

> annual
trustee
report



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	PSSap	PSS	CSS
Year established	2005	1990 (closed to new members in 2005)	1976 (closed to new members in 1990)
Type	Accumulation	Defined benefit	Hybrid—part accumulation, part defined benefit
Default for	Australian Public Service	n/a	n/a
Public offer	No	No	No
Funds under management	\$106 million+	\$9 billion+	\$6 billion+
Members	28,000+	239,800+	40,700+
Pensioners	n/a	13,100+	114,200+
Investment choice	11 investment options Default option is called Trustee Choice	Cash investment option for preserved benefit members only	Cash investment option
Investment objective	Default option has a target of inflation + 4.5% over the long-term (approx. 7% pa); with constraint that returns are positive in 24 out of 30 years	Target of inflation + 4.5% over the long-term (approx. 7%pa); with constraint that returns are positive in 24 out of 30 years	
2005/06 returns (after tax and fees)	14.3%	13.1%	13.3%
3 year returns (after tax and fees)	n/a	13.7%	13.7%
5 year returns (after tax and fees)	n/a	7.4%	7.4%
10 year returns (after tax and fees)	n/a	9.1%	9.2%
Administrator	ComSuper		
Custodian	JPMorgan		
Asset consultants	JANA Investment Advisors		
Website	www.pssap.gov.au	www.pss.gov.au	www.css.gov.au
Ratings/awards	<ul style="list-style-type: none"> • 2006/07 Platinum rating + Rising Star Finalist (SuperRatings) • 2005/06 Triple A rating (Selecting Super) • 2005/06 Gold rating + Best New Product Finalist (SuperRatings) • 2006 Gold + Excellence Communications Awards (CMSF) 	<ul style="list-style-type: none"> • United Nations Award for responsible and sustainable investments 2003 • 2005 Gold and Excellence Communications Awards (CMSF) 	<ul style="list-style-type: none"> • United Nations Award for responsible and sustainable investments 2003 • 2001 Gold Communications Awards (CMSF)
Legislative framework	<i>Superannuation Act 2005</i>	<i>Superannuation Act 1990</i>	<i>Superannuation Act 1976</i>

> Chairman's Report

I am pleased to present the annual report on the performance of the funds and the management and administration of the PSS, CSS and PSSap for the last financial year.

The PSS and CSS investment target is to achieve an average real return after tax and fees of no less than 4.5% per annum, which derives from a nominal return of 7% per annum over the long term. In 2005/06 the PSS achieved a return of 13.1% and the CSS a return of 13.3%. Over the long-term both the PSS and CSS returns have consistently exceeded our target. The PSS average return is 13.7% per annum over three years, 7.4% per annum over five years and 9.1% per annum over ten years. The CSS average return is 13.7% per annum over three years, 7.4% per annum over five years and 9.2% per annum over ten years.

I am also pleased to report a strong first year of growth for the PSSap. The Trustee Choice default fund returned 14.3%, and the pre-mixed options also performed well. The Aggressive option led the way with a return of 16.1%, followed by the Balanced option with a return of 10.2% and the Conservative option finished with 7.7%.

The significant activity of the Trustee in the last financial year was the establishment of a single governing entity called Australian Reward Investment Alliance (ARIA), which in effect is a merger of the two boards that were previously responsible for the PSS



and CSS. In addition to modernising and strengthening our governance procedures with ARIA, we have established a more rational and effective investment structure for all of the schemes that will benefit all members now and well into the future. I would like to thank the staff and stakeholders who worked so hard to achieve this outcome.

During the year we were granted a licence by the Australian Prudential Regulation Authority. A significant amount of work was necessary to satisfy the regulators requirements for the granting of a licence and significant resources will be required to meet licence conditions.

The investment and superannuation industry remains in a state of constant and vigorous change, particularly with the implementation of choice of fund from 1 July 2005. This new regime also applied to the federal public sector from 1 July 2006 when all new employees are able to choose their own fund. ARIA remains extremely well placed to provide competitive products and services for both existing and new members of the schemes for which it is responsible in this new competitive environment.

The changes announced in the 2006 May Budget will, if implemented in the

form proposed, have a significant long term impact on the superannuation and retirement industry. The proposals represent a dramatic simplification of the rules applying to superannuation, particularly in relation to taxation, and ARIA will be continuing its discussion with the government to seek the best outcome for all of our members as a result of those changes.

I would like to thank the Minister and his department for their continued assistance throughout the year. I would also like to thank our partners; ComSuper, JPMorgan, JANA Investment Advisors, all of our fund managers and other service providers for their work throughout the year.



Susan Doyle
Chairman
Australian Reward Investment
Alliance (ARIA)

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 Guardian of the Future Fund and a Director of SA Water Corporation and Chairman of its Audit Committee.

Ms Susan Doyle
First appointed 28 July 2003
Current term expires 27 July 2009

> Trustees

The principal responsibility of the Trustee is to manage and invest the Funds to maximise benefits to members.

The Minister for Finance appoints the Trustees, nominated for their experience and knowledge by the employer and/or the Australian Council of Trade Unions (ACTU).

From 1 July 2006, the CSS and PSS Boards merged to create Australian Reward Investment Alliance (ARIA). ARIA was established under the *Superannuation Legislation Amendment (Trustee Board and Other Measures) Bill 2006*.

Mr David Connolly AM
First appointed 19 September 2002
Current term expires
18 September 2008

Mr Connolly is also Chair of the Audit and Risk Management Committee. Mr Connolly is Chairman of Rice Warner Actuaries and serves as a part-time member of the Administrative 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.

Mr Peter Feltham
First appointed 1 July 2005
Current term expires 30 June 2009

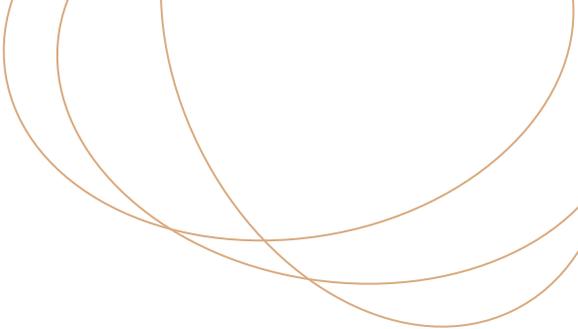
Mr Feltham is currently a Project Officer with the CPSU, the Community and Public Sector Union. He has worked for the CPSU and its predecessor organisations for over 20 years in a range of capacities at the state and national level as both an employee and official. Prior to this Mr Feltham worked for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

Ms Winsome Hall
First appointed 1 July 1996
Current term expires
30 September 2008

Ms Hall is also a member of the Audit and Risk Management Committee. Ms Hall is a Director of Colonial First State Private Capital Limited, a listed venture capital infrastructure investment company. She is also a director of Uniseed (UIIT Pty Ltd) as a nominee

of the Westscheme superannuation fund. Uniseed was established by the University of Melbourne and the University of Queensland to fund emerging business from university research. In November 2004, Ms Hall was appointed as a consumer representative to the Finance Industry Complaints Scheme (FICS) panel. The FICS provides all users of financial services with a free complaints service as an alternative to litigation. Ms Hall has previously developed superannuation policy as a Senior Advisor in the Department of the Prime Minister and Cabinet and was secretary of the ACT Branch of the CPSU from 1989 to 1993.





Mr Des Moore
First appointed 9 September 2003
Current term expires
30 September 2007

Mr Moore is also a member the Audit & Risk Management Committee. Mr Moore has had considerable experience 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
First appointed 1 July 1996
Current term expires
30 September 2007

Ms Palmer is also a member of the Audit and Risk Management Committee. Ms Palmer's extensive experience in the superannuation industry includes current appointments as Chair of Statewide Superannuation Trust and Chair of Statewide Financial Management Services; she is a member of the Steering Committee of the Conference of Major Super Funds, and holds the professional accreditation of Fellow of ASFA (FASFA). Ms Palmer has previously held directorships with AGEST Superannuation, CPSUSF Super Fund and the ASFA Board. She is currently also a director of Austraining International.

Mr Graham Rogers
First appointed 20 December 2004
Current term expires
19 December 2007

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 Group's thrust into Asia. He also served two terms as Deputy Chairman of PHIAC (the Australian Health Insurance Regulator). He is currently Deputy Chair of Australian Wealth Management.





The PSS and CSS Default Funds achieved a return of 13.1% and 13.3% per annum respectively in 2005/06, continuing the double digit performance of recent years.



> Chief Executive Review

Investment performance

The PSS and CSS Default Funds achieved a return of 13.1% and 13.3% per annum respectively in 2005/06, continuing the double digit performance of recent years. This investment performance again was in excess of our long-term target of 7% per annum. Performance of the PSS Default Fund for three, five and 10 year periods is: 13.7%, 7.4% and 9.1% per annum respectively. Performance of the CSS Default Fund for three, five and 10 year periods is: 13.7%, 7.4% and 9.2% per annum respectively.

The PSS and CSS Cash Investment Option performance is in line with its benchmark, achieving a return of 4.8% and 4.9% per annum respectively for 2005/06.

The PSSap investment choice options performed well in 2005/06, their first year of existence. The Trustee Choice default fund returned 14.3% per annum, which was above its long-term target return of 7% per annum.

The other three pre-mixed, diversified options also achieved good performance, with the highest returns achieved by the options having the largest allocation to equities. The Aggressive option returned 16.1% per annum, the Balanced option 10.2% per annum and the Conservative option 7.7% per annum.

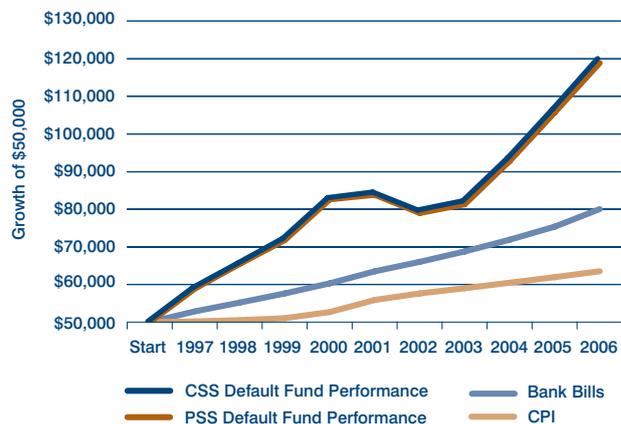
The Australian share market again performed strongly throughout the year. Despite heightened volatility towards the end of the year, the market still

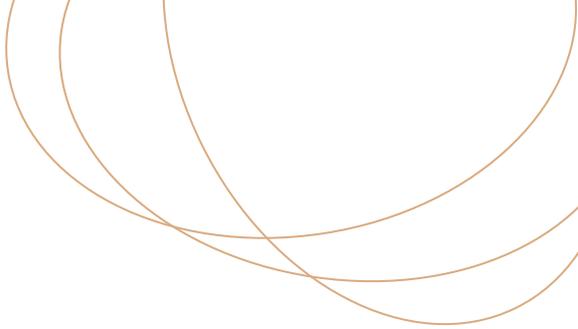
advanced by 24.7%. This increase reflected continued strong corporate profitability and a large increase in commodity prices, which buoyed the return from basic material and energy stocks.

International equity markets also performed well throughout the year, although heightened volatility was also a feature during the June quarter. In hedged Australian dollar terms international equities rose by 18.1%.

Continued strong rates of domestic economic growth, together with a rise in domestic short term interest rates and rising global bond yields, resulted in a disappointing year for the Australian bond market. Although the market achieved a modest positive return of

Chart 1: Rate Comparisons





3.4%, this outcome was below the 5.8% return from cash. Reflecting a view that cash would prove a better investment than Australian bonds in 2005/06, the Fund's strategic asset allocation to Australian bonds was kept in cash throughout the year, meaning the Fund had no exposure to Australian bonds in 2005/06.

Continued strong rates of economic growth within the US, signs of emerging strength in Europe and Japan, and increased inflationary fears led to increases in the bond yields of all developed markets. This resulted in a return of just 1.2% from international bonds. The Fund's investments did better than markets generally, returning 2.0%.

The Australian property market, as measured by the Mercer Australian

Unlisted Property Index, performed strongly during the year, returning 17.2%. The Fund's property investments returned 14.8%.

The return from cash was buoyed by a rise in short term interest rates during the year. For the year as a whole, cash returned 5.8%.

Regulatory environment

During the year we obtained a licence from the Australian Prudential Regulation Authority, and undertook a significant review of its policies and procedures to ensure compliance with the regulatory requirements. The schemes are now subject to a dual ASIC/APRA regulatory regime and it has and will continue to require significant resources to meet the enhanced demands.

New governance structure to better serve members' interests



On 1 July 2006, the PSS and CSS Board's merged to create Australian Reward Investment Alliance (ARIA) – a simplified, sustainable and more effective governance structure which will greatly enhance our ability to serve the interests of members and stakeholders.

The superannuation environment in Australia has undergone a huge

(continued over page)

Table 1: Performance

	PSSap-Trustee Choice Option %pa	PSS Fund % pa	PSS Cash Investment Option % pa	CSS Fund % pa	CSS Cash Investment Option % pa
2005/06	14.3	13.1	4.8	13.3	4.9
over 3 years	n/a	13.7	n/a	13.7	n/a
over 5 years	n/a	7.4	n/a	7.4	n/a
over 10 years	n/a	9.1	n/a	9.2	n/a

> Chief Executive Review (cont.)

change over the past few years, with financial services reform, increased regulation and choice of fund. Our existing structure created unnecessary duplications which meant that superannuation arrangements for Australian Government employees would not have been sustainable or cost effective in the long-term.

It was obvious that, to continue to meet members' needs into the future, the PSS and CSS Boards' had to adapt.

The new structure will enable the schemes to introduce a range of improvements. We will be able to:

- **achieve new cost efficiencies** through the elimination of outdated complexities and duplications in administration, investment, liability management, risk management and regulatory compliance, which will have a positive effect on investment returns over time
- **ensure sustainability for the future** with the use of a single investment trust which will provide greater economies of scale in managing the closed PSS and CSS Funds and assist us to maintain competitive cost structures
- **maintain a strong governance structure** in line with the Australian Government's new best-practice

corporate governance principles, to uphold our high levels of accountability and transparency

- **improve communication and education services** with the delivery of seminars and individual consultations to members at their place of work.

The single Trustee structure is another step in the process of modernising the PSS and CSS with best practice corporate governance principles and more equitable distribution of earnings between departing and remaining members.

May Budget Announcements

Significant proposed changes were announced in the May 2006 Budget that will have an impact on both taxed and untaxed superannuation schemes. We will continue our discussions with Government on the impact of these proposals on the Schemes.

Choice of fund for PSSap members

From 1 July 2006 all new government employees have choice of superannuation funds. This new environment will change fundamentally the dynamics of the superannuation industry and we have already witnessed significant rationalisation within the

industry, for example, with the merging of major funds. The establishment of ARIA is in part a response to these major industry changes and it will enable us to provide members of all the schemes for whom the Trustee is responsible with competitive and sustainable superannuation arrangements into the future.

Future directions

Over the next twelve months, our efforts will continue to provide competitive returns, whilst staying within the risk and volatility constraints that ARIA sees appropriate. We will maintain our proactive risk management programs such as the Governance Advisory Service and our proxy voting responsibilities.

We will also continue to work closely with the Department of Finance and Administration, members and other key stakeholders to ensure we are able to provide members with cost effective superannuation arrangements.



Steve Gibbs
Chief Executive Officer
Australian Reward Investment
Alliance (ARIA)

> Scheme Performance

Table 2: PSS and CSS Default Fund investments 2005/06

Investments	Holdings at 30 June 2005 (\$m)		Holdings at 30 June 2006 (\$m)		Proportion of Fund %	
	PSS	CSS	PSS	CSS	PSS	CSS
Australian shares	2,220.2	1,691.3	2,984.5	2,034.6	32.0	32.2
International shares	1,858.6	1,449.7	2,137.6	1,422.4	23.0	22.5
Bonds	632.6	486.4	1,178.1	839.0	12.7	13.3
Market neutral funds	689.8	537.0	921.6	637.0	9.9	10.1
Long/short equities	361.2	312.5	444.3	341.7	4.8	5.4
Property	778.5	646.3	1,042.0	867.5	11.2	14.0
Cash	1,182.6	833.8	592.2	169.8	6.4	2.5
Total Fund Investments	7,723.5	5,811.1	9,104.2	6,147.0	100.0	100.0

Note: PSS asset sectors are pre fees and tax, CSS asset sectors are post fees and pre tax. Total Fund Investments are post tax and fees.

Table 3: PSS and CSS Cash Investment Option investments 2005/06

Investments	Holdings at 30 June 2005 (\$m)		Holdings at 30 June 2006 (\$m)		Proportion of Fund %	
	PSS	CSS	PSS	CSS	PSS	CSS
Cash	7.0	133.0	7.9	118.1	100.0	100.0
Total Fund Investments	7.0	133.0	7.9	118.1	100.0	100.0

Table 4: PSS and CSS Default Fund performance 2005/06

Investments	One-year performance %		Three-year performance %		Five-year performance %	
	PSS	CSS	PSS	CSS	PSS	CSS
Australian shares	22.9	21.1	23.2	23.0	12.3	13.0
International shares	18.1	19.4	18.5	18.5	6.6	6.1
Bonds	2.0	2.0	6.4	6.6	6.1	6.2
Market neutral funds	6.6	6.1	9.4	9.3	n/a	n/a
Long/short equities	11.5	11.7	n/a	n/a	n/a	n/a
Property	14.8	14.5	13.0	13.3	11.6	11.8
Cash	5.9	4.6	5.6	5.1	5.2	4.7
Total Fund Investments	13.1	13.3	13.7	13.6	7.3	7.5

Note: PSS asset sectors are pre fees and tax, CSS asset sectors are post fees and pre tax. Total Fund Investments are post tax and fees.

Table 5: PSS and CSS Cash Investment Option performance 2005/06

	One-year performance %		Three-year performance %		Five-year performance %	
	PSS	CSS	PSS	CSS	PSS	CSS
Total Fund Investments	4.8	4.9	n/a	n/a	n/a	n/a

Table 6: PSSap performance 2005/06

PSSap Trustee Choice Investment Option	14.3%
PSSap Conservative Investment Option	7.7%
PSSap Balanced Investment Option	10.2%
PSSap Aggressive Investment Option	16.1%
PSSap Bonds/Fixed Interest Investment Option	2.0%
PSSap Australian Shares Investment Option	22.3%
PSSap International Shares (unhedged) Investment Option	17.8%
PSSap International Shares (hedged) Investment Option	15.5%
PSSap Property Investment Option	11.7%
PSSap Sustainable Investment Option	19.0%
PSSap Cash Investment Option	4.6%

> Financial Statements

PSS

	\$ million
Value of Fund as at 1 July 2005	7,583.0
Inflows	
Investment income	2.7
Changes in market value of investments	1,072.3
Employee contributions	515.8
Employer contributions	224.0
Government co-contributions	40.9
Appropriation from CRF	187.4
Transfers from the Commonwealth Superannuation Scheme	1.4
Outflows	
General administration and investment expenses	(1.7) ¹
Benefits payable	(464.6)
Income tax expense	(36.2)
Value of Fund as at 30 June 2006	9,125.0
Assets and liabilities as at 30 June 2006	
Investments	9,147.9 ²
Cash at bank	29.7
Amounts to be appropriated from Consolidated Revenue Fund	23.6
Other receivables	0.2
Benefits payable	(45.6)
Sundry creditors	(1.8)
Provision for tax	(29.0)
Net assets as at 30 June 2006	9,125.0
1 Residual expenses in respect of 2004/2005.	
2 The value of investments shown above reconciles with the Total Fund values shown on page 8 as follows:	
Default Fund	9,140.0
Cash Investment Option	7.9
	9,147.9
<p>The assets of the PSS are invested via the ARIA Investments Trust (AIT) in order to deliver a cost-efficient investment process. The AIT invests in multiple, specialist investment funds.</p> <p>The AIT receives dividends, trust distributions and interest, and incurs general administration and investment management expenses.</p> <p>The AIT generates an operating surplus from the investment income, expenses and changes in market value of its investments. The operating surplus is reflected in the daily unit prices published by the AIT to its unitholders.</p> <p>The PSS regularly revalues its investment in the AIT based on the latest redemption unit price of the latter. Any increase or decrease in value of PSS investments is reflected in the caption 'Changes in market value of investments'</p>	

CSS

		\$ million
Value of Fund as at 1 July 2005		6,014.6
Inflows		
	Investment income	422.8
	Changes in market value of investments	441.1
	Employee contributions	137.0
	Employer contributions	45.4
	Government co-contributions	3.2
	Appropriation from Consolidated Revenue Fund	2,586.1
Outflows		
	Investment expenses	(18.3) ¹
	Administration expenses	(3.8)
	Benefits payable	(3,220.3)
	Transfers to the PSS	(1.4)
	Income tax expense	(55.2)
Value of Fund as at 30 June 2006		6,351.2
Assets and liabilities as at 30 June 2006		
	Investments	6,435.6
	Cash at bank	57.3
	Amounts to be appropriated from Consolidated Revenue Fund	1.3
	Other receivables	74.9
	Benefits payable	(24.3)
	Sundry creditors	(93.4)
	Provision for tax	(100.2)
Net assets as at 30 June 2006		6,351.2
1 Management fees and charges of \$18.3m in 2005/06 represent 0.30% of the Fund value.		
Total Fund (see page 8)		6,265.1
Add		
	Contributions/Benefits bank account	57.3
	Income tax adjustment	52.7
	Other (net)	0.3
Less		
	Benefits payable	(24.2)
Net Assets as at 30 June 2006		6,351.2

> Financial Statements (cont.)

PSSap

		2006 \$'000
Operating Statement for the year ended 30 June 2006		
Revenue		
	Interest on cash at bank	297
	Changes in net market value of investments	2,346
	Employer contributions	66,202
	Member contributions	2,044
	Transfer from other funds	53,233
	Government co-contributions	42
	Insurance proceeds	101
	Total Revenue	124,265
	Insurance premium expense	(3,151)
	Income tax expense	(10,178)
	Benefits paid	(337)
	Liability for accrued benefits at the end of the year	110,599
Assets and liabilities as at 30 June 2006		
Assets		
	Investments	104,168
	Cash at bank	17,071
	Other assets	132
	Total Assets	121,371
	Benefits payable	(5)
	Sundry creditors	(520)
	Provision for tax	(10,247)
	Net assets available to pay benefits	110,599
Notes		
1 Expenses relating to member administration are borne by the fund administrator out of fees received from participating employers		
2 Expenses relating to investment management are borne by the underlying investments.		

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www.aria.gov.au

for:

- > links to scheme websites
- > 2005/06 Annual Reports to Parliament
- > Legislation
- > Contracts Lists
- > Product Disclosure Statements



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for:

the most recent actuarial review of the PSS and CSS, completed by Mercer Human Resource Consulting Pty Ltd during 2005/06 - results were included in the 2005 PSS and CSS Long Term Cost Report tabled in Parliament on 14 June 2006.

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