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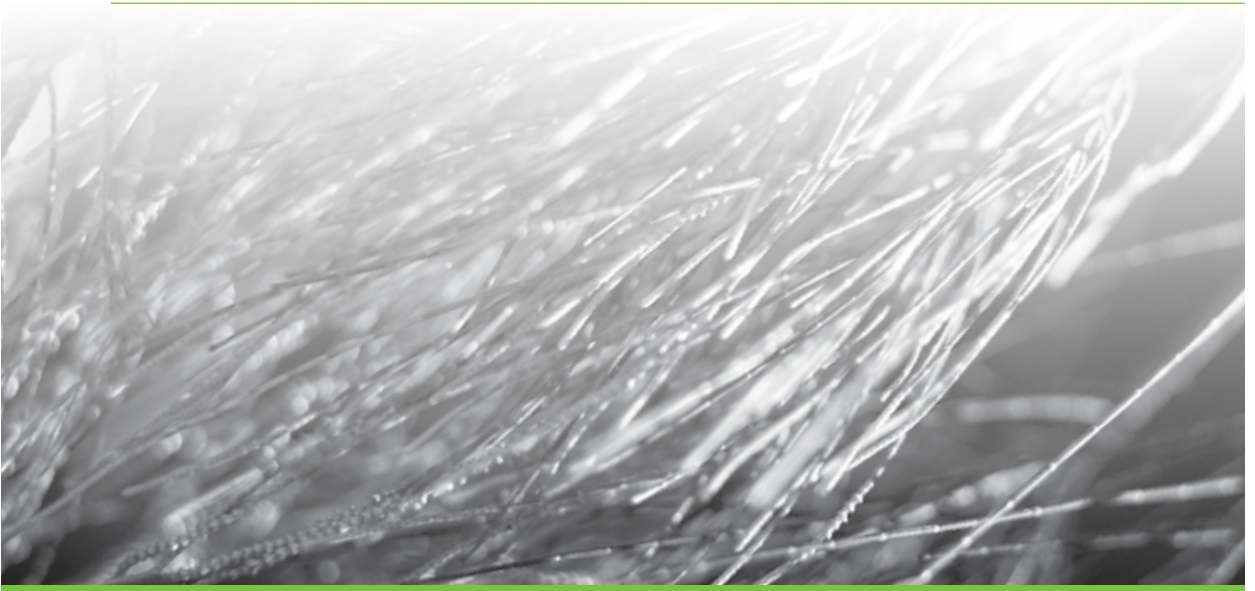
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Executive summary

Investment results

ARIA finished the 2008/09 year with more than \$15.9b funds under management and over 484 870 members in the CSS, PSS and PSSap.

The PSSap continued to grow strongly in 2008/09, with 85 202 members at the end of the year. Membership of the closed CSS and PSS schemes continued to decline in line with forecasts.

Our investment options' returns remain in the Top 2 quartiles (SuperRatings survey) and our average annual returns since inception remain positive over the long term.

CSS and PSS Default Funds

The CSS Default Fund posted a net return of -15.4% and the PSS Default Fund posted a net return of -15.3%. Despite the decline in 2008/09, the CSS and PSS Default Funds' longer-term performance remains competitive.

The CSS Default Fund achieved an average net return (after fees and tax) of -1.1% per annum in the three years to 30 June 2009. This compared with a five-year average net return of 4.5% per annum and seven-year average net return of 5.6% per annum.

The PSS Default Fund achieved an average net return of -0.8% per annum in the three years to 30 June 2009. This compared with a five-year average net return of 4.7% per annum and seven-year average net return of 5.7% per annum.

CSS and PSS Cash Investment Option

The CSS and PSS Cash Investment Options both posted a net return of 4.6% for the year ending 30 June 2009, which is in line with their objectives once the impact of tax on returns is taken into account.

The inflows to the Cash Option continue to indicate that members use this to achieve a higher degree of certainty as they approach retirement.

PSSap

Over the financial year to 30 June 2009, the PSSap's default fund (Trustee Choice) fell by 14.9%, with the decline in Australian and international share markets being the major contributor.

Over the four years since inception, PSSap's Trustee Choice achieved a net return of 2.8% per annum.

Executive summary

Merger and reforms to superannuation administration

In October 2008, the government announced a package of reforms to improve and consolidate governance and administration of Australian Government superannuation schemes including the PSSap, PSS and CSS.

On 1 July 2010, the boards of ARIA, the Military Superannuation and Benefits Scheme (MSBS) and the Defence Force Retirement and Death Benefits Scheme (DFRDB) will merge to form a single trustee board. The legal entity ARIA will be trustee of the main civilian and military super schemes post 1 July 2010.

The Department of Finance and Deregulation undertook a comprehensive review of the current administration arrangements relating to the main civilian and military schemes.

The study incorporated specialist advice and identified scope for improvements to deliver sustainable and effective administration services for the government's superannuation schemes in the future.

At the time of writing, an announcement on government decisions on future scheme administration arrangements is awaited. ARIA remains concerned about the ongoing risks associated with the legacy systems operating the defined benefit schemes, but has been pleased that appropriate mitigation strategies continue to be implemented.

Major events and developments

A full custodian review that ARIA had programmed for 2008/09 did not proceed because of the severe investment market conditions late in 2008. This major project will be rescheduled to a future date.

ARIA did undertake a review of JPMorgan (our current global master custodian) in both the United Kingdom and Australia and continues to be satisfied with the high level of service provided.

In 2008, legislation was passed to remove same-sex discrimination from a wide range of Commonwealth laws, including those relating to superannuation. *The Family Law Amendment (De Facto Financial Matters and Other Measures) Act 2008* also came into effect on 1 March 2009.

The new legislation updated the *Family Law Act 1975* to provide for opposite-sex and same-sex de facto couples to access the family law courts on property and maintenance matters.

The changes also included recognition of financial agreements between de facto couples and superannuation splitting where determined by court proceedings. This was previously only available to legally married couples of the opposite sex.

There were a number of new government superannuation proposals announced in the 2009 Budget:

- > The concessional contributions cap will reduce from \$50,000 to \$25,000 p.a. (indexed) from the 2009/10 financial year.
- > The super co-contribution matching rate and the maximum amount payable will both temporarily reduce from 1 July 2009.

Executive summary

Investment governance

In 2007/08 the ARIA trustees adopted a world best practice investment governance structure following a review undertaken by Watson Wyatt. In 2008/09 ARIA continued to improve critical components of that structure, which is aimed at improving and sustaining high levels of investment governance to enhance our capabilities in one of our core areas of activity – investment.

Service to members

ARIA aims to give members information, education and advice to help them make the right super decisions. ARIA does this by giving members clear, concise and targeted communications throughout the year and works with the scheme administrator to deliver first-class websites, contact centres and comprehensive employer support.

Following the market downturn in 2008/09, ARIA also created tailored information for its members to help them better understand the economic environment and how it affected their super.

ARIA's member education program, At Work for You, continued to be a valuable tool for members. In 2008/09, ARIA held workshops at more than 38 locations around Australia. There were 293 At Work for You workshops throughout the year with 8 744 members attending.

ARIA's websites and targeted campaigns are another way that ARIA helps members to improve their super knowledge and confidence. The scheme websites have a range of online tools and members can find information specific to their super. ARIA conducts research with its members to identify areas of improvement for its online services.

The scheme administrator offers members information through its CSS, PSS and PSSap contact centres. The contact centre was again nominated for the Australian Teleservices Association Awards and became a state finalist in the NSW/ACT division.

Administration

ARIA works closely with the scheme administrator to provide effective and efficient superannuation services to its members.

In 2008/09 the scheme administrator focused on four key priorities:

- > paying correct and timely benefits
- > sending correct and timely statements
- > improving on the overall service delivery both internally and externally
- > improving data quality.

Scheme administration remains an area of focus for ARIA.

Executive summary

Regulatory and policy environment

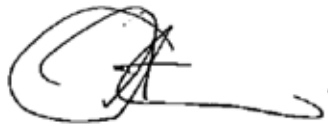
A number of regulatory and policy initiatives occurred throughout the year. Legislative amendments include:

- > The *Same-Sex Relationships (Equal Treatment in Commonwealth Laws-Superannuation) Act 2008* amended the CSS Act to broaden the scope and definition of marital and couple relationships to include same-sex relationships, and to recognise these partners, and children of these partnerships, as dependents eligible for superannuation benefits. Previously the only legally recognised relationships were marriage, or marriage-like relationships between people of different genders. These amendments had effect from 1 January 2009.
- > There have been no amendments to the PSS Act. The Thirty-Third Amending Deed to the PSS Trust Deed made a number of minor amendments and changes, including consequential amendments as a result of the *Fair Work Act 2009* and changes to the *Superannuation Industry (Supervision) Regulations 1994*, relating to payments to temporary residents departing Australia and contributions that must be paid by employers during a member's period of leave without pay. The amendments also include allowing co-contributions for preserved benefit members, but only in relation to periods where the person was a contributing member.
- > There have been no amendments to the PSSap Act. There was a Fourth Amending Deed made to the PSSap Trust Deed similar to the PSS Thirty-Third Amending Deed (above).

Future directions

Our business planning in 2009/10 will focus on implementing major policy decisions on merging the military boards with ARIA, and on implementing decisions associated with future scheme administration arrangements.

The focus of our activities will remain on achieving competitive investment returns and in providing members with adequate information and advice to enable them to maximise their superannuation benefits.



Lochiel Crafter
Chief Executive Officer