



**Military  
Super**

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ABN: 50 925 523 120  
Board ABN: 72 406 779 248



THE MSB BOARD  
**2010–11**  
ANNUAL  
REPORT



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**2010-11**  
**ANNUAL**  
**REPORT**

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Note: All statistics are derived solely from records available to MilitarySuper and ComSuper (Scheme Administrator) as they stood at the time these statistics were compiled. Where statistics for earlier financial years are quoted, these may vary from those previously published due to the application of retrospective adjustments that are now reflected in this report. For similar reasons statistical information in this report may also vary from that presented by other agencies.

## LETTER OF TRANSMITTAL

The Hon Warren Snowdon MP  
Minister for Veterans' Affairs  
Minister for Defence Science and Personnel  
Minister for Indigenous Health  
Parliament House  
Canberra ACT 2600

Dear Minister

In accordance with section 30 of the *Governance of Australian Superannuation Schemes Act 2011*, I am pleased to submit to you the Annual Report of the Military Superannuation and Benefits Board (the Board) for the year ended 30 June 2011, together with financial statements in respect of the management of the Military Superannuation and Benefits Fund during 2010–11, and the Auditor-General's report in respect of those statements.

Subsection 30(4) of the *Governance of Australian Superannuation Schemes Act 2011* requires you to cause a copy of the report to be laid before each House of the Parliament within 15 sitting days of you receiving it.

Yours faithfully



Tony Hyams  
*Chairman, Commonwealth Superannuation Corporation*

7 October 2011



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# CHAIRMAN'S OVERVIEW

I am pleased to present this report on the operations of the Military Superannuation and Benefits Board of Trustees (MSB Board) for the financial year to 30 June 2011. This is the final report of the MSB Board.

## Merger of the Boards of the Major Commonwealth Superannuation Schemes

In 2008, the Government announced that it intended to merge the MSB Board, the DFRDB Authority and the ARIA Board (the trustee of the CSS, PSS and PSSap civilian schemes), to form a single trustee board.

The legislation to merge these entities was passed by the Parliament on 21 June 2011. Therefore, from 1 July 2011, the MSB Board ceased to exist and the new trustee body, Commonwealth Superannuation Corporation (CSC), assumed responsibility for the administration of both the military and civilian superannuation schemes.

## The Global Investment Environment

The 2010–11 year produced volatile investment markets and significant challenges for superannuation funds. While there was continued recovery in global investment markets following the global financial crisis in 2008–2010, new challenges arose such as the impact of natural disasters and political upheaval in some countries. Areas of concern at the end of the financial year included:

- The impact of the devastating earthquake and tsunami in Japan, followed by the nuclear crisis at Fukushima. These events rocked the Japanese economy, one of the world's largest
- Several European countries have severe debt problems, resulting in increasing interest rates and fears of sovereign defaults
- Political unrest in some northern African countries has added to an increase in the oil price which is a key input to the global economy. The price of oil rose 25% during the year. Markets do not like uncertainty so continued unrest in oil producing nations creates concern in the markets
- The US has very high levels of debt. Whilst there are signs of a recovery in corporate earnings, the housing market and private consumption figures are still weak.

The Australian dollar was a big mover during the year, up 26% against the US dollar. This large movement was in part due to weakness in the US dollar rather than just a strong Australian dollar. The upward movements against other currencies were generally not as great. A strong rise in the Australian dollar is generally a negative for overseas investments which meant that our overseas investments did not perform as well in Australian dollar terms as they did in their local currencies.

In the foreseeable future we expect that investment markets will continue to be more volatile than in the past, as occurred in early August 2011 when markets exhibited high levels of volatility following the downgrading of the USA's credit rating by Standard and Poor's.

## MilitarySuper's Investment Performance

MilitarySuper's Growth investment option, the Fund's default option in which the vast majority of members are invested, returned 4.7% net of fees, charges and taxes in 2010–11. MilitarySuper has a relatively high exposure to unlisted assets (those assets that are not readily bought and sold on a financial market such as the Australian sharemarket). These assets did not perform as well as listed sharemarkets however we believe the portfolio is now well placed to benefit from a global recovery in the future.

Superannuation is a long-term investment for retirement and its performance should more properly be considered over longer periods. Over the past five years, the Growth investment option's performance was assessed by the independent ratings agency SuperRatings, as being similar to the median performance of comparable funds.

## Investment Review

In late 2010 the Board undertook a detailed and comprehensive review of its investment arrangements and appointed Towers Watson, a leading global investment consultancy firm, as the Board's primary investment consultant.

Following Towers Watson's appointment, the Board and management worked with that firm to review the Board's investment operations. As a result of this review, the Board decided to change some features of the Scheme's investment options from 1 July 2011, with the key driver being a heightened focus on investment risk.

## Thank You

I am grateful for the support over the past year of the Minister for Veterans' Affairs, Defence Science and Personnel, the Hon. Warren Snowdon and the Minister for Defence, Mr Stephen Smith. I especially want to thank the former Chief of the Defence Force, Air Chief Marshal Angus Houston, AC, AFC and Dr Ian Watt, AO, Outgoing Secretary of Defence, for their constructive support and guidance during the year and wish them well in their future roles.

I also record appreciation for the support and commitment of my fellow trustees to serving the best interests of MilitarySuper members over many years. Their role has been vital to the success of MilitarySuper and they have served members well.

I also record my appreciation of our staff and service providers for their work, dedication and professionalism during the year. The workload is always challenging and their contribution has been immensely important.

As Chairman of the new CSC, I look forward to working with the Chief of the Defence Force, General David Hurley, AC, DSC, and the Incoming Secretary of Defence, Mr Duncan Lewis, to ensure that under its new administration MilitarySuper continues to grow and prosper for the benefit of all members.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Tony Hyams', with a large, stylized flourish on the left side.

Tony Hyams  
*Chairman, Commonwealth Superannuation Corporation*



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**ABOUT  
THE SCHEME**

The Military Superannuation and Benefits Scheme (MilitarySuper, the Scheme) was established by the *Military Superannuation and Benefits Act 1991* (the Act). It replaced the Defence Force Retirement and Death Benefits (DFRDB) Scheme for new entrants to the Defence Force on 1 October 1991, following government initiatives to improve Defence Force superannuation arrangements. Existing DFRDB contributors were given the option of transferring to MilitarySuper before 1 October 1992.

## Description of the Scheme

MilitarySuper is a hybrid superannuation scheme with benefits being derived from the following sources:

- A member component, comprising the member's own contributions, including amounts notionally brought over from the DFRDB Scheme, plus earnings on these amounts. Investment choice is applicable to this component of the benefit and members can select from one of the five investment options offered by the Scheme
- An employer component, which is a defined benefit based on the member's period of membership and final average salary. Except for the portion relating to employer 3% productivity contributions (which are paid on a fortnightly basis to the Fund by the Department of Defence) this component of the benefit is unfunded. That is, the cost is met by the employer on an emerging cost basis from the Commonwealth's Consolidated Revenue Fund when the benefit falls due.

Membership of the Scheme is compulsory for new entrants to the Defence Force and requires a minimum member contribution rate of 5% of fortnightly salary for superannuation purposes. At three-monthly intervals members may elect to vary their contributions to the Scheme from a minimum 5% to a maximum of 10%.

In addition, members are able to transfer amounts from other superannuation funds into the Scheme and make pre-tax member contributions and contributions for the benefit of their spouse to the Scheme. These additional ancillary benefits are invested according to the member's investment choice and are payable in addition to other benefits.

On resignation from the Defence Force the member benefit accrued to 30 June 1999 can be paid as a lump sum to the member, but the balance of the member benefit must be preserved until the member's preservation age, either in MilitarySuper or in another complying superannuation fund selected by the member. The employer component, including productivity contributions, must be preserved in MilitarySuper until the member reaches age 55, or in another complying superannuation fund until the member's preservation age.

## SIS Compliance

MilitarySuper is a complying scheme under the *Superannuation Industry (Supervision) Act 1993* and continues to be eligible to have tax payable on the net income assessed at the concessional rate of 15%.





The MilitarySuper Scheme was managed by the Military Superannuation and Benefits Board (the Board) until 30 June 2011. From 1 July 2011, the MilitarySuper Scheme is managed by the Commonwealth Superannuation Corporation (CSC).

The Board consisted of five trustees appointed by the Minister for Defence Science and Personnel (the Minister) under section 21 of the Act. Two of the trustees, nominated by the Minister, had experience in, and knowledge of, the formulation of government policy and public administration. Two additional trustees were members of the Defence Force – one an Officer and the other a Member other than an Officer. They were nominated by the Chief of the Defence Force (CDF) and appointed by the Minister.

One of the employer representatives was appointed at the Minister's pleasure. With the exception of this employer representative, trustees held office for up to three years and could be reappointed. Trustees were removed in the same way they were appointed.

Trustees holding office until 30 June 2011 were:

## Chairman

### Mr Tony Hyams

- Appointed 1 September 2007

Mr Hyams was also Chairman of the Australian Reward Investment Alliance (ARIA), the trustee of the Commonwealth's main civilian superannuation schemes and a director of several private sector organisations. He is a Governor of WWF Australia. He was formerly Head of Credit Suisse in Australia and is now a senior advisor to the Group. He has degrees in Law and Commerce from the University of Melbourne and brings to the role of Chairman a broad knowledge and understanding of investment, financial and superannuation matters.

## Minister's Nominees

### Mr Gabriel Szondy

- Appointed 1 August 2007
- Chairman, Audit and Risk Management Committee

A former senior partner and head of the superannuation tax practice of PricewaterhouseCoopers in Melbourne, Mr Szondy has over 30 years experience in the audit and taxation profession and superannuation industry and is widely acknowledged as one of the foremost superannuation experts in Australia. He is a Fellow of the Institute of Chartered Accountants, Fellow of the Taxation Institute of Australia and a Fellow of the Association of Superannuation Funds in Australia (ASFA).

Mr Szondy was a member of the Victorian Executive Group of ASFA and immediate past Chairman of its National Taxation Policy Committee. He is also an independent director of CareSuper, a director of Frontier Investment Consulting and Chair of the Investment Compliance Committee, Senior Master's Supreme Court of Victoria.

**Mr Felix Bleeser**

- Appointed 1 March 2005
- Member, Audit and Risk Management Committee

Mr Bleeser is a former Assistant Secretary Financial Training in the Defence Chief Finance Office and was also previously the Director General Defence Occupational Health Safety and Compensation. He has extensive experience in personnel policy and management in Defence, and was a member of numerous Defence review bodies, including the review of the Defence Force Retirement and Death Benefits Scheme, the Defence Efficiency Review and the Strategic Review of Defence Personnel Policies into the 21st Century.

He is a past Director of Superannuation Policy in Defence and an alternate member of the Defence Force Retirement and Death Benefits Authority, the Military Rehabilitation and Compensation Commission and the Government's Safety Rehabilitation and Compensation Commission. He is a Member of the Australian Institute of Company Directors.

**ADF Nominees****Brigadier Bob Brown, CSC**

- Appointed 18 October 2007
- Chairman, Communication Committee

Brigadier Brown served for over 35 years in the Australian Army, as an infantry officer, including service with the United Nations and in Iran and Iraq. His appointments included Director General Personnel Policy, Headquarters Joint Operations Command Project and Joint Combined Training Capability. He is currently working at Headquarters Joint Operations Command. He has a Masters of Strategic Studies and is a Fellow of the Australian Institute of Company Directors.

**Warrant Officer Robert Swanwick, MAICD**

- Appointed 22 September 1997
- Member, Audit and Risk Management Committee
- Member, Communication Committee

Warrant Officer Swanwick is an Air Force Loadmaster who has served throughout Australia and overseas for over 30 years and is currently the Airmen Aircrew Work Force Planner, within the Directorate of Personnel Capability Management – Air Force. He has been posted to various Tri Service programs within Defence HQ, Air Force and Army units and attached to Navy establishments. He has completed several operational deployments including to the Sinai Peace Keepers and three recent deployments to the Middle Eastern Area of Operations.

He holds a Diploma in Frontline Management and in Aviation and has extensive training in communications, investment and superannuation administration.



*Standing (l to r):* Warrant Officer Robert Swanwick MAICD, Mr Felix Bleeser.

*Seated (l to r):* Mr Gabriel Szondy, Mr Tony Hyams, Brigadier Bob Brown CSC.

## Board Meetings

The Board met 10 times during the year and ensured that it received appropriate and reliable reporting on the condition of the Scheme and the actions of its staff, delegates and other service providers.

**Table 1: Schedule of Board Meetings 2010–11**

	10-11 Aug 2010	2-3 Sept 2010	13-14 Oct 2010	24 Nov 2010	8-9 Dec 2010	7 Feb 2011	23-24 Feb 2011	25 Mar 2011	11-12 May 2011	20-21 Jun 2011
Mr Tony Hyams	P	A	P	P	P	P	P	P	P	P
Mr Gabriel Szondy	P	P	P	P	P	P	P	P	P	P
WOFF Robert Swanwick	P	P	P	P	P	P	P	P	P	P
BRIG Bob Brown	P	P	P	A	A1	P	P	P	P	P
Mr Felix Bleeser	P	P	P	P	P	P	P	P	P	P

P Present

A Apologies Provided

A1 On Duty with ADF, Apologies Provided.

## Indemnity Insurance

The Board held trustee indemnity insurance that complies with Section 912B of the *Corporations Act 2001*. This is to ensure that the Fund's assets are protected against losses, liabilities, actions, claims and demands against the Board that may arise from the actions of the Board and staff of the Scheme Administrator acting as authorised representatives of the Board under its Australian Financial Services Licence. To date there has not been any claim against the insurance policy, nor have regulatory penalties been applied to MilitarySuper.

## Licences

The Board held both an APRA licence and an Australian Financial Services (AFS) license until 30 June 2011.

## Remuneration

The Board was remunerated in accordance with the rates set by the Remuneration Tribunal. The remuneration represents an all-inclusive fee encompassing all Board related activities.

From 1 July 2011, the MilitarySuper Scheme is managed by the Commonwealth Superannuation Corporation (CSC). The CSC was established through the consolidation of the Military Superannuation and Benefits Board, the Australian Reward Investment Alliance (ARIA) and the Defence Force Retirement and Death Benefits Authority and is responsible for managing all Commonwealth superannuation schemes.

The Directors of CSC at 30 September 2011 are:

- Mr Tony Hyams, Chairman
- Mr Tony Cole
- General Peter Cosgrove
- Mr Peter Feltham
- Ms Nadine Flood
- Ms Lyn Gearing
- Ms Peggy Haines
- Ms Winsome Hall
- Mr John McCullagh
- Mr Gabriel Szondy
- Dr Michael Vertigan





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GOVERNANCE

During the year the Board continued to ensure that the Board's and the Scheme's governance practices and processes met the Board's regulatory duties and responsibilities.

## Corporate Governance Statement

The Board was constituted under the *Military Superannuation and Benefits Act 1991* (the Act) and the associated Trust Deed and Scheme Rules. The Board is accountable to the members of the Military Superannuation and Benefits Scheme (the Scheme) under the Act, under the *Superannuation Industry (Supervision) Act 1993* (the SIS Act) and under general corporate legislation. The principal responsibility of the Board is to act in good faith, with prudence and in the members' best interests in respect of the investment and administration of the Scheme.

The Board's Charter is to:

- Administer the Act and to effectively and efficiently meet its responsibilities under the Act
- Manage and invest the Fund to provide real growth for members' investments while managing risk levels carefully.

## Vision Statement

The Board adopted the following as its vision:

*Our vision is that MilitarySuper be recognised as one of the best superannuation schemes in Australia.*

The Board identified its purpose is to help past, present and future Australian Defence Force personnel secure their financial security in retirement.

## Principal Duties

The Board's principal duties are to:

- Invest and manage the Fund to meet the purposes of the Scheme and safeguard the interests of members and their beneficiaries
- Maintain board governance and administration in accordance with the Scheme rules and its regulatory obligations and requirements
- Maintain prudent financial practices and oversee scheme administration activities
- Communicate to members, principal sponsors and stakeholders the Scheme's and Fund's key features, activities and long-term performance
- Develop, manage and support its staff to achieve the above objectives.

The Board was committed to complying with its legislative and regulatory obligations as well as fulfilling its fiduciary responsibilities throughout the year. The Board established policies and procedures which ensured that the Board and its staff met high standards of professionalism and integrity.

## General Governance Principles

The Board's own behaviours reflect its overriding general governance principles, and where appropriate, mirror the behaviour which the Board expects from companies in which the Board invests and with whom it has commercial dealings. The Board's duties were carried out in good faith, prudently and in accord with the relevant legislation so that the best interests of the members are served.

The Board was required to act ethically and impartially at all times. Trustees and management were expected to avoid placing themselves in situations of perceived or actual conflicts of interest. Where such situations occurred, they were to be resolved in accordance with the Board's policy for managing conflicts of interest.

The Board's responsibilities for the Fund and the Scheme were supported by business planning, business risk assessment, management reporting, and arrangements for audit, internal control and compliance, all conducted on a regular basis. The Board's appointments and delegations (including appointments and terminations of authorised representatives) were in writing and the Board regularly reviewed its own activities and the activities of the persons through whom it works, to ensure that a clear and proper set of accountabilities was in effect.

## Continuing Qualifications and Disclosure of Interests

Trustees lodge, on appointment and annually thereafter, a Disclosure of Interests Statement and a Declaration of Related Party Transactions. Trustees advised:

- If any event has changed their continuing compliance with the trustee qualification requirements set out in the SIS Act
- If any agenda item requires a disclosure of interest
- If any change in their business relationships has occurred that might have a connection with the Board's duties or activities. In accordance with the Board's policy for managing conflicts of interest where a Board Member has a conflict of interest in respect of any matter, that Member will not engage in discussion of, or decision on the matter.

The Board's Responsible Managers under its Australian Financial Services (AFS) licence (Chief Executive Officer and Compliance Manager) are required to certify on an annual basis that there has been no change to their circumstances, including loss of professional qualifications, impacting on their suitability as Responsible Managers.

## Business Plan

The Board's Business Plan (the Plan) set out the main objectives of the Board. For each of the significant areas of Board's activity and responsibility, the Plan described the key objectives, measures and performance indicators identified by the Board. The Board reviewed its business plan each year.



## Risk Management Framework

As the trustee of a complex superannuation fund with significant funds under management it is imperative that MilitarySuper has a comprehensive and rigorous risk management framework in place. The Board took its risk management responsibilities seriously and devoted considerable effort to continually improving this framework.

The major risks identified by the Board are incorporated into a combined Risk Management Strategy and Plan (RMS/P). The Board oversees compliance with the RMS/P and the Board's Audit and Risk Management Committee has primary carriage. Compliance with the RMS/P is required to be audited each year and this document is a key focus of APRA's prudential reviews.

## Board Committees

The Board established several committees to increase its own efficiency and to provide a means of more detailed consideration of matters important to the running of the Scheme. The governance structures and processes of the Board's committees included formal risk management and reporting arrangements. These reinforce the commitment of the Board to scrutinise its own processes to ensure transparency in identification of conflicts and separation of functions. Board committees were subject to written terms of reference and care was taken to ensure the activities of each committee remain consistent with the Board's duty of governance over the Scheme's activities. Each committee reviewed its performance annually and the Chair of each committee reported to the Board following each review.

### Audit and Risk Management Committee

The Audit and Risk Management Committee was a committee of the Board. As at 30 June 2011 the Committee comprised Mr Gabriel Szondy (Chairman), Warrant Officer Robert Swanwick and Mr Felix Bleaser.

The Committee was established to advise the Board on accountability and audit-related matters. It operated as a check on the Board's own accountability arrangements as well as on the management practices of the Scheme Administrator, Fund Investment consultants and managers, the Custodian and other service providers.

The role of the Committee encompassed the Board's responsibilities for risk management. Primary responsibilities of the Committee were to assure the Board that:

- Its financial statements are derived from appropriate accounting systems and methods and reflect current accounting standards
- The audit arrangements within service-providing agencies are operating effectively
- Appropriate audit and fraud control strategies are in place to protect Board and member interest
- A proper assessment of risks is carried out for consideration by the Board.

The Committee met on four occasions during the year.

The Committee appointed the accounting firm PricewaterhouseCoopers (PwC) to act in the role of Audit Adviser. PwC was also the Board's taxation consultant and tax agent. In assisting the Board in meeting its prudential and fiduciary responsibilities, PwC:

- Provided advice to the Board on significant industry-wide developments
- Undertook a program of independent audits of aspects of scheme administration, risk management and internal control structures
- Assisted in the annual review of the prudential and regulatory requirements of the Fund and the Trustees.

### **Military Superannuation Communication Committee (MSCC)**

The Military Superannuation Communication Committee was a committee of the Board.

As at 30 June 2011 the Committee comprised Brigadier Bob Brown (Chairman), Warrant Officer Robert Swanwick, Mr Craig Scarlett (representative of the Department of Defence) and SQNLDR Andre Bobets (representative of the DFRDB Authority).

The primary objective of the Committee was to act as an advisory body to the Board in relation to ensuring the Board meets the information disclosure requirements flowing from the Board's AFS Licensing obligations and as otherwise imposed by the SIS Act. This was done through clear, timely and accurate reporting to members and ensuring that members were informed of Board decisions and other developments which may affect members' interests.

It also provided a forum by which the communications activities of MilitarySuper could be coordinated with those related to members and beneficiaries of the DFRDB Scheme. The Committee was, therefore, the point of communication between the Board, the DFRDB Authority, the Department of Defence, the Scheme Administrator and other service providers for communication issues relating to members and beneficiaries of the MilitarySuper and DFRDB schemes.

The Committee met six times during the year.

### **Reconsideration Committee**

As at 30 June 2011, the Committee comprised Mr Phil Charley (Chairman and representative of the Board), Commodore Paul Kinghorne (representative from a service office), Brigadier Peter Bray AM (pensioner representative) and Ms Lola Pintos-Lopez (representative of ComSuper).

The Committee's role was:

- To consider requests for reconsideration of a delegate's decision made under the MSB Rules and either affirm the decision, vary it or set it aside and substitute another decision for it
- To make recommendations to the Board in respect of requests for reconsideration of decisions made either by itself or the Board under the MSB Rules.

The Committee met in person on 11 occasions and considered several cases out of session during the year.

## Complaints Committee

The powers of the Reconsideration Committee are limited to reconsidering decisions made under the Rules and do not currently extend to decisions made under the Act. Pending legislative change to remove this restriction, the Board approved the establishment of a Complaints Committee, with the same membership and Chairman as the Reconsideration Committee.

## Board Employees (Management)

The role of the Board employees (Management) is to provide high level support to the Board in meeting its responsibilities for the administration of the Scheme and the management and investment of the Fund. Management has overall responsibility for managing the Board's day-to-day operations and the Board's relationships with its key service providers and stakeholders.

In investment matters Management is:

- The central co-ordinator of activities related to asset allocation, cash flow management, oversight of the calculation of daily and monthly Net Asset Value (NAV), daily unit prices, provision of instructions to the custodian, legal due diligence and negotiation of investment management agreements and legal contracts, mandate and SIS Act compliance
- Responsible for treasury management, monitoring of portfolio performance, reconciliation of custodian reporting and asset valuation, unit pricing and for providing consolidated performance reporting at portfolio and asset sector level, as required by the Board
- Authorised to issue instructions for the purposes of implementing the Board's investment decisions and to sign documents for that purpose
- Co-ordinator of the actions required for the transition of assets between sectors and/or managers
- The link between the Board and its advisers, fund managers and custodian.

On administration matters Management:

- Manages the relationships between the Board and the Department of Defence (as employer sponsor and on policy matters), the Scheme Administrator (ComSuper), External Auditors and the Board's independent audit and tax advisors, and legal counsel
- Performs the function of Responsible Manager under the Board's AFS and APRA licences and monitors and manages the Board's obligations as licensee
- Monitors the services provided by ComSuper to ensure compliance with the SIS Act, Corporations Law and the Board's licencing obligations
- Advises the Scheme Administrator on Scheme administration issues and provides direction as required
- Provides secretariat support service to the Board and its committees, maintains records of meetings and provides instruction to initiate decisions of the Board
- Oversees the preparation by ComSuper of monthly and annual Scheme financial statements
- Manages the payment of Board administrative expenses and prepares Board financial statements on a monthly and annual basis.

During 2010–11, Management continued to focus on the enhancement of in-house capabilities in areas of governance, compliance, scheme administration and investment implementation and monitoring.

## Trustee Resources

### Human Resources

During 2010–11, the number of MilitarySuper employees increased from 9 to 10.

**Table 2: Employee Profile**

Employment category	Male	Female	Total
Full-time	3	4	7
Part-time	2	1	3
Total	5	5	10

### Professional Development

Ongoing staff training and development was an important component of the Board's human resource management as well as a specific requirement for the Board in maintaining its Australian Financial Services (AFS) Licence. During 2010–11 all Trustees and Board staff had access to a range of continuing professional development activities including specialised courses in investment and finance and attendance at major industry conferences and education forums as part of the Board's education and training policy.

### Occupational Health and Safety

Under the *Occupational Health and Safety (Commonwealth Employment) Act 1991* and the *Safety, Rehabilitation and Compensation Act 1988*, the Board has a general duty of care which must be met by taking all reasonably practicable steps to protect the health and safety of its employees and third parties at work. Staff employed by the Board were covered by Workers' Compensation which is managed by Comcare. During the year there were:

- No dangerous occurrences under section 68 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991*
- No workplace inspections carried out by Comcare
- No remedial Provisional Improvement Notices issued.

### Ecologically sustainable developments and environmental performance

In conducting its operations, the Board made every effort to minimise the environmental impact of its activities by ensuring that:

- All waste paper and cardboard was recycled
- Lighting and energy use were minimised
- The Board's offices, where practicable, used recycled paper and other products in its activities.

## Fraud control

The Board's Fraud Control and Fraud Risk Assessment Plan was reviewed and updated at least annually and formed an integral part of the Board's overall risk management strategy.

## Evaluation

### Annual Effectiveness Review

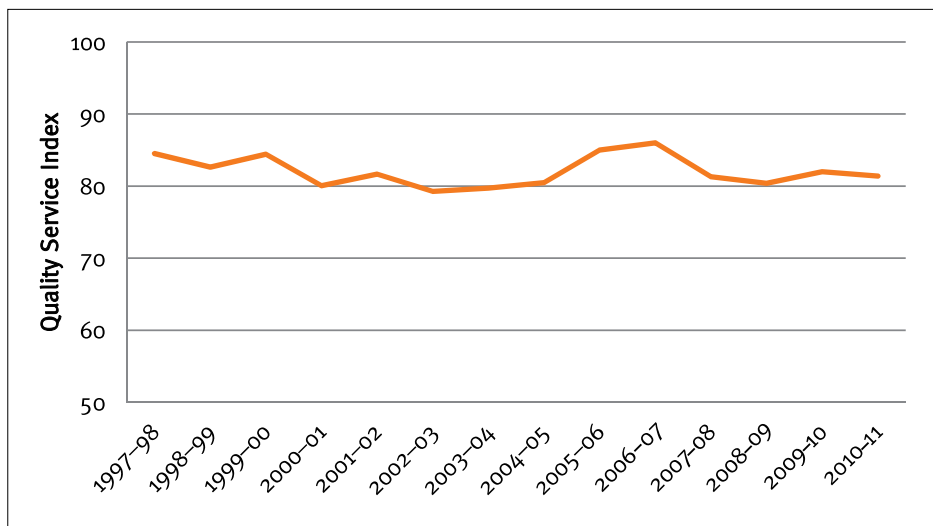
The Board conducted an annual effectiveness review of its own operation as a Board, Management and all its major outsourced service providers as part of its annual business planning process.

### Member Feedback

During 2010–11 the Scheme Administrator continued to conduct member satisfaction surveys with the assistance of an independent research agency. The quality of services surveyed was consistently rated highly by members.

The Quality Service Index (QSI) is the overall unit used to measure member satisfaction. The results of the latest survey indicate that military members (members of MilitarySuper, DFRDB and DFRB schemes) continue to rate the services provided highly. Chart 1, which shows the QSI scores for the Military membership in each of the twenty-four survey periods since data collection began in 1997–98, shows a consistent level of member satisfaction within the 80–85% range.

**Chart 1: Quality Service Index Scores for MilitarySuper Member Satisfaction**





5

INVESTMENTS

In formulating an investment policy for MilitarySuper, the Board focused on two primary objectives: to maximise long term Fund return and to manage and control business and investment risks.

## Strategic Investment Review

During the year, the Board undertook a detailed and comprehensive review of its investment arrangements to ensure that they remain appropriate in the changing investment environment and for the ongoing circumstances of the Fund. As part of this process the Board reviewed the Fund's:

- Investment philosophy
- Investment governance
- Investment objectives and strategies
- Investment managers and mandates
- Investment operations.

As a result of this review, the Board decided to change some features of MilitarySuper's five investment options from 1 July 2011. The features of the Fund's investment options shown in this report are based on the Board's expectations for each option using the investment consultant's long-term assumptions about market risk and returns.

## Investment Policy

The investment of funds must comply with the legislative and regulatory requirements promulgated under the *Superannuation Industry (Supervision) Act 1993* and the *Corporations Act 2001*. These Acts provide general prudential guidelines for superannuation trustees, and specifically address non-arms length transactions, borrowing, loans to members, 'in-house' assets, insider trading and derivative controls.

## Investment Beliefs

The Board's investment beliefs are paramount in guiding its fiduciary investment role for members and in determining investment strategies, policies, guidelines and behaviours that seek to 'live out' these core beliefs.

The Board's core investment beliefs were:

- Market related risks are the primary driver of long-term investment returns – MilitarySuper's strategic asset allocation is therefore a key reference point for achieving its long-term objectives
- Forecasting future risk and return is difficult and the Board recognises the limitations of quantitative modelling and the underlying assumptions used. In particular, in assessing risk, strong emphasis should be given to qualitative assessment of plausible adverse future scenarios/events

- Returns can be highly time-variant and it may be prudent to manage increasing short and medium-term risks by repositioning the portfolio away from the strategic asset allocation from time to time
- The performance of MilitarySuper relative to its peers is not a key consideration in setting the investment strategy
- Markets are characterised by varying levels of market efficiency - it is possible therefore for some managers in some asset classes to generate excess returns over time after fees, costs and taxes. All non- $\$A$  denominated bonds will be fully hedged by the incumbent manager(s)
- To maximise the likelihood of success, the Board should maintain a well-conceived active risk budget with clearly defined objectives, decision processes and timeframes for assessing performance
- The most reliable way of adding value relative to a market benchmark is through fundamental research to identify and invest patiently in undervalued assets with sustainable earnings
- Genuine diversification is critical to managing risk, including economic, industry/sector, geographic, fund manager and individual asset-specific risks
- Smart investing does not always require complexity. Complex investments require strong governance, appropriate resources (internal and external) and strong alignment with experienced managers, and should only be undertaken where this is expected to be well-rewarded
- Generally, good managers carefully manage capacity and this can lead to higher fees on average. The Board will not set strict limits on fees, but should assess all investments in terms of their returns net of fees and costs as well as the long-term alignment of the organisation and key people.

## Investment Objectives

The Board's general investment objectives for the Fund were to:

- Invest the assets of the Scheme as permitted by the powers relating to investments under the Trust Deed and by law, including by complying with the legislative and regulatory requirements of the *Superannuation Industry (Supervision) Act 1993* and the *Corporations Act 2001*
- Contribute to the support of members' lifestyles in retirement by enhancing the purchasing power of their investment through prudent and efficient management, including by ensuring the assets are adequately diversified and have an appropriate level of liquidity
- Maximise return for the chosen level of risk for each investment option.

Members have the choice of five investment options for investing their Member and Ancillary benefits. Members can choose one or a combination of the strategies and, if a member chooses not to make an investment choice, their member benefit is invested in the Growth (Default) option. Each of the five options consists of investments across a range of asset classes with differing investment return objectives and risk characteristics expressed in the form of volatility and the likelihood of a negative return.

The Board adopted specific investment objectives for each of the five investment options of the Fund, as described in Table 3. In setting these objectives the Board recognised that investment markets are unpredictable and, accordingly, that the investment objectives will not be achieved in every period. The objectives were determined by the Board in consultation with its investment consultant and are based to some extent on modelling expected returns, volatilities and correlations of asset classes.



Table 3: Investment Objectives for Investment Options

Investment Option	Outline	Investment Objective	Risk Profile
<b>Cash</b>	This option aims to maximise protection against capital loss. To do this it invests only in cash investments such as term deposits, bank bills, commercial paper and other short-term money-market instruments.	To achieve returns (before tax and after investment fees) that match the UBS Bank Bill Index <sup>1</sup> over a one year period.	<p><u>Risk:</u> This option is expected to experience low volatility and a consistent but lower level of long-term return compared to the Scheme's other investment options.</p> <p><u>Expected frequency of a negative annual return:</u> Less than one year in every 20.</p>
<b>Conservative</b>	This option invests in a conservative mix of assets, mostly defensive assets (such as government bonds and cash), with minimal investment in growth assets (such as shares and real assets).	To achieve returns (after tax and investment fees) that exceed the consumer price index (CPI) + 2.5% per annum over rolling three-year periods.	<p><u>Risk:</u> This option may produce negative returns from time to time. It is expected to experience higher volatility than the <b>Cash</b> option and lower volatility than the <b>Balanced, Growth and High Growth</b> options.</p> <p><u>Expected frequency of a negative annual return:</u> Approximately one to two years in every 20.</p>
<b>Balanced</b>	This option invests in a diversified mix of assets, with a moderate bias towards growth assets, such as shares and real assets.	To achieve returns (after tax and investment fees) that exceed the consumer price index (CPI) + 3.5% per annum over rolling five-year periods.	<p><u>Risk:</u> This option may produce negative returns from time to time. It is expected to experience higher volatility than the <b>Cash</b> and <b>Conservative</b> options and lower volatility than the <b>Growth and High Growth</b> options.</p> <p><u>Expected frequency of a negative annual return:</u> Approximately three to four years in every 20.</p>
<b>Growth (Default)</b>	<p>Growth is the Fund's default option given the demographics and other fundamental characteristics of the dominant population of the Fund's membership.</p> <p>This option invests mainly in assets with growth characteristics, such as shares, real assets and private capital.</p>	To achieve returns (after tax and investment fees) that exceed the consumer price index (CPI) + 4.5% per annum over rolling seven-year periods.	<p><u>Risk:</u> This option is likely to experience return volatility in the short to medium term and may produce negative returns from time to time. It is expected to experience higher volatility than all options other than the <b>High Growth</b> option.</p> <p><u>Expected frequency of a negative annual return:</u> Approximately four to five years in every 20.</p>

1. The UBS Bank Bill Index is a measure constructed to gauge the investment performance of short-term cash portfolios. The index comprises 13 bank bills with maturity dates evenly staggered between 7 days and 91 days.

Investment Option	Outline	Investment Objective	Risk Profile
<b>High Growth</b>	<p>This is the most aggressive option. It invests almost entirely in growth assets, with a small allocation to cash.</p> <p>The option’s performance is highly dependent on returns generated by listed share markets.</p>	To achieve returns (after tax and investment fees) that exceed the consumer price index (CPI) + 5.0% per annum over rolling 10-year periods.	<p><u>Risk:</u> This option is likely to experience return volatility in the short to medium term and may produce negative returns from time to time. It is expected to experience a higher volatility than all other options.</p> <p><u>Expected frequency of a negative annual return:</u> Approximately five to six years in every 20.</p>

## Strategic Asset Allocations

The Board periodically reviewed and agreed a long-term strategic asset allocation (SAA) for each of the investment options. The SAAs for each investment option were last reviewed in early 2011 and are described in Table 4. The Board was able to deviate from the long-term allocation for strategic reasons, to take advantage of compelling medium-term investment opportunities and/or to allow a phased implementation. In accordance with this approach, the Board also set long-term asset allocation ranges for each investment option (shown in brackets in the table below).

The following Board approved Strategic Asset Allocation was in place as at 1 July 2011:

**Table 4: Long-Term Strategic Asset Allocation for the Investment Options**

Asset Class	Investment Option				
	Cash	Conservative	Balanced	Growth	High Growth
Cash	100%	50% (30-60%)	10% (5-20%)	5% (2-15%)	3% (2-10%)
Government Bonds	0%	16% (10-25%)	15% (5-25%)	5% (0-15%)	0% (0-10%)
Global Credit	0%	8% (0-15%)	7% (0-20%)	5% (0-15%)	0% (0-10%)
Real Assets	0%	8% (0-15%)	14% (5-20%)	10% (5-20%)	0% (0-15%)
Diversified Investments	0%	8% (0-15%)	8% (0-15%)	7% (0-15%)	0% (0-15%)
Private Capital	0%	0% (0-5%)	8% (0-15%)	18% (0-25%)	25% (0-30%)
Australian Shares	0%	5% (0-15%)	17% (10-30%)	22% (15-35%)	32% (25-50%)
International Shares	0%	5% (0-15%)	21% (10-30%)	28% (15-35%)	40% (25-50%)
Total	100.0%	100.0%	100.0%	100.0%	100.0%

## Investment Management

Under its legislation, the Board was required to invest through investment managers. The Board appointed investment managers who specialise in investing in particular asset classes and in accordance with specific mandates agreed by the Board. Those mandates included directions as to the

types of investments to be held, the maximum and minimum holdings for each type of investment, and the expected rates of return. The Board did not, however, involve itself in individual stock selection, relying on the demonstrated skills of the manager in the area of the market in which it has been selected to operate on behalf of MilitarySuper. The Board's investment managers at 30 June 2011 are shown in Table 5.

The Board employed professional advisers to assist with the review of its investment policy and to examine other aspects of the investment process, including the performance of fund managers and new investment opportunities.

**Table 5: Investment Managers as at 30 June 2011**

Asset Class	Investment Managers <sup>1</sup>	Investment \$m	% of Fund
<b>Australian Shares</b>			
	Acorn Aust Small Co Trust	51.98	
	Agora Absolute Return Fund	155.35	
	BlackRock Australian Equities <sup>3</sup>	166.87	
	Goldman Sachs JBWere Premium Equity Strategy	99.86	
	Hyperion High Conviction	155.72	
	Herschel Concentrated Fund	133.86	
	K2 Absolute Return Fund	98.07	
	Kosmos Australian Equities Small Cap	43.42	
	Merlon Capital Australian Equities	139.48	
	<b>Australian Shares Total</b>	<b>1,044.61</b>	<b>28.04%</b>
<b>International Shares</b>			
	LSV International Concentrated Fund	105.89	
	Old Square Capital Ltd	1.59	
	SSgA International Equities <sup>3</sup>	200.66	
	Turner Global Growth	69.73	
	Wentworth Hauser Violich	93.97	
	<b>International Shares Total</b>	<b>471.84</b>	<b>12.67%</b>
<b>Uncorrelated Apha</b>			
	Deutsche Leveraged Note - Mazuma Greenwich	4.84	
	Mazuma Partners II	16.03	
	Mazuma Structured Note	16.20	
	Greenwich Absolute Return Fund	9.94	
	Schroder Real Return Fund	122.80	
	<b>Uncorrelated Alpha Total</b>	<b>169.81</b>	<b>4.56%</b>

Asset Class	Investment Managers <sup>1</sup>	Investment \$m	% of Fund
<b>Private Equity</b>			
	Archer Capital Fund 3	5.60	
	Champ Buyout II Trust	14.28	
	Champ Buyout III Trust	8.11	
	Champ Ventures Investments 5	1.12	
	Champ Ventures Investments 6	8.10	
	Citic Capital China Mezzanine Fund	36.49	
	Credit Suisse First Boston	3.08	
	Crescent Capital Partners II	1.15	
	Crescent Capital Partners III	14.03	
	DIF Global Coinvestment Fund III	0.00	
	Direct Investment Fund Equity Trust	0.57	
	Dover Street VII	11.18	
	GBS Bioventures III	9.93	
	Gresham Private Equity Fund 2	15.50	
	HarbourVest IV	15.66	
	HarbourVest V	40.38	
	HarbourVest VII Buyout	18.81	
	HarbourVest VII Venture	14.13	
	KKR 2006 Fund	37.79	
	NBC Private Equity Fund II	5.76	
	North Asia Strategic Holdings	11.48	
	Northgate Private Equity Part II	20.77	
	Northgate Venture Partners III	11.62	
	Pacific Equity Partners Fund 2	8.05	
	Pacific Equity Partners Fund 3	42.17	
	Pacific Equity Partners Fund 4	8.48	
	Pantheon Europe III Partnership	3.58	
	Pantheon Global Secondaries Fund II	5.10	
	Pantheon Global Secondaries Fund III	16.65	
	Pantheon USA Fund IV	1.72	
	Pomona Capital VII Fund	9.42	
	Propel Private Equity Fund II	3.83	
	Rosemont Cadence LLC	4.76	
	Rosemont Partners II	9.04	
	Sentient Global Resources 1	3.41	

## 5

## INVESTMENTS

Asset Class	Investment Managers <sup>1</sup>	Investment \$m	% of Fund
<b>Private Equity (continued)</b>			
	Siguler Guff Bric Opportunities Fund	24.98	
	Siguler Guff Small Buyout Opportunities Fund	14.25	
	Terra Firma Capital Partners III	5.66	
	Thomas Weisel India Opportunities Fund	10.59	
	YBR Feeder Limited Partnership	0.00	
	<b>Private Equity Total</b>	<b>477.23</b>	<b>12.81%</b>
<b>Property</b>			
	AMP Wholesale Office Fund	39.95	
	Australian Wholesale Property Fund	27.52	
	Australian Wholesale Property Fund Unitholder Loan	28.75	
	APN Development Fund 1	18.00	
	Babcock Brown Alliance Joint Venture	0.00	
	Cerberus Institutional Real Estate Fund	11.58	
	Charter Hall Opportunities 4	3.13	
	Domaine Property Fund	26.50	
	Doughty Hanson Real Estate	5.23	
	Fiduciary Int Real Estate Fund	4.64	
	Gresham Property Fund 3	17.75	
	High Street Real Estate Fund III	16.54	
	ICA Valad Property Fund 4	0.89	
	Parissen Development Fund	0.00	
	Parissen Development Fund No 2	0.00	
	<b>Property Total</b>	<b>200.48</b>	<b>5.38%</b>
<b>Infrastructure</b>			
	CFS Infrastructure (Brisbane Airport)	39.63	
	Duncan Solutions	9.20	
	Energy Infrastructure Trust	100.85	
	Macquarie Global Infrastructure Fund 2B	39.21	
	Macquarie Global Infrastructure Fund III	30.82	
	Palisade Diversified Infrastructure Fund	14.10	
	TCW EIG Fund XIV	31.06	
	TCW EIG Fund XV	2.51	
	US Power Fund II	17.54	
	<b>Infrastructure Total</b>	<b>284.92</b>	<b>7.65%</b>

Asset Class	Investment Managers <sup>1</sup>	Investment \$m	% of Fund
<b>Cash</b>			
	NAB Cash and Cash Holding Accounts <sup>3</sup>	325.61	
	Aberdeen Cash Management <sup>3</sup>	290.24	
	<b>Cash Total</b>	<b>615.85</b>	<b>16.53%</b>
<b>Currency</b>			
	Pareto Partners Currency Hedge	46.28	
	<b>Currency Total</b>	<b>46.28</b>	<b>1.24%</b>
<b>Debt<sup>2</sup></b>			
	BlackRock Australian Government Bonds <sup>3</sup>	100.14	
	<b>Debt Total</b>	<b>100.14</b>	<b>2.69%</b>
<b>Alternative Debt<sup>2</sup></b>			
	Australian Aviation Fund	71.19	
	BCA Mezzanine Debt Trust	16.84	
	Harbourvest VII Mezzanine Fund	14.08	
	Loomis Sayles Global Credit	165.55	
	Siguler Guff MSA Opportunities Fund	16.91	
	Siguler Guff Distressed Opportunities Fund	12.95	
	TCW SHOP 5	16.42	
	<b>Alternative Debt Total</b>	<b>313.94</b>	<b>8.43%</b>
<b>Total Assets</b>		<b>3,725.10</b>	<b>100.00%</b>

1. An organisation that specialises in the investment of assets which may be by way of an individual portfolio or as a pool of investments.
2. Debt and Alternative Debt make up the 'Debt Instruments' classification described in the Fund's financial statements.
3. The holding with this manager exceeded 5% of the total Fund.

The investments described under the Debt Instruments, Property, Private Equity, Uncorrelated Alpha and Infrastructure assets classes in the above table were consolidated into five new asset classes (Government Bonds, Global Credit, Real Assets, Diversified Investments and Private Capital) from 1 July 2011 to better reflect the underlying characteristics of the MilitarySuper investments held in these asset classes.

### **Custodian Services**

The Fund's Custodian safeguards and maintains the assets of the Fund on behalf of the Board, performing various functions such as settlement of trades, physical custody and safekeeping of securities, collection of dividends and preparation of accounts.

The Board has appointed National Asset Services Limited as Custodian of the Fund's assets.

### **Derivatives**

The Board's investment policy allows managers to use derivatives subject to strictly controlled limits. The Fund's managers use derivatives as part of implementing the Board's investment strategy. Derivatives may include futures contracts, put options, call options, swaps and forward contracts. They allow the Board to hedge its positions or to increase its exposure to a particular market. The Board did not use derivatives to leverage its positions.

### **Reserves**

The Board did not maintain a separate or overlay investment reserve across the Fund's investments and did not seek to smooth declared returns from the Fund in the application of its unit pricing within these options.

### **Socially Responsible Investments and Climate Change**

The Board considered its investment objectives for the Fund without specific consideration for socially responsible investment, global warming or climate change outcomes, effects or requirements. However the Board had decided to continue to monitor stakeholder, community and prudential preferences and requirements in this respect and take these into consideration in setting an optimum investment strategy for the Fund.

## 2010–11 Economic and Market Summary

The Australian economy continued to grow coming out of the global financial crisis (GFC) and remained resilient throughout the financial year, withstanding a number of natural disasters and rising global economic uncertainty. Despite the Queensland floods and Cyclone Yasi at the start of 2011, Gross Domestic Product (GDP) increased by 1.4% during the year. Inflation for the year was 3.6% and the Reserve Bank of Australia held the official cash rate at 4.75%, after a single 0.25% increase in November 2010. In further positive news, the unemployment level decreased slightly from 5.1% to 4.9% over the financial year.

Global economic data for the 2011 financial year was mixed. In the US, the rate of economic recovery was slower than expected, which led the US Federal Reserve to revise the forecasted 2011 growth rate downwards and leave interest rates near zero. Meanwhile, the unemployment rate remained above 9%. European countries have had divergent experiences, with some economies (in particular, Germany and France) strengthening, while the peripheral countries of Greece, Ireland, Spain and Portugal struggled.

China continued to show strong growth, with GDP growing 9.5% over the financial year. Inflation rose 6.4% over the year to June 2011 in step with the rise in GDP growth. Japan saw a downward impact on both supply and demand within the economy following the natural disasters earlier in the year. However, the Bank of Japan injected additional liquidity and helped provide stability to the situation. Two quarters of negative GDP growth (December and March) resulted in Japan entering a technical recession, but there have been recent signs of stabilising economic activity.

Australian equities rallied over the financial year, but had a volatile 12 months. Performance, although mostly positive, was hindered by dissipating investor sentiment as Greek debt concerns escalated, particularly over the last quarter of the financial year. The appreciation of the Australian dollar also played a part (as it deferred offshore investors and held back company earnings). The share market, as measured by the S&P/ASX 300 Accumulation Index, returned 11.9% over the 2010–11 financial year.

A major development during the year was the strengthening of the Australia dollar which reached 109 US cents in May, and closed the financial year at 107.08 US cents (up from 84.08 US cents 12 months ago). The Australian dollar also appreciated against its other major trading partners. A strong rise in the Australian dollar meant that our overseas investments did not perform as well in Australian dollar terms as they did in their local currencies.

Global equity markets recorded strong returns over the year; however the strong Australian dollar meant that Australian investors who did not fully hedge against this currency movement did not obtain these strong returns. The MSCI World ex Australia Accumulation Index returned 26.7% in hedged Australian Dollar terms but only 2.7% in unhedged terms. The differential reflected the significant strengthening of the Australian Dollar. Whilst the market provided strong gains over the year, decreasing equity risk appetite and falling investor sentiment, a consequence of uncertainty over the Greek debt crisis, saw losses in May and June.

The Australian fixed interest market performed well over the 2010–11 financial year. The Australian 90 Day Bank Bill Index returned 5.0% for the year, while the UBSA Composite Bond Index (All Maturities) returned 5.6% for the year. Global fixed interest, as measured by the Barclays Global Aggregate Index (hedged to Australian dollars) returned 6.9%, outperforming the Australian fixed interest market.



## MilitarySuper's 2010–11 Investment Performance

The **Cash** option returned 4.4% net of fees and tax over the year, benefiting from attractive rates payable on longer-dated bank bills and term deposits. It has performed broadly in line with its return objective in recent years.

The **Conservative** option returned 5.3% net of fees and tax over the year. This option benefited from positive performance in all of its underlying asset classes this year, however it has underperformed its return objective over three years, due largely to losses suffered in property and losses on the unhedged component of International Shares in recent years.

The **Balanced** option returned 6.2% net of fees and tax over the year. Over the past five years, this option has underperformed its return objective, mainly due to the impact of the rising Australian dollar on its International based assets.

The **Growth** option returned 4.7% net of fees and tax over the year. Over the past five years, this option's performance was assessed by the independent ratings agency SuperRatings, as being similar to the median performance of comparable 'growth' funds. However it has underperformed its return objective over seven years mainly due to its larger allocation to alternative investments which have underperformed, primarily as a result of the impact of the global financial crisis.

The **High Growth** option returned 8.7% over the year. Like the Growth option, this option's longer-term performance continues to reflect a drag on returns for some investments following the global financial crisis.

**Table 6: Investment Options Returns**

History of Investment Option Returns to 30 June 2011 (after tax and fees, % per annum)						
Option	1 year	3 years	5 years	7 years	10 years	Since inception*
Cash	4.42%	4.07%	4.68%	4.78%	N/A	4.74%
Conservative	5.28%	0.57%	2.71%	4.36%	N/A	4.82%
Balanced	6.19%	-0.90%	1.91%	5.02%	N/A	6.12%
Growth	4.72%	-1.89%	1.35%	4.73%	3.63%	5.73%
High Growth	8.67%	-4.35%	-0.41%	3.99%	N/A	5.75%

\* The Growth option commenced on 1 October 1991; all other options commenced on 1 January 2002.

## Returns by Asset Class

### Australian Shares

The Scheme's Australian Shares portfolio returned 9.2% (before tax) over the year, slightly below the market index. However the Scheme did benefit from its active allocation to small companies, which helped to offset some of the underperformance. Over the longer term, the Scheme's Australian Shares managers have been more successful, outperforming the broader market index by 1.9% pa over the past 3 years and 1.8% pa over the past 5 years.

### International Shares

International share markets recovered strongly over the year; however for Australian investors, these gains were largely offset by a significant appreciation in the Australian dollar. This led to currency losses on unhedged International Shares, as reflected in a return of just 2.7% for the year for the MSCI World Index in unhedged Australian Dollar terms.

The Scheme's International Shares portfolio returned 1.3% (before tax) over the year on an unhedged basis, slightly below the market index. However after allowing for the impact of active currency management, the Scheme's International Shares portfolio returned 15.0% (before tax) over the year.

### Property

The Scheme's Property portfolio returned 8.0% (before tax) over the year. Performance was particularly strong in the June quarter, driven by a large positive revaluation of one of the Scheme's Australian property funds.

### Infrastructure

MilitarySuper's infrastructure investments are expected to have a strong long term linkage to inflation and a lower correlation to shares. Generally, the portfolio has performed broadly in line with expectations. In particular, the Scheme's investments in energy related assets and Brisbane airport contributed positively to the return in this asset class over the year. After the impact of currency hedging, this asset class returned 8.0% (before tax) over the year.

### Uncorrelated Alpha

The objective of this asset class was to target a broad range of fundamentally different sources of returns compared to traditional asset classes. The return from this asset class over the year was 1.1% (before tax), after the impact of currency hedging. This low return reflects a write down in some assets still affected by the global financial crisis.

### Alternative Debt

This asset class comprises a range of investments in higher return seeking credit strategies. This includes investments in distressed and special situations debt, which generally performed well over the course of the year. However a significant portion of this asset class was invested in an investment

which suffered losses during the year. The return from this asset class over the year was -13.0% (before tax), after the impact of currency hedging.

### Private Equity

The return from this asset class over the year was 2.4% (before tax), after the impact of currency hedging. The Private Equity portfolio appears to be stabilising following the global financial crisis and several underlying investments were realized during the year at multiples of their original investment value.

### Cash

The return from this asset class over the year was 5.4% (before tax). The Scheme benefited from holding longer dated bank-bill and term deposits in this asset class.

## Growth of the Fund

The Fund's assets continued to grow during the year reaching \$3.74 billion by 30 June 2011. This was a 16% increase over the year.

Assuming modest investment performance and continuing strong inwards cash flows by way of new contributions, the Fund is expected to reach \$4.45 billion by the end of 2012–13.

Chart 2 demonstrates the growth of the Fund over the past five years and projected for 2011–12 and 2012–13.

**Chart 2: Actual and Projected Fund Growth**

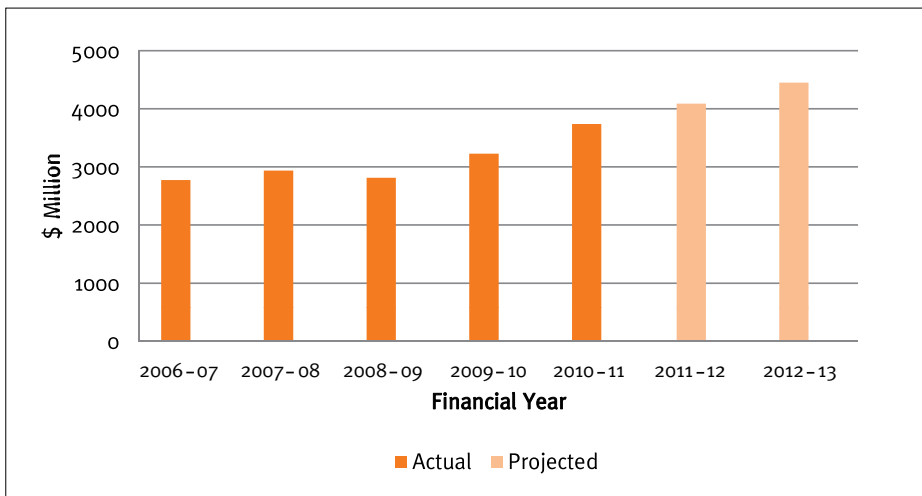


Table 7: Summary of Scheme Assets as at 30 June 2011

	2010-11 \$m	2009-10 \$m
<b>Opening Value of the Scheme</b>	<b>3,228</b>	<b>2,811</b>
<b>Plus Income</b>		
Contributions	687	613
Gross Earning of the Scheme	202	78
<b>Less Outgoings</b>		
Benefits Paid and Payable	324	243
Tax Expense/(Benefit)	47	28
Expenses and Charges	8	3
<b>Closing Value of the Scheme</b>	<b>3,738</b>	<b>3,228</b>
<b>Investments</b>	<b>2010-11 \$m</b>	<b>2009-10 \$m</b>
<b>Assets Under Management</b>		
Cash and Short Term Deposits	616	290
Debt Instruments	414	463
Property	200	137
Australian Shares	1,045	982
International Shares	472	367
Private Equity	477	548
Infrastructure	285	259
Uncorrelated Alpha	170	132
Currency	46	(32)
<b>Total Investments</b>	<b>3,725</b>	<b>3,146</b>
+/- MilitarySuper Net Assets/(Liabilities)*	13	82
<b>Net Assets of the Scheme**</b>	<b>3,738</b>	<b>3,228</b>

\* MilitarySuper Net Assets/(Liabilities) represents benefits payable, tax provisions and cash at bank.

\*\* The Net Assets of the Scheme shows the amount available to pay members' benefits at 30 June after allowing for tax, cash at bank and benefits payable to former Contributing Members.





6

**MEMBER  
COMMUNICATION**

Both the Act and the *Superannuation Industry (Supervision) Act 1993* (the SIS Act) impose significant responsibilities on the Board in relation to communications with members.

The Board's Military Superannuation Communication Committee (MSCC) played a key role to ensure the effective and timely provision of quality information and education on superannuation matters to ADF members. Membership of MSCC included a representative from the DFRDB Authority to recognise the role played by the Board in communications with all ADF members, including those who are members of the now closed DFRDB Scheme.

## Objectives

The Board established the following communication objectives:

- To provide scheme members with user-friendly, targeted and timely information that increases their knowledge and understanding of MilitarySuper (and DFRDB) and the benefits derived from scheme membership as well as the value of services provided by the Board
- To deliver a communication and education program that employs the use of audio visual technologies and, where legislation allows, the use of email and other electronic methods of communication to members
- Keep the Minister, Chief of the Defence Force and other key stakeholders well informed on matters relevant to the investment and administration of MilitarySuper
- Respond to member-initiated information needs, and provide clear, concise and tailored communication to assist in their superannuation decisions.

In meeting these objectives the Board, as a minimum, complied with the information disclosure requirements prescribed by the SIS Act but which also comply with the Board's requirements and obligations as an Australian Financial Services (AFS) license holder.

## Performance Indicators

The effectiveness of the implementation of the Board's communication strategy was evaluated using the following criteria:

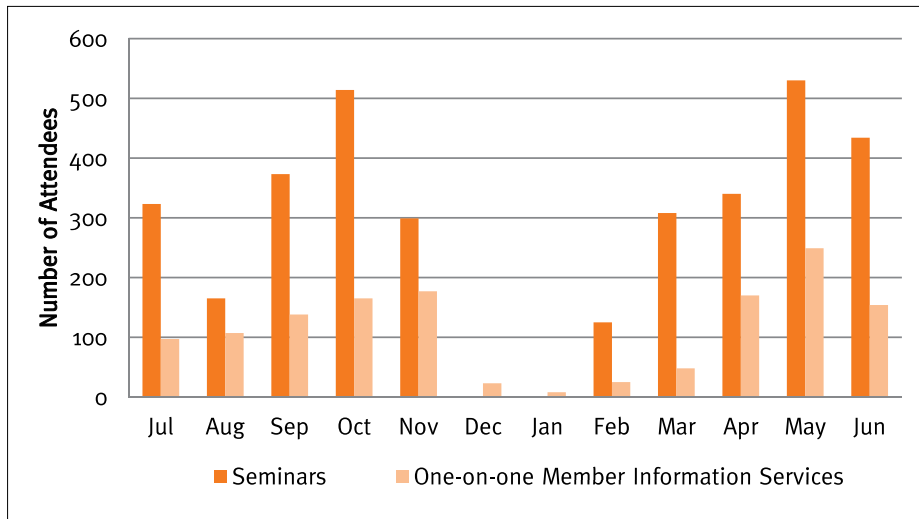
- Benchmarking of the Board's communications activities against industry best practice
- The number of requests received for additional information from members
- The number and subject matter of complaints from members
- Client satisfaction as measured through responses to an annual communication survey
- Timely provision of Annual Member Statements and reports consistent with SIS Act and financial services reform requirements and industry best practice
- The Minister's satisfaction with the Board's administration of the Scheme.

## One-on-one Member Information Services

Information about the Scheme is provided to members over the telephone, in writing, by email, and through presentations at the Department of Defence's transition seminars at various bases and units throughout Australia. Members may also speak to an information officer on a one-on-one basis in Canberra and at some transition seminars throughout Australia.

During the year MilitarySuper presented 59 seminars to a total of 3,411 members and provided one-on-one information sessions to 1,361 members. The seminars were primarily conducted in conjunction with transition seminars.

**Chart 3: Information Seminars 2010–11**



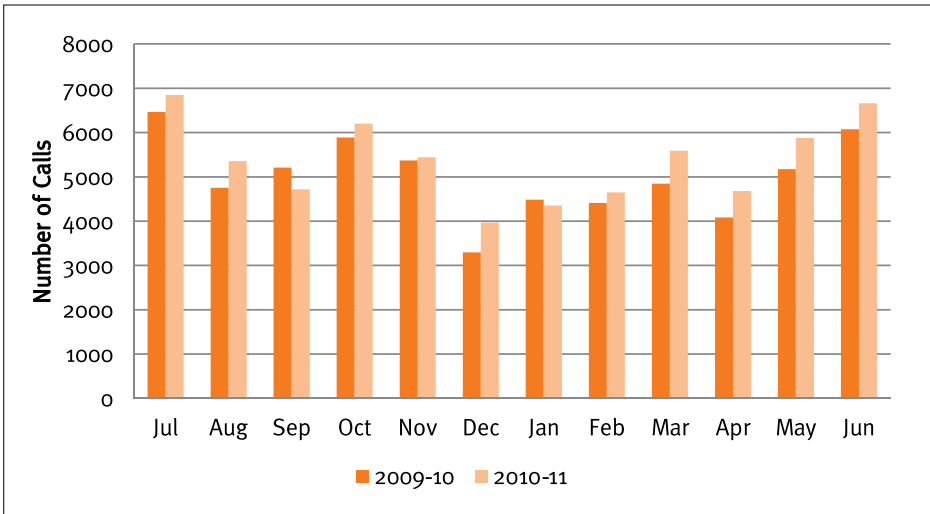
Most member contacts are by telephone, with an average of 1,238 telephone calls recorded per week for the 2010–11 financial year, compared with 1,482 in 2009–10. The Interactive Voice Response (IVR) telephone service received 64,350 calls from members.

MilitarySuper responded to 5,154 emails and 2,470 written enquiries from members, compared with 7,960 and 4,883 respectively in 2009–10.

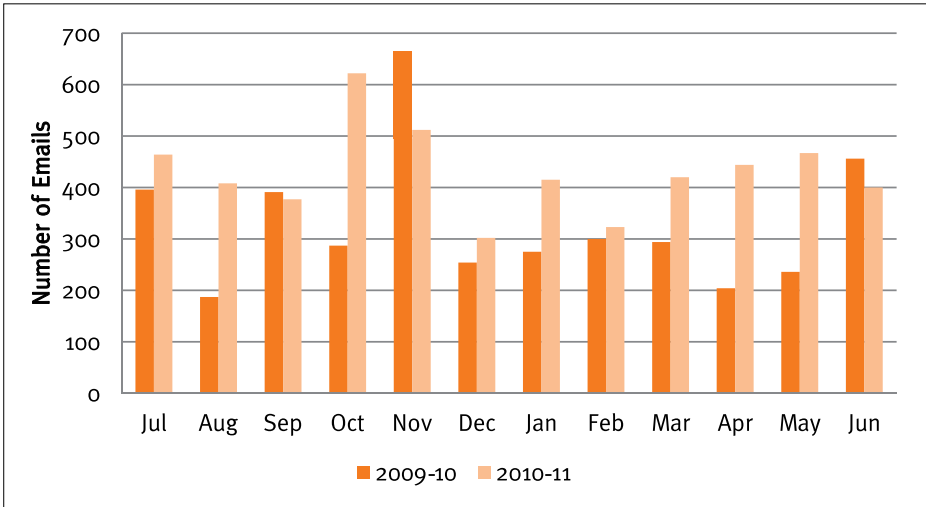
The following charts for call volume, email volume and written volume, compare services used by the members.

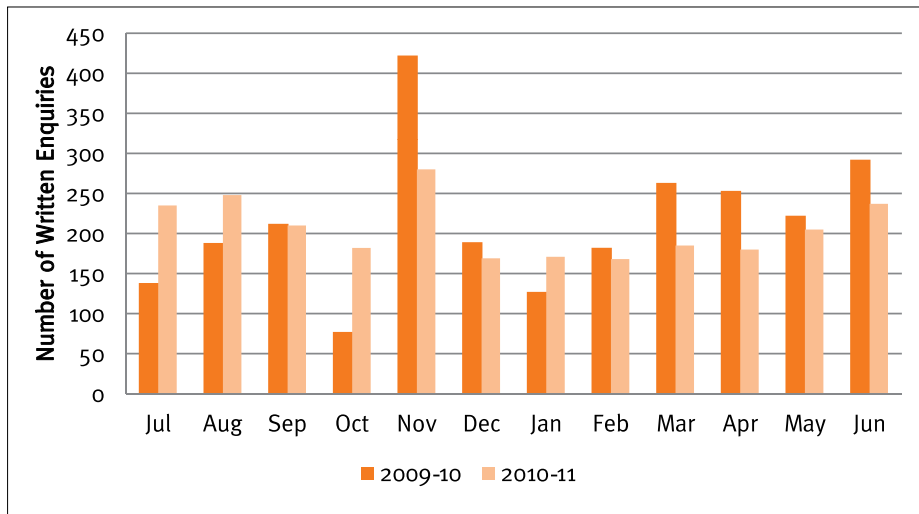


**Chart 4: Call Volume Comparison**



**Chart 5: Email Volume Comparison**



**Chart 6: Written Volume Comparison**

## Pensioner Communications

The Customer Service Centre assists military pensioners to understand their superannuation entitlements and maintain their pension accounts in accordance with the service standards agreed between the Board and ComSuper.

Information officers can be contacted by telephone, letter, facsimile or email. Pensioners with hearing impairments can use a special teletypewriter (TTY) facility. Information officers are available for personal information sessions at ComSuper's offices in Canberra. Pensioners who use the internet can get general information from the MilitarySuper website.

## MilitarySuper Website

Online services are an important component of MilitarySuper's member communication strategy and the Board continues to enhance and expand its range of online services in areas identified through member surveys. Usage of MilitarySuper's website continues to grow, with 2,116,753 hits to the website in 2010–11.

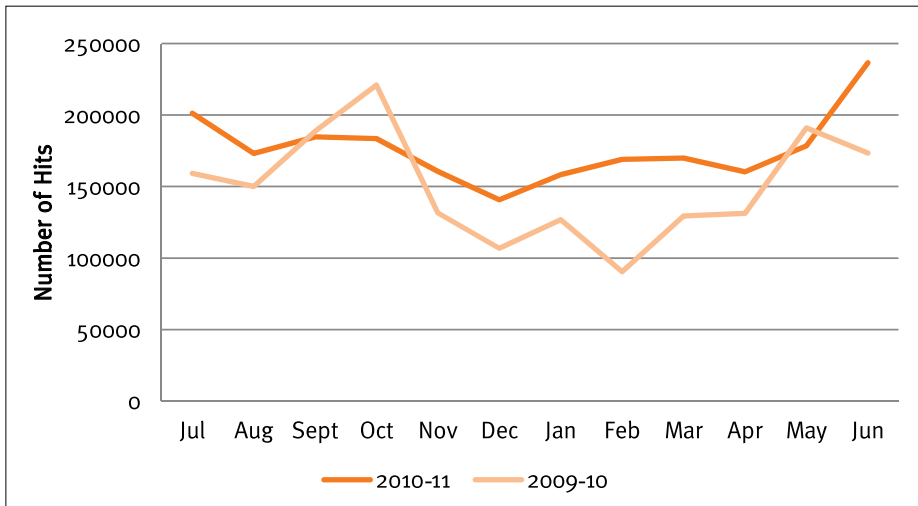
MilitarySuper also offers members and pensioners secure website access to transact with the Scheme. The Member Services Online (MSO) and Pensioner Services Online (PSO) allow users to change their personal details, download statements, view transactions and access payment summaries.

Member Services Online received 80,667 hits throughout the year.

The following tables and chart provide details of the most commonly accessed pages within the MilitarySuper website; website usage during 2010–11; and illustrates the increasing use of the MilitarySuper website as a primary source of information.

**Table 8: Most Accessed Web Pages 2010–11**

Rank	Web page
1	Unit price – Balanced
2	Unit price – Growth
3	Unit price – High Growth
4	MilitarySuper Book
5	Member Services Online
6	Unit price – Conservative
7	Member Update 2011 (HTML version)
8	Unit price – Cash
9	Member Update 2011 (PDF version)
10	Investments

**Chart 7: Website Hits 2010–11****Table 9: Website Hits Over the Past Five Years**

Year	Number of hits
2006–07	1,282,753
2007–08	1,305,590
2008–09	1,555,242
2009–10	1,799,966
2010–11	2,116,753

## Projects

### Member Statements

The Corporations Act requires the distribution of Annual Member Statements by 31 December each year. The statement provides members with equity figures and withdrawal benefits at the beginning and end of the financial year.

The 2009–10 Annual Member Statements (excluding the family law membership group) were distributed by 26 October 2010 and all statements were distributed by 2 December 2010.

### Annual Reports

A key communication channel from the Board to the MilitarySuper members is through the Annual Reports that are made available online to all Contributing and Preserved Benefit Members. These reports provide a summary of the year's activities to date and performance of the Fund during the financial year.

### Member Update

The 2011 Member Update was made available to members on the MilitarySuper website in May 2011 and was well received. The communication was downloaded 17,558 times by the end June 2011.

### Pension Update

Pension Update is aimed at retired members of the Scheme and provides details on areas of interest and on significant changes that may impact their entitlements. This publication is accompanied by a Consumer Price Index (CPI) letter advising pensioners of the biannual CPI rate movement and how that translates into their fortnightly pension.

The two issues released in 2010–11 were Issue 16 (July 2010) and Issue 17 (January 2011).





7

MEMBERSHIP

There are two main groups of contributors to MilitarySuper: those who transferred from the DFRDB and those who have become members of MilitarySuper upon joining the ADF. There is also a small group of members who had been receiving a DFRDB benefit, rejoined the ADF and elected to join MilitarySuper.

## Contributing Members

At 30 June 2011, there were 56,892 Contributing Members in MilitarySuper, 48,630 (85%) of whom were male and 8,262 (15%) female.

**Table 10: Contributing Member Composition**

	Male	Female	Total
Membership at 30 June 2010	46,519	8,006	54,525
Plus new Contributors	5,501	1,032	6,533
Less members left the ADF*	3,390	776	4,166
Membership at 30 June 2011	48,630	8,262	56,892

\* Exits from Contributing Membership represent either moves to Preserved Benefit Membership or exits from MilitarySuper.

**Table 11: Male and Female Contributors by Years of Service**

Years of service	Male	Female	Total
0–9	36,459	6,400	42,859
10–14	5,455	978	6,433
15–19	3,226	486	3,712
>19	3,490	398	3,888
Total	48,630	8,262	56,892

## New Members

There were 6,533 new MilitarySuper contributing members in 2010–11.

## Exits

There were 5,416 exits from the Scheme during the year. The types of exit are shown in Table 12.

**Table 12: Exits from MilitarySuper during the Past Five Years**

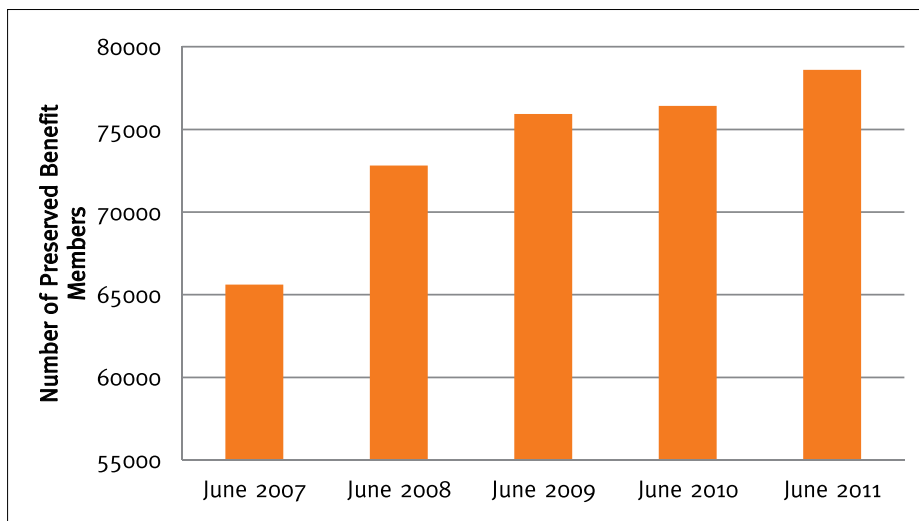
	2006-07	2007-08	2008-09	2009-10	2010-11
Age retirement	90	143	262	303	120
Resignation	2,057	3,523	1,081	616	694
Redundancy	4	6	9	12	15
Invalidity retirement	395	718	633	426	409
Death	25	55	108	113	124
Unclaimed*	3,291	2,803	4,052	2,444	4,094
Total	5,862	7,248	6,145	3,914 <sup>#</sup>	5,416

\* Unclaimed Benefits relate to members who have left the ADF but not submitted a benefit application instruction form regarding their benefits in the Scheme. The benefits are preserved in the Scheme if no claim is made within 90 days. These exits are predominately due to resignation.

<sup>#</sup> 2009-10 figure is reduced from that published last year due to Preserved claim, Preserved claim hardship TPI, and Ancillary claim duplication numbers being removed from the total.

## Preserved Benefit Members

There were 78,605 Preserved Benefit Members as at 30 June 2011 compared with 76,430 Preserved Benefit Members as at 30 June 2010. Chart 8 shows the growth of Preserved Benefit Members since 30 June 2007.

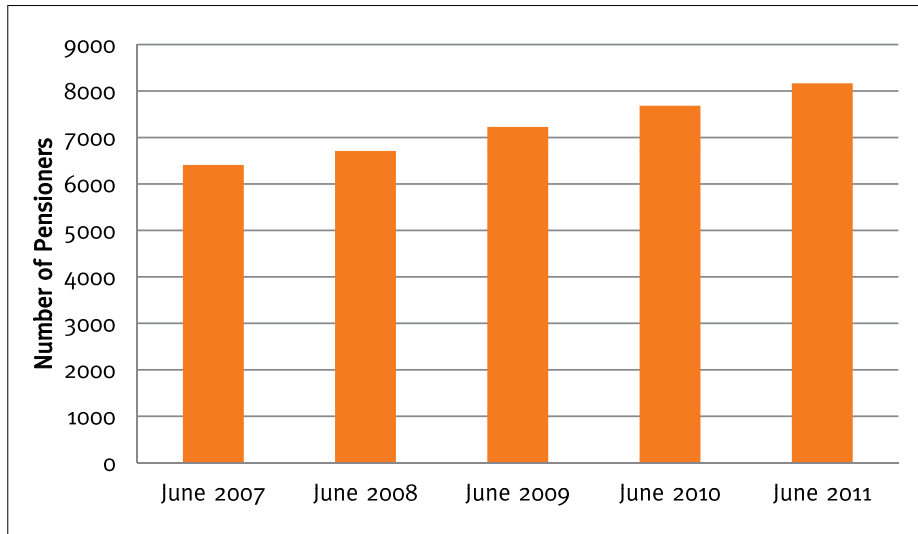
**Chart 8: Growth of the Preserved Benefit Member Population since 30 June 2007**



## Pensioners

There were 8,166 pensioners in MilitarySuper as at 30 June 2011. Chart 9 shows the increase in the number of pensioners since 30 June 2007.

**Chart 9: Growth of the Pensioner Population since 30 June 2007**





8

**SCHEME  
ADMINISTRATION**

## Administrative Arrangements

The Commissioner for Superannuation and, through that office, Commonwealth Superannuation Administration (ComSuper), is the legislated provider of scheme administration services to the Board. The cost of these services is met by Defence. A Service Level Agreement between Defence, the Board and ComSuper is in place. The agreement establishes the services and service standards to be provided in relation to the administration of MilitarySuper and reflects the shared understanding of the commitments each of the parties is providing under the agreement.

### Objectives

The Board's administration objectives are to have continuing access to high quality, cost effective administration services which meet the needs of the Board and members of the Scheme by:

- Having executive support services which efficiently and effectively respond to the Board's needs
- Delegating Board powers and functions under the Act and Trust Deed to ComSuper, in order to facilitate good service to members
- Having arrangements with its major service providers which ensure that each party is accountable for their own acts and that the assets of the Fund are protected
- Having access to ongoing sources of funding to ensure that the costs incurred directly by the Board in pursuit of its responsibilities for the administration of the Scheme, other than in respect to its responsibilities for the management and investment of the Fund, are met by the Department of Defence
- Having processes in place which enable the Board to influence the standards of services provided to members
- Managing key relationships with stakeholders and service providers
- Having clear-cut and streamlined administration at competitive costs commensurate with above average service levels.

## Scheme Administrator Performance

ComSuper provides Management with regular reporting against the service standards covered by the Service Level Agreement.

## Delegations

The Board has delegated the majority of its general Scheme administrative powers and functions to the Commissioner for Superannuation and to ComSuper staff. The major areas of delegation include the maintenance of membership records, the receipt of member and employer contributions and the calculation and payment of benefits.

Certain powers are retained by the Board. These include reconsideration of Board decisions, and cases involving the application of the legislation which produces a result not in keeping with the spirit of the legislation.

## Financial Resources

Section 25 of the Act prescribes that the Board must pay all moneys received by it in respect of the Fund into an account maintained by it with a bank. Clause 9 defines the assets that comprise the Fund. Moneys related to the administration of MilitarySuper are appropriated to the Department of Defence which pays ComSuper a user charge based on a negotiated annual Scheme administration fee. The fee includes a component for administering the Scheme on the Board's behalf and a component for costs incurred by the Board and Management in respect of their administrative activities. ComSuper provides the Board with a notional budget in relation to that second element, which includes moneys that are recoverable from the Fund in accordance with the legislation.

The administrative costs of the Board totalled \$3.845m for 2010–11. These costs include office accommodation lease and operating costs, fees paid to trustees, trustee travel costs and the cost of Management and relevant ComSuper accounting staff.

In accordance with section 4 of the Act only those expenses of the Board in respect of its responsibilities for the management of the Fund and investment of its moneys are paid from the Fund. Under section 27 of the Act the Commissioner for Superannuation and, through that office, the staff of ComSuper, provide scheme administration services to the Board. The Department of Defence pays ComSuper for the costs of administering the Scheme on the Board's behalf, including a component of the administration fee which is provided specifically to meet administration costs directly incurred by the Board and its staff.

The breakdown of administrative expenses met by the Fund and Defence for 2010–11 is as follows:

Fund	\$2.155m
Department of Defence	\$1.690m
Total	\$3.845m

In addition to the above, \$0.002 million was received by the Board from the Department of Finance and Deregulation in respect of costs incurred by the Board in relation to the proposed Board Merger with ARIA and the DFRDB Authority.

Further details are contained in the financial statements, starting from page 61.

## Accounting Services

### ComSuper

As the Scheme Administrator, ComSuper:

- Maintains the Fund's general ledger summarising monthly contributions, benefits and investment transactions as reported by the Custodian
- Prepares the annual financial statements of the Fund in a form approved by the Board and the Minister
- Prepares monthly (unaudited) financial statements in a form agreed with the Board

- Assists Management in preparing annual returns for the Australian Prudential Regulation Authority (APRA)
- Prepares quarterly Business Activity Statement (BAS) and pays tax instalments by the due date
- Manages the annual taxation return in collaboration with the Fund's taxation adviser and Management
- Provides annual letters of assurance to the Board and to the Board's external auditor regarding information provided for annual financial statements
- Liaises with the Board's specialist advisers on Scheme accounting issues
- Provides the Board with the opportunity to participate in the development of ComSuper's annual internal audit program to identify areas of mutual interest and to examine reports of specific internal audits where there is a common interest
- Provides reasonable access to internal audit staff to attend the Board's Audit and Risk Management Committee meetings and to advise on audits completed or in progress
- Provides a quality assurance role on accounting information provided by the Custodian or other sources.

### Audit of Financial Statements

The Auditor-General has issued an unqualified audit opinion of the financial statements provided by the Scheme and Board for the 2010–11 financial year.

### Account Maintenance

One of ComSuper's major functions is to maintain accounts for Contributing Members, Preserved Benefit Members and Pensioners. ComSuper performs this function in conjunction with Defence. The principal aim of this function is defined by the enabling legislation for the Scheme and is articulated in the service level agreement between the Board, ComSuper and Defence.

### Collection, Recording and Maintenance of Information

ComSuper's account maintenance activities include:

- Maintaining records of contributing members, preserved benefit members and pension recipients to facilitate the accurate and timely payment of benefits, publication of member statements and relevant communications. ComSuper has various reporting requirements and does reconciliations against Fund accounts
- Ensuring that adequate systems, procedures and controls are in place to meet the administration and reporting requirements of the *Superannuation Industry Supervision Act (SIS Act)* and associated legislation
- At the direction of the Audit and Risk Management Committee of the Board, arranging for an independent audit of those systems and controls
- Maintaining a system for locating and reporting 'lost members'.

## Collection, Banking, Recording and Maintaining Contribution Remittances

The basic rate of member contribution to MilitarySuper is 5% of salary, including higher duties and the qualification and skills element of certain Environmental Allowances. Members can elect to contribute up to 10% of salary and are able to make additional voluntary pre and post tax contributions. The Employer Benefit is unfunded except for the 3% productivity contribution, which is paid into the Fund by Defence. Members may also be entitled to superannuation co-contributions from the Australian Government.

Total contributions to the Fund during 2010–11 were \$416.6m compared with \$407.6m for 2009–10, of which member contributions comprised \$228.8m compared with \$208.7m for 2009–10. Employer contributions amounted to \$175.0m compared with \$175.8m for 2009–10. Co-contributions received totalled \$12.8m compared with \$23.1m 2009–10. The net appropriation for benefits for the year was \$270.5m compared with \$205.3m for 2009–10.

Member and employer productivity contributions for Members are remitted fortnightly and paid by direct credit to the Board's bank account.

As the Scheme Administrator, ComSuper:

- Maintains banking arrangements to pay contribution remittances into the Fund
- Lodges monies with the Custodian for investment by investment managers (to the extent that monies held in the Board's bank account are not required for paying benefits or other expenses)
- Maintains accounting systems to record contribution remittances received
- Monitors the collection of contributions, and pursues any late remittance of contributions with Defence.

## Benefit Payments

All exiting members are entitled to a member-financed benefit regardless of their reason for leaving the ADF. Members are also entitled to an employer-financed benefit, the amount of which varies according to the reason for exit.

### Member-financed Benefits

The MilitarySuper member benefit is derived from the member's own contributions, including any amounts notionally brought over from the DFRDB Scheme, Ancillary Benefits, plus the earnings on those contributions in the Fund. Members can choose from the five investment options offered by the Scheme for this component of their benefit. The member benefit is payable as a lump sum and cannot be converted to a pension.

## Employer-financed Benefits

Employer benefits are defined benefits paid for by the Commonwealth. Part of the benefit, the productivity benefit, is funded while the remaining balance of the defined benefit is unfunded. The total employer benefit payable is not affected by investment market fluctuations.

## Discharge Benefits

Members who leave MilitarySuper without a pension entitlement must preserve their total employer component until they reach their compulsory minimum preservation age. From age 55, they can roll it over to another complying fund of their choice until their preservation age is reached and they have retired from the workforce. Members who reach age 55 can also convert a minimum of 50% of their employer benefit to a pension and roll over the balance.

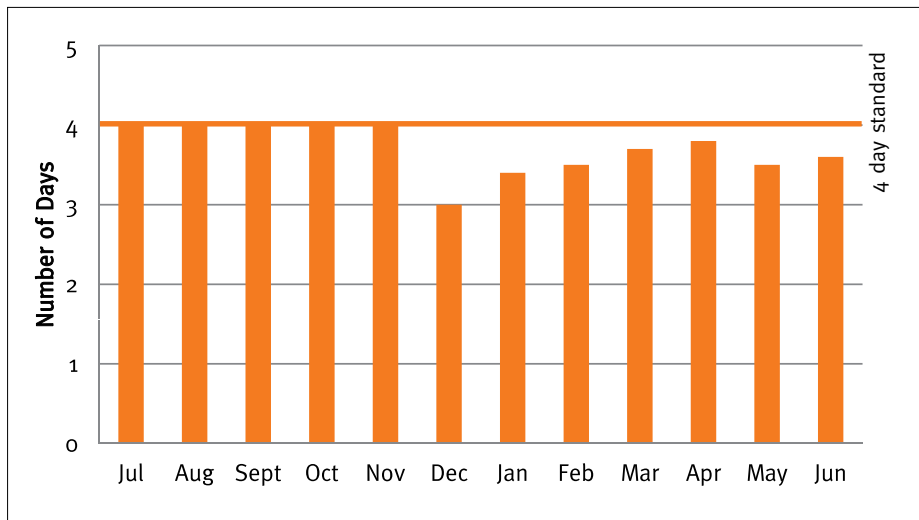
Discharging members may preserve their total benefit or take that part of their member benefit that accrued up to 30 June 1999. Any contributions paid and earnings after that date must either be preserved in the Scheme or rolled over and preserved in another complying fund until preservation age. Members may withdraw from MilitarySuper part of a member benefit that is not compulsorily preserved.

**Table 13: Benefits paid 2010–11**

	\$m
Pensions	209.0
Lump sums	115.5
<b>Total</b>	<b>324.5</b>
Fund share	54.0
Consolidated revenue share	270.5
<b>Total</b>	<b>324.5</b>

## Payments

All applications for benefits from Contributing and Preserved Benefit Members are processed in accordance with relevant legislation and within the timeframes agreed between the Board and the Scheme Administrator.

**Chart 10: Average Time to Process Benefit Payments 2010–11**

## Early Release of Preserved Benefits

In certain circumstances, a compulsorily preserved benefit may be paid before retirement.

Of the 529 preserved benefits paid in full or part during 2010–11, 219 were released on total and permanent incapacity (TPI), severe hardship or compassionate grounds.

## Processing of Invalidation Claims

### Invalidity Benefits

A member is retired on the ground of invalidity if he or she does not meet the required standard of fitness for retention in the ADF, even though he or she may be capable of employment in the civilian workforce.

### Invalidity Classification Process

ComSuper assesses the level of incapacity and invalidity for MilitarySuper members seeking a medical discharge from service. This assessment determines the level of benefits they will receive on retirement. The assessment is based on:

- An independent medical assessment
- Information about the member's capacity to enter civilian employment, based on their skills and employment history
- Other information provided by Defence.

ComSuper continue to work with Defence to improve how this information is provided and processed.



MilitarySuper members retired on invalidity grounds receive an A, B or C invalidity classification. A Class A classification requires significant incapacity, while Class B requires moderate incapacity. Class C classification reflects comparatively low incapacity and a lump sum rather than a pension is payable.

If there is a conflict in the medical information, or reasonable doubt as to the classification, the case is referred from the ComSuper delegate to the Incapacity Classification Committee (ICC). The ICC is established under the provisions of Rule 17 and, where required, determines the classification of members retired on invalidity grounds both at the time of discharge and at later reviews of invalidity pension recipients.

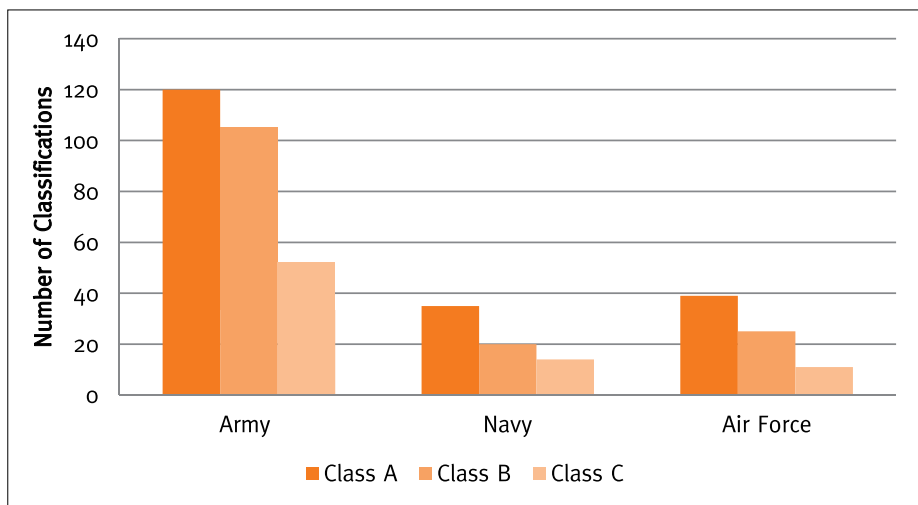
As at 30 June 2011, the ICC comprised of Mr Simon Lawson (Chairperson & member of the Military Invalidity, Reversionary & Release Section), Commander Ross Mills (ADF representative) and Ms Louise Scullion (Superannuation Directorate, Defence).

After a classification decision has been made, the member is advised in writing and informed of their right to request reconsideration of the decision.

### Invalidity Retirement Classifications

During 2010–11, 424 members received initial invalidity classifications. Of those who received an invalidity classification, 344 (194 Class A and 150 Class B) were entitled to an invalidity pension. These figures vary slightly from the number of invalidity exits quoted elsewhere because some of these cases relate to members who were discharged in a previous financial year. The remaining 77 were classified as Class C. The proportion of invalidity classifications for each Service is shown in Chart 11.

**Chart 11: Service Comparison of Invalidity Classifications 2010–11**



### Invalidity Classification Review

The Board or its delegates may, at intervals determined by the Board, review the classification of Class A and Class B invalidity pensioners. A member can also initiate a review.

The rate of invalidity pension payable may be altered if the pensioner's degree of incapacity to undertake appropriate civilian employment deteriorates or improves.

During 2010–11, 250 cases were examined. As a result of these reviews, 99 classifications were changed, as shown in Table 14.

**Table 14: Invalidity Entitlements Reviewed in the Past Five Years**

	2006–07	2007–08	2008–09	2009–10	2010–11
Entitlements examined	841	353	352	296	250
Review with medical exam	841	353	296	296	250
Classification raised	66	44	134	49	55
Classification reduced	102	48	16	45	44
Total classification changes	168	92	150	94	99

## Pensions

### Reversionary Benefits

All applications for Reversionary Benefits following the death of a member or a pensioner (that is, eligible spouses, children and orphan pensions) are processed in a timely manner and in accordance with relevant legislation.

MilitarySuper pensions are automatically increased twice yearly in line with any upward movements in the CPI for the period ending 31 March and 30 September each year. The increases are paid on the first pension payday in January and July each year. The July 2010 and January 2011 increases were 1.4% and 1.3%, respectively.

### Pension Payments

During the year, 482 new pensions were granted. At 30 June 2011, 8,166 members were receiving MilitarySuper pensions. Table 15 lists the number of pensioners for each class of benefits at the end of each financial year since 30 June 2007.

The total amount paid as pensions during the year was \$209.0 million. The average pension amounted to \$23,082 per annum.

**Table 15: Number of Pensioners in the Past Five Years by Type of Benefit**

Class of Pension Benefit	Number of Pensioners				
	30 June 2007	30 June 2008	30 June 2009	30 June 2010	30 June 2011
Retirement	1,013	1,106	1,220	1,314	1,492
Redundancy	1,916	1,910	1,914	1,920	1,931
Invalidity	3,243	3,531	3,913	4,130	4,362
Reversionary Benefits*	237	163	180	320	381
<b>Total</b>	<b>6,409</b>	<b>6,710</b>	<b>7,227</b>	<b>7,684</b>	<b>8,166</b>

\* Payable on the death of a member, former member or Pensioner

## Family Law

MilitarySuper maintains accounts for MilitarySuper associate members (former spouses).

A total of 2,189 family law enquiries were actioned in 2010–11, which is a 6% increase on the previous financial year. There were 194 family law splits implemented during the year, a 16% increase from 2009–10.

At 30 June 2011, there were 444 Contributing Member and 700 Preserved Benefit Member accounts affected by family law splitting arrangements and 1,303 associate records.

**Table 16: Family Law Enquiries and Processes in 2010–11**

	Number
Family law splits implemented	194
Responses to enquiries	813
Contributor accounts affected	444
Preserved accounts affected	700
<b>Total number of associate records</b>	<b>1,303</b>

## Internal review

A person affected by a decision of the Board, or its delegates, may apply in writing to have the decision reconsidered. Requests for reconsideration are treated as complaints for the purposes of section 101 of the *Superannuation Industry (Supervision) Act 1993*.

The majority of requests for internal review relate to the amount of invalidity benefit payable on discharge, or at subsequent reviews. Other common subjects include overpayment recovery, early access to superannuation on hardship grounds and spouse entitlements.

Decisions on reconsideration are not delegated but are made by the Reconsideration Committee or Board. The Military Reconsiderations Unit investigates these requests in a thorough, objective and effective manner following any guidelines issued by the Board. Following its investigation, the Reconsideration Committee or Board affirms or varies the primary decision. The Military Reconsiderations Unit provides the applicant with a copy of the decision, details of the evidence considered and information concerning their right to appeal.

During 2010–11, the Military Reconsiderations Unit received 95 requests for reconsideration. This was the same as the number received in 2009–10.

The Military Reconsiderations Unit finalised a total of 91 cases in 2010–11, compared with 93 cases in the previous year. On 30 June 2011, the Military Reconsiderations Unit had 39 cases under investigation.

**Table 17: Reconsideration Applications for the Past Five Years**

	2006–07	2007–08	2008–09	2009–10	2010–11
Requests on hand	73	48	59	33	35
Requests received	108	113	76	95	95
Requests resolved	133	102	103	93	91
Carried forward	48	59	33	35	39

## Dispute Resolution

Decisions by the Board and its delegates, including the Incapacity Classification Committee and the Reconsideration Committee, are subject to internal reconsideration by the Board or Reconsideration Committee and external review by the Superannuation Complaints Tribunal. These processes are managed by ComSuper.

### External Review

On 29 June 1995, the Trustees of MilitarySuper elected to become a regulated superannuation fund for the purposes of the SIS Act. As a regulated fund, any decision taken by the Board can be the subject of a complaint before the Superannuation Complaints Tribunal (SCT), which was established under the *Superannuation (Resolution of Complaints) Act 1993* (the SRC Act).

Five complaints were lodged with the SCT during the year and eight cases were carried over from 2009–10. Five complaints to the SCT were resolved during the year. Of these, one complaint to the SCT were treated as withdrawn and four decisions were affirmed. No complaints to the SCT were conceded on the basis of new evidence. At 30 June 2011, there were eight complaints to the SCT outstanding.

ComSuper facilitates the prompt processing of matters referred to Superannuation Complaints Tribunal, the Federal Court and other bodies such as the Human Rights and Equal Opportunity Commission. The Board also monitors the outcome and implications of external appeals.

## Enquiries and Complaints

The Board has established formal procedures for dealing with members' complaints received under section 101 of the SIS Act. Management works with ComSuper in the preparation of member complaints responses.

ComSuper also handles all Commonwealth (Ombudsman) enquiries, prepares responses to parliamentary representations and responds to requests made under the *Freedom of Information Act 1982* (the FOI Act).

In 2010–11, 47 complaints and 16 Ministerial representations were received. Three Ombudsman enquiries were received.

A substantial proportion of these complaints related to the employer benefit preservation arrangements as prescribed by MilitarySuper Rules. These are matters that relate to characteristics of the scheme administered, rather than the service to members.

Management and the Audit and Risk Management Committee monitored all complaints to ensure that ComSuper has internal processes to identify and resolve systemic issues and to continually improve the service provided to members.

## Legal Claims

There was one claim carried over from 2009–10. The Board received four legal claims during 2010–11. One claim was decided and not accepted. At 30 June 2011 four claims remain outstanding.



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**FUND  
FINANCIAL  
STATEMENTS**



**MILITARY SUPERANNUATION AND BENEFITS FUND**  
(ABN: 50925523120)

**INDEPENDENT REPORT BY APPROVED AUDITOR TO THE MINISTER FOR DEFENCE  
PERSONNEL, AND MEMBERS OF THE FUND FOR THE YEAR ENDED 30 JUNE 2011**

**Scope**

I have audited the financial statements of Military Superannuation and Benefits Fund for the year ended 30 June 2011 which comprise Statement of Changes in Net Assets, Statement of Net Assets and Notes to and forming part of the Financial Statements, including a Summary of Significant Accounting Policies.

***Trustees' Responsibility for the Financial Statements***

The superannuation entity's trustee is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the form agreed with the Minister for Defence Personnel and the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee's are also responsible for such internal control as the trustee's determine necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted an independent audit of the financial statements in order to express an opinion on them to the members of Military Superannuation and Benefits Fund and the Minister for Defence Personnel.

My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the trustee's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the trustee's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustees, as well as evaluating the overall presentation of the financial statements.

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

GPO Box 707 CANBERRA ACT 2601  
19 National Circuit BARTON ACT  
Phone (02) 6203 7300 Fax (02) 6203 7777

***Independence***


In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the ethical requirements of the Australian accounting profession.

**Auditor's Opinion**

In my opinion:

- (i) the financial statements are in the form as agreed by the Minister for Defence Personnel in accordance with sub-section 26(1) of the *Military Superannuation and Benefits Act 1991*;
- (ii) the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards, the net assets of Military Superannuation and Benefits Fund as at 30 June 2011 and the changes in net assets for the year ended 30 June 2011;
- (iii) the financial statements are based on proper accounts and records; and
- (iv) the receipt of money into the Fund, and the payment of money out of the Fund and the investment of money standing to the credit of the Fund, during the year have been in accordance with the *Military Superannuation and Benefits Act 1991* and the Trust Deed.

AUSTRALIAN NATIONAL AUDIT OFFICE



Warren J. Cochrane  
Group Executive Director

Delegate of the Auditor-General

Canberra  
13 September 2011

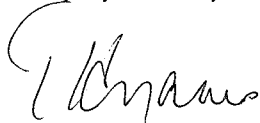


**MILITARY SUPERANNUATION AND BENEFITS FUND****Statement by the Directors of the Board of the Commonwealth Superannuation Corporation (CSC)**

The Board of CSC hereby states that in its opinion the attached financial statements give a true and fair view:

- (a) of the matters required by Australian Accounting Standard AAS 25 - *Financial Reporting by Superannuation Plans (AAS 25)* and Schedule 1 of the *Financial Management and Accountability Orders (Financial Statements for reporting periods ending on or after 1 July 2010)*, as amended from time to time except where there is a conflict between Schedule 1 and AAS 25, the latter shall take precedence;
- (b) of the net assets of the Military Superannuation and Benefits Fund (Fund) (defined at Note 2), as at 30 June 2011 and the changes in net assets of the Fund for the financial year to 30 June 2011;
- (c) that at the date of this statement there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they fall due;
- (d) that the financial statements are in a form agreed by the Minister for Defence Science and Personnel and the Military Superannuation and Benefits Board of Trustees No. 1 (Board) in accordance with subsection 26(1) of the *Military Superannuation and Benefits Act 1991* and have been prepared in accordance with Australian Accounting Standards and other mandatory professional reporting requirements;
- (e) that the financial statements have been prepared based on properly maintained financial records;
- (f) that the operations of the Military Superannuation and Benefits Scheme (Scheme) (defined at Note 2) are in accordance with the *Military Superannuation and Benefits Act 1991*;
- (g) that the Scheme complied in all material respects with the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations and the relevant requirements of the *Corporations Act 2001* and Regulations; and
- (h) that the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 1 to the financial statements, to the extent that it is not inconsistent with AAS25.

Signed at Sydney this 13th day of September 2011 in accordance with a resolution of the CSC Board



Director



Director

*Commonwealth Superannuation Corporation*

**Military Superannuation & Benefits Fund**  
**Statement of Changes in Net Assets**  
**For the period ended 30 June 2011**

	Note	2011 \$'000	2010 \$'000
Funds available to pay benefits at the beginning of the period		3,228,245	2,810,576
<b>Add:</b>			
<i>Investment Revenue</i>			
Interest	3	17,588	11,000
Dividends	3	184,105	85,475
Other Investment Revenue	3	625	1,206
Changes in Net Market Values	3	10,740	(9,874)
Direct Investment Expenses	5	(11,378)	(9,721)
<b>Net Investment Revenue</b>		<b>201,680</b>	<b>78,086</b>
<i>Contributions Revenue</i>			
Member Contributions		228,799	208,749
Productivity Contributions		174,975	175,846
Co-Contributions		12,782	23,061
Net Appropriations from consolidated revenue fund (CRF)	4	270,517	205,252
<b>Total Contribution Revenue</b>		<b>687,073</b>	<b>612,908</b>
<b>Total Revenue</b>		<b>888,753</b>	<b>690,994</b>
<b>Less:</b>			
General administration expenses	5	(7,749)	(3,008)
Benefits paid and payable	4	(324,499)	(242,535)
<b>Total Benefits Paid and Expenses</b>		<b>(332,248)</b>	<b>(245,543)</b>
<b>Change in Net Assets for the Year Before Income Tax</b>		<b>556,505</b>	<b>445,451</b>
Less Income tax expense	6 (a)	47,212	27,782
<b>Change in Net Assets for the Year After Income Tax</b>		<b>509,293</b>	<b>417,669</b>
<b>Net Assets Available to Pay Benefits at the End of The Period</b>		<b>3,737,538</b>	<b>3,228,245</b>

*The attached notes form part of these financial statements*

### Military Superannuation & Benefits Fund

#### Statement of Net Assets

As at 30 June 2011

	Note	2011 \$'000	2010 \$'000
<b>Investments</b>			
Cash and short term deposits		615,846	290,039
Debt instruments		414,075	462,703
Australian equities	1,044,608		982,621
International equities	471,841		367,447
Property trusts	200,482		136,794
Currency contracts	46,280		(32,344)
Private equity	477,230		547,783
Uncorrelated Alpha	169,813		132,178
Infrastructure	284,916		258,750
<b>Total Investments</b>		<b>3,725,091</b>	<b>3,145,971</b>
<b>Other Assets</b>			
Bank		27,663	25,778
CRF Special Account		356	380
Trade Settlements Receivable		53,888	2,226
Accrued Income		11,956	10,389
Prepayments		11	13
GST Recoverable		498	595
Sundry Debtors		418	411
Benefits Payable to be funded by Appropriation	4	2,693	5,009
Foreign Tax Paid		642	565
Deferred Tax Assets	6 (c)	55,448	65,047
<b>Total Other Assets</b>		<b>153,573</b>	<b>110,413</b>
<b>Total Assets</b>		<b>3,878,664</b>	<b>3,256,384</b>
<b>Less Liabilities</b>			
Benefits payable	4	4,251	7,653
Trade settlements payable		114,941	1,747
Sundry creditors	7	13,024	7,344
Current tax liability	6 (b)	8,910	11,395
<b>Total Liabilities</b>		<b>141,126</b>	<b>28,139</b>
<b>Net Assets Available to Pay Benefits at the end of the Period</b>		<b>3,737,538</b>	<b>3,228,245</b>

The attached notes form part of these financial statements.

## MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Statement of Compliance**

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and Interpretations, the *Superannuation Industry (Supervision) Act 1993* and provisions of the Trust Deed. Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS) to the extent they are not inconsistent with AAS 25.

Pursuant to Subsection 16(3) of the *Superannuation Legislation (Consequential Amendments and Transitional Provisions) Act 2011* the financial statements were authorised for issue by the on 13 September 2011.

**Basis of Preparation**

The financial statements have been prepared on the basis required by the Defined Benefit Plan provisions of AAS 25, which provides specific measurement requirements for assets, liabilities and for accrued benefits. To the extent that they do not conflict with AAS 25, other accounting standards have been applied in the preparation of the financial statements. A Defined Benefit Plan refers to a superannuation plan where the amounts to be paid to members on retirement are determined at least in part by a formula based on years of membership and salary levels.

The Board adopted the provisions of AAS 25 whereby the financial statements include a Statement of Net Assets, a Statement of Changes in Net Assets and Notes thereto. The form of these financial statements was agreed by the Minister for Defence Science and Personnel and by the Board in accordance with subsection 26(1) of the *Military Superannuation and Benefits Act 1991* prior to 30 June 2011.

**Key Estimates and Judgements**

In the application of accounting standards, including AIFRS, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of accounting standards that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

**Deferred Tax Asset**

AASB 112 *Income Taxes* allows the recognition of deferred tax assets where they are “probable” of realisation.

The Board considered the appropriateness of the Deferred Tax Asset noting that a large proportion of the asset reflects the tax effect of realised losses. In accordance with AASB 112 it was determined that the Deferred Tax Asset is probable of recovery in approximately 3 years, which is considered appropriate having regard to the Scheme’s membership and operating environment.

**Adoption of new and revised Accounting Standards**

There were no new Accounting Standards that have an impact on the financial statements of the Fund for the current financial year.

Accounting policies are selected and applied in a manner which ensures that the resulting financial

## MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

information satisfies the concept of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies set out below have been applied in preparing the financial statements for the financial year ended 30 June 2011 and the comparative information presented in these financial statements for the year ended 30 June 2010.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

**(a) Cash and Cash Equivalents**

Cash and cash equivalents include deposits held at call with a bank or financial institution and highly liquid investments with short periods to maturity which are readily convertible to cash-on-hand at the discretion of managers and are subject to insignificant risk of changes in value. Cash is included in the Statement of Net Assets at net market value.

**(b) Revenue Recognition**

Revenue is recognised to the extent to which it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. The following recognition criteria relate to the different revenues the Fund has recognised:

***Investment Revenue*****Dividend revenue**

Revenue from dividends is recognised on the date the shares are quoted ex-dividend, and if not received at balance date, is reflected in the Statement of Net Assets as a receivable.

**Interest revenue**

Revenue on money market and fixed interest securities is recognised using the effective interest rate method, and if not received at balance date, is reflected in the Statement of Net Assets as a receivable.

**Movement in net market value of investments**

Changes in the net market value of investments are recognised as income (or expense) and are determined as the difference between the net market value at year end or consideration received (if sold during the year) and the net market value as at the prior year end or cost (if the investment was acquired during the period).

**Movement in net market value of financial liabilities**

Changes in the net market value of financial liabilities are recognised as income (or expense) and are determined as the difference between the net market value at year end or consideration paid (if settled during the year) and the net market value as at the prior year end or amount originally incurred (if the financial liabilities were incurred during the period).

***Contribution Revenue*****Employer and member contributions**

Contributions are recognised when control of the asset has been attained and are recorded in the period to which they relate.

## MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011Government co-contributions

Superannuation co-contributions from the Australian Government are recognised when superannuation co-contribution receipts are received by the Fund and allocated through the Administration software to individual members. This involves matching the data file received from the Australian Taxation Office with the appropriate members. This is the only point at which measurement is reliable.

Transfers from other funds

Transfers from other funds are recognised on a cash basis as this is the only point at which measurement is reliable. Accordingly amounts are recognised when transfer receipts are received by the Fund.

**(c) Valuation of Investments**

Investments of the Fund are included in the Statement of Net Assets at net market value as at reporting date and changes in the net market value of assets are recognised in the Statement of Changes in Net Assets in the periods in which they occur. Net market value of investments includes an amount for selling costs which would be expected to be incurred if the investments were sold. Net market values have been determined as follows:

- (i) Short-term Money Market - these securities are valued by marking to market using yields information supplied by independent valuers.
- (ii) Fixed-interest - these securities are valued by marking to market using yields information supplied by independent valuers.
- (iii) Futures Contracts - open futures contracts are revalued to closing price quoted at close of business on 30 June 2011 by the futures exchange.
- (iv) Equities - listed securities, including listed property trusts, are valued based on the last sale price quoted at close of business on 30 June 2011 by the relevant stock exchange, or last bid where a sale price is unavailable.
- (v) Exchange Traded Options - options are valued as the premium payable or receivable to close out the contracts at the last buy price quoted at close of business on 30 June 2011 by the relevant stock exchange.
- (vi) International Securities- are valued on the basis of last sale price quoted at close of business on 30 June 2011 by the relevant securities exchange.
- (vii) Currency Contracts - these securities are valued at the relevant exchange rate at close of business on 30 June 2011.
- (viii) Debt - certain investments are valued by marking to market using yields supplied by independent valuers. The remainder of this class of investments is valued by the most recent valuation obtainable from:
  - an independent external valuer;
  - a third party arms length transaction; or
  - the current and future earnings on corporate debt instruments in the portfolio.
- (ix) Uncorrelated Alpha (Hedge) Funds - investments via unit trusts are valued at their net realisable value. The remainder of this class of investments is valued by the issuing bank having regard to the net realisable value of the underlying financial instruments.
- (x) Private Equity, Infrastructure and Unlisted Property funds - these asset classes are valued according to the most recent valuation obtainable from:
  - an independent external valuer;
  - a third party arms length transaction;
  - the current and future earnings of companies or assets in the portfolio; or
  - cost (less any diminution in value) in cases where investments have been held for a

## MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

short time and the Board was satisfied that significant diminution in value had not occurred.

## (c) Valuation of Investments (cont.)

The following tables detail the latest date of valuation of unlisted private equity, infrastructure and property fund investments as at 30 June 2011:

Fund	Latest valuation
<i>Domestic Private Equity</i>	
Archer Capital Fund 3, 3A and 3B	30-Jun-11
Direct Investment Fund	30-Jun-11
CHAMP Ventures Trusts No. 5A and 5B	30-Jun-11
CHAMP Ventures Trusts No. 6A and 6B	30-Jun-11
CHAMP Buyout II Trust	30-Jun-11
CHAMP Buyout III Trust	30-Jun-11
Crescent Capital Partners II	30-Jun-11
Crescent Capital Partners III	30-Jun-11
Deutsche Private Equity Fund	30-Jun-11
Propel Private Equity Fund No. 2	30-Jun-11
GBS BioVentures III	30-Jun-11
Gresham Private Equity Fund No. 2A and 2B	30-Jun-11
NBC Private Equity Fund 2A and 2B	30-Jun-11
PEP Funds No. 2 and Supplementary No. 2	30-Jun-11
Pacific Equity Partners Fund 3 and Supp No. 3	30-Jun-11
Pacific Equity Partners Fund IV and Supp No. IV	30-Jun-11

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

(c) Valuation of Investments (cont.)

Fund	Latest valuation
<i>International Private Equity</i>	
DIF Global Co-Investment Fund III	30-Jun-11
Citic Capital China Mezzanine Trust	31-Mar-11
CSFB Fund Investment VI Bermuda	30-Jun-11
**Dover Street Fund VII	30-Jun-11
**HarbourVest Partners IV	30-Jun-11
**HarbourVest Partners VII Buyout	30-Jun-11
**HarbourVest Partners VII Venture	30-Jun-11
**HarbourVest Partners V	30-Jun-11
KKR 2006 Fund, L.P.	31-Mar-11
**Pantheon Europe Fund III, L.P.	30-Jun-11
**Pantheon Global Secondary Fund II, L.P.	30-Jun-11
**Pantheon Global Secondary Fund III, L.P.	30-Jun-11
**Pantheon USA Fund IV, L.P.	30-Jun-11
**Pomona Capital Fund VII	30-Jun-11
**Northgate Private Equity Part II	30-Jun-11
**Northgate Venture Partners III	30-Jun-11
Rosemont Partners II, L.P.	31-May-11
Rosemont Cadence LLC	31-May-11
**Sentient Global Resources Trust No. 1	30-Jun-11
**Siguler Guff Bric Opp Fund	30-Jun-11
**Siguler Guff Small Buyout Fund	30-Jun-11
Terra Firma Capital Partners III, L.P.	31-Mar-11
Thomas Weisel India Opportunity Fund, L.P.	31-Dec-10
YBR Feeder Limited Partnership	30-Jun-10

\*\*Estimated valuations received as at 30 June 2011.  
Valuations may not have been audited.



## MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

## (c) Valuation of Investments (cont.)

Fund	Latest valuation
<i>Debt</i>	
Australian Aviation Fund	31-May-11
BCA Mezzanine Fund	31-May-11
**HarbourVest Partners VII Mezzanine	30-Jun-11
**Siguler Guff Distressed Opportunities Fund II, L.P.	30-Jun-11
**Siguler Guff WLR Opportunity Fund	30-Jun-11
TCW Shared Opportunity Fund V, L.P.	31-Mar-11

\*\*Estimated valuations received as at 30 June 2011.  
Valuations may not have been audited.

Fund	Latest valuation
<i>Infrastructure</i>	
Energy Infrastructure Trust	30-Jun-11
CFS Infrastructure (Brisbane Airport)	30-Jun-11
Macquarie Global Infrastructure Fund 2b	31-May-11
Macquarie Global Infrastructure Fund 3	31-May-11
Palisade Diversified Infrastructure Fund	30-Jun-11
Duncan Solutions/Saltbush Parking Services	30-Jun-09
TCW Energy Fund XIV	31-May-11
**TCW Energy Fund XV	30-Jun-11
**US Power Fund II	30-Jun-11

\*\*Estimated valuations received as at 30 June 2011.  
Valuations may not have been audited.

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

(c) Valuation of Investments (cont.)

Fund	Latest valuation
<i>Uncorrelated Alpha</i>	
Deutsche Variable Note - Mazuma/ Greenwich	31-May-11
Deutsche Note - Mazuma II - Master Series	31-May-11
Deutsche Note - Mazuma II - October Series	31-May-11
**Greenwich Absolute Return Fund	31-May-11
Schroders Real Return Fund	30-Jun-11

\*\*Estimated valuations received as at 30 June 2011.

Valuations may not have been audited.

Fund	Latest valuation
<i>Property</i>	
AMP Capital Wholesale Office Fund	30-Jun-11
Australian Wholesale Property Fund	30-Jun-11
AWPF Unitholder Loan <i>(Valued with accrued interest)</i>	30-Jun-11
APN Development Fund 1	30-Jun-11
Parissen Property Fund 1	30-Jun-11
Parissen Development Fund 2	30-Jun-11
Babcock & Brown Alliance JV	30-Jun-10
Cerberus Institutional Real Estate Fund II	31-Mar-11
Charter Hall Opportunities Fund 4	30-Jun-11
**Domaine SEQ Property Fund	30-Jun-11
**Doughty Hanson EU Real Estate Fund	31-Mar-11
Fiduciary Int Real Estate Fund	31-May-11
Gresham Property Fund 3	30-Jun-11
High Street Real Estate Fund III	31-May-11
ICA (Valad) Property Fund 4	30-Jun-11

\*\*Estimated valuations received as at 30 June 2011.

Valuations may not have been audited.

## MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

(d) **Foreign Currency Translation**

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date.

Exchange rate differences are recognised in the Statement of Changes in Net Assets in the period in which they arise.

(e) **Derivative Financial Instruments**

The Board used a variety of derivative financial instruments to manage the Fund's exposure to interest rate and foreign exchange rate risks, including exchange traded futures and options, over the counter options, foreign exchange forward contracts, interest rate swaps and cross currency swaps. Derivatives may also be used to manage the risk of the portfolio, manage transaction cost (including market impact), to implement investment positions in the portfolio, obtain market exposure to an asset class, hedge market risk and provide portfolio insurance. Derivatives are not used for speculation in any market or for gearing the portfolio. Further details of derivative financial instruments are disclosed in Note 8 to the financial statements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in the Statement of Changes in Net Assets. The Fund's investment managers may use derivative instruments, subject to strictly controlled limits. Derivatives may be used to obtain an equivalent exposure to that which would have been obtained had the manager purchased or sold the underlying physical security. They may also be used to hedge risk exposure. These hedges should have the effect of reducing the Fund's exposure to market fluctuations and must not increase exposure. Hedges can only be used where there is an offsetting position in the Fund.

(f) **Taxation**

**Current Tax**

Current tax assets and liabilities for current and prior periods are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the reporting date.

**Deferred Tax**

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

## MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

**(f) Taxation (cont.)**

The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. The tax base of an asset is the amount that will be deductible for tax purposes against any taxable benefits that will flow to the entity when it recovers the carrying amount of the asset. The tax base of a liability is its carrying amount less any amount that will be deductible for tax purposes in respect of that liability in future periods.

Temporary differences may be either:

- *Taxable temporary differences*: these arise when the carrying amount of an asset exceeds its tax base, as the future recovery of its carrying amount will generate taxable profit with an obligation to pay the resulting taxes in future periods. Further, a taxable temporary difference arises when the carrying amount of a liability is less than its tax base, as the future settlement of its tax base will generate taxable profit.
- *Deductible temporary differences*: these arise when the carrying amount of a liability exceeds its tax base, as the future settlement of its carrying amount will be deductible in determining taxable income. Further, a deductible temporary difference arises when the carrying amount of an asset is less than its tax base, as its future recovery will generate a tax deduction.

**Deferred tax liability**

A deferred tax liability is recognised when there is a taxable temporary difference between the tax base of an asset or liability and its carrying amount in the statement of net assets.

**Deferred tax asset**

A deferred tax asset is recognised when there is a deductible temporary difference between the tax base of an asset or liability and its carrying amount in the statement of net assets, but only to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.

A deferred tax asset is also recognised for the carry-forward of unused tax losses and credits, but only to the extent that it is probable that the future taxable profit will be available against which the unused tax losses and credits can be utilised.

**(g) Benefits Payable**

Benefits payable include benefits in respect of members who ceased employment with the employer sponsor prior to financial year end who have requested to receive a benefit but had not been paid by that date.

**(h) Liability for Accrued Benefits**

The liability for accrued benefits is not included in the Statement of Net Assets, but the liability at the latest measurement date is reported by way of note. Where accrued benefits are measured during the reporting period, the benefits which have accrued since the latest measurement date are also reported by way of note. The liability for accrued benefits is actuarially measured on at least a triennial basis, and represents the value of the Scheme's present obligation to pay benefits to members and other beneficiaries at the date of measurement. The liability is determined as the present value of expected future payments which arise from membership of the Scheme up to the date of measurement.

**(i) Superannuation Contributions (Surcharge) Tax**

The Fund recognised amounts paid or payable in respect of the surcharge tax as an expense of the Fund. The expense (and any corresponding liability) is brought to account in the period in which the assessments are received and are properly payable by the Fund. All amounts paid are allocated back against the member accounts to which the surcharge relates.

## MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

**(j) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as part of receivables or payables.

**(k) Sundry Debtors and Creditors**

Sundry debtors are recognised at the amounts receivable which approximate net fair value. Sundry creditors represent liabilities for unpaid goods and services provided prior to the end of the financial year. The amounts are unsecured. Sundry debtors and creditors are subject to normal trade credit terms.

**(l) Controlled Entities**

The Fund has ownership in a number of investment vehicles that may constitute control. The entities are:

- Herschel Concentrated Australian Equity Fund
- Agora Absolute Return Fund

Presently Australian Accounting Standards requires consolidation where control exists, the Board decided not to consolidate the financial statements of these investments into the Fund's financial statements, on the grounds that the Board did not in any practical sense have the power to govern the financial and operating policies of any of the above mentioned entities. The Board is therefore of the view that the decision to not consolidate does not impact on the true and fair view of the financial statements nor on the usefulness of the financial statements to the users of the statements.

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

2. DESCRIPTION OF THE SCHEME AND THE FUND

(a) Description

The Military Superannuation and Benefits Scheme (ABN 50 925 523 120) is a hybrid accumulation-defined benefits scheme which provides benefits to its members under the *Military Superannuation and Benefits Act 1991*. The Trustee at balance date was the Military Superannuation and Benefits Board of Trustees No. 1. The Scheme is operated for the purpose of providing members of the Australian Defence Force (and their dependants or beneficiaries) with lump sum and pension benefits upon retirement, termination of service, death or disablement.

For the purposes of the Scheme, the Military Superannuation and Benefits Fund No. 1 (Fund) exists to accept 3% employer productivity contributions from the Department of Defence, Members' contributions, transfers from other Superannuation funds, and contributions made by Members for the benefit of their spouse.

Administration of the Scheme is conducted by ComSuper.

The principal place of business of the Scheme Trustee is:

Level 8  
121 Marcus Clarke Street  
CANBERRA ACT 2601

(b) Member Numbers:

	2011	2010
Number of Members		
- Contributors	56,892	54,525
- Deferred Beneficiaries / Preservers	78,605	76,430
- Pensioners	<u>8,166</u>	<u>7,684</u>
Total Number of Members	<u>143,663</u>	<u>138,639</u>

(c) Employees of the Board:

	2011	2010
Average Staffing Levels	<u>8.2</u>	<u>7.9</u>

## MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

## 3. INCOME AND CHANGES IN NET MARKET VALUES

	Dividends and Trust		Other	Realised	Unrealised	Total
	Interest	Distributions		Capital	Capital	
30 June 2011	\$'000	\$'000	\$'000	Gain (Loss) \$'000	Gain (Loss) \$'000	\$'000
Cash and Short Term Deposits	13,741	(44)	111	11,546	(12,054)	13,300
Debt Instruments	798	20,935	174	(10,429)	(43,471)	(31,993)
Australian Equities	1,292	58,137	14	19,858	13,975	93,276
International Equities	8	8,388	81	(12,527)	10,653	6,603
Property Trusts	1,737	6,318	25	2,994	1,237	12,311
Currency Contracts	8	-	-	88,897	46,272	135,177
Private equity	3	78,786	-	(103)	(105,911)	(27,225)
Uncorrelated Alpha	1	5,065	220	(3,058)	(4,316)	(2,088)
Infrastructure	-	6,520	-	(700)	7,877	13,697
<b>Total</b>	<b>17,588</b>	<b>184,105</b>	<b>625</b>	<b>96,478</b>	<b>(85,738)</b>	<b>213,058</b>

	Dividends and Trust		Other	Realised	Unrealised	Total
	Interest	Distributions		Capital	Capital	
30 June 2010	\$'000	\$'000	\$'000	Gain (Loss) \$'000	Gain (Loss) \$'000	\$'000
Cash and Short Term Deposits	9,344	55	567	6,821	(1,185)	15,602
Debt Instruments	1,076	5,338	376	(175)	13,604	20,219
Australian Equities	581	18,040	14	28,955	(28,857)	18,733
International Equities	(9)	6,328	56	(10,890)	1,358	(3,157)
Property Trusts	1	7,066	105	(63)	(41,407)	(34,298)
Currency Contracts	5	-	-	75,971	(32,345)	43,631
Private equity	1	22,653	-	(286)	(9,460)	12,908
Uncorrelated Alpha	-	-	88	3,641	3,773	7,502
Infrastructure	1	25,995	-	63	(19,392)	6,667
<b>Total</b>	<b>11,000</b>	<b>85,475</b>	<b>1,206</b>	<b>104,037</b>	<b>(113,911)</b>	<b>87,807</b>

The net gain on foreign currency contracts for the year was \$135.2 million (2010: Net gain of \$43.6 million).

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

4. FUNDING ARRANGEMENTS

Members contribute to the Fund each fortnight at optional rates ranging from a minimum of 5% of salary to a maximum of 10% of salary. The Department of Defence contributes to the Fund each fortnight in respect of each member at the rate of 3% of the member's salary. These member and employer contributions, accumulated with investment earnings, equate to the net assets available from the Fund to pay benefits as shown in the Statement of Net Assets.

The benefits payable from the Scheme comprise a lump sum of accumulated member contributions and a defined benefit financed by the employer and calculated on the basis of the member's final average salary and length of service. The defined benefit may be taken as a lump sum or as a pension or as a combination of lump sum and pension. The defined benefit consists of a funded component (the accumulated value of the 3% of salary contributions made to the Fund by the Department of Defence) and an unfunded component (the balance of the defined benefit).

In general, when a benefit becomes payable to a member, the accumulated member and employer contributions held in the Fund in respect of the member are transferred to the Consolidated Revenue Fund (CRF) which pays out the total benefit (both funded and unfunded components).

Appropriation refers to the total amount paid from the CRF. The appropriation from CRF shown in the Statement of Changes in Net Assets is the net amount after taking into account transfers from the Fund to the CRF.

*Total Benefits Paid and Payable*

	2011 \$'000	2010 \$'000
Lump Sums	115,531	79,354
Pensions	208,968	163,181
<b>Total</b>	<b>324,499</b>	<b>242,535</b>

*Financed by:*

Military Superannuation and Benefits Fund	53,982	37,283
Consolidated Revenue Fund	270,517	205,252
<b>Total</b>	<b>324,499</b>	<b>242,535</b>

Of the \$4.251 million (2010: \$7.653 million) benefits payable as at 30 June 2011, the Fund's share amounted to \$1.558 million (2010: \$2.644 million) with the Consolidated Revenue Fund's share being \$2.693 million at 30 June 2011 (2010: \$5.009 million).



## MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

## 5. COST OF ADMINISTERING, MANAGING AND INVESTING THE FUND

Under Clause 9(3) of the Trust Deed set up under section 4 of the *Military Superannuation and Benefits Act 1991*, the Fund shall be used to pay costs and expenses of the management and investment of the Fund. Costs of the administration of the Fund are met from monies appropriated for the purpose.

## Fund Management and Investment Expenses met by Fund

	2011	2010
	\$'000	\$'000
<b>General Administration Expenses</b>		
Accounting services	140	128
Professional advisers and other costs	4,060	356
Share of trustee fees, travel and incidental costs	1,495	1,075
Taxation services	483	781
Communications	107	21
APRA lodgement fees and industry levy	661	259
Insurance	110	111
External audit	64	23
Internal audit	199	131
Other expenses	38	11
Non recoverable GST	392	112
<b>Total General Administration Expenses</b>	<b>7,749</b>	<b>3,008</b>
<b>Direct Investment Expenses</b>		
Investment management fees	7,504	6,638
Asset consultancy and portfolio management	1,023	731
Custodian	2,465	2,164
Other Investment expenses	273	62
Non recoverable GST	113	126
<b>Total Direct Investment Expenses</b>	<b>11,378</b>	<b>9,721</b>

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

6. INCOME TAX

The taxation liability at 30 June 2011 has been calculated on the basis that the Fund complies with the standards contained in the *Superannuation Industry (Supervision) Act 1993* and Regulations and that tax will be payable on the income received by the Fund at a rate of 15%. There has been no change in the superannuation tax rate when compared with the previous reporting period.

(a) Income Tax Recognised in Statement of Changes in Net Assets

	2011	2010
	\$'000	\$'000
<b>Tax Expense (Income) comprises:</b>		
Current tax expense	42,052	52,017
Deferred tax (income)	9,599	(20,662)
Under/(over) provided in prior years	<u>(4,439)</u>	<u>(3,573)</u>
Total Tax expense/(income)	<u>47,212</u>	<u>27,782</u>
 Income tax expense is attributable to:		
Profit from continuing operations	<u>47,212</u>	<u>27,782</u>
Aggregate income tax expense	<u>47,212</u>	<u>27,782</u>
 Deferred income tax (revenue) expense included in income tax expense comprises:		
(Decrease) Increase in deferred tax asset	<u>(9,599)</u>	<u>20,662</u>
	<u>(9,599)</u>	<u>20,662</u>
 The prima facie income tax expense on pre-tax changes in net assets reconciles to the income tax expense in the financial statements as follows:		
Profit from continuing operations before income tax expense	<u>556,505</u>	<u>445,451</u>
	<u>556,505</u>	<u>445,451</u>
 Income tax expense calculated at 15%	83,476	66,818
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-taxable member contributions	(76,808)	(65,559)
Non-deductible benefit payments	48,675	36,380
Difference between accounting and tax gains	7,010	1,464
Imputation and foreign tax credits	(10,702)	(7,748)
Under/(over) provision of income tax in previous year	<u>(4,439)</u>	<u>(3,573)</u>
	<u>47,212</u>	<u>27,782</u>

## MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

## Income Tax (cont.)

## (b) Current tax liabilities

	2011	2010
	\$'000	\$'000
<i>Current tax liabilities:</i>		
Income tax payable	(8,910)	(11,395)
<b>Total Current Tax Liabilities</b>	<b>(8,910)</b>	<b>(11,395)</b>

## (c) Deferred tax balances

	2011	2010
	\$'000	\$'000
<i>Deferred tax assets comprise:</i>		
Temporary differences	(55,448)	(65,047)
<b>Total Deferred Tax Assets</b>	<b>(55,448)</b>	<b>(65,047)</b>

Taxable and deductible temporary differences arise from the following:

	2011	2010
	\$'000	\$'000
<i>Amounts received in statement of changes in net assets:</i>		
Unrealised capital gains/ (losses)	(60,466)	(41,640)
Accrued income	5,130	(23,387)
Accrued expenses	(112)	(20)
<b>Net deferred tax assets</b>	<b>(55,448)</b>	<b>(65,047)</b>
 <i>Movements:</i>		
Opening Balance as at 1 July	(65,047)	(44,385)
Charged/(credited) to the statement of changes in net assets	9,599	(20,662)
<b>Net deferred tax assets</b>	<b>(55,448)</b>	<b>(65,047)</b>

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

7. SUNDRY CREDITORS

	2011	2010
	\$'000	\$'000
<i>Sundry Creditors</i>		
Investment expenses payable	6,147	5,367
Unallocated contributions	1,694	1,473
Accrued expenses	4,984	316
Tax payable to the ATO	199	188
<b>Total Sundry Creditors</b>	<b>13,024</b>	<b>7,344</b>

8. FINANCIAL INSTRUMENT DISCLOSURES

(a) Financial instruments management

The investments of the Fund (other than cash held for meeting daily administrative and benefit expenses) are managed by specialist sector fund managers who are required to invest the assets allocated for management in accordance with the terms of a written investment mandate. The Board determined that the appointment of these managers is appropriate for the Fund and is in accordance with the Board's investment strategy.

National Asset Servicing acts as master custodian and provides services including physical custody and safekeeping of assets, settlement of trades, collection of income and accounting for investment transactions.

The Fund's investment managers may use a number of financial instruments subject to strictly controlled limits such as futures, options and forward exchange contracts to both facilitate increases or decreases in exposures in the equity, bond and currency markets and to reduce risk consistent with the investment policy. Derivatives are not used for speculation in any of these markets or for 'gearing' the portfolio.

(b) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenue and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

(c) Categories of Financial Instruments

The assets and liabilities of the Fund are recognised at net market value as at the reporting date. Net market value approximates fair value less costs of realisation of investments. The cost of realisation of investments is minimal and therefore net market value (i.e. carrying value) approximates fair value. Changes in net market value are recognised through the Statement of Changes in Net Assets.

(d) Financial Risk Management Objectives

The Fund is exposed to a variety of financial risks as a result of its activities. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The risk management and investment policies seek to minimise the potential adverse effects of these risks on the Fund's financial performance. These policies may include the use of certain financial derivative instruments.

The Board developed, implemented and maintained a Risk Management Strategy (RMS) and a Risk Management Plan (RMP) which identify policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Fund. Annually, the Board certified to APRA that adequate strategies

## MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

have been put in place to monitor those risks, that there are systems in place to ensure compliance with legislative and prudential requirements and that the Board has satisfied itself as to the compliance with the RMS and RMP.

**(e) Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Fund. The Board adopted the policy of spreading the aggregate value of concluded transactions amongst approved counterparties with appropriate credit qualities, as a means of mitigating the risk of financial loss. The Fund's exposure and the credit ratings of its counterparties are continuously monitored where these are appropriate.

Credit risk associated with contributions receivable and other receivables is considered minimal.

The Fund does not have significant exposure to any individual counterparty or any group of counterparties having similar characteristics. The carrying amounts of the financial assets represent the maximum credit risk exposure at the reporting date. There were no significant concentrations of credit risk to counterparties, however the following investments exceeded 5.0% of net assets as at 30 June 2011; BlackRock Australia (7.25%), State Street Global Advisors (5.48%) Goldman Sachs (7.08%) and Aberdeen Investment Management Australia (7.93%) (2010: BlackRock Wholesale Index Australian Equity (8.68%) and NAB Treasury Fund (5.55%)). The net market value of financial assets, with the exception of derivative positions, included in the Statement of Net Assets represents the Fund's exposure to credit risk in relation to those assets.

**(f) Liquidity risk**

The Board's approach to managing liquidity was to ensure that the Fund always had sufficient liquidity to meet its liabilities as they fell due. On resignation the member benefit accrued before 30 June 1999 can be paid as a lump sum but the balance must be preserved until the member's preservation age, either in the Fund or another complying superannuation fund. The employer benefit, including productivity component, must be preserved in the Fund. The unfunded component of benefit payments is financed by the Commonwealth, from the CRF. As such there is minimal liquidity risk.

The Fund's exposure to liquidity risk is therefore limited to those circumstances in which the Scheme Rules allow members to withdraw benefits.

The Fund's listed securities and listed unit trust investments are considered to be readily realisable. The Fund's financial instruments include investments in unlisted investments, private equity, infrastructure and direct property, which are not traded in an organised market and which generally may be considered illiquid. There is a risk that the Fund may not be able to liquidate all these investments at their net market value in order to meet liquidity requirements. However, this is only likely in extreme market conditions.

The Fund's liquidity risk was managed in accordance with the current investment policy. The Fund has a high level of net inward cash flows (through new contributions) which provides significant capacity to manage liquidity risk. The Fund also managed liquidity risk by maintaining adequate banking facilities and through the continuous monitoring of forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. As a further risk mitigation strategy, the Fund has a targeted exposure of less than 50% of assets invested in illiquid asset classes at any one point in time. The Fund's overall strategy to liquidity risk management remains unchanged from 2010.

The following tables summarise the maturity profile of the Fund's financial liabilities. Vested benefits have been included in the less than three months column, as this is the amount that members could call upon as at reporting date. This is the earliest date on which the Fund can be required to pay members' vested benefits. However, members may not necessarily call upon amounts vested to them during this time. The tables have been drawn up based on the contractual undiscounted cash flows of financial liabilities based on the earliest date on which the Fund can be required to pay. The tables include both interest and principal cash flows.

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

Financial Instrument Disclosures - Liquidity Risk (cont.)

Financial Liabilities maturity profile

	Less than 3 months \$'000	3 months to 1 Year \$'000	1 - 5 Years \$'000	Over 5 Years \$'000	Total \$'000
30 June 2011					
Trade settlements payable	114,941	-	-	-	114,941
Sundry creditors	13,024	-	-	-	13,024
Benefits payable	4,251	-	-	-	4,251
Current tax liability	-	8,910	-	-	8,910
Vested Benefits	3,739,000	-	-	-	3,739,000
<b>Total Financial Liabilities</b>	<b>3,871,216</b>	<b>8,910</b>	<b>-</b>	<b>-</b>	<b>3,880,126</b>

	Less than 3 months \$'000	3 months to 1 Year \$'000	1 - 5 Years \$'000	Over 5 Years \$'000	Total \$'000
30 June 2010					
Trade settlements payable	1,747	-	-	-	1,747
Sundry creditors	7,344	-	-	-	7,344
Benefits payable	2,644	-	-	-	2,644
Current tax liability	-	11,395	-	-	11,395
Vested Benefits	3,241,000	-	-	-	3,241,000
<b>Total Financial Liabilities</b>	<b>3,252,735</b>	<b>11,395</b>	<b>-</b>	<b>-</b>	<b>3,264,130</b>

(g) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: market interest rates (interest rate risk), foreign exchange (currency risk) and market prices (price risk). The policies and procedures put in place to mitigate the Fund's exposure to market risk are detailed in the investment policies and the RMS and the RMP. There has been no change to the Fund's exposure to market risks or the manner in which risks are measured and managed.

**Fair Value Interest rate risk management**

The Fund's activities expose it to the financial risk of changes in interest rates. Floating rate instruments expose the Fund to cash flow risk, whereas fixed interest rate instruments expose the Fund to fair value interest rate risk. Exposure to interest rate risk is monitored.

The tables below have been drawn up based on the expected maturities of the financial assets.

## MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
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## (g) Market risk (cont.)

	Fixed Interest Rate					Total
	Floating Interest Rate	1 Year or Less	1 - 5 Years	Over 5 Years	Non-Interest Bearing	
30 June 2011	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial Assets</b>						
Cash & short term deposits	108,248	59,050	-	-	448,548	615,846
Debt Instruments	156,248	9,073	77,344	93,967	77,443	414,075
Australian equities	20,509	(583)	-	-	1,024,682	1,044,608
International equities	6,695	1,400	-	-	463,746	471,841
Property trusts	-	-	28,748	16,390	155,344	200,482
Currency contracts	8	-	-	-	46,272	46,280
Private equity	-	-	-	-	477,230	477,230
Uncorrelated Alpha Fund	-	16,197	4,836	16,028	132,752	169,813
Infrastructure	-	-	-	-	284,916	284,916
Other Assets	27,663	-	-	-	125,910	153,573
<b>Total</b>	<b>319,371</b>	<b>85,137</b>	<b>110,928</b>	<b>126,385</b>	<b>3,236,843</b>	<b>3,878,664</b>

	Fixed Interest Rate					Total
	Floating Interest Rate	1 Year or Less	1 - 5 Years	Over 5 Years	Non-Interest Bearing	
30 June 2010	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial Assets</b>						
Cash & short term deposits	196,271	-	-	-	93,768	290,039
Debt Instruments	160,786	101,008	-	-	200,909	462,703
Australian equities	29,176	-	156	-	953,289	982,621
International equities	-	-	-	-	367,447	367,447
Property trusts	2,978	-	26,085	8,347	99,383	136,793
Currency contracts	-	-	-	-	(32,344)	(32,344)
Private equity	-	-	-	-	547,783	547,783
Uncorrelated Alpha (Hedge) Fund	-	51,918	3,934	-	76,327	132,179
Infrastructure	-	-	-	-	258,750	258,750
Other Assets	25,778	-	-	-	84,635	110,413
<b>Total</b>	<b>414,989</b>	<b>152,926</b>	<b>30,175</b>	<b>8,347</b>	<b>2,649,947</b>	<b>3,256,384</b>

**Interest rate sensitivity analysis**

At 30 June 2011 should interest rates have lowered by 175 basis points (2010: 150 basis points) with all other variables held constant, the decrease in net assets attributable to members for the period would amount to approximately \$6 million (2010: \$3 million). If interest rates had risen by 175 basis points (2010: 150 basis points) with all other variables held constant, the increase in net assets attributable to

MILITARY SUPERANNUATION AND BENEFITS FUND

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members for the period would amount to approximately \$6 million (2010: \$3 million). These increases / decreases in net assets attributable to members are calculated on an undiscounted basis.

(h) Currency risk management

Foreign currency risk is the risk that the net market value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

An investment in the currency of countries other than Australia is a natural consequence of international investing and hence the Fund is exposed to the effects of exchange rate fluctuations. In line with the current Investment Policy and Derivative Risk Statement, the Fund's exposure to currency risk is hedged through an actively managed currency strategy in which the currency manager manages the strategy within a hedge ratio range of 0-100% around the selected hedged benchmark. For international equities the Board adopted a 25% benchmark hedge ratio (previously 75%), and for absolute return strategies the Board employed an actively managed program with a 25% benchmark hedge ratio (previously 25%). During the year the Board also adopted a passive approach to currency hedging by allowing the passive manager within the international equities sector to passively manage their net asset value exposure against a hedged benchmark ratio of 25%.

The Fund's exposure to fluctuations in foreign currency exchange at the reporting date was as follows:

	AUD	USA	JPY	GBP	EUR	Other	Total
	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000
<b>30 June 2011</b>							
Cash and short term deposits	389,723	130,022	19,888	21,170	28,601	26,442	615,846
Debt instruments	207,414	174,550	-	5,130	25,323	1,659	414,075
Australian equities	1,030,015	-	-	14,593	-	-	1,044,608
International equities	10,527	241,029	39,059	40,140	64,292	76,794	471,841
Property trusts	161,750	32,762	-	-	5,970	-	200,482
Currency contracts	380,246	(257,807)	(9,014)	(18,787)	(48,358)	-	46,280
Private equity	146,645	269,504	-	-	49,601	11,480	477,230
Uncorrelated Alpha Fund	127,639	42,174	-	-	-	-	169,813
Infrastructure	233,811	51,105	-	-	-	-	284,916
<b>Total Investments</b>	<b>2,687,770</b>	<b>683,339</b>	<b>49,933</b>	<b>62,246</b>	<b>125,429</b>	<b>116,374</b>	<b>3,725,091</b>
<b>Other Assets</b>							
Cash at bank	27,532	131	-	-	-	-	27,663
Interest receivable	2,523	-	-	-	-	-	2,523
Dividends receivable	6,467	1,657	14	22	413	860	9,433
Trade settlements receivable	2,715	38,553	-	2,906	7,059	2,655	53,888
GST recoverable	498	-	-	-	-	-	498
Sundry debtors, CRF Special Account & Prepayments	530	12	-	-	-	243	785
Benefits payable to be funded by appropriation	2,693	-	-	-	-	-	2,693
Foreign Tax Paid	642	-	-	-	-	-	642
Deferred Tax Asset	55,448	-	-	-	-	-	55,448
<b>Total Other Assets</b>	<b>99,048</b>	<b>40,353</b>	<b>14</b>	<b>2,928</b>	<b>7,472</b>	<b>3,758</b>	<b>153,573</b>
<b>Total Assets</b>	<b>2,786,818</b>	<b>723,692</b>	<b>49,947</b>	<b>65,174</b>	<b>132,900</b>	<b>120,132</b>	<b>3,878,664</b>
<b>Less Liabilities</b>							
Benefits payable	4,251	-	-	-	-	-	4,251
Trade settlements payable	11,153	50,320	195	12,971	31,431	8,871	114,941
Sundry creditors	13,024	-	-	-	-	-	13,024
Current tax liability	8,910	-	-	-	-	-	8,910
<b>Total Liabilities</b>	<b>37,338</b>	<b>50,320</b>	<b>195</b>	<b>12,971</b>	<b>31,431</b>	<b>8,871</b>	<b>141,126</b>
<b>Net Assets Available to Pay Benefits</b>	<b>2,749,480</b>	<b>673,372</b>	<b>49,752</b>	<b>52,203</b>	<b>101,470</b>	<b>111,261</b>	<b>3,737,538</b>



## MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

## (h) Currency risk management (cont.)

30 June 2010	AUD A\$'000	USA A\$'000	JPY A\$'000	GBP A\$'000	EUR A\$'000	Other A\$'000	Total A\$'000
Cash and short term deposits	195,025	94,814	-	-	160	40	290,039
Debt instruments	281,799	170,758	-	-	10,146	-	462,703
Australian equities	965,850	-	-	16,771	-	-	982,621
International equities	163,983	105,132	12,119	8,425	36,991	40,797	367,447
Property trusts	108,181	25,075	-	-	3,538	-	136,794
Currency contracts	444,901	(377,181)	(9,333)	(17,828)	(71,482)	(1,421)	(32,344)
Private equity	176,087	288,843	-	-	39,544	43,309	547,783
Uncorrelated Alpha (Hedge) Fund	80,260	51,918	-	-	-	-	132,178
Infrastructure	199,661	59,089	-	-	-	-	258,750
<b>Total Investments</b>	<b>2,615,747</b>	<b>418,448</b>	<b>2,786</b>	<b>7,368</b>	<b>18,897</b>	<b>82,725</b>	<b>3,145,971</b>
<b>Other Assets</b>							
Cash at bank	25,374	404	-	-	-	-	25,778
Interest receivable	4,400	-	-	-	-	328	4,728
Dividends receivable	4,578	479	13	211	-	380	5,661
Trade settlements receivable	2,218	-	-	-	-	8	2,226
GST recoverable	595	-	-	-	-	-	595
Sundry debtors, CRF Special Account & Prepayments	393	12	-	2	-	397	804
Benefits payable to be funded by appropriation	5,009	-	-	-	-	-	5,009
Foreign Tax Paid	565	-	-	-	-	-	565
Deferred Tax Asset	65,047	-	-	-	-	-	65,047
<b>Total Other Assets</b>	<b>108,179</b>	<b>895</b>	<b>13</b>	<b>213</b>	<b>-</b>	<b>1,113</b>	<b>110,413</b>
<b>Total Assets</b>	<b>2,723,926</b>	<b>419,343</b>	<b>2,799</b>	<b>7,581</b>	<b>18,897</b>	<b>83,838</b>	<b>3,256,384</b>
<b>Less Liabilities</b>							
Benefits payable	7,653	-	-	-	-	-	7,653
Trade settlements payable	801	(115)	704	-	-	357	1,747
Sundry creditors	7,344	-	-	-	-	-	7,344
Current tax liability	11,395	-	-	-	-	-	11,395
<b>Total Liabilities</b>	<b>27,193</b>	<b>(115)</b>	<b>704</b>	<b>-</b>	<b>-</b>	<b>357</b>	<b>28,139</b>
<b>Net Assets Available to Pay Benefits</b>	<b>2,696,733</b>	<b>419,458</b>	<b>2,095</b>	<b>7,581</b>	<b>18,897</b>	<b>83,481</b>	<b>3,228,245</b>

## MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

(h) Currency risk management (cont.)

**Foreign currency sensitivity**

In 2011 a movement of 15% in all currencies against the Australian Dollar is considered prudent in assessing sensitivity to foreign exchange movements.

At 30 June 2011, had the Australian dollar weakened by the above currency movements against other currencies to which the Fund is exposed, with all other variables held constant, the increase in net assets attributable to members would amount to approximately \$174.0 million (2010: \$53.7 million). Had the Australian dollar strengthened by the above currency movements against other currencies to which the Fund is exposed, with all other variables held constant, the decrease in net assets attributable to members would amount to approximately \$128.6 million (2010: \$53.7 million).

**Other market risks**

Other market risk is the risk that the total value of investments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The Fund has investments in unit trusts which expose it to price risk. In addition the Fund holds equity instruments which expose it to equity price risk.

As the majority of the Fund's investments are carried at net market value with changes in net market value recognised in the Statement of Changes in Net Assets, all changes in market conditions will directly affect net investment income. Price risk is mitigated by the Fund's Investment Manager by constructing a diversified portfolio of instruments traded on various markets.

**Market risk sensitivity**

At 30 June 2011, if the equity prices had increased by 10% (2010: 10%) with all other variables held constant, this would have increased net assets attributable to members by approximately \$282 million (2010: \$228 million). Conversely, if the equity prices had decreased by 10% (2010: 10%) with all other variables held constant, this would have decreased net assets attributable to members by approximately \$282 million (2010: \$228 million).

The Fund's sensitivity to market risk has increased slightly during the current period mainly due to a reduction in value of non listed investments.

## MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

## (i) Net market value of financial instruments

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at net market value, grouped into Levels 1 to 3 based on the degree to which the net market value is observable.

- Level 1 net market value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 net market value measurements are those derived from inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 net market value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## 30 June 2011

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Cash and short term deposits	615,846	-	-	615,846
Debt Instruments	265,694	-	148,381	414,075
Australian Equities	755,405	289,203	-	1,044,608
International Equities	470,252	1,589	-	471,841
Property Trusts	-	-	200,482	200,482
Currency Contracts	-	46,280	-	46,280
Private Equity	11,480	-	465,750	477,230
Uncorrelated Alpha	122,803	-	47,010	169,813
Infrastructure	-	-	284,916	284,916
<b>Total</b>	<b>2,241,480</b>	<b>337,072</b>	<b>1,146,539</b>	<b>3,725,091</b>

## 30 June 2010

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Cash and short term deposits	290,039	-	-	290,039
Debt Instruments	263,746	-	198,957	462,703
Australian Equities	708,315	274,306	-	982,621
International Equities	324,170	43,277	-	367,447
Property Trusts	-	-	136,794	136,794
Currency Contracts	-	(32,344)	-	(32,344)
Private Equity	43,309	-	504,474	547,783
Uncorrelated Alpha	76,326	-	55,852	132,178
Infrastructure	-	-	258,750	258,750
<b>Total</b>	<b>1,705,905</b>	<b>285,239</b>	<b>1,154,827</b>	<b>3,145,971</b>

There were no transfers between levels in 2011. In the 2010 period there were no transfers between Level 1 and Level 2 but there was one transfer in private equity from Level 3 to Level 1.

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

(i) Net market value of financial instruments (cont.)

Reconciliation of Level 3 net market value measurements of financial assets

	Infrastructure	Uncorrelated Alpha (Hedged) Funds	Private Equity	Property Trusts	Debt Instruments	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance 2010	258,750	55,852	504,474	136,794	198,957	1,154,827
Total gains or losses:						
- in statement of						
changes in net assets	222	2,691	(100,500)	1,488	(51,840)	(147,939)
Distributions	(3)	(3,055)			(10,197)	(13,255)
Purchases	25,947	1,568	61,776	63,291	11,461	164,043
Redemptions		(10,046)		(1,091)		(11,137)
Transfers out of level 3						0
<b>Closing balance 2011</b>	<b>284,916</b>	<b>47,010</b>	<b>465,750</b>	<b>200,482</b>	<b>148,381</b>	<b>1,146,539</b>

Valuations for all classes of investments classified as Level 3 were disclosed at Note 1c - Valuation of Investments.

9. VESTED BENEFITS

Vested benefits are benefits which are not conditional upon continued membership of the Scheme (or any other factor other than resignation from the Scheme) and include benefits which members were entitled to receive had they terminated their Scheme membership as at the reporting date.

The Australian Government Actuary has advised that the estimated amount of vested benefits is as follows:

	2011	2010
	\$m	\$m
Funded component	3,739	3,241
Unfunded component	17,068	15,231
<b>Total vested benefits</b>	<b>20,807</b>	<b>18,472</b>

The net assets of the Fund compared to the vested benefits are as follows:

	2011	2010
	\$m	\$m
Funded component	3,739	3,241
Net assets adjusted for benefits payable and cost of disposal	3,738	3,229
<b>Surplus/(Deficit)</b>	<b>(1)</b>	<b>(12)</b>

The value of the funded component of vested benefits represents the liability of the Fund in the unlikely event that all members ceased service on 30 June 2011 and elected the option which is most costly to the Fund. The likelihood of such an occurrence is extremely remote.

At 30 June 2011, the value of the funded component of vested benefits exceeds the value of net assets of the Fund as a result of an adjustment to the net market value of investments for late valuations received in respect of investments held at 30 June 2011. These adjustments, amounting to \$1 million, have been

## MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

incorporated into prospective unit prices and consequently this difference is a temporary difference as at the reporting date.

**10. LIABILITY FOR ACCRUED BENEFITS**

The liability for accrued benefits has been determined on the basis of the present value of expected future payments which arise from membership of the Scheme up to the date of valuation. The figure reported has been determined by reference to expected future salary levels and by application of a market-based, risk-adjusted discount rate and relevant actuarial assumptions. The accrued benefits are comprised of a funded component, which will be met from the Fund (i.e. accumulated member contributions and, where applicable, productivity and salary sacrifice contributions, less contribution tax, plus investment earnings) and an unfunded component to be financed by the Commonwealth from the CRF at the time the superannuation benefits become payable.

The Australian Government Actuary undertook a comprehensive review of the Scheme using data as at 30 June 2008 which was completed in June 2009. An extract of the Australian Government Actuary's long term cost report is attached. The liability for accrued benefits was reported as \$15.7 billion. This comprised \$12.8 billion in unfunded accrued benefits and \$2.9 billion in funded accrued benefits.

Subsequent to the completion of the long term cost report, the Government decided that the changes to compulsory retirement ages for the ADF should apply to the calculation of death and invalidity benefits paid under the Scheme. An addendum to the long term cost report dated 22 March 2010 was issued by the Australian Government Actuary to incorporate this amendment to benefits.

The financial statements prepared for the year ended 30 June 2010 noted that the impact of the amendment to death and invalidity benefits was an increase in accrued benefits of \$0.3 billion, as calculated and assessed by the Australian Government Actuary. The disclosure below reflects the Australian Government Actuary's calculation in the addendum which results in total accrued benefits of \$16.0 billion.

Comparative figures from the previous comprehensive review using data as at 30 June 2005 are also provided below.

	2008	2005
	\$b	\$b
Funded component	2.9	1.7
Unfunded component	<u>13.1</u>	<u>8.8</u>
Total accrued benefits	<u>16.0</u>	<u>10.5</u>

The net assets of the fund compared to the accrued benefits are as follows:

	2008	2005
	\$b	\$b
Funded component	2.9	1.7
Net assets	<u>2.9</u>	<u>1.7</u>
Surplus/(deficiency) Reserve	<u>-</u>	<u>-</u>

The next comprehensive actuarial review is expected to be completed by December 2011 and will use data as at 30 June 2011.

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

11. GUARANTEED BENEFITS

No guarantees have been made in respect of any part of accrued benefits.

12. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel of the Board who held office during part or all of the year were:

*The Trustees of the Board:*

Mr T Hyams (Chairman)  
Mr G Szondy  
Brigadier R Brown  
Warrant Officer R C Swanwick  
Mr F Bleeser

*Management:*

Mr M Seton (Chief Executive Officer from 1 October 2010)  
Mr P Watson (Chief Executive Officer to 30 September 2010)

(a) Key Management Personnel Compensation

The aggregate compensation of the key management personnel of the Fund is set out below:

	2011	2010
	\$	\$
Short-term employee benefits	710,493	506,888
Other long-term employee benefits	3,521	6,877
	<u>714,014</u>	<u>513,765</u>

13. AUDITORS REMUNERATION

The amount paid and payable in respect of audit services for financial statements provided by Australian National Audit Office (ANAO) (excluding GST) is \$0 (2010: \$0). These services were provided free of charge in 2011 (Value \$113,660) and 2010 (Value \$126,770).

Other services provided by the ANAO included an audit of the RSE, FSR and AFSL licensee requirements. This service was provided for a fee of \$16,538 (2010: \$16,538).

No other services were provided by the ANAO during the reporting period.

14. COMMITMENTS FOR EXPENDITURE

At 30 June 2011 the Fund had outstanding investment capital commitments of \$258 million (2010: \$327 million). These commitments relate to investments in private equity, infrastructure and property funds. These commitments may be called upon during the specified investment period by the underlying investment manager depending on their requirements to fund new investments.

15. UNRECOGNISED INSTRUMENTS / COLLATERALS

As at 30 June 2011 the Fund had no unrecognised instruments. No financial assets have been pledged as collaterals for liabilities or contingent liabilities.

## MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

## 16. CONTINGENT LIABILITIES

Benefit Entitlements

In the normal course of business, requests are made by members and former members of the Scheme for the review of decisions relating to benefit entitlements which could result in additional benefits becoming payable in the future. Each request is considered on its merits prior to any benefit becoming payable. These requests do not represent a material liability or contingent liability on the Fund as at 30 June 2011.

There were no other contingent liabilities which have been identified as at 30 June 2011 (2010: Nil).

## 17. SUPERANNUATION CONTRIBUTIONS SURCHARGE

Under the *Superannuation Contributions Tax (Assessment and Collection) Act 1997*, the holder of surchargeable contributions for the financial year is liable to pay the superannuation contributions surcharge. The surcharge is levied on surchargeable contributions depending on the individual member's adjusted taxable income. The Fund has recognised the surcharge liability when the assessment (including advance instalment) is received from the Australian Taxation Office. The surcharge is no longer levied on surchargeable contributions made after 1 July 2005, however assessments relating to the period prior to this date continue to be received.

A summary of transactions follows:

	2011	2010
	\$'000	\$'000
Total surcharge liability outstanding at start of year	20,073	20,127
Surcharge liability recorded against member accounts in respect of surcharge assessments received during the year	11	16
	<u>20,084</u>	<u>20,143</u>
Less Amount paid by members	(45)	(144)
Less Amounts deducted from members' benefit payments	(986)	(975)
	<u>19,053</u>	<u>19,024</u>
<i>Plus:</i>		
Interest applied to outstanding surcharge liability at 30 June 2011	979	1,049
<b>Total surcharge liability outstanding at end of year</b>	<u>20,032</u>	<u>20,073</u>

No liability is recognised in the 'Statement of Net Assets' for the estimated value of the surcharge liability because the liability will be either met by the members during their period of membership or will be recovered from member benefits when they are paid.

## MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements  
For the financial year ended 30 June 2011

**18. RELATED PARTIES**

The Trustee of the Military Superannuation and Benefits Fund was the Military Superannuation and Benefits Board of Trustees No. 1 (ABN 72 406 779 248). The names of the members of the Board who held office during the year are:

Mr T Hyams (Chairman)  
Mr G Szondy  
Brigadier R Brown  
Warrant Officer R C Swanwick  
Mr F Bleeser

The Chief Executive Officer is Mr M Seton, appointed on 1 October 2010.

The compensation received by the members of the Board and the Chief Executive Officer is disclosed in Note 12(a).

The Department of Defence is the employer sponsor of the Scheme. There have been no transactions between the employer sponsor and the Fund other than the employer contributions disclosed in the Statement of Changes in Net Assets.

The Department of Defence pays ComSuper for the cost of fund administration and ComSuper recognises this administration revenue in the annual financial statements prepared by the Commissioner for Superannuation. A component of the ComSuper administration fees is used to meet administration costs directly incurred by the Board and its staff.

**Contributions and Retirement Benefits of Key Management Personnel**

With the exception of one trustee, no other member of the Board or of its Management was eligible to contribute to the Scheme. Contributions paid by the one trustee were in accordance with the normal terms and conditions of the Trust Deed.

Superannuation contributions were paid on behalf of all other key management personnel to a superannuation fund of their choice.

**19. SUBSEQUENT EVENTS**

With effect from 1 July 2011 *the Governance of Australian Government Superannuation Schemes Act 2011* created the Commonwealth Superannuation Corporation (the CSC). The CSC acts as the sole Trustee body for the merged Australian Reward Investment Alliance (ARIA), the Military Superannuation and Benefits Scheme and the Defence Force Retirement and Death Benefits Authority (DFRDB). As a consequence of the merger the MSB Board ceased to operate on 30 June 2011.

Since 30 June 2011, markets have experienced a period of significant volatility, impacting on the valuation of the Fund's investment portfolio. As the investments shown in these financial statements are measured at their 30 June 2011 net market values; this volatility in value is not reflected in the statement of net assets or the statement of changes in net assets. As the Fund allocates all of its investment income to members, the volatility in the value of investments since 30 June 2011 has been reflected in the unit prices for the Fund's investment options since that date.

There have not been any other matters or circumstances arising since 30 June 2011 that have significantly affected or may significantly affect the Fund.







# 10 APPENDICES

## Appendix A: Changes to Governing Legislation

### MilitarySuper Legislation

MilitarySuper is established under:

- The *Military Superannuation and Benefits Act 1991*
- The Military Superannuation and Benefits Trust Deed issued under section 4 of the Act
- The Military Superannuation and Benefits Rules (the Rules are a Schedule to the Trust Deed).

### Board Merger Legislation

On 21 June 2011 Parliament passed the following package of legislation that merged the MSB Board, ARIA and the DFRDB Authority into a single consolidated trustee, the Commonwealth Superannuation Corporation, with effect from 1 July 2011:

- *Governance of Australian Government Superannuation Schemes Act 2011* (Act No 59 of 2011 ComLaw ref C2011A00059) – this Act creates the Commonwealth Superannuation Corporation
- *ComSuper Act 2011* (Act No. 57 of 2011, ComLaw ref: C2011A00057) – this Act consolidates ComSuper’s legislative base, modernises ComSuper’s Chief Executive Officer position and clarifies ComSuper’s role in superannuation administration
- *Superannuation Legislation (Consequential and Transitional Provisions) Act 2011* (Act No. 58 of 2011, ComLaw ref: C2011A00058) – this Act makes changes to other legislation and appropriate transitional arrangements).

### Amendments to the Act

From 1 July 2011, the amended consolidated *Military Superannuation and Benefits Act 1991* (ComLaw ref: C2011C00561) takes effect. The consolidated Act incorporates changes consequential to the merger legislation (described above).

There were no other amendments to the *Military Superannuation and Benefits Act 1991* during the 2010–11 financial year.

### Amendments to the Trust Deed

There were two amendments to the MSB Trust Deed and Rules during 2010–11 financial year.

- *MilitarySuper Superannuation and Benefits Trust Deed Amendment 2010* (No. 1) (ComLaw ref: F2010L01980) – this amendment clarifies the calculation of the employer benefit of a deceased invalidity pensioner
- *Military Superannuation and Benefits Trust Deed Amendment 2011* (No. 1) (ComLaw ref: F2011L01351) was executed on 23 June 2011 and takes effect from 1 July 2011. This amendment makes changes to the Trust Deed consequential to the merger legislation and included a number of amendments to address various technical matters.

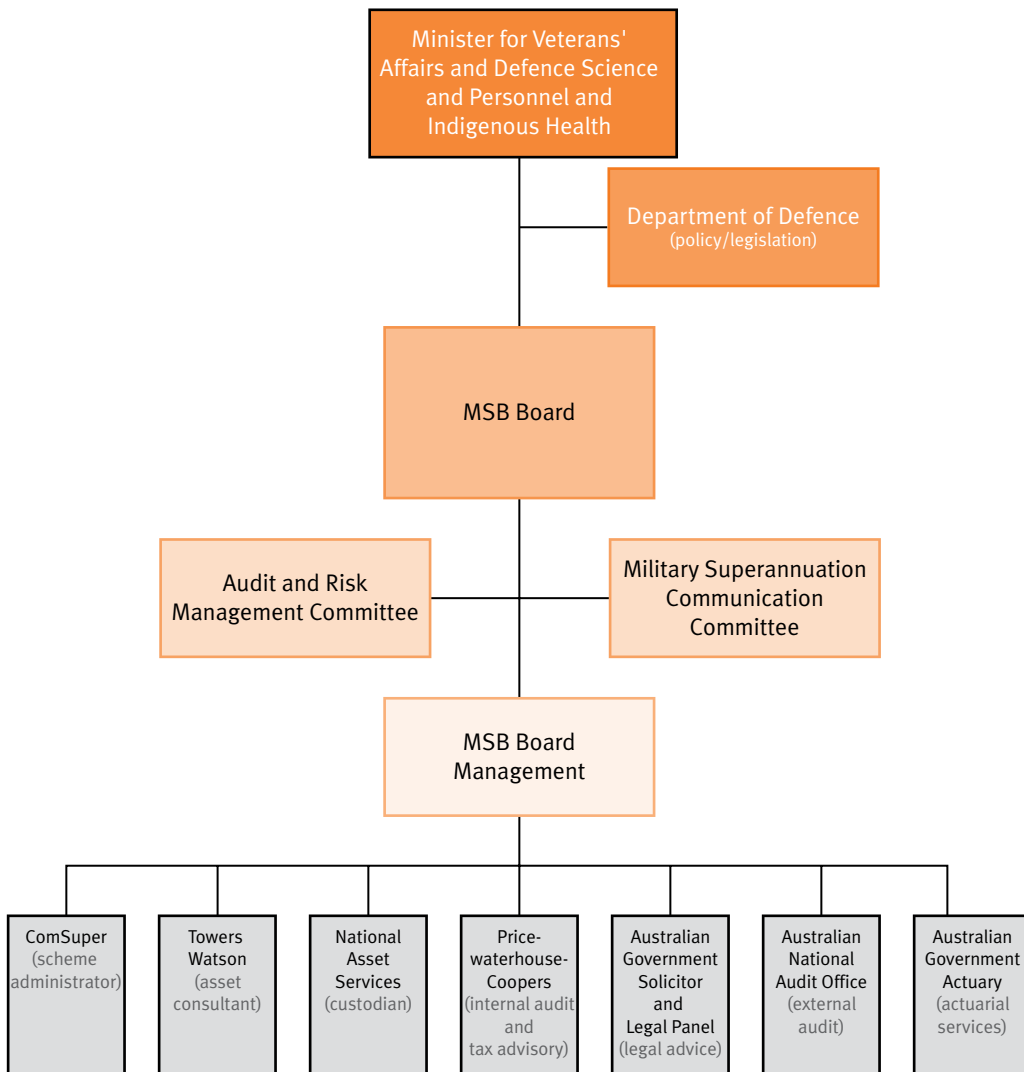
## Other Legislative Events

Changes to Freedom of Information legislation came into effect during the 2010–11 financial year to assist members to gain access to personal information.

## ComLaw

The consolidated *Military Superannuation and Benefits Act 1991*, Trust Deed and Rules, previous amendments to the Trust Deed and other Commonwealth legislation are available from the ComLaw website [www.comlaw.gov.au](http://www.comlaw.gov.au)

## Appendix B: Organisational Structure of MilitarySuper as at 30 June 2011



## Appendix C: MilitarySuper in Brief

**Table 18: Investment**

Fund Asset Allocation	30 June 2010		30 June 2011	
Asset Class	\$m	%	\$m	%
Cash	290	9	616	16
Debt	264	9	100	3
Alternative Debt	199	6	314	8
Property	137	4	200	5
Australian Shares	982	31	1,045	28
Private Equity	548	18	477	13
International Shares	367	12	472	13
Uncorrelated Alpha	132	4	170	5
Infrastructure	259	8	285	8
Currency	-32	-1	46	1

Investment Performance	30 June 2010		30 June 2011	
Asset Class	Fund % <sup>1</sup>	Benchmark % <sup>2</sup>	Fund % <sup>1</sup>	Benchmark % <sup>2</sup>
Cash	4.0	3.9	5.4	5.0
Debt <sup>4</sup>	4.1	3.9	4.5	5.0
Alternative debt <sup>4</sup>	9.7	12.5	-13.0	12.5
Property	-38.0	12.5	8.0	12.5
Australian Shares	7.3	13.1	9.2	11.9
Private Equity <sup>3</sup>	5.2	15.0	2.4	15.0
International Shares	2.3	14.0	15.0	11.7
Uncorrelated Alpha	9.9	12.5	1.1	12.5
Infrastructure	5.5	12.5	8.0	12.5

1. Figures shown are gross of management fees and tax.
2. Benchmark is the most commonly used index or other market measurement which is used as a yardstick to assess the risk and performance of a portfolio. The benchmark usually represents the minimum performance objective. For International Shares, the benchmark is an arithmetic composite of the MSCI on an unhedged and hedged basis, based on the Board's average foreign currency hedging benchmark over the year.
3. Private Equity is a long-term investment and does not generally show a return in the early years of the investment because of set-up and management costs. The investment gains usually come in the later years as the underlying companies mature and increase in value. The effect of this timing is known as the J-curve Effect.
4. Debt and Debt Instruments make up the 'Debt Instruments' classification described in the Fund's financial statements.

**Table 19: Membership**

	2010	2011	Increase (decrease)
<b>Contributors at 30 June</b>			
Males	46,519	48,630	2,111
Females	8,006	8,262	256
<b>Total Contributors</b>	<b>54,525</b>	<b>56,892</b>	<b>2,367</b>
<b>Total Member Contributions</b>	<b>\$208.7m</b>	<b>\$228.8m</b>	<b>\$20.1m</b>
<b>Contributor Exits</b>			
Age Retirement	303	120	(183)
Resignation	616	694	78
Redundancy	12	15	3
Invalidity Retirement	426	409	(17)
Death	113	124	11
Unclaimed*	2,444	4,094	1,650
<b>Total Contributor Exits</b>	<b>3,914<sup>#</sup></b>	<b>5,456</b>	<b>1,542</b>
<b>Pensioners as at 30 June</b>			
Retirement	1,314	1,492	178
Redundancy	1,920	1,931	11
Invalidity	4,130	4,362	232
Reversionary	320	381	61
<b>Total Pensioners</b>	<b>7,684</b>	<b>8,166</b>	<b>482</b>
Pensions paid	\$163.2m	\$209.0m	\$45.8m
Average pension	\$21,967	\$23,082	\$1,115
<b>Preserved Benefit Members at 30 June</b>	<b>76,430</b>	<b>78,605</b>	<b>2,175</b>

\* Unclaimed Benefits relate to members who have left the ADF but have not submitted a benefit application instruction form regarding their benefits in the Scheme. The benefits are preserved in the Scheme if no claim is made within 90 days. These exits are predominately due to resignation.

# 2009-10 figure is reduced from that published last year due to Preserved claim, Preserved claim hardship TPI, and Ancillary claim duplication numbers being removed from the total.

## Appendix D: Freedom of Information (FOI) and Privacy

### Freedom of Information Act Statement

This statement is provided in accordance with section 8 of the *Freedom of Information Act 1982* (FOI Act).

### Functions of ComSuper

The general functions of ComSuper are described in the *Commissioner for Superannuation 2010–11 Annual Report*.

The decision-making powers of the Board are set out in clause 3 of the MSB Trust Deed. The authority for the Board to delegate its powers and functions is contained in clause 12 of the MSB Trust Deed.

### Decision-making Powers

The decision-making powers of the Board are set out in clause 3 of the MSB Trust Deed. The authority for the Board to delegate its powers and functions is contained in clause 12 of the MSB Trust Deed.

### Categories of Documents

The Board maintains no categories of documents that are open to public access as part of a public register or otherwise, in accordance with an enactment other than the FOI Act, where that access is subject to a fee or other charge.

Books, leaflets and fact sheets that describe various aspects of the Scheme, and annual reports, are made available to the public free of charge upon request. They are also available free of charge via the MilitarySuper website.

### Facilities for Access

Facilities for viewing member or corporate documents are provided at the offices of the Scheme Administrator (ComSuper) in Canberra. Copies of publications (for which there may be a charge) may be obtained by writing to ComSuper. Publications may be inspected.

Information about facilities for access by people with a disability can be obtained by contacting the FOI Unit at the address and telephone numbers shown under 'FOI Enquiries' below.

### Consultative Arrangements

Informal and ad hoc arrangements exist whereby the National, State and Territory branches of the Regular Defence Force Welfare Association may make representations relating to the general administration of the Scheme. Representations are also received which relate to the determination of individual contributors' benefit entitlements.



Requests for consultation and/or representations relating to policy aspects of the Scheme and its underlying legislation are referred to the Superannuation Branch of the Department of Defence, which has responsibility for advising the Minister for Defence Science and Personnel on these matters.

## FOI Procedures and Access

Matters associated with the administration of the FOI Act relating to members and their personal information are responded to by ComSuper's FOI Unit. Facilities for viewing member records and other documents are provided at ComSuper's office in Canberra. Publications may be inspected at ComSuper's offices and copies (for which there may be a charge) can be obtained by writing to ComSuper.

Enquiries concerning access to documents or other matters relating to FOI should be made in writing and directed to the Freedom of Information Officer as follows:

Postal address	FOI Unit ComSuper PO Box 22 Belconnen ACT 2616
Street Address	Unit 4, Cameron Offices Chandler Street Belconnen ACT 2617
Phone	<b>1300 033 732</b>
Fax	02 6272 9804
Email	foi@comsuper.gov.au
TTY	02 6272 9827

Decisions to grant access, levy charges, or refuse access are made by an appropriate delegate in the FOI Unit.

## Release of Information Under the Privacy Act

All requests for disclosure of personal information outside of the FOI Act's provisions are dealt with under the Information Privacy Principles (IPP) set out in section 14 of the Privacy Act 1988 (Privacy Act).

The Privacy Act permits disclosure of personal information to third parties in certain circumstances. During 2010–11, MilitarySuper made permitted disclosures of biannual CPI adjusted pension entitlements for all scheme members to the Department of Veterans' Affairs and Centrelink. These disclosures were part of our standard operating processes.

Our privacy officers addressed 15 requests for information which needed more detailed consideration. In eight cases, information was released in accordance with IPP<sub>11</sub> (1)(b) where the individual concerned consented to the disclosure. In six cases, the information was released in accordance with IPP 11(1)(d), as the disclosure was required, authorised by, or under law. In one other case,

information was released in accordance with IPP (11)(1)(e) on the ground of enforcement of criminal law or the protection of public revenue. No requests were denied.

### **Developing Good Privacy Practice**

MilitarySuper regularly reviews the information collection practices, storage and access arrangements to ensure compliance with the Privacy Act. Internal forms used to collect information are also reviewed to ensure that they comply with the Privacy Act.

### **Access to Personal Information**

Individuals and organisations requesting access to personal information held by ComSuper can email [foi@comsuper.gov.au](mailto:foi@comsuper.gov.au)

## Appendix E: Publications

The Board published the following communications, publications and fact sheets for the benefit of members. In addition to the publications listed below there are also calculators and a range of other tools and information for members available online.

All of the below publications are available by calling MilitarySuper on **1300 006 727** or online at **[www.militarysuper.gov.au](http://www.militarysuper.gov.au)**

### Annual Reports

The MSB Board Annual Report to Parliament  
Annual Report to Contributing Members  
Annual Report to Preserved Benefit Members  
About Your Statement Guide – Contributing Members  
About Your Statement Guide – Preserved Benefit Members

### Publications

Family Law and Splitting Super – How it's done and what happens next?  
Financial Services Guide  
Member Investment Choice Guide  
Product Disclosure Statement  
The MilitarySuper Book

### Newsletters

MilitarySuper Member Update

### Pensions

Pension Update – issued twice yearly  
Taxation Concessions for Pensions

### Factsheets

Appeal Rights  
About to Leave the ADF?  
Additional Personal Contributions  
Dependants' Benefits  
Early Access to your Superannuation Benefit  
Family Law and Your Super  
Government (Super) Co-Contributions  
Invalidity Benefits  
Invalidity Benefits – The Classification Process  
Leave Provisions  
Lump Sum Maximum Benefit Limits

Pension Maximum Benefit Limits  
Rejoining the ADF  
Relationship definitions  
Salary Sacrifice Contributions  
Spouse Contributions  
Summary of the Scheme – for new starters  
Superannuation Contributions Surcharge  
Superannuation Guarantee Contributions  
Taxation Concessions for pensions  
Taxation of contributions – caps on contributions  
Taxation of Lump Sums  
The Productivity Benefit  
Transfer Amounts  
Unitisation

## Appendix F: Contact Officer

Information relating to MilitarySuper is available on request to:

Street address	MilitarySuper Level 8 121 Marcus Clarke Street Canberra ACT 2601
Postal address	MilitarySuper GPO Box 1907 Canberra ACT 2601
Phone	<b>02 6263 6986</b>
Facsimile	02 6263 6900
Website	<b><a href="http://www.militarysuper.gov.au">www.militarysuper.gov.au</a></b>

## Appendix G: List of Requirements

While this report is not a Departmental annual report, the Board has endeavoured to comply with the *Requirements for Departmental Annual Reports* where applicable. Details of the Scheme Administrator’s (ComSuper’s) operations are provided in the *Commissioner for Superannuation 2010–11 Annual Report* available from [www.comsuper.gov.au](http://www.comsuper.gov.au). Annual reporting requirements that are met in the Commissioner for Superannuation’s report are indicated below by an asterisk (\*).

Part of report	Description	Requirement	Page reference
	Letter of transmittal	Mandatory	iii
	Table of contents	Mandatory	v
	Index	Mandatory	116
	Glossary	Mandatory	114
	Contact officer(s)	Mandatory	108
	Internet home page address and Internet address for report	Mandatory	ii
Review by Secretary			
	Review by departmental secretary	Mandatory	*
	Summary of significant issues and developments	Suggested	*
	Overview of department’s performance and financial results	Suggested	*
	Outlook for following year	Suggested	*
	Significant issues and developments – portfolio	Portfolio departments – suggested	*
Departmental Overview			
	Role and functions	Mandatory	*
	Organisational structure	Mandatory	100
	Outcome and program structure	Mandatory	
	Where outcome and program structures differ from Portfolio Budget Statements (PBS)/Portfolio Additional Estimates Statements (PAES) or other portfolio statements accompanying any other additional appropriation bills (other portfolio statements), details of variation and reasons for change	Mandatory	*
	Portfolio structure	Mandatory for portfolio departments	*
Report on Performance			
	Review of performance during the year in relation to programs and contribution to outcomes	Mandatory	*
	Actual performance in relation to deliverables and KPIs set out in PBS/PAES or other portfolio statements	Mandatory	*

# 10 APPENDICES

Part of report	Description	Requirement	Page reference
	Where performance targets differ from the PBS/ PAES, details of both former and new targets, and reasons for the change	Mandatory	*
	Narrative discussion and analysis of performance	Mandatory	*
	Trend information	Mandatory	*
	Performance of purchaser/ provider arrangements	If applicable, suggested	*
	Significant changes in nature of principal functions/ services	Suggested	*
	Factors, events or trends influencing departmental performance	Suggested	*
	Contribution of risk management in achieving objectives	Suggested	*
	Social inclusion outcomes	If applicable, mandatory	*
	Performance against service charter customer service standards, complaints data, and the department's response to complaints	If applicable, mandatory	*
	Discussion and analysis of the department's financial performance	Mandatory	*
	Discussion of any significant changes from the prior year or from budget	Suggested	*
	Agency resource statement and summary resource tables by outcomes	Mandatory	*
	Developments since the end of the financial year that have affected or may significantly affect the department's operations or financial results in future	If applicable, mandatory	*
<b>Management Accountability</b>			
<b>Corporate Governance</b>			
	Agency heads are required to certify that their agency comply with the Commonwealth Fraud Control Guidelines	Mandatory	*
	Statement of the main corporate governance practices in place	Mandatory	14
	Names of the senior executive and their responsibilities	Suggested	8
	Senior management committees and their roles	Suggested	16
	Corporate and operational planning and associated performance reporting and review	Suggested	*
	Approach adopted to identifying areas of significant financial or operational risk	Suggested	*
	Policy and practices on the establishment and maintenance of appropriate ethical standards	Suggested	*
	How nature and amount of remuneration for SES officers is determined	Suggested	11

Part of report	Description	Requirement	Page reference
External Scrutiny			
	Significant developments in external scrutiny	Mandatory	*
	Judicial decisions and decisions of administrative tribunals	Mandatory	59
	Reports by the Auditor-General, a Parliamentary Committee or the Commonwealth Ombudsman	Mandatory	52
Management of Human Resources			
	Assessment of effectiveness in managing and developing human resources to achieve departmental objectives	Mandatory	*
	Workforce planning, staff turnover and retention	Suggested	*
	Impact and features of enterprise or collective agreements, individual flexibility arrangements (IFAs), determinations, common law contracts and AWAs	Suggested	*
	Training and development undertaken and its impact	Suggested	19
	Occupational health and safety performance	Suggested	19
	Productivity gains	Suggested	*
	Statistics on staffing	Mandatory	19
	Enterprise or collective agreements, IFAs, determinations, common law contracts and AWAs	Mandatory	*
	Performance pay	Mandatory	*
Assets management	Assessment of effectiveness of assets management	If applicable, mandatory	*
Purchasing	Assessment of purchasing against core policies and principles	Mandatory	*
Consultants	<p>The annual report must include a summary statement detailing the number of new consultancy services contracts let during the year; the total actual expenditure on all new consultancy contracts let during the year (inclusive of GST); the number of ongoing consultancy contracts that were active in the reporting year; and the total actual expenditure in the reporting year on the ongoing consultancy contracts (inclusive of GST). The annual report must include a statement noting that information on contracts and consultancies is available through the AusTender website.</p> <p>(Additional information as in Attachment D to be available on the Internet or published as an appendix to the report. Information must be presented in accordance with the proforma as set out in Attachment D.)</p>	Mandatory	*
Australian National Audit Office Access Clauses	Absence of provisions in contracts allowing access by the Auditor-General	Mandatory	*
Exempt contracts	Contracts exempt from the AusTender	Mandatory	*



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Part of report	Description	Requirement	Page reference
Financial Statements	Financial Statements	Mandatory	61
Other Mandatory Information			
	Occupational health and safety (section 74 of the <i>Occupational Health and Safety Act 1991</i> )	Mandatory	19
	Freedom of information for the period 1 July 2010 to 30 April 2011 inclusive (see terms of subsection 8(1) of the <i>Freedom of Information Act 1982</i> as it existed prior to 1 May 2011)	Mandatory	103
	Advertising and Market Research (Section 311A of the <i>Commonwealth Electoral Act 1918</i> ) and statement on advertising campaigns	Mandatory	*
	Ecologically sustainable development and environmental performance (Section 516A of the <i>Environment Protection and Biodiversity Conservation Act 1999</i> )	Mandatory	19
	Grant programs	Mandatory	*
	Disability reporting – explicit and transparent reference to agency level information available through other reporting mechanisms	Mandatory	*
	Correction of material errors in previous annual report	If applicable, mandatory	*
	List of Requirements	Mandatory	109

## Appendix H: Commonwealth Disability Strategy

The Commonwealth Disability Strategy (CDS) was introduced in 1994 as a ten year planning framework to assist Australian Government agencies to meet their obligations under the (Commonwealth) *Disability Discrimination Act 1992*.

Within the framework of the CDS, MilitarySuper performs the role ‘provider’ with performance measured against the following indicators:

- Providers have established mechanisms in place for quality improvement and assurance
- Providers have an established service charter that specifies the roles of the provider and consumer, and service standards which address accessibility for people with a disability
- Providers have a complaints or grievance mechanism in place, including access to external mechanisms to address issues and concerns raised about performance.

In conjunction with the Scheme Administrator (ComSuper), MilitarySuper met all the requirements of the CDS in its role as ‘provider’.

MilitarySuper considers the needs of people with disabilities when developing and delivering policy, programs and services. Through ComSuper, MilitarySuper has:

- Provided access to a Telephone Typewriter Service (TTY)
- An enquiries and complaints system to address issues and concerns raised by members
- A service charter specifying the roles and responsibilities of the Scheme Administrator and its clients
- Engaged an independent research company to conduct client satisfaction surveys that seek feedback on members’ satisfaction with a range of MilitarySuper’s services provided by ComSuper
- Quality improvement and assurance mechanisms that use the feedback and the outcomes of the annual survey.

## Appendix I: Glossary

<b>AAS25</b>	Australian Accounting Standard 25
<b>AASB</b>	Australian Accounting Standards Board
<b>AAT</b>	Administrative Appeals Tribunal
<b>ABN</b>	Australian Business Number
<b>ADF</b>	Australian Defence Force
<b>Administrator</b>	ComSuper, Commissioner for Superannuation
<b>ANAO</b>	Australian National Audit Office
<b>APRA</b>	Australian Prudential Regulation Authority
<b>ARIA</b>	Australian Reward Investment Alliance
<b>ASIC</b>	Australian Securities and Investment Commission
<b>ASX</b>	Australian Stock Exchange
<b>ATO</b>	Australian Taxation Office
<b>Board</b>	Military Superannuation and Benefits Board of Trustees No 1
<b>CDF</b>	Chief of the Defence Force
<b>ComSuper</b>	Commonwealth Superannuation Administration
<b>CPI</b>	Consumer Price Index
<b>DFRDB</b>	Defence Force Retirement and Death Benefits
<b>FOI</b>	Freedom of Information
<b>FSA</b>	Financial Services Australia
<b>FSG</b>	Financial Services Guide
<b>FSR</b>	Financial Services Reform
<b>ICC</b>	Incapacity Classification Committee

<b>IPP</b>	Information Privacy Principles
<b>ISBN</b>	International Standard Book Number
<b>ISSN</b>	International Standard Serial Number
<b>IVR</b>	Interactive Voice Response telephone system
<b>LWOP</b>	leave without pay
<b>MilitarySuper</b>	Military Superannuation and Benefits Scheme
<b>MSB</b>	Military Superannuation and Benefits
<b>MSB Act</b>	<i>Military Superannuation and Benefits Act 1991</i>
<b>MSB Scheme</b>	Military Superannuation and Benefits Scheme
<b>MSCC</b>	Military Superannuation Communication Committee
<b>MSCI</b>	Morgan Stanley Capital International Inc
<b>PDS</b>	Product Disclosure Statement
<b>RC</b>	Reconsideration Committee
<b>RSE</b>	Registrable Superannuation Entity
<b>SCT</b>	Superannuation Complaints Tribunal
<b>SIS Act</b>	<i>Superannuation Industry (Supervision) Act 1993</i>
<b>SRC Act</b>	<i>Superannuation (Resolution of Complaints) Act 1993</i>
<b>Surcharge</b>	<i>Superannuation Contributions Tax (Assessment and Collection) Act 1997</i>
<b>TTY</b>	Text Telephone (tele-typewriter)

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