

Annual Board Report 2004-05

SHARES | BONDS | MARKET NEUTRAL | PROPERTY | CASH | SHARES | BONDS | MARKET NEUTRAL | PROPERTY | CASH

sustainable

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growth



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OVERVIEW

The PSS and CSS provide superannuation services and products to employees of the Australian Government and other participating employers.

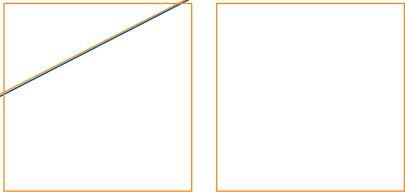
VISION

To be the preferred provider of superannuation products and services for past, present and future Australian Government employees.

MISSION

To deliver superior superannuation products and services – through sound investment decisions, international standard scheme design, efficient administration and effective interaction with stakeholders – which enable our members to make the most of their retirement opportunities.

	CSS	PSS
established	The CSS was established on 1 July 1976 by the <i>Superannuation Act 1976</i> and closed to new members on 1 July 1990.	The PSS was established on 1 July 1990 by the <i>Superannuation Act 1990</i> and closed to new members on 30 June 2005. A new Fund, the PSS Accumulation Plan (PSSap) commenced operating on 1 July 2005.
type	Combination of accumulation and defined-benefit plans.	Defined-benefit plan.
member investment choices	<ul style="list-style-type: none"> • Default Fund • Cash Investment Option 	<ul style="list-style-type: none"> • Default Fund • Cash Investment Option (for preserved benefit members)
funds under management as @ 30 Sep 2005	\$6.1 billion+	\$8.0 billion+
members as @ 30 Sep 2005	43 000+	241 500+
employer agencies as @ 30 Sep 2005	254	254



CHAIRMAN'S REPORT

I am pleased to report that continued growth throughout the year resulted in a strong 13.9% return for both the PSS and CSS Default Funds.

Over ten years, the PSS has returned 8.6% and the CSS 8.7%, both ahead of our longer term targets of a nominal 7% per annum.

In December 2004, the Boards introduced a cash option for PSS preserved benefit members and CSS members. The PSS and CSS Cash Investment Options concluded the first seven months of operation with a return of 2.8% and 2.7% respectively.

Significant regulatory and policy initiatives marked the 2004-05 year. These included:

- a change to the former crediting rate policy to enable fairer distribution of earnings between remaining and departing members in both Funds;
- amendments to the *Superannuation Act 1990* (PSS Act) and *Superannuation Act 1976* (CSS Act) and associated legislation to give effect to a range of Australian Government initiatives;

- the development and implementation of the PSS accumulation plan (PSSap) established by the *Superannuation Act 2005* and the *Superannuation (Consequential Amendments) Act 2005*; and
- the restructure of all PSS investments into a pooled superannuation trust.

The Boards are very appreciative of the support provided by the Minister for Finance and Administration, and his Department, on these matters.

Managing complex schemes and investing two of Australia's largest funds requires expert support and I thank ComSuper, JPMorgan, JANA Investment Advisors, Wilshire Australia, Macquarie Investment Management, all our investment managers and other service partners for their continued efforts on behalf of our members and their employers.

Our staff continued to provide dedicated service during a year of significant progress and the Boards are very appreciative of the results they achieved.

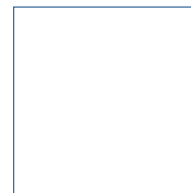
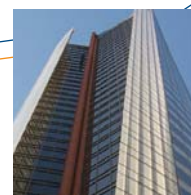
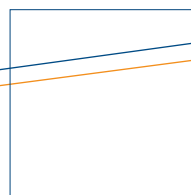


Susan Doyle
Chairman
PSS and CSS Boards



Ms Susan Doyle
PSS and CSS Chairman (Independent)
appointed 28 July 2003
to 27 July 2006

Ms Doyle has many years experience in the area of superannuation and investments. She worked for Commonwealth Funds Management for 20 years and was, more recently, Manager Equities and Fixed Interest Suncorp Insurance and Finance and Chief General Manager NRMA Asset Management Pty Ltd. She is currently a Director of SA Water Corporation and Chairman of its Audit Committee.



THE BOARDS



David Connolly

Winsome Hall

Des Moore

Joy Palmer

Graham Rogers

Peter Feltham

The principal responsibility of the PSS and CSS Boards is to manage and invest the Funds to maximise benefits to members.

The PSS and CSS Boards are constituted under the *Superannuation Act 1990* (the PSS Act) and the *Superannuation Act 1976* (the CSS Act). The Boards have obligations under the PSS and CSS Acts, under the *Superannuation Industry (Supervision) Act 1993* (the SIS Act), the Corporations Act and under the general law. The Minister for Finance and Administration appoints the members of both Boards, nominated for their experience and knowledge by the employer and/or the Australian Council of Trade Unions (ACTU).

Mr David Connolly AM (Employer nominated) appointed 19 September 2002 to 18 September 2005

Member of both the CSS and PSS Boards and Chair of the Board's Audit and Risk Management Committee. Mr Connolly is a Director of Superannuation Strategy with Rice Walker Actuaries and serves as a part-time member of the Refugee Review Tribunal. He was a career diplomat for a number of years and held the post of Australia's High Commissioner to South Africa. Elected to the Australian Parliament (1974–1996), he served as Chair of the Public Accounts Committee and held various shadow portfolios, including superannuation and retirement incomes.

Ms Winsome Hall (ACTU nominated) appointed 1 July 1996, reappointed to 30 June 2006

Member of both the CSS and PSS Boards, and a member of the Board's Audit and Risk Management Committee. Ms Hall is a Director of Colonial First State Private Equity Limited, a listed venture capital investment company. Ms Hall has had extensive experience in superannuation policy as a Senior Advisor in the Department of the Prime Minister and Cabinet. She is also a member of the CPSU.

Mr Des Moore (Employer nominated) appointed 9 September 2003 to 8 September 2006

Member of both the CSS and PSS Boards and a member of the Boards' Audit & Risk Management Committee. Mr Moore has had considerable experience and training in analysing economic issues. Mr Moore worked for 28 years in the Commonwealth Treasury, including five years as one of three Deputy Secretaries. During his time in the Treasury, Mr Moore headed most of the main policy areas before he left in 1987. He is currently Director of the Institute for Private Enterprise in Melbourne, and before that was Senior Fellow, Economic Policy at the Institute of Public Affairs. Mr Moore is also a Council Member of the Australian Strategic Policy Institute.

Ms Joy Palmer (ACTU nominated) appointed 1 July 1996, reappointed to 30 June 2006

Member of the CSS Board and was a member of the Boards Audit & Risk Management Committee until 11 November 2004. Ms Palmer is the Deputy Chair of Statewide

Superannuation Trust, Deputy Chair of Statewide Financial Management, a Director of the AGEST Superannuation Fund, and a member of the (SA) Public Transport Standards Committee.

Mr Graham Rogers appointed 20 December 2004 to 19 December 2007

Member of the CSS Board. Mr Rogers is an independent company director and chairman with over 25 years experience as a business leader in the financial services industry. He is an actuary by profession. Past roles include Chief Executive of Equitable Life and founder and first chief executive of Jacques Martin Group. Mr Rogers has restructured the QBE group, rebuilt Colonial Investment Management Ltd. Following the 1987 crash and initiated the Colonial Groups thrust into Asia. He formerly served two terms as Deputy Chairman of PHIAC (the Australian Health Insurance Regulator). He is currently also Chairman of Select Managed Funds Ltd; Director of RACV Financial Services Ltd.

Mr Peter Feltham appointed 1 July 2005 to 30 June 2006

Member of both the CSS and PSS Boards. Mr Feltham is currently a Project Officer with the CPSU, the Community and Public Sector Union. He has worked for the CPSU and its predecessor organisations for over 20 years in a range of capacities at the state and national level as both an employee and official. Prior to this Mr Feltham worked for 10 years in the Australian Public Service.

Resigned: Ms Sally O'Loughlin (ACTU nominated) appointed 1 July 2001, reappointed to 30 June 2005, resigned 10 March 2005

EXECUTIVE REVIEW



Steve Gibbs
Chief Executive Officer

Andre Morony
Chief Investment Officer

Peter Carrigy-Ryan
Chief Business Operations Officer

Intech's Super Survey ranked the PSS return over the last three years in the top ten of 64 growth funds it surveys annually and the CSS in the top five.

Investment performance remains strong

International equity markets rose by 13.7%, in hedged Australian dollar terms, in 2004-05. For \$A-based investors, the rise was partly offset by the negative impact of the rise in the value of the \$A. The Funds were protected against this currency impact by being largely hedged and our investments returned 13.7% each.

Australian equity market performance was strong throughout the year, increasing by 26.9%. The increase reflected a solid rise in corporate profitability and was underpinned by solid international equity performance. Following some underperformance from listed managers and more subdued, albeit still strong, performance from private equity investments, our holdings in this asset class returned 24.3% for the PSS and 24.2% for the CSS.

Continued evidence that a re-emergence of inflation was not likely, together with a growing sentiment that the rise in US short rates may be coming to an end, drove international bond markets higher in 2004-05 to return 11.6%. Both Funds outperformed the benchmarks returning 12.9% each.

Following weak performance in 2003-04, there was some easing in Australian economic growth together with continued evidence that inflation was under control, and Australian bond markets settled in 2004-05 to return 7.8%. The Funds' investments returned 7.5% for the PSS and 7.4% for the CSS.

Market-neutral exposure of both Funds was increased from 5% to 10% during the year. For the year overall, these investments returned 10.9% for the PSS and 11.1% for the CSS, against the benchmark of 9%.

In October 2004, the Funds started investing in long/short equity funds and, over eight months returned 9.4% for the PSS and 9.6% for the CSS, compared with the benchmark of 9.5% and a return from international equities of 13.7% over this period.

Australian property market holdings returned 13.7% for the PSS and 14.9% for the CSS, against the market return of 13.0% as measured by Mercer Australian Unlisted Property Index.

Fund holdings in Cash delivered 5.2% for the PSS and 5.0% for the CSS against a benchmark of 5.6%.

Chart 1: Default Fund performance over ten years

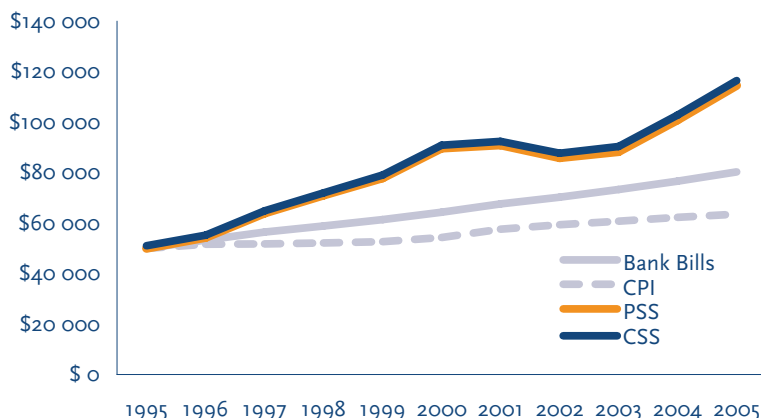


Table 1: Performance

	PSS Fund % pa	PSS Cash Investment Option %	CSS Fund % pa	CSS Cash Investment Option %
2004-05	13.9	N/A	13.9	N/A
Over 3 years	10.1	N/A	10.1	N/A
Over 5 years	5.0	N/A	5.1	N/A
Over 10 years	8.6	N/A	8.7	N/A
Over 7 months*	N/A	2.8	N/A	2.7

* Cash Investment Option which commenced December 2004

Strategic review confirmed objectives

Over the long term, the Boards expect to achieve

- an average real return of no less than 4.5% per annum after tax and fees, which derives from a nominal return of 7% per annum for the Default Funds; and
- a return close to that of the 11am cash rate determined by the Reserve Bank of Australia for the Cash Investment Options.

In developing an investment strategy to achieve those objectives, and recognising that the average person might have a working life of around 30 years, the Boards have adopted a volatility objective that, on average, nominal returns are expected to be positive 24 years out of 30.

Governance and risk management continues as key focus

The Boards have a comprehensive risk management strategy and monitoring & review program in place to manage both business and investment risks.

In addition, each year, the Auditor-General audits the Funds' accounts and records of financial transactions, records of assets and compliance with legislation; and an internal audit of the Boards is undertaken by an external party.

The Boards' investment governance focuses on managing risk and is driven by its primary investment objective to maximise long-term real returns whilst minimising short-term risks. The Boards manage risk through:

- diversification across asset classes, individual assets and investment managers;
- continuous research and analysis;
- systematic compliance program;
- fraud control programs; and
- continuous monitoring of market performance, investment manager performance and relevant legislation.

Investment risk is also managed through a global proxy voting program and a UN award-winning Governance Advisory Service run by BT Funds Management.

PSS Investment Trust establishes new efficiencies

The PSS Board established a pooled superannuation trust, the PSS Investment Trust, to maintain economies of scale and investment efficiencies, both in the short- and long-term, across the PSSap, which started on 1 July 2005, and the PSS.

Administration services score well on global playing field

In 2004-05, the Boards' administration services scored well above average in the international benchmarking study conducted by Cost Effective Management. Client satisfaction, measured each year by Orima Research Pty Ltd, recorded the highest level of satisfaction since surveying began in 1997-98.

Administration this year has been focused on:

- developing and implementing new business processes and systems to support Australian Government initiatives and improve online services for members, pensioners and employers
- improving security, compliance and reporting standards

In March 2005, the Minister for Finance and Administration agreed to an increase in annual administration fees to enable the Boards and their administrator to deliver necessary regulatory and policy initiatives in the future.

Future directions

The Boards will continue to work closely with the Department of Finance and Administration, members,

employers and other key stakeholders to ensure the Australian Government is able to provide its employees with suitable superannuation arrangements that deliver consistently good returns.

Legislation and policy initiatives by the Government and regulators will continue to be a focus for the Boards in 2005-06.

The Superannuation Legislation Amendment (Superannuation Safety and Other Measures) Bill 2005 was introduced in June 2005 primarily to implement the Government's Safety of Super reforms. Following the passage of the Bill, amendments will be made to the legislation governing the PSS and CSS.

In August 2004, the Minister for Finance and Administration announced the Government's response to the report by Mr John Uhrig on the review of corporate governance of statutory authorities and office holders. The Boards are working closely with the Department of Finance and Administration in reviewing their legislative structures and applying the recommended governance templates through assessment by March 2006 and implementation by March 2007.

In February 2005, the Government announced that from 1 July 2006, choice of fund arrangements will be offered to new Australian Government employees and members of the PSSap.

The Department of Finance and Administration is considering how the new transition to retirement measures, already available to CSS deferred benefit members, will apply to PSS members and CSS contributing members.

The Boards must be licensed by, and registered with, the Australian Prudential and Regulatory Authority by 1 July 2006.

Finally, the Boards will work with their administrator to review and improve the capability and functionality of systems, and develop products and services which will meet the needs of members and employers going into the future.

Table 2: PSS and CSS Default Fund holdings 2004–05

Investments	Holdings at 30 June 2004 (\$m)		Holdings at 30 June 2005 (\$m)		Proportion of Fund %	
	PSS	CSS	PSS	CSS	PSS	CSS
Australian shares	2 068.7	1 744.8	2 220.2	1 691.3	28.7	28.4
International shares	1 628.9	1 427.3	1 858.6	1 449.7	24.1	24.3
Australian bonds	478.2	598.1	233.7	137.7	3.0	2.3
International bonds	328.9	400.6	398.9	348.7	5.2	5.9
Market neutral funds	333.4	292.6	689.8	537.0	8.9	9.0
Long	-	-	361.2	312.5	4.7	5.2
Property	655.0	492.1	778.5	646.3	10.1	10.9
Cash	785.7	708.2	1 182.6	833.8	15.3	14.0
Total Fund Investments	6 278.8	5 663.7	7 723.5	5 957.0	100.0	100.0

Table 3: PSS and CSS Cash Investment Option holdings 2004–05

Investments	Holdings at 30 June 2004 (\$m)		Holdings at 30 June 2005 (\$m)		Proportion of Fund %	
	PSS	CSS	PSS	CSS	PSS	CSS
Cash	-	-	7.0	133.5	100.0	100.0
Total Fund Investments	-	-	7.0	133.5	100.0	100.0

Table 4: PSS Default Fund performance 2004–05

Investments	One-year performance		Three-year performance		Five-year performance	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %	Portfolio %	Benchmark %
Australian shares	24.3	26.9	15.2	14.7	10.8	9.4
International shares	13.7	13.7	10.5	6.0	0.9	-3.2
Australian bonds	7.5	7.8	6.5	6.6	6.6	6.7
International bonds	12.9	11.6	11.8	9.0	3.6	4.3
Market neutral funds	10.9	9.0	10.8	8.6	-	-
Long/short equities	-	-	-	-	-	-
Property	13.7	13.0	11.4	12.0	10.7	11.3
Cash	5.2	5.6	5.1	5.3	5.2	5.3
Total Fund Investments	13.9	16.1	10.1	10.2	5.0	3.7

Please note that in comparing fund performance with the benchmark performance you need to take into account the impact of tax on fund returns. Pre-tax the Default Fund returned 15.1% over one year, 11.1% over three years and 5.4% over five years.

Table 5: CSS Default Fund performance 2004–05

	One-year performance		Three-year performance		Five-year performance	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %	Portfolio %	Benchmark %
Australian shares	24.2	26.9	15.5	14.7	11.3	9.4
International shares	13.7	13.7	10.4	6.0	0.8	(3.2)
Australian bonds	7.4	7.8	6.5	6.6	6.5	6.7
International bonds	12.9	11.6	12.0	9.0	3.7	4.3
Market neutral funds	11.1	9.0	11.0	8.6	–	–
Long/short equities	–	–	v	–	–	–
Property	14.9	13.0	11.8	12.0	10.8	11.3
Cash	5.0	5.6	4.7	5.3	5.0	5.3
Total Fund Investments	13.9	15.9	10.1	10.0	5.1	3.6

Please note that in comparing fund performance with the benchmark performance you need to take into account the impact of tax on fund returns. Pre-tax the Default Fund returned 15.1% over one year, 11.1% over three years and 5.6% over five years.

Table 6: PSS Cash Investment Option performance 2004–05

	One-year performance		Three-year performance		Five-year performance	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %	Portfolio %	Benchmark %
Total Fund Investments	2.7	3.3	-	-	-	-

Please note that in comparing fund performance with the benchmark performance you need to take into account the impact of tax on fund returns. Pre-tax the Cash Investment Option returned 3.2% in its seven months of operation.

Table 7: CSS Cash Investment Option performance 2004–05

	One-year performance		Three-year performance		Five-year performance	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %	Portfolio %	Benchmark %
Total Fund Investments	2.8	3.3	-	-	-	-

Please note that in comparing fund performance with the benchmark performance you need to take into account the impact of tax on fund returns. Pre-tax the Cash Investment Option returned 3.3% in its seven months of operation.

Notes:

1. The Cash Investment Option commenced in December 2004.
2. The fund first invested in long/short equities in October 2004.
3. The return numbers are after fees and before tax, except for the total fund return number which is after both fees and taxes. Benchmark numbers are pre fees and taxes.
4. The sector benchmark numbers show the market performance of the sector while the Fund numbers show what the Fund's performance was in that sector. Thus, for example, the Benchmark number for Australian equities in the current financial year is the performance of the Australian stock market index while the Fund number is what the Fund's holdings of Australian equities have returned.

FINANCIAL STATEMENTS

PSS Fund Financial Statements

Changes in net assets for the year ending 30 June	2005	2004
	\$m	\$m
Net assets at the beginning of the year	6,203.7	5,004.2
Revenue		
Investment revenue	996.9	832.2
Contribution revenue	738.2	656.2
Appropriation from Commonwealth Government	185.6	165.3
Total revenue	1,920.7	1,653.7
Expenses		
Investment expenses	17.4	13.3
Administration expenses	3.3	2.5
Taxation	114.2	101.0
Benefits paid	406.5	337.4
Total expenses	541.4	454.2
Net assets at the end of the year	7,583.0	6,203.7
Net assets comprise:		
Assets		
Investments	7,708.6	6,282.2
Other assets	128.4	117.3
Total assets	7,837.0	6,399.5
Liabilities		
Benefits payable	29.0	26.9
Taxation	135.0	100.9
Other liabilities	90.0	68.0
Total liabilities	254.0	195.8
Net assets of the Fund	7,583.0	6,203.7

CSS Fund Financial Statements

Changes in net assets for the year ending 30 June		2005	2004
		\$m	\$m
Net assets at the beginning of the year		5,599.5	5,188.6
Revenue			
	Investment revenue	832.7	783.3
	Contribution revenue	195.8	192.4
	Appropriation from Commonwealth Government	2,484.9	2,402.3
Total revenue		3,513.4	3,378.0
Expenses			
	Investment expenses	14.1	12.1
	Administration expenses	3.3	2.8
	Taxation	77.2	73.8
	Benefits paid	3,003.7	2,878.4
Total expenses		3,098.3	2,967.1
Net assets at the end of the year		6,014.6	5,599.5
Net assets comprise:			
Assets			
	Investments	6,072.4	5,653.8
	Other assets	122.3	105.7
Total assets		6,194.7	5,759.5
Liabilities			
	Benefits payable	18.7	22.2
	Taxation	95.8	72.4
	Other liabilities	65.6	65.4
Total liabilities		180.1	160.0
Net assets of the Fund		6,014.6	5,599.5

information



Go to www.pss.gov.au or www.css.gov.au for:

- 2004–05 Annual Reports to Parliament
- Legislation
- Contracts lists
- Product Disclosure Statements



Go to www.finance.gov.au for:

the most recent actuarial review of the PSS and CSS, completed by Mercers Human Resource Consulting Pty Ltd during 2002/2003— results were included in the PSS and CSS Long Term Cost Report tabled in Parliament on 25 June 2003.

For additional information:



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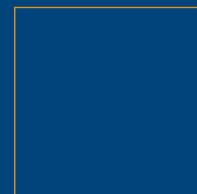


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4	0.23	53T	STRUC
5	0.145	6HT	STRUC
	0.753	0	STUAR
0	1.29	7HT	STU C
5	9.45	2HT	SUGSA
5	0.315	4HT	SURRI
3	7.83	18T	SUN
2	3.30	2T	SUN H
1	1.61	93T	SUNSA
1	1.40	8HT	SUNCA
5	0.175	5T	SUNCA



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