasted for most of that period. Immediately following the crisis, central banks acted swiftly to stabilise financial markets by providing liquidity, and lowered interest rates to support economic activity. During the year, as the global economy showed signs of gaining momentum and unemployment began to fall, there was less need for central bank support. As a result, central banks began to move interest rates higher and withdrew liquidity from the financial system. In technical terms, they started to 'normalise' monetary policy.

This change in central bank policy marked a transition in the business cycle to an environment in which central banks would be less supportive. This transition was one reason for the increased volatility in financial markets during the year and this is expected to continue for the remainder of the calendar year.

Two of the major central banks that normalised (and continue to normalise) monetary policy during the year were the US Federal Reserve (Fed) and the European Central Bank (ECB). The Fed raised interest rates three times during the year and the ECB pared back the level of stimulus it provided to financial markets.

Locally, the Reserve Bank left the cash rate unchanged over the entire year, an accommodative monetary policy that continues to support the domestic economy. Most of the bank's monthly commentaries over this period noted that inflation remained below its 2.5% target and despite improving labour market conditions, wage growth was slow.

Global share market performance varied across the main markets. The US market delivered positive returns, underpinned by strong profit growth in the technology sector, while European and Asian markets delivered slightly lower returns. The Australian share market performed reasonably well. The market index (ASX 200) was up around 8% as the drag in the banking sector was largely offset by gains in resources stocks, which were helped by rising commodity prices. Our two most popular investment options performed well, with the Growth option earning 10.2% for the year, and the Balanced Growth option returning 8.3%.¹

Looking ahead, we expect markets will be quite volatile as they adjust to an environment where central bank policies are not as supportive as they have been.



Our Growth option earned 10.2% for the year, and the Balanced Growth option 8.3%.¹

¹ Accumulation options

Objectives and performance at 30 June 2018

This section shows the objectives, asset allocation and returns for our accumulation, transition to retirement income stream and retirement income stream investment options. The investment objectives for the retirement income stream options are slightly higher than the accumulation and transition to retirement income stream options because there is no tax payable on investment earnings for retirement income streams. For the same reason, the net returns for the retirement income stream options shown in the graphs are slightly higher than the returns for the accumulation and transition to retirement income stream options.

High Growth

Investment objective¹

Accumulation and transition to retirement income stream: CPI + 4.0% pa over rolling 10-year periods net of tax and fees.

Retirement income stream: CPI + 4.5% pa over rolling 10-year periods net of tax and fees.

Investor profile

Seeking higher growth over the longer term; willing to accept significant fluctuations in returns and the possibility of negative returns over the short term.

Risk label²

High (Band 6)

Expected frequency of negative returns²

Accumulation and transition to retirement income stream: Approx. 5.0 times every 20 years (5.2 times from 1 Oct. 2018)

Retirement income stream: Approx. 4.9 times every 20 years (5.1 times from 1 Oct. 2018)

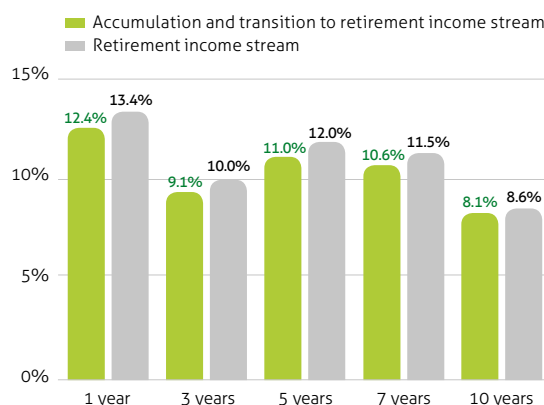
Growth/income asset allocation

95% growth assets 5% income assets

Strategic asset allocation (SAA) and range³

SAA	Range
Australian equities 30%	20% to 40%
International equities 37%	27% to 47%
Alternatives 28%	18% to 38%
Fixed income 0%	0% to 10%
Cash 5%	1% to 15%

Net investment returns⁴



Growth (Life Cycle⁵ option for members up to and including age 59)

Investment objective¹

Accumulation and transition to retirement income stream: CPI + 3.75% pa over rolling 10-year periods net of tax and fees.

Retirement income stream: CPI + 4.25% pa over rolling 10-year periods net of tax and fees.

Investor profile

Seeking higher growth over the medium to long term; willing to accept fluctuations in returns and the possibility of negative returns over the short term.

Risk label²

High (Band 6)

Expected frequency of negative returns²

Accumulation and transition to retirement income stream: Approx. 4.5 times every 20 years (4.7 times from 1 Oct. 2018)

Retirement income stream: Approx. 4.4 times every 20 years (4.5 times from 1 Oct. 2018)

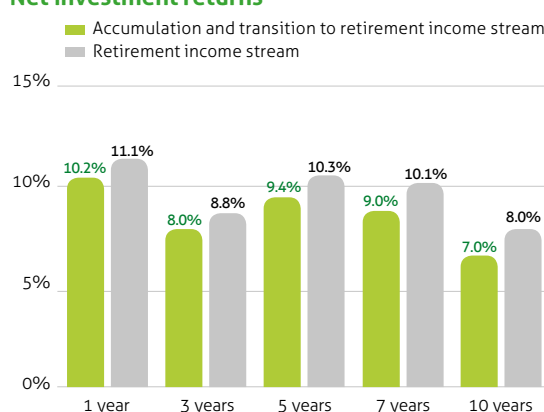
Growth/income asset allocation

75% growth assets 25% income assets

Strategic asset allocation (SAA) and range³

SAA	Range
Australian equities 23%	13% to 33%
International equities 29%	19% to 39%
Alternatives 28%	8% to 48%
Fixed income 10%	1% to 20%
Cash 10%	1% to 45%

Net investment returns⁴



Diversified Socially Responsible Investment

Investment objective¹

Accumulation and transition to retirement income stream: CPI + 3.75% pa (3.25% pa from 1 Oct 2018) over rolling 10-year periods net of tax and fees.

Retirement income stream: CPI + 4.25% pa (3.75% pa from 1 Oct 2018) over rolling 10-year periods net of tax and fees.

Investor profile

Seeking higher growth over the medium to long term from socially responsible investments; willing to accept fluctuations in returns and the possibility of negative returns over the short term.

Risk label²

High (Band 6)

Expected frequency of negative returns²

Accumulation and transition to retirement income stream: Approx. 4.5 times every 20 years (4.6 times from 1 Oct. 2018)

Retirement income stream: Approx. 4.3 times every 20 years (4.5 times from 1 Oct. 2018)

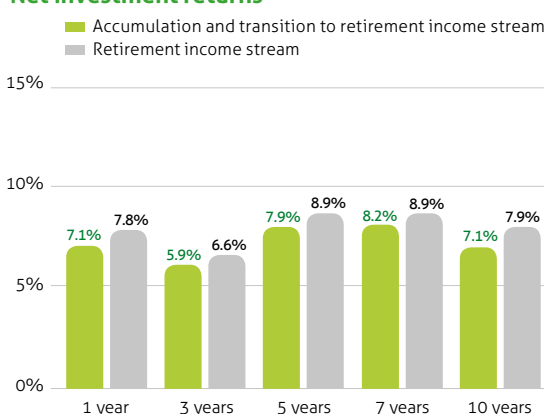
Growth/income asset allocation

76% growth assets 24% income assets

Strategic asset allocation (SAA) and range³

SAA	Range
Australian equities 26%	16% to 36%
International equities 24%	14% to 34%
Alternatives 26%	6% to 46%
Fixed income 18%	8% to 28%
Cash 6%	1% to 36%

Net investment returns⁴



¹ The objectives do not constitute a forecast or guarantee of future performance or the future rates of return of the investment option.

² See page 15 for an explanation of risk label and expected frequency of negative returns.

³ We may vary the actual asset allocation for an investment option from time to time. Refer to our website for the latest asset allocations. Alternatives can include both income and growth assets. We will take steps to maintain the actual allocation within + or - 20% of the target growth to income allocation.

⁴ The returns are compound average returns after allowance for tax (accumulation options only) and investment management expenses, but before the deduction of administration fees. Past performance is not a reliable indicator nor is it a guarantee of future performance.

⁵ For accumulation members, this is called the MySuper Life Cycle option.

Balanced Growth (Life Cycle⁵ option for members aged 60 and over)

Investment objective¹

Accumulation and transition to retirement income stream: CPI + 2.75% pa over rolling 10-year periods net of tax and fees.

Retirement income stream: CPI + 3.25% pa over rolling 10-year periods net of tax and fees.

Investor profile

Seeking a balance of growth and income investments that are expected to deliver moderate returns over the medium term.

Risk label²

Medium-high (Band 5); High (Band 6) from 1 Oct 2018 for accumulation and transition to retirement income stream accounts.

Expected frequency of negative returns²

Accumulation and transition to retirement income stream: Approx. 3.8 times every 20 years (4.0 times from 1 Oct. 2018)

Retirement income stream: Approx. 3.6 times every 20 years (3.8 times from 1 Oct. 2018)

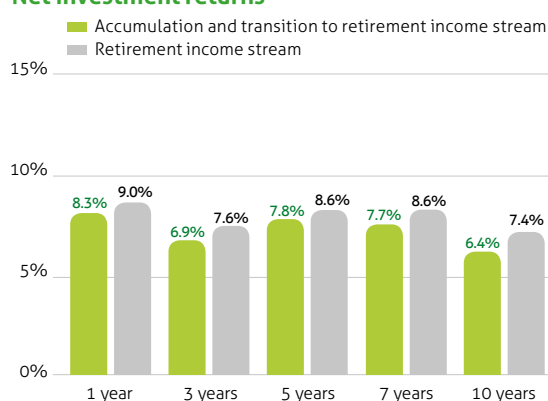
Growth/income asset allocation

55% growth assets 45% income assets

Strategic asset allocation (SAA) and range³

SAA	Range
Australian equities 16%	6% to 26%
International equities 21%	11% to 31%
Alternatives 28%	8% to 48%
Fixed income 20%	5% to 35%
Cash 15%	1% to 60%

Net investment returns⁴



Conservative Growth

Investment objective¹

Accumulation and transition to retirement income stream: CPI + 1.0% pa over rolling 10-year periods net of tax and fees.

Retirement income stream: CPI + 1.5% pa over rolling 10-year periods net of tax and fees.

Investor profile

Seeking an investment with a low to medium risk of capital loss over the short to medium term, and modest capital growth over the longer term.

Risk label²

Low-medium (Band 3); Medium (Band 4) from 1 Oct 2018 for retirement income stream accounts.

Expected frequency of negative returns²

Accumulation and transition to retirement income stream: Approx. 1.8 times every 20 years (1.9 times from 1 Oct. 2018)

Retirement income stream: Approx. 1.7 times every 20 years (2.0 times from 1 Oct. 2018)

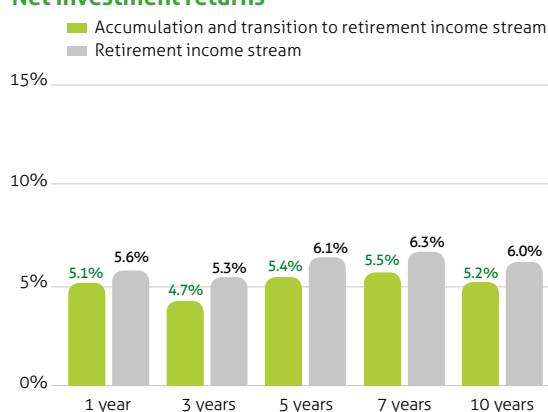
Growth/income asset allocation

30% growth assets 70% income assets

Strategic asset allocation (SAA) and range³

SAA	Range
Australian equities 6%	1% to 13%
International equities 7%	2% to 12%
Alternatives 29%	14% to 44%
Fixed income 20%	5% to 35%
Cash 38%	1% to 85%

Net investment returns⁴



Australian Equities

Investment objective¹

To track the S&P/ASX 300 Index (dividends reinvested), after fees.

Investor profile

Seeking growth above inflation (being a combination of capital and income) over the longer term from a passively managed portfolio of Australian shares, willing to accept significant fluctuations in returns and the possibility of negative returns over the short term.

Risk label²

Very high (Band 7)

Expected frequency of negative returns²

Accumulation and transition to retirement income stream: Approx. 6.7 times every 20 years

Retirement income stream: Approx. 6.5 times every 20 years (6.6 times from 1 Oct. 2018)

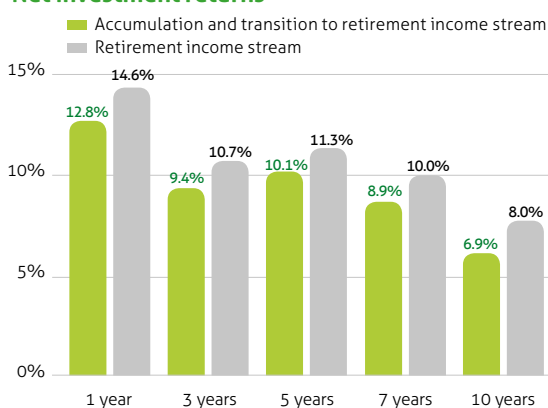
Growth/income asset allocation

100% growth assets

Strategic asset allocation (SAA) and range

100% Australian equities

Net investment returns⁴



¹ The objectives do not constitute a forecast or guarantee of future performance or the future rates of return of the investment option.

² See page 15 for an explanation of risk label and expected frequency of negative returns.

³ We may vary the actual asset allocation for an investment option from time to time. Refer to our website for the latest asset allocations. Alternatives can include both income and growth assets. We will take steps to maintain the actual allocation within + or - 20% of the target growth to income allocation.

⁴ The returns are compound average returns after allowance for tax (accumulation options only) and investment management expenses, but before the deduction of administration fees. Past performance is not a reliable indicator nor is it a guarantee of future performance.

⁵ For accumulation members, this is called the MySuper Life Cycle option.

Australian Equities Socially Responsible Investment

Investment objective¹

To track the S&P/ASX 200 Index (dividends reinvested), over rolling 5 years, after fees.

Investor profile

Seeking growth above inflation (being a combination of capital and income) over the longer term from socially responsible Australian shares; willing to accept significant fluctuations in returns and the possibility of negative returns over the short term.

Risk label²

Very high (Band 7)

Expected frequency of negative returns²

Accumulation and transition to retirement income stream: Approx. 6.6 times every 20 years (6.7 times from 1 Oct. 2018)

Retirement income stream: Approx. 6.5 times every 20 years (6.6 times from 1 Oct. 2018)

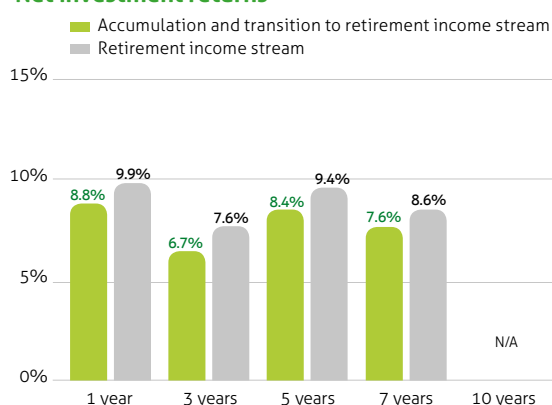
Growth/income asset allocation

100% growth assets

Strategic asset allocation (SAA) and range

100% Australian equities

Net investment returns³



International Equities

Investment objective¹

To track the MSCI World Index ex-Australia Net Dividends Reinvested (unhedged in Australian dollars) after fees.

Investor profile

Seeking growth above inflation (being a combination of capital and income) over the longer term from a passively managed portfolio of international shares; willing to accept significant fluctuations in returns and the possibility of negative returns over the short term.

Risk label²

Very high (Band 7)

Expected frequency of negative returns²

Accumulation and transition to retirement income stream: Approx. 6.1 times every 20 years (6.5 times from 1 Oct. 2018)

Retirement income stream: Approx. 6.0 times every 20 years (6.5 times from 1 Oct. 2018)

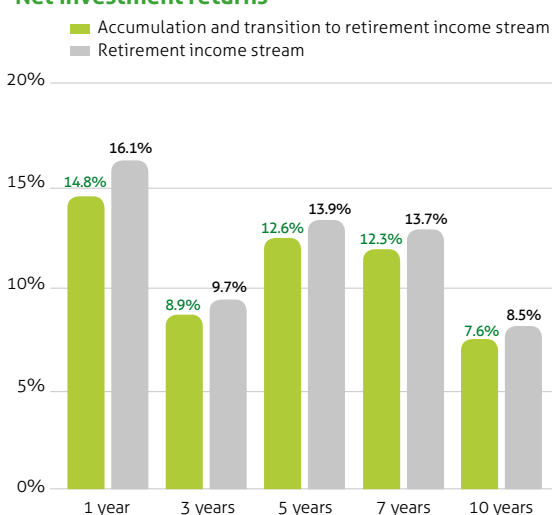
Growth/income asset allocation

100% growth assets

Strategic asset allocation (SAA) and range

100% international equities

Net investment returns³



Property

Investment objective¹

To outperform a combined index, namely the FTSE EPRA/NAREIT Developed Rental Index (hedged) and CPI + 5% over rolling 5 years, after fees.

Investor profile

Seeking high growth above inflation over the medium to long term from property investments and are willing to accept fluctuations in returns and the possibility of negative returns over the short term.

Risk label²

High (Band 6)

Expected frequency of negative returns²

Approx. 4.9 times every 20 years (5.0 times from 1 Oct. 2018)

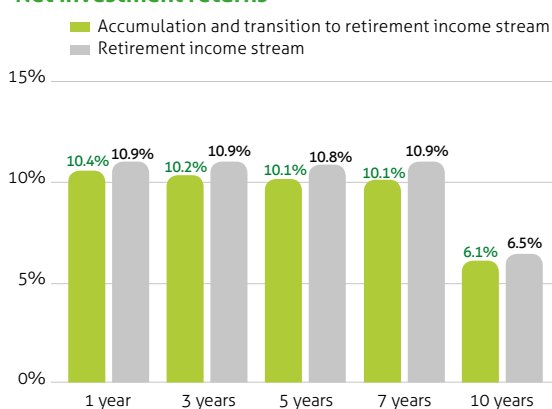
Growth/income asset allocation

100% growth assets

Strategic asset allocation (SAA) and range

65% listed property securities
35% unlisted property investments

Net investment returns³



¹ The objectives do not constitute a forecast or guarantee of future performance or the future rates of return of the investment option.

² See page 15 for an explanation of risk label and expected frequency of negative returns.

³ The returns are compound average returns after allowance for tax (accumulation options only) and investment management expenses, but before the deduction of administration fees. Past performance is not a reliable indicator nor is it a guarantee of future performance.

Australian Fixed Interest

Investment objective¹

To track the Bloomberg AusBond Composite 0 + Yr Index, after fees.

Investor profile

Seeking returns that keep pace with inflation in the long term from a portfolio of Australian bonds; willing to accept fluctuations in returns and the possibility of negative returns over the shorter term.

Risk label²

High (Band 6)

Expected frequency of negative returns²

Approx. 5.5 times every 20 years (5.3 times from 1 Oct. 2018)

Growth/income asset allocation

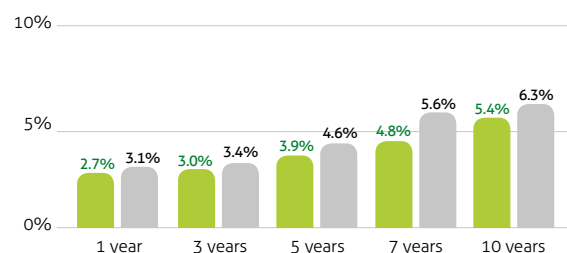
100% income assets

Strategic asset allocation (SAA) and range

100% Australian bonds

Net investment returns³

■ Accumulation and transition to retirement income stream
■ Retirement income stream



International Fixed Interest

Investment objective¹

To track the Bloomberg Barclays Global Aggregate Float Adjusted Index fully hedged to Australian dollars, after fees.

Investor profile

Seeking returns that keep pace with inflation in the long term from a diversified portfolio of global bonds; willing to accept fluctuations in returns and the possibility of negative returns over the shorter term.

Risk label²

Medium-high (Band 5); High (Band 6) from 1 October 2018

Expected frequency of negative returns²

Approx. 3.8 times every 20 years (4.4 times from 1 Oct. 2018)

Growth/income asset allocation

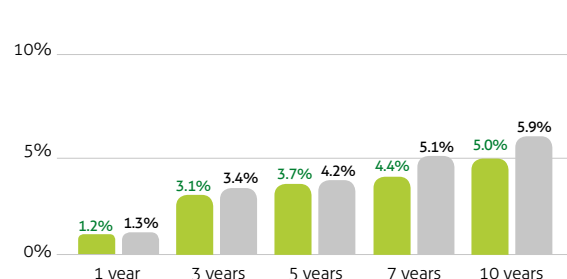
100% income assets

Strategic asset allocation (SAA) and range

100% international bonds

Net investment returns³

■ Accumulation and transition to retirement income stream
■ Retirement income stream



Cash

Investment objective¹

To track the Bloomberg AusBond Bank Bill Index, after fees.

Investor profile

Seeking a very low-risk short-term investment with very stable but low expected returns.

Risk label²

Very low (Band 1)

Expected frequency of negative returns²

Approx. 0.3 times every 20 years

Growth/income asset allocation

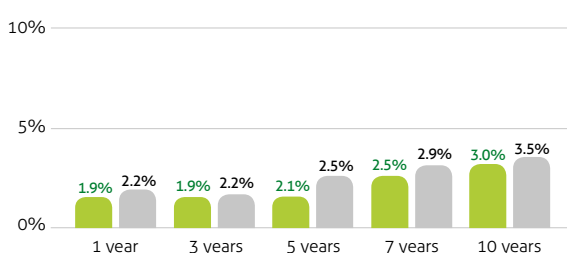
100% income assets

Strategic asset allocation (SAA) and range

A combination of bank deposits and/or short-term income-producing securities.

Net investment returns³

■ Accumulation and transition to retirement income stream
■ Retirement income stream



¹ The objectives do not constitute a forecast or guarantee of future performance or the future rates of return of the investment option.

² See page 15 for an explanation of risk label and expected frequency of negative returns.

³ The returns are compound average returns after allowance for tax (accumulation options only) and investment management expenses, but before the deduction of administration fees. Past performance is not a reliable indicator nor is it a guarantee of future performance.

Investment fees

Investment fees reflect a broad range of fees and costs associated with the purchase/sale and ongoing management of investments of the fund and underlying investment vehicles. This includes fees paid to investment managers, as well as amounts paid to a variety of third parties such as our custodian, brokers and government authorities. These amounts are paid from the assets of the investment option before we calculate the unit price and are not deducted directly from your account.

The investment fees for each of the pre-mixed investment options (i.e. the High Growth, Growth, Diversified SRI, Balanced Growth and Conservative Growth investment options) also include the trustee's charge of 0.04% per year. This is a component of 'Other fees and costs'.

Investment fees may vary from year to year and cannot be precisely calculated in advance.

Important: The investment fees shown below are indicative only and are based on the fees and costs for each investment option for the 12 months to 30 June 2018, including several components which are estimates only. The actual amount you'll pay in future years will depend on the actual fees, costs and taxes incurred by the trustee in managing the investment option.

Estimated investment fees (% per year) (Accumulation and transition to retirement income stream)

Investment option	Investment management costs	Performance-related costs	Transaction costs ¹	Other fees and costs	Total investment fees
High Growth	0.40%	0.26%	0.13%	0.12%	0.91%
Growth ²	0.37%	0.21%	0.11%	0.11%	0.80%
Diversified Socially Responsible Investment	0.34%	0.08%	0.10%	0.14%	0.66%
Balanced Growth ²	0.33%	0.21%	0.10%	0.12%	0.76%
Conservative Growth	0.27%	0.16%	0.08%	0.11%	0.62%
Australian Equities	0.06%	0.00%	0.00%	0.03%	0.09%
Australian Equities Socially Responsible Investment	0.23%	0.00%	0.09%	0.06%	0.38%
International Equities	0.06%	0.00%	0.01%	0.03%	0.10%
Property	0.75%	0.16%	0.22%	0.10%	1.23%
Australian Fixed Interest	0.06%	0.00%	0.00%	0.05%	0.11%
International Fixed Interest	0.08%	0.00%	0.00%	0.13%	0.21%
Cash	0.04%	0.00%	0.00%	0.01%	0.05%

¹ The amounts shown above reflect an estimate of explicit transaction costs only. An estimate of implicit transaction costs, borrowing and property operating costs is shown in the *Member Booklet Supplement: Fees and costs* and the *Member Booklet (Transition to Retirement Income Stream)*, which is available on our website and from customer service.

² The fees shown are the same for MySuper and Choice members.

Estimated investment fees (% per year) (Retirement income stream)

Investment option	Investment management costs	Performance-related costs	Transaction costs ¹	Other fees and costs	Total investment fees
High Growth	0.40%	0.26%	0.13%	0.13%	0.92%
Growth	0.37%	0.21%	0.11%	0.12%	0.81%
Diversified Socially Responsible Investment	0.34%	0.08%	0.10%	0.13%	0.65%
Balanced Growth	0.33%	0.20%	0.10%	0.12%	0.75%
Conservative Growth	0.27%	0.16%	0.08%	0.11%	0.62%
Australian Equities	0.04%	0.00%	0.00%	0.07%	0.11%
Australian Equities Socially Responsible Investment	0.22%	0.00%	0.09%	0.16%	0.47%
International Equities	0.04%	0.00%	0.01%	0.09%	0.14%
Property	0.74%	0.16%	0.22%	0.18%	1.30%
Australian Fixed Interest	0.05%	0.00%	0.00%	0.10%	0.15%
International Fixed Interest	0.07%	0.00%	0.00%	0.29%	0.36%
Cash	0.02%	0.00%	0.00%	0.02%	0.04%

¹ The amounts shown above reflect an estimate of explicit transaction costs only. An estimate of implicit transaction costs, borrowing and property operating costs is shown in the *Member Booklet (Retirement Income Stream)* available on our website and from customer service.

Investment reserves

We have 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 options, after providing for taxes and investment expenses, are reflected in our current unit prices.

Hedging

The pre-mixed investment options use currency hedging to hedge offshore market exposures where practicable:

- ➔ for international equities, the default position will be to hedge 50% of the developed market exposure
- ➔ for all other offshore market exposures, the default position will be 100% hedged, where practicable.

The single asset class investment options hedge offshore market exposures as follows:

- ➔ for international equities, the default position will be to hedge none of the exposure
- ➔ for international fixed income, the default position will be to hedge 100% of the exposure
- ➔ for all other offshore market exposures, the default position will be 50% hedged.

The hedging position may be varied due to market conditions. The exact level of the hedge will be determined by a range of factors, including an assessment of market conditions generally and the liquidity needs of the fund.

Use of derivatives

Derivatives are investment products whose value is derived from other assets, liabilities or indices (the underlying asset). They include a wide assortment of instruments such as futures, options, swaps, forwards, warrants and other related instruments.

At First State Super, we do not consider the use of derivatives in isolation but rather as part of the overall investment strategy of the fund and investment options.

Derivatives may be used:

- ➔ to manage risk (e.g. hedge against changes in foreign currency)
- ➔ as a way to implement investment positions efficiently, and
- ➔ for asset allocation purposes and other tactical investment reasons.

The derivatives charge ratio did not exceed 5% of the total market value of the fund's assets at any time during the reporting period.

Consultants

We appoint asset consultants to advise on appropriate asset allocation for each of the investment options and provide research on managers in each of the asset sectors, including an evaluation of the manager's investment style and its suitability to complement other current and potential managers.

We also engage specialist consultants as required to assist in providing the trustee board with specific advice relating to various asset sectors.

Custodian

State Street Australia Limited is our custodian. They value the fund's investments each business day and monitor each investment manager's daily activity.

Risk label

An investment option's risk label is determined by an industry standard risk measure (SRM). The SRM allows you to compare investment options that are expected to deliver a similar number of negative annual returns over any 20-year period. The SRM also denotes an option's corresponding risk band from very low to very high (Band 1 to Band 7). Additional information regarding the application of the standard risk measure is available on our website firststatesuper.com.au/investmentandrisk.

How are the returns calculated?

Investment returns can be positive or negative depending on the performance of investment markets, which is reflected in unit price movements. At the end of each NSW business day (with the exception of the NSW Bank Holiday), we value the assets in each of the investment options. Tax and investment fees (but not administration fees) are deducted which gives us the net value for each investment option. This figure is divided by the number of units issued for that investment option, which gives us the unit price. We multiply the number of units you have by that day's unit price to determine the daily value of your account.

So the value of your account goes up and down depending on whether the unit price has gone up or down that day. You can view the current and historical unit prices for all the fund's investment options on the unit prices page under Investments and performance/Performance/Unit prices on our website.

Holdings over 5% of total fund assets

At 30 June 2018, our exposure to the Commonwealth Bank of Australia and subsidiaries (including a combination of ordinary shares, cash and other short-term deposits, and fixed income securities) represented 5.18% of total fund assets.

More information

Our *Member Booklet Supplement: Investments* (for accumulation members) and the *Member Booklets* (for income stream members) have more information about the risk profile for each option. These documents are available on our website under **Forms & publications** or you can call us on 1300 650 873 for a paper copy free of charge.

We do not guarantee the performance of the investment options and the value of your account balance can go up or down. Past performance is not a reliable indicator nor a guarantee of future performance.



Who manages your super?

In addition to partnering with external managers, our in-house investment team manages investments in cash, Australian equities, infrastructure, credit income, unlisted property and private equity. The team also performs a cash flow and portfolio re-balancing function for the pre-mixed investment options to help make sure each option is invested as closely as possible in line with the target asset allocations. The table shows our investment partners as at 30 June 2018.

Please note that this list has changed since 30 June 2018. See our website for the most up to date list of our investment partners.

Australian shares

Pre-mixed options (excluding Diversified Socially Responsible Investment (SRI))

Adam Smith Asset Management Pty Limited
Airlie Funds Management Pty Ltd
Eley Griffiths Group Pty Ltd
First State Super Trustee Corporation
Hyperion Asset Management Ltd
Northcape Capital Pty Ltd
Redpoint Investment Management Pty Ltd
Selector Funds Management Limited
Vanguard Investments Australia Limited
Vinva Investment Management Ltd

Diversified SRI

Redpoint Investment Management Pty Ltd

Australian Equities single asset class option

Vanguard Investments Australia Limited

Australian Equities SRI single asset class option

Redpoint Investment Management Pty Ltd

International shares

Pre-mixed options (excluding Diversified Socially Responsible Investment (SRI))

Ardevora Asset Management LLP
Baillie Gifford Overseas Ltd
EAM Global Investors LLC
Neo-Criterion Capital Limited
Neuberger Berman Australia Pty Ltd
Sanders Capital LLC
Southeastern Asset Management, Inc.
Vanguard Investments Australia Ltd
Veritas Asset Management LLP

Diversified SRI

Hermes Investment Management Ltd

International Equities single asset class option

Vanguard Investments Australia Ltd

Fixed income

Pre-mixed options (excluding Diversified Socially Responsible Investment (SRI))

Amundi Asset Management Australia Ltd
Ardea Investment Management
Vanguard Investments Australia Ltd

Diversified (SRI)

Amundi Asset Management Australia Ltd

Australian Fixed Interest single asset class option

Vanguard Investments Australia Ltd

International Fixed Interest single asset class option

Vanguard Investments Australia Ltd

Property

Altis Property Partners
Brookfield Asset Management Inc
First State Super Trustee Corporation
Franklin Templeton Investments Australia Ltd
Goodman Funds Management Australia Limited
GPT Funds Management Limited
Hillwood Investment Properties
Lend Lease Investment Management (Australia) Pty Ltd
Resolution Capital Limited

Private equity

Adamantem Capital
AE Industrial Partners
Allegro Funds
Blackbird Ventures
Bridgepoint Advisers
Castik Capital Partners
Continuity Capital Partners
Crescent Capital Partners
First State Super Trustee Corporation
Foundry Group Next
FTV Management Company
GHO Capital Partners
Kohlberg Kravis Roberts (KKR)
New 2ND Capital
Nexus Point Partners
Northlane Capital Partners
Odyssey Private Equity
Parallax Capital Partners
Searchlight Capital Partners
Solace Capital Partners
Sterling Capital Partners
Udata Partners

Warburg Pincus
Webster Capital Management
Wilshire Australia

Infrastructure and real assets

Blue Sky Water Pty Limited¹
Brookfield Asset Management Inc
Capella Capital¹
Equis Funds Pty Ltd
First State Super Trustee Corporation¹
Morgan Stanley Investment Management Ltd
Orion Energy Partners LLC

Credit income

Bain Capital Credit, LP
First State Super Trustee Corporation
Intermediate Capital Group (ICG)
Quadrant Real Estate Advisors
Westbourne Credit Management Ltd

Other alternatives

Bridgewater Associates, Inc.
Chatham Asset Management¹
Darby Servtec Energia GP, LLC¹
Elementum Advisors LLC¹
Emso Asset Management Limited¹
GMO LLC¹
Insight Investment Management (Global) Ltd
K2 Advisors¹
ROC Capital Pty Ltd¹
Schroder Investment Management Australia Limited

Cash

First State Super Trustee Corporation
Colonial First State Asset Management (Australia) Ltd

Currency management

State Street Global Advisors, Australia, Limited

Asset consultants

Asset consultants advise on the appropriate asset allocation for each of the investment options and provide research on managers in each of the asset sectors, including an evaluation of the manager's investment style and its suitability to complement other current and potential managers.

We also engage specialist consultants as required to assist in providing our Trustee Board with specific advice relating to various discrete asset sectors.

¹ Indicates managers that are applicable to the Diversified Socially Responsible Investment (SRI) option for the relevant asset class.

The defined benefit fund

Actuarial review

We are required to maintain the defined benefit fund in a satisfactory financial position. The fund's defined benefit asset value must be at a level sufficient to cover the value of vested benefit liabilities of members as they fall due.

At least once a year, our actuary reviews the financial position of our defined benefit fund and makes a recommendation about the required level of future employer contributions. The fund is considered to be in a satisfactory financial position if the fund's defined benefit asset value is at least 100% of vested benefit liabilities.

We have set the shortfall limit at 98% because we expect a shortfall of this amount can be recovered through normal market movements within one year. However, if the defined benefit asset value of the fund falls below the 98% shortfall limit, we will notify members and set out a restoration plan to return the fund to a satisfactory financial position. We received the actuarial report for the year to 30 June 2018 on 24 August 2018. The report shows that the fund was in a satisfactory financial position.

The defined benefit fund position with assets of \$1,157.7 million exceeding the vested benefits liabilities by \$69.5 million (6%). The actuary also found that current employer contribution rates meet the recommended level for the defined benefit fund.

Investment objectives and strategy

The investment objectives for the defined benefit fund are to:

- maintain a ratio of assets to vested benefit liabilities at a minimum target level of 110% over the long term;
- maintain a balance between reducing the long-term cost of the benefits and reducing the volatility of the required employer contribution rate; and
- generate sufficient liquidity to provide for the cash flow requirements of the fund.

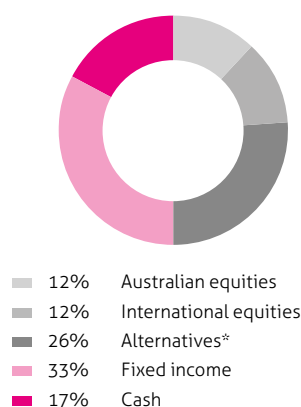
Investment returns for defined and deferred benefit members

Member benefit entitlements are determined by a formula in the trust deed based on salary and length of service and as such, investment returns do not generally affect a defined benefit entitlement. There are some limited instances where benefit entitlements are calculated with reference to investment returns. Members should refer to the explanatory notes in their 2017-18 annual statement pack for information about returns that may be relevant to their benefits. Employers bear the risk of negative investment performance affecting the financial position of the fund.

How the defined benefit pension grows

We adjust the defined benefit lifetime pension and (pre-1988) transition to retirement pension twice a year in accordance with movements in the Consumer Price Index (CPI). The update is reflected in the first pension payment in June and December each year. The defined benefit lifetime pension and (pre-1988) transition to retirement pension do not have investment returns allocated to them in the same way as other superannuation products, which are based on the performance of the underlying assets in which the product is invested.

Strategic asset allocation at 30 June 2018



* Alternatives can include both defensive and growth assets

Our people

First State Super continues to grow, evolve and introduce initiatives that can attract, retain and develop the best people. This is important, because to deliver on our promise to members, the best people will be drawn to a workplace that is inclusive, rewarding and engaging.

Attracting the best

Identifying, attracting and retaining the right people is critical to our long-term success. Following a review of our current model and the costs of recruitment and talent acquisition, we established an internal recruitment function in late December 2017. Insourcing our talent acquisition program allows us to:

- ➔ Protect and strengthen our culture
- ➔ Confidently assess cultural fit
- ➔ Create a compelling employer brand
- ➔ Have greater control over employer brand messaging
- ➔ Establish an internal centre of excellence
- ➔ Deliver on talent pools, career pathways, succession plans
- ➔ Reduce costs and increase return to members

We are committed to developing a recruitment and talent acquisition program that gives us the capabilities we need to achieve our strategic objectives and build a competitive advantage for the future. Ultimately this will continue to ensure that we have the right people to put our members first.

Building a diverse and inclusive workplace

In February, our **Diversity & Inclusion (D&I) Strategy 2018-22** was approved. The core of this strategy is the expansion of our diversity and inclusion practices.

Research shows that organisations with a diverse workforce underpinned by an inclusive environment are often more innovative, have stronger business growth, and have more engaged employees.

Our strategy was developed using the Global Diversity and Inclusion Benchmark and feedback from staff. It focuses on increasing awareness of D&I, building inclusive practices into our recruitment processes to reduce bias, and increasing understanding of our flexible work options. All managers have attended an education workshop on unconscious bias and building an inclusive workplace, and all employees must complete a program of online learning modules on bias, diversity and inclusion.

Our D&I policies have been recognised by the Workplace Gender Equality Agency, who has awarded us their Employer of Choice for Gender Equality citation for the last two years. This is a strong endorsement for those seeking to work at First State Super. Only 106 Australian employers receive this citation and it is wonderful recognition of our efforts to provide a workplace that supports gender equality. Women make up 42% of management roles and 49% of non-management roles.

Our external Gender Pay Equity analysis shows that compared to the general employment market, we have no pay gap between male and female employees in comparable roles.

Gender diversity summary at 30 June 2018

Employer group	Total population	Male	%	Female	%	Total %
Board	13	7	54%	6	46%	100%
Executive team	9	6	67%	3	33%	100%
Management*	102	59	58%	43	42%	100%
Staff	438	224	51%	214	49%	100%

* Management is defined as any manager who leads a team, irrespective of team size.

Employee initiatives

We encourage our employees to support the community and their own wellbeing by participating in initiatives such as:

- **RUOK? Day.** Highlights the importance of addressing mental health in the workplace. We provide '2 for 1' coffee cards to stimulate conversations between our employees on this important topic.
 - **White Ribbon Day.** Focuses on the topic of family violence. We provide special leave of up to ten days a year for employees experiencing family violence.
 - **Refugee and Asylum-Seeker Internship program.** A 12-week work experience internship and an introduction to the Australian workplace for refugees and asylum-seekers who have recently arrived in Australia.
 - **Bring Your Kids to Work Day.** Recognises the importance of work-life balance and gives children an opportunity to see what their parents do at work.
-

Employee engagement

Each year, we conduct an employee engagement and alignment survey to assess whether employees feel connected to our culture, our strategy, and our focus on members; and whether they understand how their work contributes to our overall success. This helps us maintain our strengths and identify development areas.

This year, we recorded an employee engagement score of 73% and an alignment score of 62%. These results place us in the top quartile of all employers surveyed in the global database, a position we have maintained for the past four years. Survey feedback provides valuable input into our business and people strategies.

Our leadership capability

Leadership is an integral part of building and enhancing our culture. As our organisation becomes more complex and the market more competitive, the expectations of our leaders rise accordingly. On top of that, research tells us that 85% of people leave an organisation because of their manager.

For these reasons, we recently launched a new **leadership development program** designed to support our leadership capabilities. The program gives our leaders tools to develop and apply leadership practices that support our inclusive culture.

The program focuses on inclusion, unconscious bias, diversity of thought, and psychological safety. It also provides practical techniques to increase inclusion and enhance decision-making. The program builds on our current strengths, increases our understanding of inclusion and shows leaders how to adapt their leadership style to maximise the value of difference.

Our board and committees

Our strong governance

To safeguard the benefits of our members and clients, we aim to achieve best practice in all areas of governance. To achieve best practice, we have developed and apply a governance framework that is highly regarded by all our stakeholders and, most importantly, the industry regulators.

Our governance framework meets all requirements of the primary industry regulator, the Australian Prudential Regulation Authority (APRA). The framework includes policies and procedures that ensure our board has the appropriate skills, structure and composition to properly oversee and exercise its authority in relation to the activities of the fund. FSS Trustee Corporation is the trustee of the First State Superannuation Scheme. The board of the trustee consists of an independent chairman, Neil Cochrane, together with six employer representative directors and six member representative directors. The board is the highest governance body at First State Super and its responsibilities are outlined in the First State Superannuation Scheme Trust Deed and Rules and the constitution of FSS Trustee Corporation.

Board appointments

Nominating entities representing both employers and employees must consider the requirements of our Fit and Proper Policy when assessing a person's eligibility for appointment as a director to the board. This board-approved policy determines the skills and qualities a person must possess to hold the position of director.

Indemnity

The fund, the trustee and the directors and officers of the trustee are covered by professional indemnity insurance. The trustee holds all fund assets in trust and is required by law to act in the best interests of members.

Disclosure

Legislation requires super funds to disclose certain information on their website, including how directors are appointed and removed, board meeting attendance and the remuneration details of their directors and executive officers. This information can be found on our website at firststatesuper.com.au/about/people.

Committees

The board has set up a number of committees to review and implement policy decisions.

Board committee	Members during the year to 30 June 2018
Investments Committee	Trevor Carr (chair), Neil Cochrane, Michael Cole, Rod Harty, Dr Rosemary Kelly, Ralph Kelly, Mark Lennon
Member Services Committee	Bob Lipscombe (chair), Lisa Fitzpatrick, Ralph Kelly, Philippa Smith, Naomi Steer, Gary Thomas
Disputes Committee	Philippa Smith (chair), Lisa Fitzpatrick, Jocelyn Furlan, Dr Rosemary Kelly
Audit and Compliance Committee	Sue Carter (chair), Jocelyn Furlan, Rod Harty, Bob Lipscombe, Gary Thomas
Risk Committee	Ralph Kelly (chair), Sue Carter, Jocelyn Furlan, Bob Lipscombe, Gary Thomas
Remuneration and Human Resources Committee	Dr Rosemary Kelly (chair), Trevor Carr, Rod Harty, Naomi Steer
Governance and Nominations Committee	Neil Cochrane (chair), Trevor Carr, Dr Rosemary Kelly, Naomi Steer, Gary Thomas

To achieve best practice, we apply a governance framework that is highly regarded by all our stakeholders and, most importantly, the industry regulators.

Our board at 30 June 2018



Neil Cochrane

Independent director and chairman of the board

Appointed by the employer and employee board representatives.



Sue Carter

Employer representative

Appointed jointly by the Secretary of the Department of Premier and Cabinet of NSW and the Secretary of the Treasury of NSW.



Jocelyn Furlan

Employer representative

Appointed jointly by the Secretary of the Department of Premier and Cabinet of NSW and the Secretary of the Treasury of NSW.



Rod Harty

Member representative

Appointed by Unions NSW.



Dr Rosemary Kelly

Member representative

Appointed by Health Services Union.



Mark Lennon

Member representative

Appointed by Unions NSW.



Trevor Carr

Employer representative

Appointed by Leading Age Services Australia (LASA National).



Lisa Fitzpatrick
Member representative

Appointed by the Australian Nursing and Midwifery Federation (Victorian Branch).



Bob Lipscombe
Member representative

Appointed by Unions NSW.



Philippa Smith AM
Employer representative

Appointed jointly by the Secretary of the Department of Premier and Cabinet of NSW and the Secretary of the Treasury of NSW.



Ralph Kelly
Employer representative

Appointed jointly by the Secretary of the Department of Premier and Cabinet of NSW and the Secretary of the Treasury of NSW.



Gary Thomas
Employer representative

Appointed by the Victorian Healthcare Association Limited.



Naomi Steer
Member representative

Appointed by Unions NSW.



Risk management

At First State Super, we consider the management of risk to be an integral part of the organisation. We are committed to embedding risk management practices to support the achievement of our business objectives and fulfil our regulatory obligations.

Our board-approved enterprise-wide Risk Management Framework supports the proactive management of risk. The framework is aligned to the Australian/ New Zealand Standard on Risk Management (AS/NZ ISO 31000:2009) and APRA SPS 220 and CPS 220 Standards on Risk Management.

The objective of our Risk Management Framework is to protect the fund and its members by identifying, monitoring and managing the risks associated with our business operations, financial capacity, reputation and strategic plan.

The framework includes:

- ➔ our Risk Appetite Statement, which outlines the different categories of risk we face and our tolerance levels for managing these risks; and
- ➔ our Risk Management Strategy, which describes the key elements of our Risk Management Framework and documents the systems used to identify, assess, manage, mitigate and monitor our material risks.

Instilling a strong risk culture is also a core element of our Risk Management Framework.

We also recognise the importance of a dedicated risk management function, which is headed up by the Chief Risk Officer (CRO). The CRO is responsible for assisting the board, its committees and senior management to develop and maintain the Risk Management Framework.

We regularly monitor and review processes to ensure the Risk Management Framework remains adequate, appropriate and effective. We recognise that risk is dynamic and continually evolving so reviews also consider emerging risks due to:

- ➔ strategic, project or operational initiatives; and
- ➔ changes in the external risk environment.

While primary responsibility for risk management rests with the board, the Risk Management Framework is largely overseen by the board, Risk Committee, Chief Risk Officer and Executive Risk Group.

Our financial reports

The tables contain information extracted from the fund's audited financial statements. You can view a copy of the audited financial statements on our website under **About the fund/Reporting**. A hard copy can be obtained free of charge by calling us on 1300 650 873.

Statement of financial position as at 30 June 2018

	2018 \$m	2017 \$m
Assets		
Cash and cash equivalents	442	426
Receivables	595	514
Financial assets	73,932	64,762
Plant and equipment	4	8
Deferred tax assets	230	209
Total assets	75,203	65,919
Liabilities		
Benefits payable	67	54
Accounts payable	342	608
Financial liabilities	1,774	257
Income tax payable	81	59
Deferred tax liabilities	1,468	1,121
Total liabilities excluding member benefits	3,732	2,099
Net assets available for member benefits	71,471	63,820
Defined contribution member liabilities	69,956	62,291
Defined benefit member liabilities	1,082	1,097
Total member liabilities	71,038	63,388
Net assets	433	432
Equity		
Reserves	363	387
Defined benefit surplus	70	45
Total equity	433	432

Income statement for the year ended 30 June 2018

	2018 \$m	2017 \$m
Investment revenue		
Interest – investments carried at fair value	461	374
Interest – bank deposits	5	5
Dividends	1,005	954
Distributions from unit trusts	842	705
Securities lending income	21	15
Other income	18	28
Changes in fair value of investments	4,510	4,982
Total revenue	6,862	7,063
Investment expenses	(268)	(201)
Administration expenses	(163)	(143)
Total expenses	(431)	(344)
Operating result before income tax expense	6,431	6,719
Income tax benefit/(expense)	(477)	(479)
Operating result after income tax expense	5,954	6,240
Net benefits allocated to defined contribution member accounts	(5,876)	(5,975)
Net change in defined benefit member accounts	(102)	(97)
Operating result	(24)	168

Statement of changes in member benefits

	Defined contribution member benefits \$m	Defined benefit member benefits \$m	Total \$m
Opening balances as at 1 July 2016	53,993	1,069	55,062
Employer contributions	4,073	20	4,093
Member contributions	1,216	–	1,216
Transfers from other superannuation funds	1,085	–	1,085
Superannuation co-contributions	21	–	21
Income tax on contributions	(564)	(1)	(565)
Net after tax contributions	5,831	19	5,850
Benefits to members	(3,195)	(115)	(3,310)
Insurance premiums charged to members' accounts	(313)	–	(313)
Transfer (to)/from reserves	–	–	–
Net benefits allocated to members	5,975	97	6,072
Net change in member defined benefits	–	27	27
Closing balances as at 30 June 2017	62,291	1,097	63,388
Opening balances as at 1 July 2017	62,291	1,097	63,388
Employer contributions	3,946	19	3,965
Member contributions	1,006	–	1,006
Transfers from other superannuation funds	1,278	–	1,278
Superannuation co-contributions	24	–	24
Income tax on contributions	(546)	(2)	(548)
Net after tax contributions	5,708	17	5,725
Benefits to members	(3,598)	(108)	(3,706)
Insurance premiums charged to members' accounts	(321)	–	(321)
Transfer (to)/from reserves	–	–	–
Net benefits allocated to members	5,876	102	5,978
Net change in member defined benefits	–	(26)	(26)
Closing balances as at 30 June 2018	69,956	1,082	71,038

Statement of changes in equity/reserves

	Unallocated income \$m	Operational risk financial requirement reserve ¹ \$m	Insurance reserve ² \$m	Administration reserve ³ \$m	Total \$m
Opening balances as at 1 July 2015	15	117	–	43	175
Operating result	8	25	–	11	44
Transfer to defined contribution member accounts	–	–	–	–	–
Transfer to defined benefit member accounts	–	–	–	–	–
Closing balances as at 30 June 2016	23	142	–	54	219
Opening balances as at 1 July 2016	23	142	–	54	219
Operating result	89	18	–	61	168
Transfer to defined contribution member accounts	–	–	–	–	–
Transfer to defined benefit member accounts	–	–	–	–	–
Closing balances as at 30 June 2017	112	160	–	115	387
Opening balances as at 1 July 2017	112	160	–	115	387
Operating result	(88)	18	10	36	(24)
Transfer to defined contribution member accounts	–	–	–	–	–
Transfer to defined benefit member accounts	–	–	–	–	–
Closing balances as at 30 June 2018	24	178	10	151	363

¹ The Operational Risk Financial Requirement Reserve is an unallocated reserve which is maintained separately to the unitised assets of the Fund for use by the Trustee in accordance with the requirements of Superannuation Prudential Standard 114 Operational Risk Financial Requirement and the Fund's Operational Risk Financial Requirement Reserving Policy.

² The Insurance Reserve is an unallocated reserve which is maintained separately to the unitised assets of the Fund for use by the Trustee in accordance with the Insurance Reserve Policy.

³ The Administration Reserve is an unallocated reserve which is maintained separately to the unitised assets of the Fund for use by the Trustee in accordance with the Trust Deed.

Statement of cash flows for the year ended 30 June 2018

	2018 \$m	2017 \$m
Cash flows from operating activities		
Investment income	2,333	2,081
Investment expenses	(268)	(201)
Administration expenses	(120)	(143)
Income tax paid	(301)	(321)
Net inflows from operating activities	1,644	1,416
Cash flows from investing activities		
Purchase of investments	(67,140)	(76,735)
Proceeds from sale of investments	63,629	73,024
Net outflows from investing activities	(3,511)	(3,711)
Cash flows from financing activities		
Contributions received	5,897	6,015
Benefits paid	(3,692)	(3,307)
Insurance premiums paid	(322)	(313)
Net inflows from financing activities	1,883	2,395
Net increase/(decrease) in cash held	16	100
Cash at the beginning of the financial year	426	326
Cash at the end of the financial year	442	426



Other information

Inactive accounts and small balances

We may 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 us that your employment has been terminated; or
- ➔ no contributions have been received into your account for six months.

Before transferring a benefit, we will advise you in writing. Unless you advise us within one month that you wish your benefit to be rolled over to another complying superannuation fund, we will transfer your benefit to the fund's nominated ERF, AUSfund. AUSfund has consented to the inclusion of statements which relate to their services. AUSfund is operated by Industry Funds Investments Limited (ABN 17 006 883 227, AFSL 229881) as trustee of AUSfund, Australia's Unclaimed Super Fund (ABN 85 945 681 973). AUSfund satisfies APRA's enhanced prudential standards for ERFs.

If your benefit is rolled over to AUSfund, any insurance cover you may have will cease, and you will also cease to be a member of First State Super.

AUSfund's contact details are:

Locked Bag 5132, Parramatta NSW 2124

Phone: 1300 361 798

Email: admin@ausfund.com.au

Lost and unclaimed super is paid to the ATO

In addition, the trustee is required by law to report and pay unclaimed member accounts under \$6,000 and accounts that have been inactive for a certain period of time to the Australian Tax Office (ATO). This includes inactive accounts of members aged 65 and over, those who are uncontactable or unidentifiable, and death benefits and family law splits that cannot be paid. See the *Member Booklet Supplement: About First State Super* on our website for more information.

Insurance

Death, total and permanent disablement (TPD) and income protection insurance cover offered to First State Super personal and employer-sponsored members is provided under insurance policies issued to the trustee by TAL Life Limited ABN 70 050 109 450.

Temporary residents

If you are a temporary resident, you can usually receive your super when you permanently depart Australia. If you intend to claim your superannuation benefit upon departing Australia, you should request from Australian Customs, a port and date stamp for your passport, when departing Australia.

We must treat your super as unclaimed money and forward it to the ATO if:

- you are a departed temporary resident
- at least six months have passed since the later of your visa expiring or your departure from Australia
- you are not currently the holder of a temporary, permanent or prescribed visa
- you are not an Australian or New Zealand citizen and have not made a valid application for a permanent visa.

Relying on relief provided by the Australian Securities and Investments Commission (ASIC), the trustee is not obliged to notify or give an exit statement to a member who was a temporary resident where we transfer their superannuation to the ATO following their departure from Australia. You can claim your super from the ATO by calling 13 28 65 or visiting ato.gov.au.

Administrator

Mercer Administration Services (Australia) Pty Limited ABN 48 616 275 980 is responsible for overseeing the daily operations of the fund. Mercer manages the processing of member and employer contributions, maintaining member records, and paying benefits. Mercer is also the custodian for the fund's Australian trust bank accounts.

Compliance

The First State Superannuation Scheme (ABN 53 226 460 365) 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*.

We can accept transfers and rollovers under First State Super's trust deed and rules and the fund is authorised under MySuper legislation. Upon receipt of the transfers and rollovers, we will maintain and preserve the benefits in First State Super to the extent required by SIS and its 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. We may be able to receive further assessments for the 2004-05 financial year and earlier years if a member, who has rolled over money into First State Super 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 TFN

You can provide your TFN directly to the fund by contacting customer service and following the TFN prompts or completing the section in your application or member details form. You can also download and complete the *Tax file number collection* form from our 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 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 benefit statement, or by calling us.

What can we do with your TFN?

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

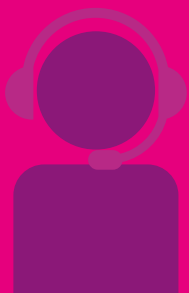
We may disclose your TFN to another superannuation provider, when your benefits are being transferred, unless you request in writing that your TFN is not to be disclosed to any other superannuation provider. We may also disclose your TFN to our administrator and the Commissioner of Taxation in order to provide all of the services required in the administration of your account.

We may also use your TFN to identify multiple accounts within the fund and consolidate them when permitted under law.

Declining to quote your TFN is not an offence, however, doing so will have the following advantages:

- the fund will be able to accept all permitted types of contributions to your account
- other than the tax that may ordinarily apply, you will not pay more tax than you need to. This affects both contributions to your superannuation account and benefit payments when you start drawing down your superannuation benefits
- it will make it much easier to find different superannuation accounts in your name, and match your accounts in the fund, so that you receive all of your superannuation benefits when you retire.

For more information about the tax that may apply to super, visit the Australian Tax Office (ATO) website, ato.gov.au. Our fact sheet *Super taxes, caps, payments, thresholds and rebates* also has information on tax and super.



Contact us

Phone 1300 650 873
Fax 1300 722 072
Email enquiries@firststatesuper.com.au
Web firststatesuper.com.au
Post PO Box 1229, Wollongong NSW 2500

This is general information only and does not take into account your specific objectives, financial situation or needs. General advice is provided by FSS Trustee Corporation (FTC) ABN 11 118 202 672, AFSL 293340, the trustee of the First State Superannuation Scheme (First State Super) ABN 53 226 460 365. You should consider the Member Booklet (Product Disclosure Statement) for the product you hold or intend holding before making any decisions. Call us on 1300 650 873 for a free copy of the Member Booklet or the annual report, or visit firststatesuper.com.au.