



Military
Super

AFSL: 238395
ABN: 50 925 523 120
Board ABN: 72 406 779 248



THE MSB BOARD
Annual Report
2009-10

The MSB Board Annual Report to Parliament

Military Superannuation and Benefits Scheme



2009–10

© Commonwealth of Australia 2010

ISSN 1037 7956

ISBN 978-1-921246-49-4

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth. Requests and inquiries concerning reproduction and rights should be addressed to the Commonwealth Copyright Administration, Attorney General's Department, National Circuit, Barton ACT 2600 or posted at www.ag.gov.au/cca.

Street address	MilitarySuper Suite 3-07, 3rd Floor 10 Rudd Street Canberra City ACT 2601
Postal address	GPO Box 636 Canberra ACT 2601
Phone	(02) 6122 6700
Facsimile	(02) 6122 6777
Annual report enquiries	(02) 6122 6704
Internet	www.militarysuper.gov.au
Annual report	www.militarysuper.gov.au/annualreports
Fund ABN	50 925 523 120
SPIN	CMS0103AU

Note: All statistics are derived solely from records available to MilitarySuper and ComSuper (the Commissioner for Superannuation – 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.

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

Dear Minister

In accordance with section 26 of the *Military Superannuation and Benefits Act 1991* (the Act), the Military Superannuation and Benefits Board (the Board) is pleased to submit to you its Annual Report on the performance of its functions for the year ended 30 June 2010, together with financial statements in respect of the management of the Military Superannuation and Benefits Fund during 2009–10, and the Auditor-General's report in respect of those statements.

Subsection 26(3) of the Act 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
Military Superannuation and Benefits Board

Contents

Section 1: Chairman’s Overview.....	1
Section 2: About the Scheme.....	7
Description of the Scheme.....	9
The Board.....	10
Indemnity Insurance.....	12
Board Meetings.....	12
Section 3: Governance.....	13
Corporate Governance Statement.....	15
Vision Statement.....	15
Principal Duties.....	16
Governance Matters Outside the Board’s Control.....	16
General Governance Principles.....	17
Continuing Qualifications and Disclosure of Interests.....	17
Confidentiality.....	18
Legal Professional Privilege.....	18
Securities Dealing.....	18
Gifts and Entertainment.....	18
Insurance.....	19
Board Committees.....	19
Meetings and Agenda.....	19
Professional Development.....	19
Managing Conflicts of Interest.....	20
Whistleblower Protection.....	22
Review of Corporate Governance of Statutory Authorities and Office Holders (the Uhrig Report).....	23
Merger of the Boards of the Major Commonwealth Superannuation Schemes.....	24
Business Plan.....	24
Scheme Administration.....	25
Delegations.....	26
Board Committees.....	26
Executive.....	28
Financial Issues and Budget Strategies.....	30
Status Under the SIS Act and Corporations Legislation.....	31
Product Disclosure Statement.....	31
Financial Product Advice the Board Can Provide.....	32
Evaluation.....	32

Contents

Section 4: Fund Investments.....	35
Investment Policy.....	37
Investment Objectives.....	37
Investment Beliefs.....	38
Investment Strategy.....	38
Strategic Asset Allocations.....	41
Investment Management.....	42
Investment Managers.....	43
Custodian Services.....	43
Member Investment Options.....	43
Investment Overview 2009–10.....	47
Growth of the Fund.....	48
Looking Ahead	52
Unitisation.....	58
Section 5: Member Communication.....	59
Objectives.....	61
Performance Indicators.....	62
Communication Focus.....	63
Counselling in Information Services.....	63
Pensioner Communications.....	65
MilitarySuper Website.....	66
Projects.....	67
Section 6: Membership.....	69
Contributors.....	71
New Members.....	71
Exits.....	72
Preserved Benefit Members.....	73
Pensioners.....	73

Section 7: Scheme Administration.....75

- Administrative Arrangements.....77
- Accounting Services.....78
- Account Maintenance.....80
- Benefit Payments.....81
- Payments.....82
- Processing of Invalidation Claims.....83
- Pensions.....85
- Family Law.....86
- Internal Review.....86
- Dispute Resolution.....87
- Enquiries and Complaints.....88
- Legal Claims.....88

Section 8: Fund Financial Statements.....89

Section 9: Appendices.....127

- Appendix 1: MilitarySuper in Brief.....129
- Appendix 2: Publications.....131
- Appendix 3: Legislation.....132
- Appendix 4: Commonwealth Disability Strategy.....133
- Appendix 5: List of Requirements.....134
- Appendix 6: Freedom of Information (FOI) and Privacy.....138
- Appendix 7: Executive.....141
- Appendix 8: Glossary.....143

Index.....145

Contents

Tables

Table 1: Schedule of Board Meetings 2009–10.....	12
Table 2: Long Term Strategic Asset Allocation for the Investment Options.....	42
Table 3: Investment Objectives for Investment Options.....	44
Table 4: Average Returns (Compounded Average Annual Returns).....	48
Table 5: Investment Performance by Asset Class 2009–10.....	49
Table 6: Scheme Net Assets at 30 June 2010 (After Taxes, Charges and Benefits).....	53
Table 7: Investment Managers at 30 June 2010.....	54
Table 8: Unit Prices at 30 June 2010.....	58
Table 9: Most Accessed Web Pages 2009–10.....	66
Table 10: Website Hits over the Past Four Years.....	67
Table 11: Contributing Member Composition.....	71
Table 12: Male and Female Contributors by Years of Service.....	71
Table 13: Modes of Exit in the Past Five Years.....	72
Table 14: Benefits Paid 2009–10.....	82
Table 15: Invalidity Entitlements Reviewed in the Past Five Years.....	84
Table 16: Number of Pensioners in the Past Five Years by Type of Benefit.....	85
Table 17: Reconsideration Applications for the Past Five Years	87

Charts

Chart 1: Quality Service Index Scores for Military Member Satisfaction.....	33
Chart 2: Actual and Projected Fund Growth.....	49
Chart 3: Information Seminars 2009–10.....	64
Chart 4: Call Volume Comparison.....	64
Chart 5: Email Volume Comparison.....	65
Chart 6: Written Volume Comparison.....	65
Chart 7: Website Hits 2009–10.....	67
Chart 8: Growth of Preserved Benefit Member Population Since 30 June 2005.....	73
Chart 9: Growth of Pensioner Population Since 30 June 2005.....	73
Chart 10: Organisational Structure of MilitarySuper as at 30 June 2010.....	77
Chart 11: Average Time to Process Benefit Payments 2009–10.....	82
Chart 12: Service Comparison of Invalidity Classifications 2009–10.....	84

Chairman's Overview



SECTION 1

On behalf of the Board I am pleased to present this report on the operations on the Military Superannuation and Benefits Board of Trustees for the financial year to 30 June 2010.

MilitarySuper's Investment Performance

The 2009–10 year was volatile and challenging for superannuation funds. While recovery in global investment markets appeared to begin in mid-2009, the aftershocks of the Global Financial Crisis (GFC), the emerging debt problems of some European economies and the continuing weak economic performance of the United States and other major economies saw the markets fall back during the June quarter 2010. We expect that investment markets will continue to be volatile for the foreseeable future.

MilitarySuper's Growth Option, the Fund's default option in which the vast majority of Members are invested, returned 2.15% net of fees, charges and taxes in 2009–10. We are disappointed with this short-term, one-year performance, largely attributable to our conservative and long-term investment focus and because we had to write off and write down a number of investments made before the GFC.

Superannuation is a long-term investment for retirement and its performance should be more properly considered over longer periods. Over three and five years, MilitarySuper's performance for all investment options, with the exception of the Conservative Option, was assessed by the independent ratings agency SuperRatings, as being similar to that of comparable funds.

Although we might have come through the worst of the GFC, the Board has made changes to the investment strategy to preserve and enhance the security of Members' funds, particularly in light of the uncertain economic outlook. We are looking for strong returns but at the same time are always conscious of the risks involved.

More information about MilitarySuper's comparative performance over five, three and one-year periods is provided in the Fund's Investment section of this report.

Superannuation is a long-term investment and staying the course with a suitable strategy is essential, especially during times of heightened market instability and economic shocks. The Board remains committed to investing in and holding quality assets for the longer term and across economic cycles.

In the context of this year's results, the Board has emphasised in its reporting to Members that MilitarySuper's benefits have two sources:

- a Member component, made up of a Member's contributions plus earnings from the Fund; and
- an employer component, which is payable at retirement as either a pension, lump sum or combination of these and is based on a defined formula which is guaranteed and not directly linked to or affected by investment performance.

For Contributing Members, it is the member component that is affected by investment returns, rather than the employer component which is the far greater part of the total benefit.

For Preserved Benefit Members, the investment return from the Fund is applied to the preserved member component and to the funded productivity portion of the employer component. The balance of the preserved benefit, usually the largest portion, is indexed in line with inflation and is not affected by the Fund's investment performance.

Merger of the Boards of the Major Commonwealth Superannuation Schemes

In October 2008 the Government announced that it intended to merge the MilitarySuper Board, the DFRDB Authority and the ARIA Board (the trustee of the CSS, PSS and PSSap civilian schemes) from 1 July 2010. The Senate had not completed considering the relevant Bills when Parliament was dissolved in late June for the August 2010 election.

The Year Ahead

The coming year is shaping up as one of regulatory change for superannuation and financial services. On 5 July 2010 the Government released the Cooper Report, the review into the governance, efficiency, structure and operations of Australia's superannuation system. The review examined 10 broad areas of the superannuation system and made 177 recommendations. The Board will continue to monitor the impact of this review and the reviews regarding Australia's Future Tax System (the Henry Review) and the report of the Parliamentary Joint Committee on financial products and services (the Ripoll Review) on the Scheme during 2010–11.

The Board is carrying out a comprehensive review of the MilitarySuper organisation. During 2010–11 we will examine and continue to upgrade all areas of our operations including:

- investment strategy;
- investment operations and risk management; and
- services for and communications with Members through the administrator, ComSuper.

The Board intends to improve further MilitarySuper's capability and professionalism and we look forward to introducing improved Member services and product enhancements.

Valued Stakeholders

I am grateful for the support over the past year of the former Minister for Defence Personnel, Materiel and Science, the Hon. Greg Combet, AM, MP, and the former Minister for Defence Personnel, the Hon. Alan Griffin MP. I thank the former Minister for Finance and Deregulation, the Hon. Lindsay Tanner, MP for his support and confidence, particularly in relation to the proposed board amalgamation. I also want to thank the Chief of the Defence Force, Air Chief Marshal Angus Houston, AC, AFC, for his continued and constructive support, and Dr Ian Watt, AO, Secretary of Defence.

Finally, I record my appreciation of our staff for their hard work and dedication during the year and of my fellow trustees for their high level of service in the interests of Members and the government.

Yours faithfully



Tony Hyams
Chairman
Military Superannuation and Benefits Board

About the Scheme



SECTION 2

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 defined contribution and defined benefit 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 three per cent 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.

The Board

The Military Superannuation and Benefits Board (the Board) consists 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, must have experience in, and knowledge of, the formulation of government policy and public administration. Two additional trustees must be Members of the Defence Force – one an Officer and the other a Member other than an Officer. They are nominated by the Chief of the Defence Force (CDF) and appointed by the Minister.

With the exception of one of the employer representatives, trustees hold office for a period of up to three years, and can be reappointed. When the current employer representative who has been appointed at the Minister's pleasure leaves office his replacement will be appointed for a term of up to three years.

Trustees holding office at 30 June 2010 were:

Chairman

Mr Tony Hyams

- Trustee since 1 September 2007.
- Member, Risk Budget Committee.

Mr Hyams is also Chairman of the Australian Reward Investment Alliance (ARIA), the trustee of the Commonwealth's main civilian superannuation schemes; Deputy Chairman of the Australian Maritime Safety Authority 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

- Trustee since 1 August 2007.
- Chairman, Audit and Risk Management Committee.
- Member, Risk Budget 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 and is a director of Frontier Investment Consulting.

Mr Felix Bleeser

- Trustee since 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**

- Trustee since 18 October 2007.
- Chairman, Communication Committee.

Brigadier Brown served for 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

- Trustee since 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.



The Board

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

Indemnity Insurance

The Board maintains 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. The Department of Defence also provides an indemnity against errors and omissions by staff of the Board's Administrator, which cause a loss to the Fund. To date there has not been any claim against the insurance policy, or Departmental indemnity, nor have regulatory penalties been applied to MilitarySuper.

Board Meetings

Table 1: Schedule of Board Meetings 2009–10

	11-12 Aug 2009	3-4 Sep 2009	27-28 Oct 2009	2-3 Dec 2009	9-10 Feb 2010	9-10 Mar 2010	28-29 Apr 2010	22-23 Jun 2010
Mr Tony Hyams	P	P	AP	P	P	P	P	P
Mr Gabriel Szondy	P	AP	P	P	P	P	P	P
WOFF Robert Swanwick	P	P	P	P	P	P	P	P
BRIG Bob Brown	P	P	P	A1	P	P	P	P
Mr Felix Bleeser	P	P	P	P	P	P	P	P

P Present

AP Attendance by Telephone

A1 Attending Overseas Fund Manager Advisory Meeting on behalf of Board

Governance



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

Corporate Governance Statement

The Military Superannuation and Benefits Board (the Board) is constituted under the *Military Superannuation and Benefits Act 1991* (the Act) and the associated Trust Deed and Scheme Rules. The Board stands independent of the government of the day and independent of any other constituency. It 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 *Military Superannuation and Benefits Act 1991* 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 has adopted the following as its vision:

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

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

The strategic objectives and key performance indicators identified in this report are intended to guide the Board in the realisation of this vision and purpose.

Principal Duties

The Board's principal duties are to:

- manage and invest moneys to meet the purposes of the Scheme
- ensure the Scheme is administered in accordance with the scheme rules and regulatory obligations
- cause the payment of moneys in and out of the Scheme to occur as prescribed
- safeguard the assets of the Scheme and the interests of the beneficiaries
- inform all relevant parties of the Scheme's condition and conduct
- cause proper records and accounts to be maintained about the operation and financial activities of the Scheme.

In undertaking these duties, the Board has wide discretions. This factor, together with the reliance the Members have on the Board for the value and delivery of their retirement benefits, makes it essential that the Board, its officers, employees and delegates act at all times in a manner that is appropriate to the fiduciary duties owed to the Members.

The following statement sets out the principles which the Board, its officers, employees and delegates are intended to uphold as they each carry out their duties.

The Board does not intend this statement to be read as a strict set of rules, where each word is scrutinized for its legal meaning. It intends to convey in plain words the obligations placed on, and the behaviour expected of, both trustees as individuals and those other persons covered by this statement. The Board reviews this statement annually, and updates or expands it as appropriate to ensure it remains effective and current.

Governance Matters Outside the Board's Control

The Board does not control its own composition or its remuneration. The power to appoint Trustees is vested in the Minister for Defence Science and Personnel under the Act. The Board has, however, as a consequence of licensing, documented the skills and experience necessary for the Board as a whole to meet the 'Fit and Proper' operating standard. The Board has identified the skills of individual trustees which have been relied upon in support of its licence application and when individual trustees are being replaced the Board requests the Department of Defence to consider the knowledge gap left by the departing trustee and take this into account in sourcing a replacement.

The Remuneration Tribunal sets the remuneration of Trustees, including their remuneration for committee representation and expense reimbursement.

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 must be 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 must at all times act ethically and impartially. No person covered by this statement may place their own interests above that of the Members in respect of the fiduciary duties owed to the Members. Trustees and Board staff are expected to avoid placing themselves in situations of perceived or actual conflicts of interest. Where such situations do occur they are 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 are 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) are in writing and the Board regularly reviews its own activities and the activities of the persons through whom it works, to ensure that a clear and proper set of accountabilities remains in effect. The Board will, in accordance with the standards expected by APRA, undertake an annual review of its performance. The assessment will be undertaken at individual trustee level as well as the Board as a whole.

Continuing Qualifications and Disclosure of Interests

Trustees will lodge, on appointment and annually thereafter, a Disclosure of Interests Statement and a Declaration of Related Party Transactions. Board Members will advise no later than the start of the next Board or Committee meeting:

- 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) will 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. In addition, the Board Secretary and Investment Analyst will certify on an annual basis that they have not lost any professional qualifications.

Confidentiality

Board Members are required to keep confidential all information or material provided or made available to them, dealing with or related to their functions as Board Members, except where such information or material is publicly available or is required by law to be disclosed. Board Members continue to be bound by this obligation of confidentiality after they cease to be a Board Member.

In this context, 'Board Members' includes persons appointed to the Board, staff employed by the Board, service providers to the Board, and any person to whom Board papers, documents or information is made available.

Communications, contracts or arrangements between the Board and service providers will generally be entered into on a 'commercial-in-confidence' basis.

Legal Professional Privilege

The general policy of the Board is that legal advice provided to the Board for the performance of its functions and duties will not be made available or disclosed.

Securities Dealing

The Board is mindful of its obligations under the law to not misuse non-public information of which it becomes aware in the course of carrying out its duties. Board Members will maintain appropriate records of their dealings in securities and will provide a copy of these records to the Executive if requested by the Board.

This requirement applies to the Board's staff, and any other persons connected with the Board who have access to the investment information of the Board.

Gifts and Entertainment

Trustee contact with current and potential service providers is recognised as useful to enhance the knowledge and understanding of the Board. It is recognised that service providers to the Board provide modest entertainment and small gifts from time-to-time. As a general principle Trustees and staff should decline or disclose instances of repeated or significant entertainment or gift from any service provider. Details of gifts or entertainment that are more than a token must be supplied to the Board's Compliance Manager for inclusion in a register. The Board's policy on Managing Conflicts of Interest forms part of the Board's Code of Conduct and provides guidance on how to determine whether a benefit is more than a token.

Insurance

The Board will maintain insurance in respect of its own actions and in respect of past Board Members in order to protect the interests of Scheme Members and the assets of the Fund.

Board Committees

The Board has constituted 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 include 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 are subject to written terms of reference and care is taken to ensure the activities of each committee remain consistent with the Board's duty of governance over the Scheme's activities. Each committee reviews its performance annually and the Chair of each committee reports to the Board following each review.

Meetings and Agenda

The Board meets at least six times each year and ensures that it receives appropriate and reliable reporting on the condition of the Scheme and the actions of its staff, delegates and other service providers. Although the Board's agenda is initiated by the Executive on behalf of the Board, the Board or any Board Member may require a matter to be brought before the Board at its next or any subsequent meeting.

Professional Development

The Board's policy is that Board Members and staff should engage in continuing professional activities relevant to the operation of the Board as a whole and their individual Board Member or staff duties. This is an essential component of the Board's obligations as the APRA licensee of a registered superannuation fund. The Board provides organisational and financial support for such professional development activities.

Professional development activities may include local and international conferences, seminars and workshops, training courses and study tours on specific matters relevant to the Board's functions. Once each year the Board will consider Board representation at major industry conferences to be held over the forthcoming year (both in Australia and overseas). Board Members and staff who undertake professional development activities are expected, where appropriate, to provide reports to the Board and to distribute relevant papers to other Board Members and staff. The Board also encourages Board Members to be Members of relevant professional bodies such as the Association of Superannuation Funds of Australia, the Australian Institute of Superannuation Trustees and the Australian Institute of Company Directors and meets the costs of such Memberships, where appropriate.

Managing Conflicts of Interest

The fiduciary role of trustees requires them to act in the interests of beneficiaries of the Scheme and not in their own interests or those of external parties such as service providers, fund managers or investment advisers. Wherever possible, trustees (and others covered by the code) should avoid placing themselves in a situation where there may be conflict of interest between the interests of the Board and their personal or professional interests and those of related parties. The Board recognises that inevitably conflicts will arise and these events must be declared and managed. It is not only actual conflicts which require management but also the perception of conflict.

The requirements in respect of the disclosure of interests are contained in the Trust Deed. Clause 7 of the Trust Deed requires:

- 1) 'That each trustee shall:
 - a) As soon as possible after, but in any case no later than 60 days after appointment as a trustee; and
 - b) As soon as possible after, but in any case no later than 60 days after, each anniversary of the trustee's appointment as trustee;

present to a meeting of the Board a statement in writing setting out particulars of those interests, whether pecuniary or otherwise and whether direct or indirect, of the trustee as at the date of appointment or as at the anniversary, as the case requires, that could reasonably be expected to conflict with the proper performance by the trustee of the trustee's duties as trustee.

- 2) A statement presented by a trustee to a meeting of the Board in pursuance of subclause (1) shall be incorporated into the minutes of the meeting.
- 3) Where a trustee acquires an interest, whether pecuniary or otherwise and whether direct or indirect, that could reasonably be expected to conflict with the proper performance by the trustee of the trustee's duties as trustee and a statement containing particulars of the interest has not been given to a meeting of the Board in accordance with subclause (1), the trustee shall, as soon as possible after acquiring that interest, present to a meeting of the Board a statement in writing setting out the particulars of the interest and the statement shall be incorporated into the minutes of the meeting.
- 4) A trustee who has a direct or indirect pecuniary interest in a matter being considered by the Board shall, as soon as possible after the relevant facts have come to the trustee's knowledge, disclose the nature of the trustee's interest at a meeting of the Board.

- 5) A disclosure under subclause (4) shall be recorded in the minutes of the meeting of the Board and the Trustee shall not, unless the Board or the Minister otherwise determines:
 - a) be present during any deliberation of the Board with respect to the matter
 - b) take part in any decision of the Board with respect to that matter.
- 6) For the purposes of the making of a determination by the Board under subclause (5) in relation to a trustee who has made a disclosure under subclause (4), a trustee who has a direct or indirect pecuniary interest in the matter to which the disclosure relates shall not:
 - a) be present during any deliberation of the Board for the purposes of making the determination
 - b) take part in the making of the Board of the determination.
- 7) Where a trustee is obliged by subclause (4) to disclose the nature of an interest at a meeting of the Board, the fact that the trustee has presented to a meeting of the Board a statement under subclause (1) or (3) that includes particulars of that interest does not relieve the trustee of the trustee's obligations under subclause (4).'

The Board has considered its business activities in terms of areas for potential conflict. While it is not practical or possible to specify all instances which might give rise to a conflict of interest the Board's Conflict of Interest policy document provides guidance on the management of conflicts of interest, both real and perceived.

A conflict of interest could exist where:

- trustees have a personal interest (financial or otherwise) that could lead a reasonable person to think that they could be influenced in the way that they carry out their Trustee duties
- a trustee has a current or recent relationship with a service provider or potential service provider that could lead a reasonable person to think that the trustee could be influenced to provide preferential treatment in the award of a contract or in the purchase of goods or services
- a close relative has a personal interest (financial or otherwise) that could lead Trustees to be influenced in the way that they carry out their duties or could lead a reasonable person to think that Trustees could be influenced.

The strategies which the Board has adopted to manage conflicts of interest require that trustees, and other Members of committees, must disclose at every meeting whether there has been any change to their personal circumstances. In the event that a Trustee, or other person covered by the code of conduct, declares a potential conflict or interest, the Board (or the Committee as the case may be) will determine the extent to which that conflict or interest exists and the method of dealing with the conflict. For this purpose the Board (or Committee) will determine:

- a) whether the trustee, or person covered by the code, should be permitted to remain in the room whilst the Board determines whether a conflict exists
- b) where a conflict or potential conflict is found to exist, whether that trustee (or other person) is permitted to be present during any deliberations regarding the issue or matter which gave rise to the conflict or potential conflict
- c) whether the trustee (or other person) is permitted to take part in any decision of the Board in relation to the matter under consideration.

Whistleblower Protection

Part 9 of the Corporations Act and Part 29A of the SIS Act establishes a framework which is designed to encourage officers, employees and contractors of the Board to report general misconduct or suspected breaches of the Corporations Law to the relevant Regulator. Specifically it provides that officers, employees and contractors cannot be victimised when they report general misconduct or suspected breaches in good faith and on reasonable grounds. Additionally any disclosure made in good faith does not expose the person to any civil or criminal liability for making disclosure. No contractual or other remedy can be enforced or right exercised on the basis of the disclosure. It is the Board's view that similar protection should be afforded to persons who in good faith report breaches of the Board's code of conduct.

Trustees and employees of the Board are encouraged and have a responsibility to report any matters that they believe, on reasonable grounds:

- to be a breach of Corporations Law
- may cause financial loss to the Board
- may damage the Board's reputation
- to be behaviour that is not in keeping with the Board's code of conduct.

The Board is committed to protecting all genuine whistleblowers against reprisal action not just those making what are called 'protected disclosures'. These are disclosures relating to breaches of the Corporations Law made in good faith and on reasonable grounds provided that certain criteria are met. These criteria are reflected in the Board's policy. Neither the Board's commitment nor the statutory protection extends to shielding whistleblowers who themselves are involved in the reported improper conduct.

The intention of the Board's whistleblower policy is to encourage:

- a) effective compliance with relevant laws
- b) efficient fiscal management
- c) healthy and safe work practices
- d) effective management, including unbiased decision making.

The Board's Code of Conduct outlines the Board's principal statutory obligations and documents standards required of Trustees and also staff of the Board. While the Board cannot offer statutory protection to those who report a breach of the Board's Code of Conduct as distinct from a breach of Corporations Law it is, nonetheless, the Board's intention that Trustees, staff of the Board and contractors should be able to report in good faith and on reasonable grounds suspected breaches of the Board's Code of Conduct without fear of reprisal.

Review of Corporate Governance of Statutory Authorities and Office Holders (the Uhrig Report)

In November 2002 the Government announced a review of the corporate governance of statutory authorities and office holders. Mr John Uhrig was appointed to conduct the review and on 12 August 2004 the Government released its response to Mr Uhrig's report. In that response the Government agreed that Ministers are to assess their portfolio bodies against the governance templates of the Uhrig Report and implement any improvements to existing governance arrangements that may be required.

During 2006–07 the Minister for Defence initiated a review of the existing governance framework for the Board against the criteria proposed by the Uhrig Report. Based on that assessment the Minister concluded that the existing board template is the preferred governance framework for the Board for the following reasons:

- a) the Board acts in a manner similar to commercial superannuation funds
- b) the Board predominantly undertakes commercial operations
- c) the trustees have 'full power to act' within the constraints of the legislation and the Minister's power is limited to the appointment and removal of trustees and to request information from the Board
- d) the assets of MilitarySuper managed by the Board belong to the Members of the Fund, rather than the Commonwealth and the Board is able to acquire and dispose of assets in its own right
- e) the Board has executive support staff engaged outside the framework of the Public Service Act.

The assessment concluded that the Board should continue to operate outside of the governance frameworks established by the *Commonwealth Authorities and Companies Act 1997* and the *Financial Management and Accountability Act 1997*, but recommended that further consideration is given to finding an appropriate governance model that enables the Board to handle public money and operate with a higher degree of financial independence. The assessment also recommended that all Board appointments be limited to a period of three years (with eligibility for reappointment) and that a Ministerial statement of expectation, taking the form of an annual letter from the Minister to the Board, be introduced – with the Board’s response forming a statement of intent. Both statements are required to be made publicly available once issued.

Merger of the Boards of the Major Commonwealth Superannuation Schemes

In a joint media release dated 31 October 2008 the Minister for Finance and Deregulation and the then Minister for Superannuation and Corporate Law announced the Government’s decision that ARIA (the trustee of the CSS, PSS and PSSap) the MSB Board and the DFRDB Authority merge to form a single trustee board from 1 July 2010. The Senate had not completed considering the relevant Bills when Parliament was dissolved in late June for the August 2010 election.

Business Plan

The Board’s Business Plan (the Plan) sets out the main objectives of the Board. For each of the five significant areas of Board’s activity and responsibility, namely investment, scheme administration, communications, compliance/corporate governance and people, the Plan describes the key objectives, measures and performance indicators identified by the Board for each of the focus areas.

The Plan identifies areas of Board responsibility and accountability and articulates the framework of internal and external governance measures employed by the Board to ensure that those responsibilities and accountabilities are properly discharged. It identifies environmental and other factors which will impact on the Board’s responsibility for the administration of the Scheme and the management and investment of Members’ moneys which comprise the Fund. The Board’s approach to control of the main business risks is also covered. From an investment perspective the Plan has regard to the current membership and liabilities of the Scheme and makes some assumptions regarding the future growth of the Scheme given the ever-changing superannuation environment. As such, it provides the basis for monitoring long term Fund performance, having regard to market influences and the changing demographics and needs of Scheme Members. The Board reviews its business plan each year.

Scheme Administration

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 the Department of Defence. Recognising that it is not currently possible to create any legally binding or enforceable arrangements between the parties, a Service Level Agreement has been negotiated covering arrangements between the Defence Organisation (comprising the Department of Defence and the Australian Defence Force), the Board and ComSuper. This agreement reflects the shared understanding of the commitments each of the parties is providing under the agreement. These are matters which would otherwise be reflected if the parties were able to contract with each other.

An important factor impacting on the achievement of Scheme objectives is the financial environment within which the Scheme is administered. Under the Act, the costs of administration of the Scheme, other than the costs of, and incidental to, the management and investment of the Fund, are met from moneys appropriated to the Department of Defence. The Department in turn purchases administration services from ComSuper.

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.

As part of its wider review of Australian Government superannuation arrangements, the Government commissioned a scoping study to review the current approach to the administration of the Australian Government's main civilian and military superannuation schemes. The aim of the review was to identify business options to improve the efficiency and effectiveness of the administration of those schemes.

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 Trustees. These include reconsideration of Board decisions, extending the period of time in which a person affected by a decision may seek reconsideration, and cases involving the application of the legislation which produces a result not in keeping with the spirit of the legislation.

Board Committees

Audit and Risk Management Committee

The Audit and Risk Management Committee is a committee of the Board. As at 30 June 2010 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 operates as a check on the Board's own accountability arrangements as well as on the management practices of the Scheme Administrator, Fund Investment advisers and managers, the Custodian and other service providers.

The role of the Committee encompasses the Board's responsibilities for risk management. Primary responsibilities of the Committee are 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 interests
- a proper assessment of risks is carried out for consideration by the Board.

The Committee met on five occasions during the year.

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

- provides advice to the Board on significant industry-wide developments
- undertakes a program of independent audits of aspects of scheme administration, risk management and internal control structures
- assists in the annual review of the prudential and regulatory requirements of the Fund and the Trustees
- reviews annual financial statements.

At the request of the Board, PwC also undertakes specific reviews of the Board's various service providers.

Risk Budget Committee

The Risk Budget Committee is a committee of the Board that was established in December 2009. As at 30 June 2010 the Committee comprised Mr Tony Hyams and Mr Gabriel Szondy.

The primary object of the Committee is to act as an advisory body to the Board. The primary function of the Committee is to advise and assist the Board in fulfilling its responsibilities and duties in respect of its risk budgeting strategy, policies, processes and controls pursuant to the Board's Investment Policy.

The Committee met twice during the year.

Military Superannuation Communication Committee (MSCC)

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

As at 30 June 2010 the Committee comprised Brigadier Bob Brown (Chairman), Warrant Officer Robert Swanwick, Mr Craig Scarlett (representative of the Department of Defence) and CMDR Roz Fletcher (representative of the DFRDB Authority).

The primary objective of the Committee is 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 is done through clear, timely and accurate reporting to Members and ensuring that Members are informed of Board decisions and other developments which may affect Members' interests.

It also provides a forum by which the communications activities of MilitarySuper can be coordinated with those related to Members and beneficiaries of the DFRDB Scheme. The Committee is, 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 2010, the Committee comprised Mr Phil Charley (Chairman and representative of the Board), Colonel M Charles (representative from a service office), Brigadier Peter Bray AM (pensioner representative) and Ms Chloe Callesen (representative of ComSuper).

The Committee's role is:

- 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.

Executive

The role of the Executive 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. The Executive has overall responsibility for the management of the Board's day-to-day operations and the management of the Board's relationships with its key service providers and stakeholders.

The focus of the Executive during 2009–10 continued to be on the enhancement of in-house capabilities in areas of governance, compliance, scheme administration and investment implementation and monitoring.

In investment matters the Executive 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, daily 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
- solely 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 and manages the relationships between the Board and its advisers, fund managers and custodian.

On administration matters the Executive:

- manages the relationships between the Board and the Department of Defence (as employer sponsor and on policy matters), the 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 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, quarterly and annual Scheme financial statements
- manages the payment of Board administrative expenses and prepares Board financial statements on a monthly, quarterly and annual basis
- participates as a Member of the Single Board Merger project liaison working group formed to provide a forum for communication between the key stakeholders and to assist in facilitating a smooth transition to the new single board arrangements to be implemented by 1 July 2010.

Financial Issues and Budget Strategies

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 its Executive 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 Service Level Agreement negotiated between the Board, the Department of Defence and ComSuper establishes the services and standards of service to be provided in relation to the administration of MilitarySuper. Although the Board, through its Executive, participates in and influences the level of services to be provided, the costs of delivering those services are negotiated between the Department and ComSuper. As previously stated, the Board believes that this is an undesirable situation as the Board, though legislatively responsible for the administration of the Scheme, is not financially accountable for the costs of that administration.

Consequently the Board remains strongly of the view that it should be in a position to influence both the level and cost of administrative services provided in the administration of the Scheme to the benefit of its Members. The Board continued to make its views known to the Minister, Government and the Department of Defence on the implementation of changes which it sees as central to the proper functioning of the Board in the discharge of its responsibilities for the administration of the Scheme.

The Executive and the Scheme Administrator, ComSuper, have identified a number of administrative errors which have raised concerns about the operating systems used for scheme administration. ComSuper has implemented manual processing for a small category of administrative functions pending the implementation of a number of system 'fixes' to affect permanent solutions. It was ComSuper's intention to migrate existing legacy systems to a single operating platform covering all the Commonwealth Schemes it administers. The Board had considered the identified shortcomings of the existing CAPITAL system to be areas of increased business risk to MilitarySuper. As a result the Board revised its risk assessment and implemented an enhanced program of audit review.

In 2008–09 the Government withdrew funding approval for the ComSuper IT Modernisation Project, which had been intended to address identified areas of deficiency in the systems used by ComSuper for scheme administration. As described earlier in this report, as part of its wider review of Australian Government superannuation arrangements, the Government commissioned a scoping study to review the current approach to the administration of the Australian Government's main civilian and military superannuation schemes. The aim of the review was to identify options to improve the efficiency and effectiveness of the administration of those schemes.

Status Under the SIS Act and Corporations Legislation

MilitarySuper is a regulated superannuation fund under the SIS Act. The Board has established extensive compliance arrangements to ensure that operational and legislative changes are independently reviewed to assess their impact against the SIS Act requirements and to ensure that ComSuper's practices remain in concert with the SIS Act legislation. In response to the Government's Financial Services Reform initiatives the Board applied for and was granted (with effect from 16 February 2004) an AFS Licence covering the provision, by the Board and its Authorised Representatives, of general financial product advice.

These requirements have added a significant additional layer of compliance obligations to the Board's administration of the Scheme and have changed significantly the relationship between the Board and ComSuper. Although the Act remains the primary determinant of the relationship, under the AFS licensing arrangements staff of ComSuper must be appropriately trained and, provided they meet the required competency requirements, be authorised directly by the Board under its licence to provide general financial product advice.

To meet the Board's obligations as licensee, a detailed process of compliance reporting has been implemented by which the Board can obtain assurance that the Commissioner for Superannuation (and through him ComSuper) has appropriate processes and controls in place to ensure that the Board's licensing obligations are being met.

The Board was also granted an APRA Licence with effect from 26 September 2005 and the Fund became a Registered Entity for APRA licensing purposes. In accordance with its licence obligations the Board is required to report breaches to the appropriate Regulator. During the year the Board's administrator reported a number of administrative errors which were required to be reported.

Product Disclosure Statement

One of the key requirements of the Corporations Act is for MilitarySuper to issue a Financial Services Guide (FSG) and a Product Disclosure Statement (PDS). The FSG explains what financial services the Board provides for MilitarySuper and who delivers them, and can be found on the MilitarySuper website www.militarysuper.gov.au.

The PDS for MilitarySuper consists of the following two documents:

- Your Guide to Investment Choice Booklet
- The MilitarySuper Book

Together these documents describe all the main features of MilitarySuper. Members are provided with these documents on joining MilitarySuper together with the latest Annual Report to Contributing Members. Electronic copies can be obtained from the MilitarySuper website, www.militarysuper.gov.au. Hard copies can be ordered online from the website.

Financial Product Advice the Board Can Provide

The Board is licensed to provide general financial product advice. General financial product advice means that the Board has not considered the Member's individual objectives, financial situation or needs in providing the information or advice. If Members wish to have financial product advice in circumstances where the provider of that advice has considered one or more of a Member's objectives, financial situation or needs, the Member is advised to consult a licensed financial planner.

The only kind of financial product the Board is licensed to provide, and in respect of which it may provide financial services, is the Military Superannuation and Benefits Scheme (MilitarySuper). In providing its authorised services, whether directly or through its authorised representatives, the Board is acting for itself. Entitlement to join MilitarySuper, and benefits derived from it, are determined by the Act and Rules.

General Product Advice Provided by Authorised Representatives of the Board

General financial product advice can also be provided by authorised representatives of the Board who are employees of Commonwealth Superannuation Administration (ComSuper) ABN: 77 310 752 950. Authorised representatives are trained to provide general financial product advice in accordance with the standards set out in the Australian Security and Investments Commission's Policy Statement Number 146 (PS146). The Board's Chief Executive Officer and Compliance Manager have been appointed 'Responsible Managers' for the purposes of the Board's AFS licence and several other staff have undertaken training to enable them to provide general financial product advice in accordance with PS146.

Evaluation

Annual Effectiveness Review

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

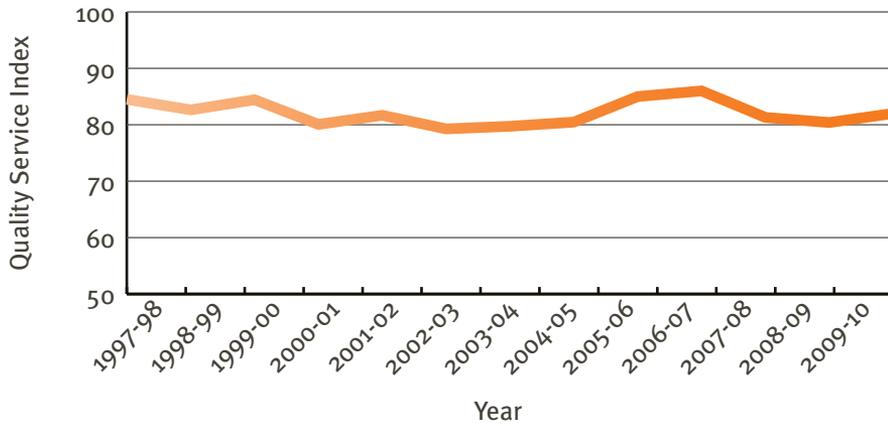
Client Feedback

During 2009–10 the Scheme Administrator continued to conduct Member satisfaction surveys with the assistance of the Canberra-based firm Orima Research. The quality of services surveyed was consistently rated highly by Members.

The Quality Service Index (QSI) for military Members (both MilitarySuper and DFRDB schemes), introduced to measure the survey results and to enable comparison between survey periods, currently ranks in the region of an 80% satisfaction level. Chart 1, which shows ComSuper's 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.

The survey results are considered by the Board, its committees and the Scheme Administrator and feed into a continuous improvement process. Action plans are derived and reported against, and, wherever possible, enhancements made to procedures and communication products as a result of the survey feedback, with the key objective of improving Member service.

Chart 1: Quality Service Index Scores for Military Member Satisfaction



Fund Investments



SECTION 4

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

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. 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 Objectives

The general investment objectives for the Fund are to:

- contribute to the support of Members' lifestyles in retirement, by enhancing the purchasing power of their investment through prudent and efficient management
- maximise return for the chosen level of risk.

The Board sets and routinely monitors and reviews specific investment objectives for the Fund and develops strategies, policies, practices and procedures to pursue these.

As a general principle Fund assets should be invested to maximise the Fund's likelihood of meeting its overall investment objectives within the risk tolerances set for each investment choice option. Subject to specific risk controls and the other fund investment principles specified below, the Board strives to achieve the optimum investment return for the Scheme's Members.

The Board has adopted the following principles regarding the expression of its investment objectives.

(i) Return Objectives

The return objectives for the Balanced, Growth and High Growth options are expressed as an absolute return target net of fees and taxes, of 8%, 10% and 11% respectively, per annum over the rolling five and seven year periods.

The return objectives for the Cash and Conservative options are expressed as a margin above the UBS Bank Bill Index.

(ii) Risk Budget

The risk budget is an expression of the level of risk that the Board is prepared to accept to achieve its target returns for the Fund. Variation in asset prices are used as the main measure of risk and the risk budget is expressed in these terms. The focus of risk control is for the Fund's Investment strategy as a whole and not just its individual components. This focus is designed to prevent the distinct mandates from causing the strategy to be either too aggressive (that is, 'overspending the risk budget and creating an excessive possibility of loss) or too defensive, given the return objective of the strategy.

Importantly, if the risk budget is exceeded it acts as a trigger for action by the Board to manage the additional risk.

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.

Beliefs, by their nature and design, are typically enduring. However, these may be added to, augmented or amplified over time as the Board's experience and its environment change and evolve.

The Board's core investment beliefs are:

- all markets are inherently inefficient and the Board seeks to exploit such inefficiency
- active investment management, risk management and risk budgeting are central to the establishment of an effective investment framework and for generating consistent long-term investment returns
- diversity of investments and sustainable long-term investment returns with an acceptable level of risk of negative returns, underpin successful superannuation investment
- optimising internal investment governance processes and fostering and developing appropriately aligned external partnerships that provide access to skill, experience, ideas and opportunities combine to enhance the investment framework and deliver better outcomes for Members.

Investment Strategy

Given the volatility of investment returns from traditional listed markets, and acting with the advice of its professional investment advisers, the Board employs an investment strategy that has at its core an absolute return objective for the Growth (Default) option of achieving sustainable long term investment returns of 10% (net) per annum over the long term with an acceptable level of risk of negative return. This will be achieved by seeking to add value from a diverse range of alternative asset classes whose return characteristics are not closely aligned to listed equity markets.

The Fund continues to have a significant exposure to listed markets where it seeks to add value through the engagement of active management strategies capable of identifying and exploiting market inefficiencies with a view to delivering above market returns. Because superior stock selection provides the most consistent and reliable opportunity for generating excess return, the Board's manager selection process favours managers with demonstrated bottom-up fundamental research capabilities. Therefore recognising the difficulty of outperforming the market on a consistent basis, emphasis on manager selection is on those with high integrity, sound investment philosophies, strong track records, superior organisations and governance frameworks and demonstrated sustainable competitive advantage.

Reserves

Given that the Fund offers Members a range of investment options, including a cash only option, the Board does not maintain a separate or overlay investment reserve across the Fund's investments and does 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

Presently, the Board considers its investment objectives for the Fund without specific consideration for socially responsible investment, global warming or climate change outcomes, effects or requirements.

The Board will continue to monitor stakeholder, community and prudential preferences and requirements in this respect and take these into consideration in its role and requirement to set an optimum investment strategy for the Fund.

Diversification and Risk Control

The diversification and risk control philosophy of the Board is to manage the risk of the total Fund, not just its separate components. This requires the positions taken by fund managers to be viewed holistically and managed so that the Fund's strategies optimise the targeted level of risk (or meets its risk budget), in the expectation that this will allow value to be added over the long-term.

This will be achieved by ensuring the appropriate selection, co-ordination and overview of fund managers, so that the Fund does not engage in an active management that effectively nullifies active positions or strategies that taken together combine to produce a higher level of risk for a more passive-like return that would undermine and detract from the Fund's overall investment strategy.

Business risk can result from poor performance by service providers, suppliers and counterparties. Key service providers to the Fund include its Custodian, the Asset Consultant(s), Fund Managers and the Scheme Administrator. The Board has adopted a due process to control business risk.

Investment risk results from the concentration of a Fund's investments in fewer than the total universe of available investments. While the Fund ideally seeks to diminish business risk, it does not seek to eliminate investment risk. Investment risk can only be reduced to minor levels by

adopting a passive investment strategy and avoided altogether by investing entirely in cash and sovereign bonds (that is, the ‘risk free’ rate of return). Such an approach would be inconsistent with the Board’s mandate and charter to provide a relevant risk adjusted return to the Scheme’s Members over the long-term for their retirement.

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

Risk Budgeting

Risk budgeting is a framework for allocating funds across asset classes based on absolute returns and volatility. As a first step the Board establishes absolute return and risk or volatility targets from which the Board’s lead investment adviser constructs a Strategic Asset Allocation (SAA) to maximise returns for a specific risk budget. Appropriate investment ranges are set using scenario analysis within the risk budget.

The objective is to set an absolute return target per annum on a rolling five year basis with a focus on preserving capital and maintaining tight risk controls. During times of high volatility the emphasis will be on higher liquidity. Significant changes to the SAA can occur when higher volatility is forecast due, for example, to a significant change in the valuation of listed and unlisted assets. Strategically, the Fund will carry sufficient cash to manage such volatility.

Review of Core Inputs

The Fund’s Risk Budget for its default Growth option is predicated on a 10% net return with an estimated (forecast) volatility level of 15%. The key drivers of the risk budget are the return forecasts for each asset class as well as the volatility forecasts for those asset classes. The higher the risk budget the more it reflects the greater level of current or anticipated volatility in markets relative to the targeted return sought.

A Focus on Quality Investment Performance

The Board is concerned to ensure that its investment strategy is properly considered, executed, monitored, measured and reviewed. The Board subscribes to a portfolio construction that is likely to perform well through the full economic cycle rather than those that are very dependent on specific market conditions that are not likely to last a full cycle or are overly susceptible to investment market shocks.

Adding Value through Active Management

The Board adopts the view, that in some sectors, active investment management can add value to the Fund. To achieve this increase in value requires adherence to well considered strategies throughout different investment circumstances. On average, and in the long-term, this approach is expected to yield better returns than entirely passive investing. Over time these returns should compound to provide substantial increases in the Fund's value over that which may be achieved through passive investment alone, and thus improve the financial position of the Fund's Members.

Adding value over a passive investment strategy requires active positions to be taken compared to the benchmark (typically a market index such as the S&P/ASX 300 Accumulation Index for Australian shares). These positions represent a risk to the Fund and are incorporated into the investment strategy's risk budget.

Strategic Asset Allocations

Consistent with its objective of reducing dependence on listed market generated returns the Board has investments in alternative asset classes such as private equity, property, infrastructure and uncorrelated alpha products (such as hedge funds) whose return characteristics are to varying degrees not aligned with the returns of traditional listed markets.

Although it is the Board's intention to maintain the current five investment options, with their current exposure to assets with growth and defensive characteristics, these asset classes will, from time to time, display characteristics of both a growth and a defensive nature.

The strategic asset allocation to private equity includes capacity for commitments to both international and Australian private equity without imposing 'hard' commitment targets. Consequently, the Board is able to allocate its private equity investments on a tactical or dynamic basis as the best opportunities arise. Private equity commitments are drawn down progressively over time. Undrawn commitments are invested in Australian shares and cash.

4

Fund Investments

The following Board approved Strategic Asset Allocation was in place as at 30 June 2010:

Table 2: Long Term Strategic Asset Allocation for the Investment Options

Asset Class	Investment Option				
	Cash	Conservative	Balanced	Growth	High Growth
Cash	100%	46.0%	5.0%	10.0%	0.0%
Debt	0.0%	28.0%	27.5%	5.0%	0.0%
Property	0.0%	7.5%	9.0%	10.0%	10.0%
Australian Shares	0.0%	9.5%	26.5%	25.0%	42.0%
International Shares	0.0%	6.0%	17.0%	20.0%	33.0%
Private Equity	0.0%	0.0%	5.0%	15.0%	15.0%
Infrastructure	0.0%	3.0%	8.0%	10.0%	0.0%
Uncorrelated Alpha	0.0%	0.0%	0.0%	0.0%	0.0%
Alternative Debt	0.0%	0.0%	2.0%	5.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

As the bulk of the assets of the Fund (over 90%) are invested in the Growth (default) investment option, the remaining four options are re-balanced on a weekly basis to the long-term strategic asset allocation set for each of those options. In the case of the Growth option, the Board has approved ranges around each asset class to cater for market fluctuations and tactical investment decisions.

Investment Management

The Board reviews its long term investment strategy and plan on an annual basis and monitors the performance of its fund managers against that plan progressively throughout the year. Assessments of the long term performance of each fund manager are made on an ongoing basis. For this purpose each fund manager meets with the Board and its investment advisers as necessary to discuss strategies, portfolio activity and investment performance.

The Board employs professional advisers to assist with the review of its investment policy and to examine the performance of funds managers, new investment opportunities and the adequacy of the returns achieved by MilitarySuper.

During the year the Board, supported by its specialist advisers, continued the detailed analysis and review of investment managers and investment products consistent with the ongoing implementation of the Fund's investment strategy. In light of the global financial crisis, particular emphasis was placed on the review of the ongoing appropriateness of valuations on certain alternative Fund assets where valuations are subject to third party events such as distressed sales elsewhere in the market place or where management issues had arisen in respect of an asset in which the Fund held an interest.

Investment Managers

The investment managers appointed by the Board manage their portfolios in accordance with specific mandates agreed by the Board. Those mandates include 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 does 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 2010 are shown in Table 7 (page 54).

Custodian Services

The Fund's Custodian safeguards and maintains the assets of the Scheme 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.

Member Investment Options

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.

Members continue to be able to exercise choice in relation to their individual tolerances for risk and appetites for exposure to 'Growth Assets'. Growth Assets is a general term for assets such as shares and property, which provide investment returns (comprising both capital growth and income), which are generally expected to outperform inflation.

Within the current investment options offered by the Fund, the allocation to growth assets across these is achieved predominantly by investments in exchange listed domestic and international shares. However, listed share markets are cyclical and volatile and recent history has demonstrated the capacity for market-generated returns to be highly volatile in response to macro-economic events. The Board's investment research suggests that diversifying into other asset classes with different characteristics and correlations to mainstream listed markets can benefit the portfolio's risk adjusted outcomes over time.

Although the Fund maintains an overall growth focus, given its membership demographics, it has sought to reduce the reliance on market generated returns in recent years. This has resulted in increasing allocations to other classes and sub-classes of assets, particularly unlisted private market assets with return characteristics which are not directly correlated to movements in listed share markets. These largely comprise:

- property (including direct, unlisted and listed)
- private equity (including venture, buyout and late stage)
- infrastructure (equity and debt, social, utilities, core and opportunistic)
- uncorrelated alpha (including hedge funds and fund of hedge funds)
- alternative debt (mezzanine debt, distressed debt and structured debt).

The Board has adopted specific investment objectives for each of the five investment options of the Fund, as described in Table 3.

Table 3: Investment Objectives for Investment Options

Option	Outline	Investment Objective	Risk & Likelihood of a Negative Return
Cash	This option maximises protection against capital loss, investing only in secure cash investments such as bank deposits, bills, and short-term funds.	<ul style="list-style-type: none"> • To achieve returns that match the UBS Bank Bill Index¹, over a one-year period. • To provide a greater degree of certainty in investment returns from year to year. • Long-term returns are likely to be the lowest of all investment options. 	<p>Risk: Very Low</p> <p>Cash investments generally provide a positive return with the probability of a negative return being extremely low.</p> <p>This option is expected to experience very low volatility and a consistent, but lower level of return compared with the Fund's Balanced, Growth and High Growth options.</p> <p>The option may be suitable for Members whose investment timeframe is less than two years or whose most important consideration is avoiding a negative return in any one year.</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.

Option	Outline	Investment Objective	Risk & Likelihood of a Negative Return
Conservative	This option invests in a conservative mix of assets, mostly cash and debt with some investment in growth-type assets, such as shares and property.	<ul style="list-style-type: none"> • To achieve an averaged yearly return that is more than 1 per cent higher than the UBS Bank Bill Index¹, net of fees and taxes, over rolling three-year periods. • To maintain a very low risk of capital loss. It is offered to members who have a low appetite for investment risk. 	<p>Risk: Low</p> <p>The probability of a negative return is approximately 1 out of every 20 years.</p> <p>This option is expected to experience lower volatility than the Fund's Balanced, Growth and High Growth options.</p> <p>The option may be suitable for Members whose investment timeframe is three years or greater and who are able to tolerate a degree of variability of returns over the short term with a view to achieving reasonable returns over the medium term.</p>
Balanced	This option invests in a diversified mix of assets such as debt but with a bias towards growth assets, such as shares.	<ul style="list-style-type: none"> • To achieve, on average, a return of 8 per cent a year, net of fees and taxes, over rolling five-year periods. • To maintain a moderate risk of capital loss. It is offered to members who have a reasonable appetite for investment risk. 	<p>Risk: Medium</p> <p>This option might produce negative returns from time to time. The probability of a negative return is approximately 2 in every 20 years.</p> <p>This option is expected to experience lower volatility compared with the Fund's Growth and High Growth Options.</p> <p>The option may be suitable for Members whose investment timeframe is five years or greater and who wish to achieve an attractive return over the longer term and are able to tolerate a reasonable level of variability in returns over the short term.</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.

4

Fund Investments

Option	Outline	Investment Objective	Risk & Likelihood of a Negative Return
<p>Growth (Default)</p>	<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, including private equity, infrastructure, shares and property, with some investment in debt and cash.</p> <p>Investment ranges within the asset allocation allow the Board to make tactical decisions and respond to changing markets and economic circumstances.</p>	<ul style="list-style-type: none"> • To achieve, on average, a return of 10 per cent a year, net of fees and taxes, over rolling five-year periods. • With a long-term investment focus, it is suited to members seeking higher rates of return over the lifetime of their investment while accepting a risk of occasional periods of negative returns. 	<p>Risk: High</p> <p>This option is likely to experience short to mid-term volatility. The probability of a negative return is approximately 3 in every 20 years.</p> <p>This option is expected to experience lower volatility compared with the Fund's High Growth option.</p> <p>The option may be suitable for Members whose investment timeframe is seven years or greater and who wish to achieve an attractive return over the longer term and are able to tolerate a reasonably high level of variability in returns over the short term.</p>
<p>High Growth</p>	<p>This is the most aggressive option, investing totally in growth assets, with no direct investment in cash or debt. Its performance is highly dependent on returns generated by listed equity markets.</p>	<ul style="list-style-type: none"> • To achieve, on average, a return of 11 per cent a year, net of fees and taxes, over rolling seven-year periods. • The long-term investment focus is suited to members seeking to achieve higher rates of return over the lifetime of their investment while accepting that there will be periods of negative returns. 	<p>Risk: Very High</p> <p>This option is likely to experience return volatility in the short to mid-term. The probability of a negative return is approximately 4 in every 20 years.</p> <p>This option is expected to experience a higher volatility than the Fund's other options.</p> <p>The option may be suitable for Members whose investment timeframe is seven years or greater and who wish to achieve an attractive return over the longer term and are able to tolerate a high level of variability in returns over the short term.</p>

Investment Overview 2009–10

The global economy started to recover in 2009–10 but economic conditions remained fragile and uneven across regions. The emerging economies, especially Asia, have recovered strongly. However recovery in the United States and in other advanced economies has been slower, largely as a result of recessionary pressures. Growth has been particularly weak in Europe and the outlook continues to be uncertain due to sovereign debt problems in some countries.

The Australian economy has fared relatively better. The slowdown was mild during the height of the Global Financial Crisis (GFC) and growth and employment have subsequently improved. Australia is likely to continue to benefit from strong growth in Asia and, in particular, from continuing strong demand for Australian commodities.

The aftermath of the GFC is expected to continue to trouble the world's economies and financial markets in 2010–11. The most serious difficulty is likely to be escalating government debt brought about by the fiscal stimulus packages used by some countries to underpin their economies. Across advanced economies government debt increased by one-third between 2008 and 2010 and reached unsustainably high levels in some countries. In particular, concern about sovereign debt levels in Europe and its potential to hamper economic growth was a major source of instability in equity and debt markets in the first half of 2010.

World share markets, although volatile, generally rallied over most of 2009–10. The benchmark US share index (S&P 500) increased by 12% and Australia's major share index benchmark (ASX S&P 300) increased by 8.7% over the year. Both the US and Australian share markets' high peaks for the year were reached in mid-April, and then declined, driven by concerns for the emerging European sovereign debt issues and the negative impact this would have on global economic growth. Share markets have since stabilised, but will be buffeted in 2010–11 by concerns of a slowdown in China and fears the US recovery could falter.

The Australian dollar also trended up for most of the year, starting at \$US0.81 and by 30 June 2010 it was worth \$US0.85, having peaked at \$US0.93 in April. This reflected changed sentiments for the prospects for global economic growth. Also, prices for Australian commodities rose strongly in the latter months of the financial year. This reflects ongoing strong demand, especially from Asia, and will help underpin Australia's economic growth.

MilitarySuper's Investment Performance

MilitarySuper's investment performance over 2009–10 remained subdued largely due to our conservative position in cash, relatively low allocations to listed share markets and listed property and partly as a result of some asset value write-downs.

MilitarySuper's unlisted asset portfolio, largely comprising private equity, property and infrastructure, and representing about 40% of the Fund's total assets, under performed. This was attributable to a few US and European-based investments made before the GFC having been written-off, and some other pre-GFC unlisted assets experiencing lower revaluations.

4

Fund Investments

While the performance of our unlisted investments have taken longer to recover than the listed ones, we have seen the value of many positively revalued.

MilitarySuper maintains a diverse spread of listed shares. The broader share market recovery began in March 2009 and continued until April 2010, when markets reflected concern about the strength and sustainability of the global recovery. By year's end listed share markets had fallen 11.7% since the start of 2010 but still finished the financial year up 8.7%.

Comparative Performance

MilitarySuper's Growth option, the Fund's default option in which the vast majority of Members are invested, returned 2.15% net of fees, charges and taxes.

Over the last three and five years, MilitarySuper's performance for all investment options, with the exception of the Conservative Option, have performed to expectation and have been assessed by the independent ratings agency SuperRatings as being comparable to the performance of similar funds' investment options over these periods.

The table below shows the average and compounded annual returns (in brackets) for each of MilitarySuper's investment options since inception and over the last three, five and seven years, and 10 years for the Growth Option.

Table 4: Average Returns (Compounded Average Annual Returns)*

Option	1 year	3 years	5 years	7 years	10 years	Since inception
Cash	3.5%	4.6% (4.6%)	5.0% (4.9%)	4.8% (4.8%)	N/A	4.8% (4.8%)
Conservative	0.4%	-0.7% (-0.3%)	3.4% (3.5%)	4.7% (4.8%)	N/A	4.7% (4.8%)
Balanced	0.9%	-3.3% (-3.0%)	3.5% (3.4%)	6.3% (6.1%)	N/A	6.3% (6.1%)
Growth	2.2%	-4.5% (-4.2%)	3.7% (3.3%)	6.6% (6.2%)	3.8% (3.4%)	5.9% (5.8%)
High Growth	-1.6%	-8.5% (-8.2%)	1.8% (1.2%)	6.0% (5.4%)	N/A	6.0% (5.4%)

* Average returns represent a simple arithmetic average of a series of returns generated over a period of time. Compound annual return represents the cumulative effect that a series of gains or losses have on an original amount of capital over a period of time.

Past performance is not a reliable predictor of future performance, but long-term historical data can be useful in assessing the relevance of current-year returns to your long-term retirement savings goals.

Growth of the Fund

The Fund's assets continued grow during the year reaching \$3.23 billion by 30 June 2010. This was a 15% increase from 2008-09.

Assuming modest investment performance and continuing strong inwards cash flows by way of new contributions, the Fund is expected to reach \$3.56 billion by the end of 2010-11.

The chart on the next page demonstrates the growth of the Fund over the past six years and projected for 2010-11 and 2011-12.

Chart 2: Actual and Projected Fund Growth

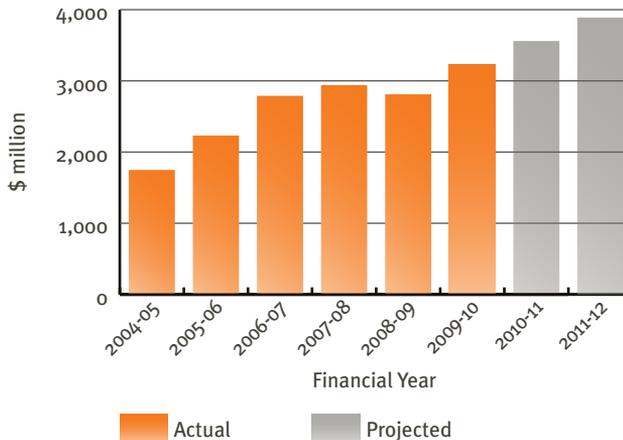


Table 5: Investment Performance by Asset Class 2009–10

Asset Class	Effective exposure at 30 June 2009		Effective exposure at 30 June 2010		Performance 2009–10	
	\$m	%	\$m	%	Fund ¹ \$m	Benchmark ² %
Cash	174	6	290	9	4.04	3.89
Debt ⁴	484	18	264	9	4.06	3.89
Alternative Debt ⁴	191	7	199	6	9.96	12.50
Property	141	5	137	4	-38.40	12.50
Australian Shares	535	19	982	31	7.30	13.05
Private Equity ³	516	19	548	18	5.18	15.00
International Shares	309	11	367	12	2.25	14.04
Uncorrelated Alpha	74	3	132	4	9.92	12.50
Infrastructure	267	10	259	8	5.51	12.50
Currency	52	2	-32	-1	N/A	N/A

¹ Figures shown are gross of management fees and taxes.

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. Absolute return benchmarks established by the Board in the absence of any commonly accepted benchmark.

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.

Listed Share Markets

Listed share market returns were mixed during the year with the Australian market underperforming most of the major overseas markets despite the Australian economy being in much better shape. The Australian market (ASX S&P 300) returned 8.7% for the year while those of developed economies rose by 12%, excluding any impact from currency movements.

Australian Shares

The year started with strong gains of 21.6% for the September quarter. Since then, shares returned 3.4% in the December quarter, 1.4% in the March quarter and -11.2% in the June quarter to finish the year with an overall return of 7.3%, 37% lower than the high-point in November 2007.

Some of MilitarySuper's Australian share managers under performed against the market's broad index, although a number were chosen for their ability to preserve capital in the event the market fell. This strategy proved to be effective in the June 2010 quarter. This cautious approach has also been effective over the three-year period to 30 June 2010, where MilitarySuper's fund managers returned -4.3% compared to the broader market's return of -8.1%.

International Shares

Overseas shares (unhedged) rose by 5.2% over the year. Particular results included the US market returning 12.1%, the UK market 15.7% and the Japanese market a disappointing -5.8%. These results were also affected by the movement in the Australian dollar which detracted from overall performance. Once this currency effect was removed, global markets rose by a healthy 11.5%, even after recording -11.2% in the June quarter.

As with our Australian share managers, MilitarySuper selects international share fund managers whose focus is largely on protecting the portfolio in falling markets.

MilitarySuper's international shares sector (hedged) returned 2.25% for 2009-10.

Property

MilitarySuper's property portfolio was particularly affected in 2009-10 by further write-offs and write-downs of assets as continuing development and financing risks affected this sector. Overall, MilitarySuper's property investments returned -38.4% for the year.

The Board began a review of its investment strategy for property and it is expected that there will be more focus on core or conservative property investments that aim to deliver predictable and sustainable rental income as well as capital appreciation.

Debt

Investments in debt market opportunities include investing in government and corporate bonds and fixed interest securities. During the year the Board reduced its investments in this sector preferring the relative security of short-duration term deposits. This sector returned 4.1% compared to the bank bill index of 3.9%.

Cash

MilitarySuper holds cash investments largely in at-call accounts, bank bills and short-duration term deposits. For the year, MilitarySuper's cash return was 4.0%.

Alternative Investments

Alternative investments generally refer to assets that are not traded on public markets. They are an important part of MilitarySuper's long-term investment strategy. We expect that when combined with listed assets, a higher rate of return can be earned than just having traditional asset classes over the long term. MilitarySuper's alternative investment program generally consists of the following sectors.

Infrastructure

Infrastructure includes utilities and essential assets that serve the community's developmental and operational needs. Infrastructure assets include power generation and distribution facilities, water and sewer systems, rail, airports, toll roads, bridges and tunnels. Investments can be in developing new assets for capital gains or in owning existing assets that generate strong, stable cash flows.

Investments in widely spread global assets failed to perform as expected, largely due to the testing economic environment in the US, UK and Europe. Overall, MilitarySuper's infrastructure investments returned 5.5% for the year.

MilitarySuper believes including infrastructure in a well diversified portfolio offers good potential for capital gain and income which is not correlated to listed investments such as shares. The Board continues to explore potential investments in this area, but access to good quality assets at attractive prices can prove difficult.

Private Equity

MilitarySuper's private equity portfolio returned 5.2% in 2009–10.

Private equity involves acquiring an ownership interest in a company or enterprise whose shares are not listed. Typically, such private companies are small to medium enterprises with proven track records and good earning and growth prospects.

In the early years, returns tend to be negative or minimal as companies need to reinvest earnings to grow. As they mature, they usually become cash flow positive and increase in value. The typical duration of a private equity investment is 8 to 12 years. The recent macro-economic environment has meant that opportunities for realising private equity investments have been limited.

For 2009–10, returns from private equity investments were not strong. More recently, sales of Australian private equity companies and increased merger and acquisition activity have signalled an improved outlook.

4

Fund Investments

Uncorrelated Alpha

Similar to private equity, this involves investments in assets whose performance is generally not aligned (or ‘uncorrelated’) to the performance of more traditional asset classes. Unlike private equity, uncorrelated alpha investments typically generate a more consistent return profile, although with slightly lower expected returns over the long run.

MilitarySuper’s uncorrelated alpha investments returned 9.9% for 2009–10.

Alternative Debt

This includes investments in credit opportunities such as distressed and special situations debt and provision of debt to smaller organisations that have strong balance sheets but require credit for expansion or to meet short-term requirements.

Alternative debt investments are expected to generate steady returns higher than traditional debt securities, such as government and corporate debt.

MilitarySuper’s fund managers in this sector provided a mixed result for the year, with an overall return of 10.0%.

Looking Ahead

The continuing financial crisis and the current recessionary environment have affected all asset owners including superannuation funds. While MilitarySuper has performed well over an extended period, the current year’s performance has been adversely affected by reductions in the carrying values of both listed and unlisted investments.

The Board and its advisers see the current investment landscape as offering once in a generation opportunities to identify and invest in good quality companies and business enterprises across listed and private markets, at prices that represent good value and that afford MilitarySuper, as a long-term investor, great opportunities to grow the Fund.

Table 6: Scheme Net Assets at 30 June 2010 (After Taxes, Charges and Benefits)

Opening value of the Scheme as at 30 June 2009	\$m 2,811
Plus income	
Contributions	613
Gross Earnings of the Scheme	78
Other Income	0
Less Outgoings	
Benefits Paid	243
Tax (Benefit)/Expenses	28
Expenses and Charges	3
Closing value of the Scheme as at 30 June 2010	3,228
Investments	\$m
Assets Under Management	
Cash and Short Term Deposits	290
Debt Instruments ³	463
Property	137
Australian Shares	982
International Shares	367
Private Equity	548
Infrastructure	259
Uncorrelated Alpha	132
Currency	(32)
Total Investments	3,146
MilitarySuper Net Assets/(Liabilities) ¹	82
Net Assets of the Scheme²	3,228

¹ MilitarySuper Net Assets/(Liabilities) represents benefits payable, tax provisions and cash at bank.

² The value of the Scheme represents the investments of the Scheme. Net assets of the Scheme shows the amount available to Members at 30 June after allowing for tax, cash at bank and benefits payable to former contributors.

³ Debt Instruments consists of Debt and Debt Instruments described in the Fund Investment Manager table.

Table 7: Investment Managers at 30 June 2010

Asset Class	Investment Managers ¹	Investment \$m	% of Fund
Australian Shares			
	Acorn Aust Small Co Trust	20.05	
	Agora Absolute Return Fund	142.94	
	BlackRock Wholesale Index Aust Equity ³	274.95	
	Goldman Sachs JBWere Premium Equity Strategy	88.78	
	Hyperion High Conviction	153.62	
	Herschel Concentrated Fund	131.37	
	K2 Absolute Return Fund	152.28	
	Aust Equities Cash Holding Account	18.63	
	Australian Shares Total	982.62	31.24%
International Shares			
	LSV International Concentrated Value Fund	97.79	
	Old Square Capital	25.32	
	Pengana Global Volatility Fund	17.96	
	SSGA International Equities Index Trust	62.58	
	Turner Long Short Equity Fund	81.03	
	Wentworth Hauser Violich	82.77	
	International Shares Total	367.45	11.68%
Uncorrelated Alpha			
	Deutsche Leveraged Note – Mazuma Greenwich	3.93	
	Mazuma Partners II	19.31	
	Mazuma Structured Note	19.51	
	Rabobank / Van Hedge Linked Note	13.10	
	Schroder Real Return Fund	76.33	
	Uncorrelated Alpha Total	132.18	4.20%
Property			
	Australian Wholesale Property Fund	11.89	
	Australian Wholesale Property Fund Unitholder Loan	23.00	
	APN Development Fund 1	18.65	
	Ashington Property Fund	0.57	
	Ashington Development Fund No 2	0.00	
	Babcock Brown Alliance Joint Venture	0.00	

Asset Class	Investment Managers ¹	Investment \$m	% of Fund
Property (continued)			
	Cerberus Institutional Real Estate Fund	6.87	
	Charter Hall Opportunities 4	3.02	
	Domaine Property Fund	26.00	
	Doughty Hanson Real Estate	3.15	
	Fiduciary Int Real Estate Fund	4.66	
	Gresham Property Fund 3	24.57	
	High Street Real Estate Fund III	13.55	
	ICA Property 4	0.86	
	Property Total	136.79	4.35%
Infrastructure			
	ANZ IS Energy	90.17	
	CFS Infrastructure (Brisbane Airport)	33.47	
	Macquarie Global Infrastructure Fund 1	0.14	
	Macquarie Global Infrastructure Fund 2B	39.28	
	Macquarie Global Infrastructure Fund III	27.40	
	Saltbush Parking Services	9.20	
	SCM Global Energy & Infrastructure	38.67	
	TCW CDX Acquisition	0.00	
	US Power Fund II	20.42	
	Infrastructure Total	258.75	8.23%
Private Equity			
	Archer Capital Fund 3	6.33	
	Champ Buyout II Trust	29.11	
	Champ Buyout III Trust	4.21	
	Champ Ventures Investments 5	2.76	
	Champ Ventures Investments 6	9.51	
	Citic Capital China Mezzanine Fund	43.35	
	Credit Suisse First Boston	4.30	
	Crescent Capital Partners II	2.92	
	Crescent Capital Partners III	16.26	
	Deutsche Private Equity Fund	1.20	
	DIF Global Coinvestment Fund III	0.00	
	Direct Investment Fund Equity Trust	2.60	

4

Fund Investments

Asset Class	Investment Managers ¹	Investment \$m	% of Fund
Private Equity (continued)			
	Dover Street VII	5.61	
	GBS Bioventures III	10.51	
	Gresham Private Equity Fund 2	20.00	
	HarbourVest IV	18.49	
	HarbourVest V	31.76	
	HarbourVest VII Buyout	21.32	
	HarbourVest VII Venture	15.56	
	KKR 2006 Fund	43.80	
	NBC Private Equity Fund II	5.66	
	North Asia Strategic Holdings	43.31	
	Northgate Private Equity Part II	23.89	
	Northgate Venture Partners III	10.22	
	Pacific Equity Partners Fund 2	11.12	
	Pacific Equity Partners Fund 3	39.68	
	Pacific Equity Partners Fund 4	7.54	
	Pantheon Europe III Partnership	3.64	
	Pantheon Global Secondaries Fund II	7.97	
	Pantheon Global Secondaries Fund III	18.48	
	Pantheon USA Fund IV	2.62	
	Pomona Capital VII Fund	5.77	
	Propel Private Equity Fund II	6.67	
	Rosemont Cadence LLC	5.92	
	Rosemont Partners II	7.21	
	Sentient Global Resources 1	6.33	
	Siguler Guff Bric Opportunities Fund	26.28	
	Siguler Guff Small Buyout Opportunities Fund	11.96	
	Terra Firma Cap Partners III	4.14	
	Thomas Weisel India Opportunities Fund	9.77	
	YBR Feeder Limited Partnership	0.00	
	Private Equity Total	547.78	17.41%
Cash			
	NAB – Cash and Cash Holding Accounts	115.04	
	NAB – Treasury Fund ³	175.00	
	Cash Total	290.04	9.22%

Asset Class	Investment Managers ¹	Investment \$m	% of Fund
Debt²			
	BT Institutional Managed Cash Fund	129.00	
	Aberdeen Cash Management Fund	134.74	
	Debt Total	263.74	8.38%
Alternative Debt²			
	Allco Aviation Fund	93.96	
	BCA Mezzanine Debt Trust	18.05	
	Harbourvest VII Mezzanine Fund	18.18	
	Siguler Guff MSA Opportunities Fund	10.21	
	Siguler Guff Distressed Opportunities Fund	23.27	
	TCW SHOP 5	25.14	
	YBR Debt Facility	10.15	
	Alternative Debt Total	198.96	6.32%
Currency			
	Pareto Partners Currency Hedge	-32.34	
	Currency Total	-32.34	-1.03%
TOTAL ASSETS		3,145.97	100.00%

¹ An organisation that specialises in the investment of investments which may be by the way of 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.

Unitisation

Unitisation refers to the conversion of Member interest bearing accounts to unit based accounts within a fund. MilitarySuper was unitised with effect from 1 July 2002. Since then, fund earnings have been reflected as a daily change in the value of a unit. Members' closing account balances as at 30 June 2002 (after the application of the crediting rate for 2001–02) were converted to units, with each unit having a value of \$1.00 at 30 June 2002. This unit holding became the Members' opening balance with the introduction of unitisation on 1 July 2002.

From 1 July 2002, contributions to MilitarySuper have resulted in the issue of new units at the issue price for the day the money is received by the Fund. Benefit payments result in the withdrawal of existing units at the withdrawal price on the day the completed application for payment is received (but this can be no earlier than the day after the applicant ceases to be a Member of MilitarySuper).

The most current unit prices for the five investment options are provided on MilitarySuper's website. The unit prices at 30 June 2010 are provided in the table below.

Table 8: Unit Prices at 30 June 2010

Investment Option	Unit Price at 30 June 2009	Unit Price at 30 June 2010	Percentage Change YTD
Cash	\$1.348084	\$1.396660	+3.6033%
Conservative	\$1.378598	\$1.380573	+0.1432%
Balanced	\$1.501694	\$1.510086	+0.5588%
Growth	\$1.462881	\$1.490661	+1.8989%
High Growth	\$1.463625	\$1.437878	-1.7591%

Unit prices are struck every day, based on the market value of listed investments at the previous day's close of trading and, for unlisted investments, on best available valuation data. Unlisted investments, by their nature, are illiquid and their values are based on periodic independent valuations or as a result of a sales event. Provisions are made daily for taxes, fees and expenses on the income derived from those investments.

At the end of a financial year Fund performance is calculated using hard close unit prices (unit prices that include updated valuations of unlisted Fund investments) which are only available after 30 June. Given this timing difference, the unit price for each investment option declared at 30 June may vary from the investment performance of that option subsequently determined using audited accounting and taxation information.

Member Communication

SECTION 5

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) has a key role to ensure the effective and timely provision of quality information and education on superannuation matters to ADF Members. Membership of MSCC includes 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.

MSCC's role is to:

- ensure smooth liaison between each of the Scheme's stakeholders
- provide advice on communications matters to the Board
- monitor the quality and effectiveness of the Board's communication products
- review existing communication products and methods
- monitor, review and make recommendations on the implementation of a superannuation communication strategy for the ADF.

Objectives

For the purposes of reviewing its communications strategy the Board undertook an evaluation of the Scheme and its demographics in 2009–10 which confirmed:

- the Scheme is male dominated
- the majority of Contributing Members are in their early to mid 20s, while the predominance of Preserved Benefit Members are in their mid 30's to 40's
- the most common form of exit from the Scheme was by way of resignation after less than ten years service
- although Contributing Member numbers are expected to increase moderately over the next five years, the number of Preserved Benefit Members is expected to increase by approximately 25% in this period to around 100,000
- although small in number, the pensioner population is expected to reach 10,000 in the next seven years

- electronic means of communication are increasingly becoming relevant as Members of the ADF, demonstrated by the increases in the number of Members registered to use the Member Services Online section of the MilitarySuper website and the number of forms and information downloaded directly from the MilitarySuper website.

Addressing the outcomes from the review, the Board has established its communication objectives as:

- 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
- deliver a communication and education program that employs the use of written and audio visual material and, where legislation allows, the use of email and other electronic methods of communication to Members
- use written, telephonic and electronic communication to:
 - have available for the Membership at all times key information about the Scheme
 - provide specific information to each Member annually about their stake in the scheme and at six monthly intervals provide a second personal mail out providing Scheme specific information and/or updates on investment strategy and investment performance
 - provide tailored information to Members on entry to the Scheme or when considering retirement or resignation
- keep the Minister, Chief of the Defence Force and other key stakeholders well informed on matters relevant to the investment and administration of MilitarySuper and respond in a timely manner to Ministerial requests
- respond to Member-initiated information needs, and assist in their superannuation decisions.

In meeting these objectives the Board, as a minimum, is committed to complying 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 will be 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
- costs for each project being kept to within the agreed budget.

Communication Focus

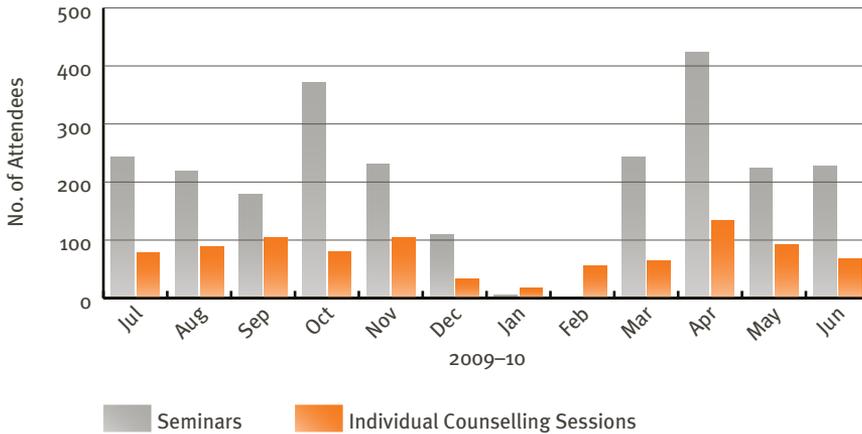
- continued development of the form and content of the half yearly mail out to Members (Mid-year Update).
- increased access to web enabled interactive tools for Member communications
- delivery of a communication/education program to cover the Scheme's ancillary benefits initiatives
- promotion of the availability of MilitarySuper seminars and increased accessibility to seminars for new entrants to the ADF
- focussed initial Member education at the point of entry into the ADF, consistent with the Board's obligations as an AFS licence holder
- continue to leverage off the MilitarySuper website for increasing access by Members to interactive sources of information about their Scheme Membership and benefit entitlements.
- Communication of the Board's approach to proposed new Government initiatives.

Counselling in 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-to-one basis in Canberra and at some transition seminars throughout Australia.

During the year MilitarySuper presented 61 seminars to a total of 2,475 MilitarySuper Members and provided counselling to 919 MilitarySuper Members. The seminars were primarily conducted in conjunction with transition seminars. A further 25 seminars relating to medical discharge were presented to 188 MilitarySuper Members.

Chart 3: Information Seminars 2009–10



Most Member contacts are by telephone, with an average of 1,482 telephone calls recorded per week for the 2009–10 financial year, compared with 1,715 in 2008–09. The Interactive Voice Response (IVR) telephone service received 77,081 calls from MilitarySuper Members.

MilitarySuper responded to 7,960 emails and 4,883 written enquiries from Members, compared with 8,954 and 3,856 respectively in 2008–09.

The following charts for call volume, email volume and written volume, comparing services used by the Members, demonstrates an overall decline in the reliance on these services by the Membership. It also corresponds with an increase in the use of the MilitarySuper website, as described in Table 10 on page 67.

Chart 4: Call Volume Comparison

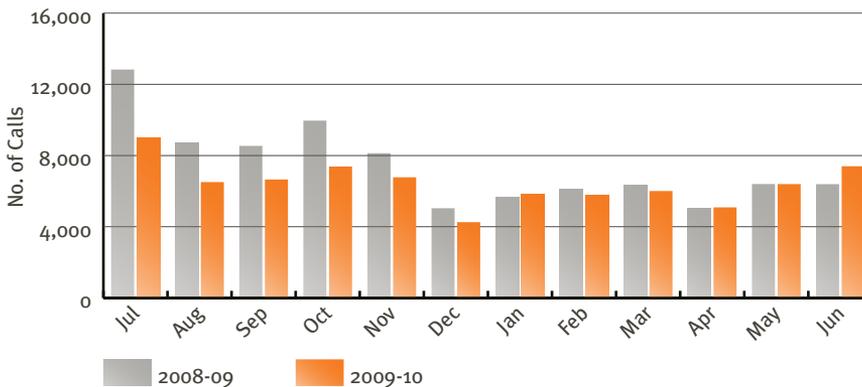


Chart 5: Email Volume Comparison

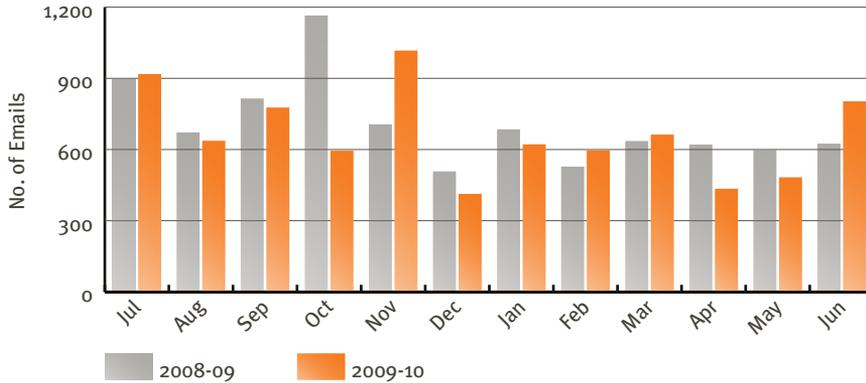
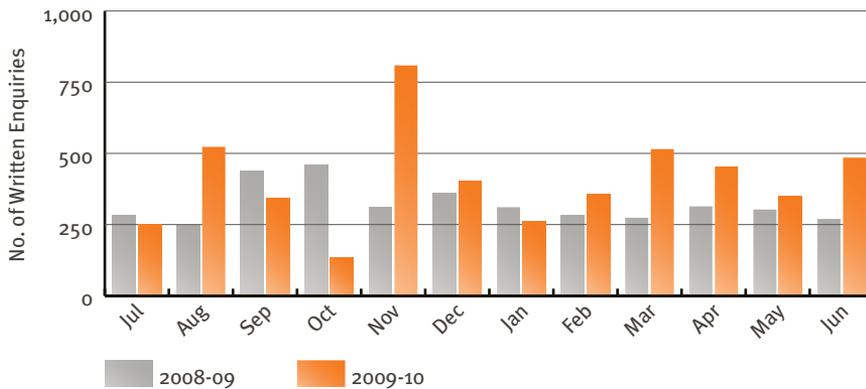


Chart 6: Written Volume Comparison



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 counselling at ComSuper’s office. Pensioners who use the Internet can get general information from the MilitarySuper website.

MilitarySuper Website

Online services are an important component of MilitarySuper's business and the Board continues to enhance and expand its range of online services. MilitarySuper's website is well-used, receiving 1,799,966 hits in 2009–10.

MilitarySuper 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.

Access statistics for online services for the financial year ended 30 June 2010 are as follows:

- MSB MSO 40,535 hits
- MSB PSO 2,241 hits

The Board remains committed to further enhancing its website and the development of online services, recognising the importance of this medium in communicating with all Members of the Scheme.

The following tables and chart provide details of the most commonly accessed pages within the MilitarySuper website; website usage during 2009–10; and illustrates the increasing use of the MilitarySuper website as a primary source of information.

Table 9: Most Accessed Web Pages 2009–10

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

Chart 7: Website Hits 2009–10

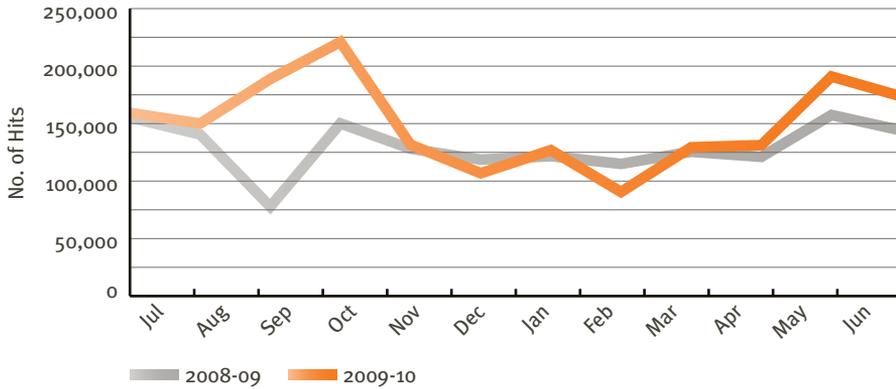


Table 10: Website Hits over the Past Four Years

Year	Number of Hits
2006–07	1,282,753
2007–08	1,305,590
2008–09	1,555,242
2009–10	1,799,966

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 2008–09 Member statements were distributed by 30 October 2009. Members also received a MilitarySuper Annual Report to Contributors and a Member Contact Details form as part of their statement kit.

Members are now able to choose to receive an electronic notification that their member statement is available online. For security purposes Members must obtain an access number for Member Services Online to view their statement. Once the Member has an access number they can also update their contact details and calculate estimates. The Board encourages Members to take advantage of the new delivery method.

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.

Mid-Year Update

The Autumn 2010 Mid-Year Update provided Members with information on:

- the Australian Government Superannuation Schemes – proposed Board Merger;
- the economic and investment performance; and
- changes to the ADF Compulsory Retirement Age (CRA).

The Mid-Year Update was made available to Members on the MilitarySuper website and was well received. The communication was released in May 2010 and the PDF downloaded 18,996 times by the end of that month.

Pension Update

Pension Update is aimed at retired Members of the Scheme and provides retired numbers with 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 2009–10 were Issue 14 (July 2009) and Issue 15 (January 2010).

Issue 14 announced that there was no increase in CPI for retired Members, upgrades to Pensioner Services Online (PSO), a new look payment summary for the 2008–09 financial year and other regular articles.

Issue 15 announced a 1.3% increase in CPI for retired Members, provided information of changes to the ADF Compulsory Retirement Age and other regular articles.

Membership



SECTION 6

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.

Contributors

At 30 June 2010, there were 54,525 contributors to MilitarySuper, 46,519 (85.3%) of whom were male and 8,006 (14.7%) female.

Table 11: Contributing Member Composition

	Male	Female	Total
Membership at 30 June 2009	44,262	7,393	51,655
Plus New Contributors	7,258	1,031	8,289
Less Members left the ADF*	5,001	418	5,419
Membership at 30 June 2010	46,519	8,006	54,525

* Exits from Contributing Membership represent either moves to Preserved Benefit Membership or Exits from MSBS

Table 12: Male and Female Contributors by Years of Service

	Male	Female	Total
0–9	33,734	6,030	39,764
10–14	5,760	1,049	6,809
15–19	3,334	501	3,835
>19	3,691	426	4,117
Total	46,519	8,006	54,525

New Members

There were 8,289 new MilitarySuper Contributing Members in 2009–10.

Exits

There were 5,419 exits from the Scheme during the year. The types of exit are shown in Table 13.

Table 13: Modes of Exit in the Past Five Years

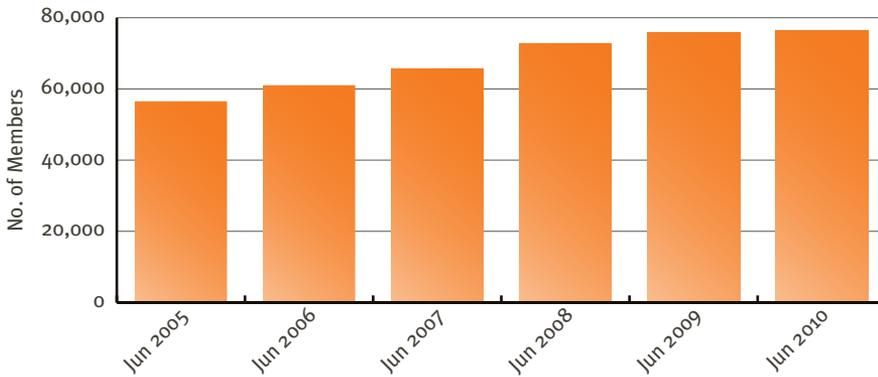
Year	2005-06	2006-07	2007-08	2008-09	2009-10
Age retirement	51	90	143	262	303
Resignation	2,110	2,057	3,523	1,081	616
Redundancy	6	4	6	9	12
Invalidity retirement	450	395	718	633	426
Death	17	25	55	108	113
Preserved claim hardship, TPI	-	-	-	-	232
Preserved claim	-	-	-	-	437
Ancillary claim	-	-	-	-	836
Unclaimed*	3,135	3,291	2,803	4,008	2,444
Other	-	-	-	44	-
Total	5,769	5,862	7,248	6,145	5,419

* 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. In previous years, these benefits were shown as 'Other'.

Preserved Benefit Members

There were 76,430 Preserved Benefit Members in MilitarySuper as at 30 June 2010 compared with 75,929 Preserved Benefit Members as at 30 June 2009. Chart 8 shows the growth of Preserved Benefit Members since 30 June 2005.

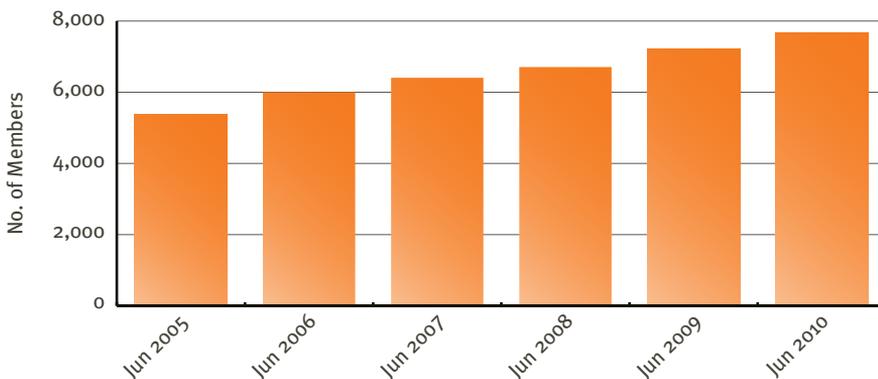
Chart 8: Growth of Preserved Benefit Member Population Since 30 June 2005



Pensioners

There were 7,684 pensioners in MilitarySuper as at 30 June 2010. Chart 9 shows the increase in numbers of pensioners since 30 June 2005.

Chart 9: Growth of Pensioner Population Since 30 June 2005



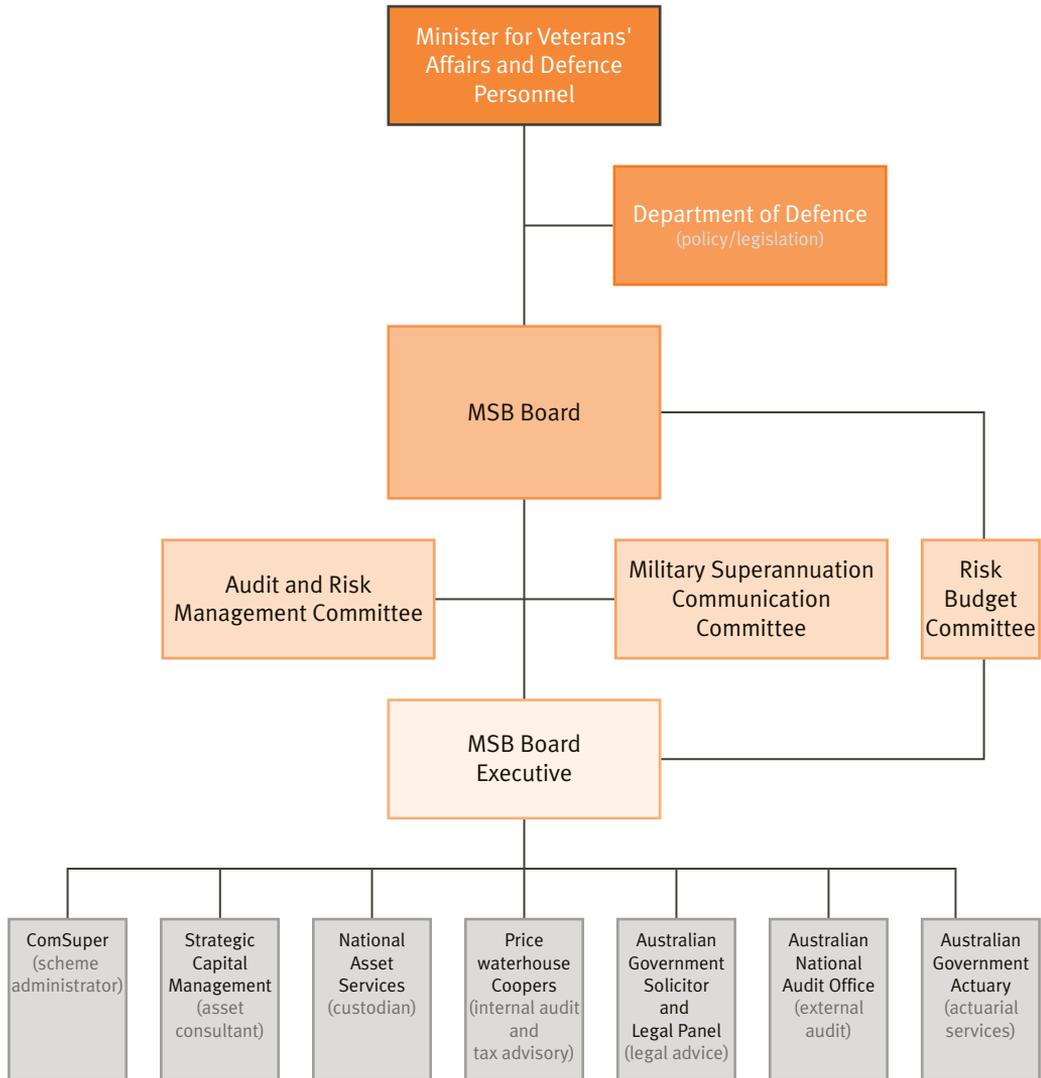
Scheme Administration



SECTION 7

Administrative Arrangements

Chart 10: Organisational Structure of MilitarySuper as at 30 June 2010



Financial Resources

The administrative costs of the Board totalled \$3.135m for 2009–10. These costs include office accommodation lease and operating costs, fees paid to trustees, trustee travel costs and the cost of the Executive and relevant ComSuper accounting staff.

In accordance with section 4 of the *Military Superannuation and Benefits Act 1991* 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 the Department of Defence for 2009–10 is as follows:

Fund	\$2.145m
Department of Defence	\$0.990m
Total	\$3.135m

Further details are contained in the financial statements, starting from page 89.

In addition to the above, \$0.054 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.

Accounting Services

SIS Act and Corporations Law Compliance

To ensure that the Board complies with the *Superannuation Industry (Supervision) Act 1993* (the SIS Act), the Audit and Risk Management Committee has adopted a comprehensive checklist for SIS Act and Corporations Law compliance. The Board's Compliance Manager is responsible for the checklist as well as ensuring the Board's compliance with other legislative requirements.

A detailed compliance report was provided to the Audit and Risk Management Committee in September 2009. Exceptions are reported at each meeting as required.

As the Scheme Administrator, ComSuper:

- maintains the Fund's general ledger summarising monthly contributions, benefits and investment transactions as reported by the Fund Custodian
- prepares the annual financial statements of the Scheme in a form approved by the Board and the Minister
- prepares monthly (unaudited) financial statements in a form agreed with the Board
- assists the Board Executive in preparing annual returns for the Australian Prudential Regulation Authority (APRA)
- assists the Board Executive in preparing the Annual Report to Parliament
- 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 Executive
- calculates daily unit prices for five options in accordance with the Board's Unit Pricing Policy and in collaboration with the Fund Custodian and Executive
- 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 and taxation 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 2009–10 financial year.

Account Maintenance

As the Board's legislated Scheme Administrator, 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 the Department of Defence. The principal aims of this function are defined by the enabling legislation for the Scheme and are articulated in the Service Level Agreement between the Board, ComSuper and Defence.

Collection, Recording and Maintenance of Member Information

ComSuper's account maintenance activities include:

- maintaining records of Contributing Members, Preserved Benefit Members and Pension Members to facilitate, among other things, the accurate and timely publication of Member statements, accurate and timely communications, the accurate and timely payment of benefits, various reporting requirements and reconciliation against Fund accounts
- ensuring that adequate systems, procedures and controls are in place to meet the administration and reporting requirements of the 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 from early in 2005–06 have been 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 the Department of Defence. Members may also be entitled to superannuation co-contributions from the Australian Government.

Total contributions to the Fund during 2009–10 were \$407.6m compared with \$347.4m for 2008–09, of which Member contributions comprised \$208.7m compared with \$186.5m for 2008–09. Employer contributions amounted to \$175.8m compared with \$142.4m for 2008–09. Co-contributions received totalled \$23.1m compared with \$18.5m 2008–09. The net appropriation for benefits for the year was \$205.3m compared with \$188.3m for 2008–09.

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 Board's 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 the Department of 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.

Benefits

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 guaranteed 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 Component to a pension and roll over the balance.

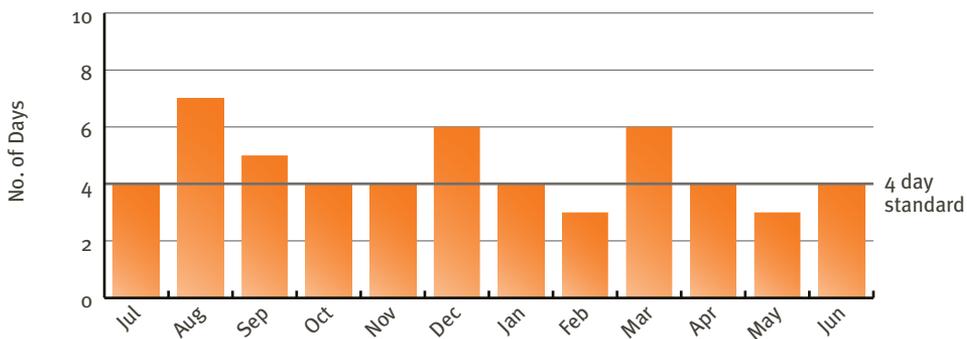
Discharging Members may preserve their total benefit or take that part of their Member benefit that accrued up to 30 June 1999. Any contributions paid and earnings after that date must either be preserved in the Scheme or rolled over and preserved in another complying fund until preservation age. Members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

Table 14: Benefits Paid 2009–10

	\$m
Pensions	163.2
Lump Sums	79.3
Total	242.5
Fund Share	37.3
Consolidated Revenue Share	205.2
Total	242.5

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 11: Average Time to Process Benefit Payments 2009–10

Early Release of Preserved Benefits

In certain circumstances, a compulsorily preserved benefit may be paid before retirement. Of the 318 preserved benefits paid in full or part during 2009–10, 232 were released on total and permanent incapacity (TPI), severe hardship or compassionate grounds.

Processing of Invalidity 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 Defence Force, 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.

We base our assessment 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.

We are working with Defence to improve how this information is provided and processed.

In January 2010, we implemented a new invalidity case management system to automate and streamline the assessment processes. The new system enables us to more accurately identify members whose level of incapacity is likely to change and allows for the identification of sensitive cases where additional consideration is required when liaising with members due to the nature of their impairments.

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.

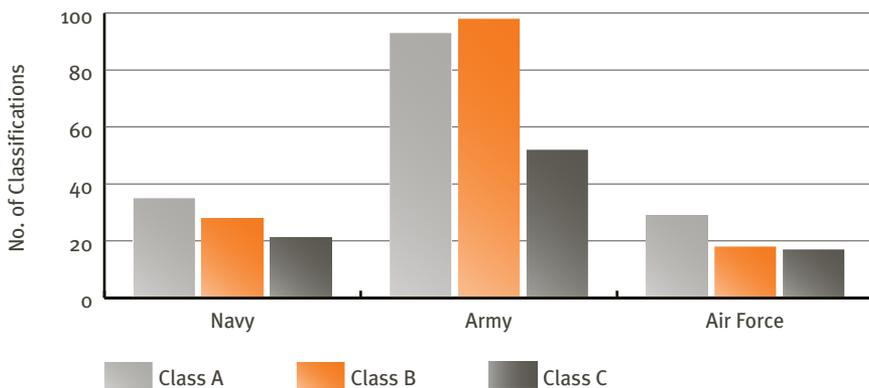
As at 30 June 2010, the ICC comprised of Mr Simon Lawson (Chairperson & member of the Military Invalidity, Reversionary & Release Section), Commander Ross Mills (ADF representative) and Ms Louise Scullion (Superannuation Directorate, Defence).

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 2009–10, 399 Members received initial invalidity classifications. Of those who received an invalidity classification, 301 (157 Class A and 144 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 98 were classified as Class C. The proportion of invalidity classifications for each Service is shown in Chart 12.

Chart 12: Service Comparison of Invalidity Classifications 2009–10



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 2009–10, 296 cases were examined, 19 of which were reviews requested by Members. As a result of these reviews, 94 classifications were changed, as shown in Table 15.

Table 15: Invalidity Entitlements Reviewed in the Past Five Years

	2005–06	2006–07	2007–08	2008–09	2009–10
Entitlements examined	325	841	353	352	296
Review with medical exam	147	841	353	296	296
Classification raised	34	66	44	134	49
Classification reduced	61	102	48	16	45
Total classification changes	95	168	92	150	94

Pensions

Pension Variations

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.

In 2009–10, the Australian Bureau of Statistics announced changes in the CPI in the second half of the financial year. There was no increase for July 2009. The January 2010 increase was 1.3%.

Pensioners received statements in July 2009 and January 2010 showing their new rate of pension. Their income tax payment summary and other relevant information were also included with the July statement.

Pension Payments

Employer-financed benefits paid as pension

During the year, 457 new pensions were granted. At 30 June 2010, 7,684 Members were receiving MilitarySuper pensions. Table 16 lists the number of pensioners for each class of benefits at the end of each financial year since 30 June 2006.

The total amount paid as pensions during the year was \$163.2 million. The average pension amounted to \$21,967 per annum.

Table 16: Number of Pensioners in the Past Five Years by Type of Benefit

Class of Pension Benefit	Number of Pensioners				
	30 June 2006	30 June 2007	30 June 2008	30 June 2009	30 June 2010
Retirement	962	1,013	1,106	1,220	1,314
Redundancy	1,919	1,916	1,910	1,914	1,920
Invalidity	2,908	3,243	3,531	3,913	4,130
Reversionary Benefits*	213	237	163	180	320
Total	6,002	6,409	6,710	7,227	7,684

* Payable on the death of a Member, former Member or Pensioner

Family Law

We maintain accounts for MilitarySuper associate members (former spouses). The cumulative effect of family law splits over time is resulting in a significant number of additional accounts that need to be maintained.

A total of 2,066 family law enquiries and processes were actioned in 2009–10. Overall, this is a slight increase on the previous financial year. Family law splits implemented reduced to 167, a 9.7% reduction from 2008–09. We responded to 813 enquiries, a 2.2% increase from 2008–09.

While the number of family law-based enquiries and splits reduced, there was a significant increase of 26% in the number of ‘Applications for Superannuation Information’ and an increase of 4% in the number of draft or proposed splitting arrangements that we reviewed. These increases indicate the potential increase in the number of family law splits yet to be received and implemented.

At 30 June 2010, there were 370 contributor and 637 preserved member accounts affected by family law splitting arrangements and 1,051 associate records.

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 2009–10, the Military Reconsiderations Unit received 95 requests for reconsideration. This was an increase from the 76 requests received in 2008–09. Of the 2009–10 requests, 2 related to reconsideration of a decision by the Reconsideration Committee or Board, compared with 4 during 2008–09.

During 2009–10 the Military Reconsiderations Unit finalised a total of 93 cases, compared with 103 cases in 2008–09. Of these, the Reconsideration Committee or Board affirmed 15 decisions. 36 decisions were set aside or varied in favour of the applicant. The applicant failed to pursue the matter in another 43 cases which were lapsed or withdrawn. On 30 June 2010, the Military Reconsiderations Unit had 35 cases remaining under investigation.

Table 17: Reconsideration Applications for the Past Five Years

	2005-06	2006-07	2007-08	2008-09	2009-10
Requests on hand	110	73	48	59	33
Requests received	145	108	113	76	95
Requests resolved	182	133	102	103	93
Carried forward	73	48	59	33	35

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).

Six complaints were lodged with the SCT during the year and six cases were carried over from 2008-09. Four complaints to the SCT were resolved during the year. Of these, three complaints to the SCT were treated as withdrawn and one decision was affirmed. No complaints to the SCT were conceded on the basis of new evidence. At 30 June 2010, there were eight complaints to the SCT outstanding.

At 30 June 2010, two complaints to the SCT have been subject to a review meeting by the SCT and the Board is awaiting the decision of the SCT.

In 2009-10, one decision affirmed by the SCT was appealed to the Federal Court under section 46 of the *Superannuation (Resolution of Complaints) Act 1993*. At 30 June 2010, the application was ongoing.

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. These procedures require the Board Executive to acknowledge and respond to all complaints.

ComSuper's Compliance Unit has systems in place for dealing with SIS-registered complaints. These systems involve investigating a complaint and preparing a response for the Board Executive to provide to the Member.

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).

Complaints, Ombudsman and Ministerial Enquiries

In 2009–10, 31 complaints and 11 Ministerial representations were received. One Ombudsman enquiry was received.

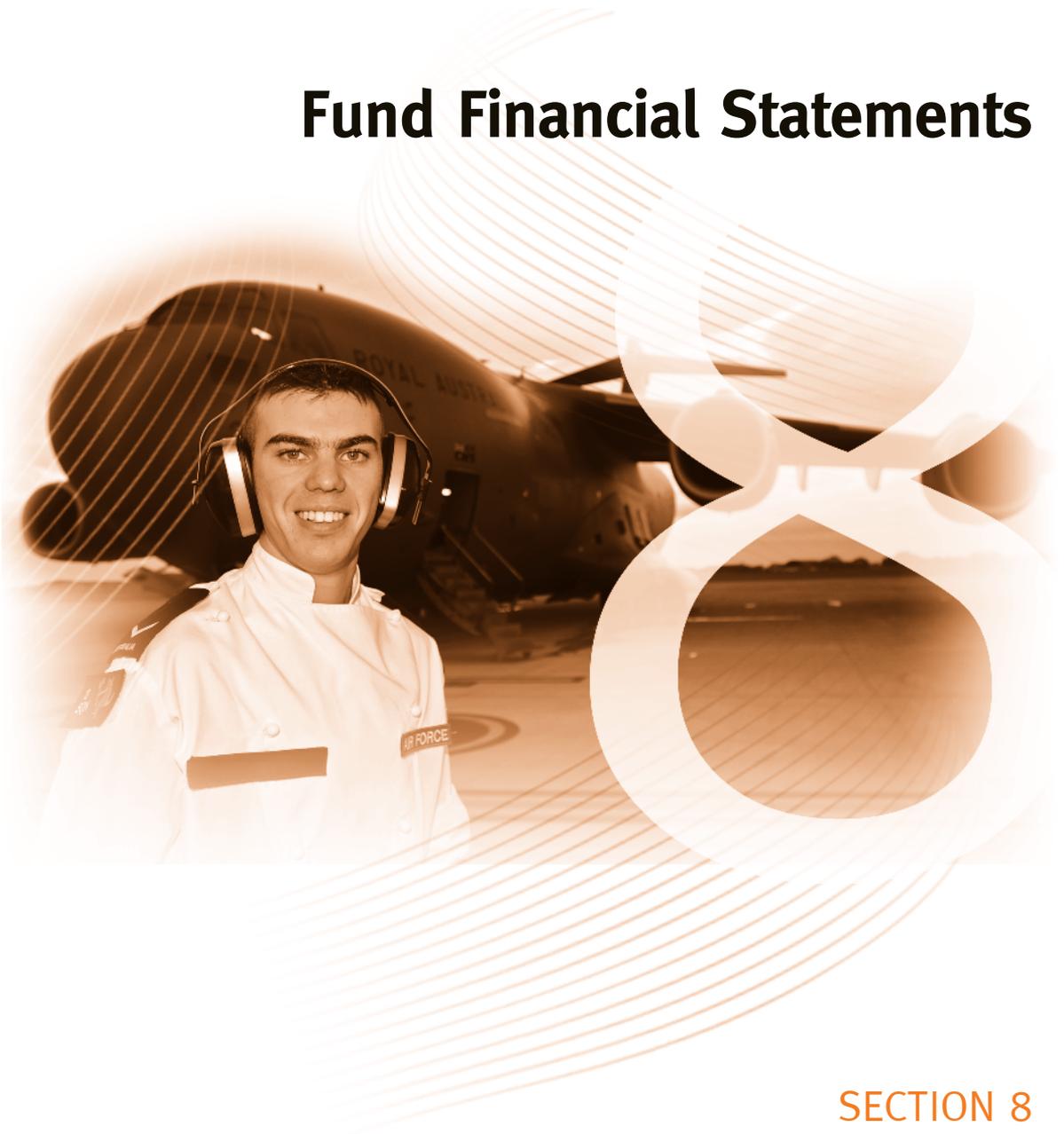
A substantial proportion of these complaints related to the employer benefit preservation arrangements as prescribed by MilitarySuper Rules. These are matters that relate to characteristics of the scheme administered, rather than the service to Members.

The Board's Executive and Audit and Risk Management Committee monitor 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

The Board received one legal claim in the 2009–10 financial year, and was ongoing at 30 June 2010. No claims were carried over from the previous financial year.

Fund Financial Statements



SECTION 8



MILITARY SUPERANNUATION AND BENEFITS FUND
(ABN: 50925523120)

**INDEPENDENT REPORT BY APPROVED AUDITOR TO THE
MINISTER FOR DEFENCE PERSONNEL AND MEMBERS OF THE
FUND**

Scope

I have audited the financial statements of Military Superannuation and Benefits Fund for the year ended 30 June 2010 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 (including the Australian Accounting Interpretations) 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 responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and making accounting estimates that are reasonable in the circumstances.

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 Auditing 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 2801
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 (including Australian Accounting Interpretations), the net assets of Military Superannuation and Benefits Fund as at 30 June 2010 and the changes in net assets for the year ended 30 June 2010;
- (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



Carla Jago
Executive Director
Delegate of the Auditor-General

Canberra

3 September 2010

MILITARY SUPERANNUATION AND BENEFITS FUND

Statement by the Trustees of the Military Superannuation and Benefits Fund

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

- (a) of the matters required by AAS 25 and Schedule 1 of the *Financial Management and Accountability Orders (Financial Statements for reporting periods ending on or after 1 July 2009)*, as amended from time to time except where there is a conflict between Schedule 1 and Australian Accounting Standard AAS 25 *Financial Reporting by Superannuation Plans* (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 2010 and the changes in net assets of the Fund for the financial year to 30 June 2010;
- (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 approved by the Minister for Defence Personnel and the 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 *Financial Reporting by Superannuation Plans*.

Signed at Canberra this 3rd day of September 2010 in accordance with a resolution of the Military Superannuation and Benefits Board of Trustees No.1.



Member



Member
Military Superannuation and Benefits
Board of Trustees No.1

Military Superannuation & Benefits Fund

Statement of Changes in Net Assets
For the year ended 30 June 2010

	Note	2010 \$'000	2009 \$'000
Benefits at the Beginning of the Period		2,810,576	2,934,747
<i>Add:</i>			
<i>Investment Revenue</i>			
Interest	3	11,000	9,140
Dividends	3	85,475	92,785
Other Investment Revenue	3	1,206	1,157
Changes in Net Market Values	3	(9,874)	(537,405)
Direct Investment Expenses	5	(9,721)	(9,728)
Net Investment Revenue		78,086	(444,051)
<i>Contributions Revenue</i>			
Member Contributions		208,749	186,509
Productivity Contributions		175,846	142,351
Co-Contributions		23,061	18,580
Net Appropriations from consolidated revenue fund (CRF)	4	205,252	188,321
		612,908	535,761
Total Revenue		690,994	91,710
<i>Less:</i>			
General administration expenses	5	(3,008)	(2,003)
Benefits paid and payable	4	(242,535)	(234,412)
Benefits Paid and Expenses		(245,543)	(236,415)
Change in Net Assets for the Year Before Income Tax		445,451	(144,705)
Less Income tax expense/(benefit)	6 (a)	27,782	(20,534)
Change in Net Assets for the Year After Income Tax		417,669	(124,171)
Net Assets Available to Pay Benefits at the End of The Period		3,228,245	2,810,576

The attached notes form part of these financial statements

Military Superannuation & Benefits Fund

Statement of Net Assets As at 30 June 2010

	Note	2010 \$'000	2009 \$'000
<i>Investments</i>			
Cash and short term deposits		290,039	173,507
Debt instruments		462,703	674,876
Australian equities		982,621	534,602
International equities		367,447	308,850
Property trusts		136,794	141,370
Currency contracts		(32,344)	52,379
Private equity		547,783	515,974
Uncorrelated Alpha (Hedge) Fund		132,178	74,394
Infrastructure		258,750	267,333
Total Investments		3,145,971	2,743,285
<i>Other Assets</i>			
Bank		25,778	29,598
CRF Special Account		380	453
Trade Settlements Receivable		2,226	1,831
Accrued Income		10,389	2,220
Prepayments		13	15
GST Recoverable		595	337
Sundry Debtors		411	381
Benefits Payable to be funded by Appropriation	4	5,009	5,530
Foreign Tax Paid		565	-
Deferred Tax Assets	6 (c)	65,047	44,385
Total Other Assets		110,413	84,750
Total Assets		3,256,384	2,828,035
<i>Less Liabilities</i>			
Benefits payable	4	7,653	7,573
Trade settlements payable		1,747	2,134
Sundry creditors	7	7,344	8,843
Current tax liability	6	11,395	(1,091)
Total Liabilities		28,139	17,459
Net Assets Available to Pay Benefits as at 30 June 2010		3,228,245	2,810,576

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 2010

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 Financial Reporting by Superannuation Plans ('AAS25').

The financial statements were authorised for issue by the Military Superannuation and Benefits Board of Trustees No.1 ("the Board") on 3 September 2010.

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 Military Superannuation and Benefits Fund has 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 has been approved by the Minister for Defence Personnel and by the Board in accordance with subsection 26(1) of the Military Superannuation and Benefits Act 1991.

Key Estimates and Judgements

In the application of accounting standards, including AIFRS, management is required to make judgments, 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 judgments. 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.

Judgments 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 has 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 the Board has determined that the Deferred Tax Asset is probable of recovery in approximately 3 years, which the Board considers appropriate having regard to the Scheme's membership and operating environment.

Adoption of new and revised Accounting Standards

In the current year the Fund adopted the amended Accounting Standard AASB 7 'Financial Instruments Disclosures' as issued by the Australian Accounting Standards Board (the AASB). The Standard is relevant to its operations and effective for the current annual reporting period.

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2010

The Board anticipates the adoption of this Standard will have no material financial impact on the financial report of the Fund. There were no other new Accounting Standards that have an impact on the financial statements of the Fund.

Accounting policies are selected and applied in a manner which ensures that the resulting financial 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 2010 and the comparative information presented in these financial statements for the year ended 30 June 2009.

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 RevenueDividend 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 RevenueEmployer 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 2010

Government 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.

Transfer 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 2010 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 2010 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 2010 by the relevant stock exchange.
- (vi) International Investments - international securities are valued on the basis of last sale price quoted at close of business on 30 June 2010 by the relevant securities exchange.
- (vii) Currency contracts - these securities are valued at the relevant exchange rate at close of business on 30 June 2010.
- (ix) Alternate 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 short time and the Board is satisfied that significant diminution in value has not occurred.

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2010

(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 2010:

Fund	Latest valuation
<i>Domestic Private Equity</i>	
Archer Capital fund 3, 3A and 3B	30-Jun-10
Direct Investment Fund	30-Jun-10
CHAMP Ventures Trusts No. 5A and 5B	30-Jun-10
CHAMP Ventures Trusts No. 6A and 6B	30-Jun-10
CHAMP Buyout II Trust	30-Jun-10
Crescent Capital Partners II	30-Jun-10
Crescent Capital Partners III	30-Jun-10
Deutsche Private Equity Fund	30-Jun-10
Propel Private Equity Fund No. 2	30-Jun-10
GBS BioVentures III	30-Jun-10
Gresham Private Equity Fund No. 2A and 2B	30-Jun-10
NBC Private Equity Fund 2A and 2B	30-Jun-10
PEP Funds No. 2 and Supplementary No. 2	30-Jun-10
Pacific Equity Partners Fund 3 and Supp No. 3	30-Jun-10
Pacific Equity Partners Fund IV and Supp No. IV	30-Jun-10

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 2010

(c) Valuation of Investments (cont.)

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

**Estimated valuations received as at 30 June 2010.

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 2010

(c) Valuation of Investments (cont.)

Fund	Latest valuation
<i>Alternative Debt</i>	
Allco Aviation Fund	30-Jun-10
BCA Mezzanine Fund	25-Jun-10
**HarbourVest Partners VII Mezzanine	30-Jun-10
**Siguler Guff Distressed Opportunities Fund II, L.P.	30-Jun-10
**Siguler Guff WLR Opportunity Fund	30-Jun-10
TCW Shared Opportunity Fund V, L.P.	31-Mar-10
YBR Debt Facility (<i>Valued with accrued interest</i>)	31-Dec-05

**Estimated valuations received as at 30 June 2010.

Valuations may not have been audited.

Fund	Latest valuation
<i>Infrastructure</i>	
ANZ Infrastructure Services Energy Trust	30-Jun-10
CFS Infrastructure (Brisbane Airport)	30-Jun-10
Macquarie Global Infrastructure Fund 1	31-May-10
Macquarie Global Infrastructure Fund 2b	31-May-10
Macquarie Global Infrastructure Fund 3	31-May-10
Duncan Solutions/Saltbush Parking Services	30-Jun-10
SCM Global Energy & Infrastructure Fund	31-Mar-10
TCW CDX Acquisition	31-Dec-09
**US Power Fund II	30-Jun-10

**Estimated valuations received as at 30 June 2010.

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 2010

(c) Valuation of Investments (cont.)

Fund	Latest valuation
<i>Uncorrelated Alpha</i>	
**Deutsche Variable Note - Mazuma / Greenwich	30-Jun-10
**Deutsche Note - Mazuma II - Master Series	30-Jun-10
**Deutsche Note - Mazuma II - October Series	30-Jun-10
**Rabobank - Van Hedge Note	30-Jun-10
Schroders Real Return Fund	30-Jun-10

**Estimated valuations received as at 30 June 2010.

Valuations may not have been audited.

Fund	Latest valuation
<i>Property</i>	
Australian Wholesale Property Fund	30-Jun-10
AWPF Unitholder Loan (<i>Valued with accrued interest</i>)	29-Sep-09
**APN Development Fund 1	30-Jun-10
**Parissen Property Fund 1	30-Jun-10
**Parissen Development Fund 2	30-Jun-10
Babcock & Brown Alliance JV	30-Jun-10
**Cerberus Institutional Real Estate Fund II	30-Jun-10
Charter Hall Opportunities Fund 4	31-May-10
**Domaine SEQ Property Fund	30-Jun-10
**Doughty Hanson EU Real Estate Fund	30-Jun-10
Fiduciary Int Real Estate Fund	31-May-10
Gresham Property Fund 3	30-Jun-10
High Street Real Estate Fund III	31-May-10
ICA (Valad) Property Fund 4	30-Jun-10

**Estimated valuations received as at 30 June 2010.

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 2010

(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 uses 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 2010

(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*: 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*: 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 balance sheet.

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 balance sheet, 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 are entitled 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 Board recognises 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 by the Board 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 2010

(j) Goods and Services Tax

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 :

- Agora Absolute Return Fund
- Herschel Concentrated Australian Equity Fund
- SCM Global Energy and Infrastructure Fund

The Board has decided not to consolidate the financial statements of these investments into the Fund's financial statements on the grounds that these investments are the results of Board investment decisions (often influenced by tax advice and operational factors) and as a result this may lead to a requirement to consolidate them into the financial statements by relevant Australian Accounting Standards but the Board does not in any practical sense have the power to govern the financial and operating policies of any of the above mentioned entities to obtain benefits from their activities, and is 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 2010

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 is the Military Superannuation and Benefits Board of Trustees No. 1. The Scheme is operated for the purpose of providing for members (and their dependants or beneficiaries) of the Australian Defence Force 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:

Suite 3-07
3rd Floor
10 Rudd Street
CANBERRA ACT 2601

(b) Member Numbers:

	2010	2009
Number of Members		
- Contributors	54,525	51,655
- Deferred Beneficiaries / Preservers	76,430	75,929
- Pensioners	<u>7,684</u>	<u>7,227</u>
Total Number of Members	<u>138,639</u>	<u>134,811</u>

(c) Employees of the Board:

	2010	2009
Average Staffing Levels	<u>7.9</u>	<u>7.3</u>

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2010

3. INCOME AND CHANGES IN NET MARKET VALUES

	Dividends and Trust		Other	Realised	Unrealised	Total
	Interest	Distributions		Capital	Capital	
30 June 2010	\$'000	\$'000	\$'000	Gain (Loss)	Gain (Loss)	\$'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 (Hedge) Fund	-	-	88	3,641	3,773	7,502
Infrastructure	1	25,995	-	63	(19,392)	6,667
Total	11,000	85,475	1,206	104,037	(113,911)	87,807

	Dividends and Trust		Other	Realised	Unrealised	Total
	Interest	Distributions		Capital	Capital	
30 June 2009	\$'000	\$'000	\$'000	Gain (Loss)	Gain (Loss)	\$'000
Cash and Short Term Deposits	7,826	(2)	259	31,671	(5,347)	34,407
Debt Instruments	971	22,208	288	(7,770)	618	16,315
Australian Equities	3,210	24,665	3	(42,112)	(38,554)	(52,788)
International Equities	17	6,106	15	(41,103)	(66,226)	(101,191)
Property Trusts	(2,891)	3,920	440	(8,854)	(101,102)	(108,487)
Currency Contracts	-	-	-	(80,573)	52,379	(28,194)
Private equity	3	15,396	10	(5,412)	(116,577)	(106,580)
Uncorrelated Alpha (Hedge) Fund	1	-	142	(11,927)	(55,733)	(67,517)
Infrastructure	3	20,492	-	(11,238)	(29,545)	(20,288)
Total	9,140	92,785	1,157	(177,318)	(360,087)	(434,323)

The net gain on foreign currency contracts for the year was \$43.6 million (2009: Net loss of \$28.2 million).

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2010

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

	2010 \$'000	2009 \$'000
Lump Sums	79,354	88,216
Pensions	163,181	146,196
Total	242,535	234,412

Financed by:

Military Superannuation and Benefits Fund	37,283	46,091
Consolidated Revenue Fund	205,252	188,321
Total	242,535	234,412

Of the \$7.653 million (2009: \$7.573 million) benefits payable as at 30 June 2010, the Fund's share amounted to \$2.644 million (2009: \$2.043 million) with the Consolidated Revenue Fund's share being \$5.009 million at 30 June 2010 (2009: \$5.530 million).

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2010

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

	2010	2009
	\$'000	\$'000
<i>General Administration Expenses</i>		
Accounting services	128	127
Professional advisers	356	408
Share of trustee fees, travel and incidental costs	1,075	1,163
Taxation services	781	112
Communications	21	(205)
APRA lodgement fees and industry levy	259	(4)
Insurance	111	88
External audit	23	59
Internal audit	131	151
Other expenses	11	31
Non recoverable GST	112	73
Total	<u>3,008</u>	<u>2,003</u>
<i>Direct Investment Expenses</i>		
Investment management fees	6,638	5,788
Asset consultancy and portfolio management	731	1,266
Custodian	2,164	2,581
Other Investment expenses	62	11
Non recoverable GST	126	82
Total	<u>9,721</u>	<u>9,728</u>

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2010

6. INCOME TAX

The taxation liability at 30 June 2010 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 per cent. 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

	2010	2009
	\$'000	\$000
Tax Expense (Income) comprises:		
Current tax expense	52,017	24,123
Deferred tax (income)	(20,662)	(47,919)
Under/(over) provided in prior years	(3,573)	3,262
Total Tax expense/(income)	<u>27,782</u>	<u>(20,534)</u>
 Income tax expense is attributable to:		
Profit from continuing operations	<u>27,782</u>	<u>(20,534)</u>
Aggregate income tax expense	<u>27,782</u>	<u>(20,534)</u>
 Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease (increase) in deferred tax assets	-	4,356
(Decrease) Increase in deferred tax liabilities	<u>20,662</u>	<u>43,563</u>
	<u>20,662</u>	<u>47,919</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:		
(Loss)/Profit from continuing operations before income tax expense	<u>445,451</u>	<u>(144,705)</u>
	<u>445,451</u>	<u>(144,705)</u>
 Income tax expense calculated at 15%	<u>66,818</u>	<u>21,706</u>
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-taxable member contributions	65,559	59,012
Non-deductible benefit payments	36,380	35,162
Difference between accounting and tax gains	(62,836)	(113,891)
Imputation and foreign tax credits	(7,748)	(4,079)
Under/(over) provision of income tax in previous year	<u>(3,573)</u>	<u>3,262</u>
	<u>27,782</u>	<u>(20,534)</u>

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2010

Income Tax (cont.)

(b) Current tax liabilities

	2010	2009
	\$'000	\$'000
<i>Current tax payables:</i>		
Income tax payable	(11,395)	(1,091)
	<u>(11,395)</u>	<u>(1,091)</u>

(c) Deferred tax balances

	2010	2009
	\$'000	\$'000
<i>Deferred tax liabilities comprise:</i>		
Temporary differences	(65,047)	(44,385)
	<u>(65,047)</u>	<u>(44,385)</u>

Taxable and deductible temporary differences arise from the following:

	2010	2009
	\$'000	\$'000
<i>Amounts received in profit or loss:</i>		
Unrealised capital gains/ (losses)	(41,640)	(41,019)
Accrued income	(23,387)	(3,337)
Accrued expenses	(20)	(29)
Net deferred tax liabilities	<u>(65,047)</u>	<u>(44,385)</u>
<i>Movements:</i>		
Opening Balance as at 1 July	(44,385)	3,534
Charged/(credited) to the statement of changes in net assets	<u>(20,662)</u>	<u>(47,919)</u>
	<u>(65,047)</u>	<u>(44,385)</u>

TAXATION OF FINANCIAL ARRANGEMENTS

The Board has reviewed the impact of Division 230 of the Income Tax Assessment Act 1997 Taxation of Financial Arrangements (TOFA) dealing with the taxation of gains and losses arising from "financial arrangements". TOFA will apply for income years commencing on or after 1 July 2010. Based on its analysis, the Board does not believe that there will be a material impact.

For Financial Arrangements entered into post July 1 2010, the Board will use the default calculation method.

The Board did not make a transitional election for pre 1 July 2010 financial arrangements.

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2010

7. SUNDRY CREDITORS

	2010	2009
	\$'000	\$'000
<i>Sundry Creditors</i>		
Investment expenses payable	5,367	4,656
Unallocated contributions	1,473	3,603
Accrued expenses	316	375
Tax payable to the ATO	188	209
Total	7,344	8,843

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 on behalf of the Board 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 has 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 on behalf of the Board 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 Board's 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 has developed, implemented and maintains a Risk Management Strategy (RMS) and a Risk Management Plan (RMP) which identify the Board's 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 certifies to APRA that adequate

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2010

strategies have been put in place to monitor those risks, that the Board has 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 counter party will default on its contractual obligations resulting in financial loss to the Fund. The Board has 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 by the Board where these are appropriate.

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

The Fund does not have significant exposures to any individual counterparty or any group of counterparties having similar characteristics. It is the opinion of the Board that 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 2010; Black Rock Wholesale Index Australian Equity \$275,505,290 (8.68%) and NAB Treasury Fund \$176,245,535 (5.55%) (2009: BT Institutional Managed Cash Fund 8.33% and Credit Suisse Cash Management 8.80%). 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 is to ensure that the Fund will always have sufficient liquidity to meet its liabilities as they fall 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.

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2010

Financial Instrument Disclosures - Liquidity Risk (cont.)

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 is managed in accordance with the Board's 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 Board also manages 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, it is the Board's policy that 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 2009.

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.

	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
Total	3,252,735	11,395	-	-	3,264,130

	Less than 3 months \$'000	3 months to 1 Year \$'000	1 - 5 Years \$'000	Over 5 Years \$'000	Total \$'000
30 June 2009					
Trade settlements payable	2,134	-	-	-	2,134
Sundry creditors	8,843	-	-	-	8,843
Benefits payable	2,043	-	-	-	2,043
Vested Benefits	2,850,000	-	-	-	2,850,000
Total	2,863,020	-	-	-	2,863,020

(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 Board's 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 the Board manages and measures the risk.

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2010

(g) Market Risk (cont.)

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. The Board monitors the Fund's exposure to interest rate risk.

The tables below have been drawn up based on the expected maturities of the financial assets including interest that will be earned on those assets except where the Fund anticipates that the cash flow will occur in a different period.

	Floating Interest Rate	Fixed Interest Rate			Non- Interest Bearing	Total
		1 Year or Less	1 - 5 Years	Over 5 Years		
30 June 2010	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Assets						
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
Total	414,989	152,926	30,175	8,347	2,649,947	3,256,384

	Floating Interest Rate	Fixed Interest Rate			Non- Interest Bearing	Total
		1 Year or Less	1 - 5 Years	Over 5 Years		
30 June 2009	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Assets						
Cash & short term deposits	12,814	75,073	-	-	85,620	173,507
Debt Instruments	106,014	248,204	-	-	320,658	674,876
Australian equities	-	-	353	-	534,249	534,602
International equities	-	-	-	-	308,850	308,850
Property trusts	-	-	-	-	141,370	141,370
Currency contracts	-	-	-	-	52,379	52,379
Private equity	163,434	-	-	-	352,540	515,974
Uncorrelated Alpha (Hedge) Fund	-	-	53,395	-	20,999	74,394
Infrastructure	-	-	-	-	267,333	267,333
Other Assets	29,598	-	-	-	55,152	84,750
Total	311,860	323,277	53,748	-	2,139,150	2,828,035

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2010

(g) Market Risk (cont.)**Interest rate sensitivity analysis**

At 30 June 2010 should interest rates have lowered by 150 basis points (2009: 50 basis points) with all other variables held constant, the decrease in net assets attributable to members (and in net loss after tax) for the period would amount to approximately \$3 million (2009: \$1 million). If interest rates had risen by 150 basis points (2009: 50 basis points) with all other variables held constant, the increase in net assets attributable to members (and in net profit after tax) for the period would amount to approximately \$3 million (2009: \$1 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 Board's Investment Policies and Derivatives Risk Management Strategy and Plan, 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 75% hedged benchmark from 14 September 2009 (previously 50%), and for absolute return strategies the Board employs an actively managed program with a 25% hedged benchmark from 14 September 2009 (previously nil).

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2010

(h) Currency Risk Management (cont.)

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
30 June 2010							
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 Fund	80,260	51,918	-	-	-	-	132,178
Infrastructure	199,661	59,089	-	-	-	-	258,750
Total Investments	2,615,747	418,448	2,786	7,368	18,897	82,725	3,145,971
Other Assets							
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
Total Other Assets	108,179	895	13	213	-	1,113	110,413
Total Assets	2,723,926	419,343	2,799	7,581	18,897	83,838	3,256,384
Less Liabilities							
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
Total Liabilities	27,193	(115)	704	-	-	357	28,139
Net Assets Available to Pay Benefits	2,696,733	419,458	2,095	7,581	18,897	83,481	3,228,245

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2010

(h) Currency Risk Management (cont.)

	AUD A\$'000	USA A\$'000	JPY A\$'000	GBP A\$'000	EUR A\$'000	Other A\$'000	Total A\$'000
30 June 2009							
Cash and short term deposits	119,670	52,987	-	4	645	201	173,507
Debt instruments	573,449	94,023	-	-	7,404	-	674,876
Australian equities	534,602	-	-	-	-	-	534,602
International equities	23,363	218,074	6,716	7,334	22,344	31,019	308,850
Property trusts	146,365	(7,922)	-	-	2,927	-	141,370
Currency contracts	390,651	(293,702)	-	-	(44,570)	-	52,379
Private equity	141,867	263,787	-	-	58,360	51,960	515,974
Uncorrelated Alpha (Hedge) Fund Infrastructure	31,504	42,890	-	-	-	-	74,394
	251,216	27,384	-	(1,851)	(9,416)	-	267,333
Total Investments	2,212,687	397,521	6,716	5,487	37,694	83,180	2,743,285
Other Assets							
Cash at bank	29,598	-	-	-	-	-	29,598
Interest receivable	231	-	-	-	46	-	277
Dividends receivable	1,197	746	-	-	-	-	1,943
Trade settlements receivable	948	883	-	-	-	-	1,831
GST recoverable	337	-	-	-	-	-	337
Sundry debtors	849	-	-	-	-	-	849
Benefits payable to be funded by appropriation, crf Special Account & Prepayments	5,530	-	-	-	-	-	5,530
Deferred Tax Asset	44,385	-	-	-	-	-	44,385
Total Other Assets	83,075	1,629	-	-	46	-	84,750
Total Assets	2,295,762	399,150	6,716	5,487	37,740	83,180	2,828,035
Less Liabilities							
Benefits payable	7,573	-	-	-	-	-	7,573
Trade settlements payable	1,041	1,093	-	-	-	-	2,134
Sundry creditors	8,843	-	-	-	-	-	8,843
Current tax liability	(1,091)	-	-	-	-	-	(1,091)
Total Liabilities	16,366	1,093	-	-	-	-	17,459
Net Assets Available to Pay Benefits	2,279,396	398,057	6,716	5,487	37,740	83,180	2,810,576

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2010

(h) Currency Risk Management (cont.)**Foreign currency sensitivity**

In 2010 a foreign currency rate of 14% movement in all currencies against the Australian Dollar is considered prudent in assessing sensitivity to foreign exchange movements.

In 2009 a foreign currency rate of 5% movement in all currencies against the Australian Dollar was considered prudent in assessing sensitivity to foreign exchange movements.

At 30 June 2010, 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 (and in net profit after tax) would amount to approximately \$53.7 million (2009: \$21.5 million) respectively. 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 (and in net loss after tax) would amount to approximately \$53.7 million (2009: \$23.9 million) respectively.

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 2010, if the equity prices had increased by 10% (2009: 10%) with all other variables held constant, this would have increased net assets attributable to members (and net profit after tax) by approximately \$228 million (2009: \$178 million). Conversely, if the equity prices had decreased by 10% (2009: 10%) with all other variables held constant, this would have decreased net assets attributable to members (and net loss after tax) by approximately \$228 million (2009: \$178 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 2010

(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 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 (Hedged) Funds	76,326	-	55,852	132,178
Infrastructure	-	-	258,750	258,750
Total	1,705,905	285,239	1,154,827	3,145,971

In the period there were no transfers between Level 1 and Level 2. There was a transfer in private equity from Level 3 to Level 1. The transfer occurred as a result of the conversion of unlisted preference share to ordinary shares listed on the Hong Kong stock exchange, for North Asia Strategic Holdings on 28 February 2010.

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 2009	264,326	72,648	515,974	139,255	186,782	1,178,985
Total gains or losses:						
- in statement of changes in net assets	8,970	2,402	16,111	(37,632)	11,300	1,151
Distributions	(26,418)	-	(36,133)	(13,499)	(7,521)	(83,572)
Purchases	11,872	-	51,831	48,670	8,396	120,770
Redemptions	-	(19,198)	-	-	-	(19,198)
Transfers out of level 3	-	-	(43,309)	-	-	(43,309)
Closing balance 2010	258,750	55,852	504,474	136,794	198,957	1,154,827

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

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2010

9. VESTED BENEFITS

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

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

	2010	2009
	\$m	\$m
Funded component	3,241	2,850
Unfunded component	15,231	13,401
Total vested benefits	18,472	16,251

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

	2010	2009
	\$m	\$m
Funded component	3,241	2,850
Net assets adjusted for benefits payable and cost of disposal	3,229	2,811
Surplus/(Deficit)	(12)	(39)

The value of vested benefits represents the liability of the Fund in the unlikely event that all members ceased service on 30 June 2010 and elected the option which is most costly to the Fund. The likelihood of such an occurrence is extremely remote.

At 30 June 2010, 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 2010. These adjustments, amounting to \$12m, have been incorporated into prospective unit prices and consequently this difference is a temporary difference as at the reporting date.

The benefits payable on death and invalidity (excluding invalidity C) of serving members were increased from 1 July 2007 as a result of a change in the definition of Compulsory Retirement Age. The higher benefit entitlements were not reflected in the data as at 30 June 2010 for all affected members. An allowance has been made in the estimated pensioner liability for higher benefits going forward.

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2010

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 interest) 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 report is attached. The liability for accrued benefits was reported as \$15.7 billion. This comprised of \$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 2009 estimated that the impact of the amendment to death and invalidity benefits would result in an increase in accrued benefit of \$0.4billion. The Australian Government Actuary calculated and assessed the amount to be \$0.3billion. The disclosure below reflects the AGA's calculation in the addendum which results in total accrued benefits of \$16.0b.

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	13.1	8.8
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	2.9	1.7
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 2010

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 Military Superannuation and Benefits Board of Trustees No. 1 who held office during part or all of the year were:

The Trustees of the MSB Board of Trustees No. 1

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

Executive of the MSB Board of Trustees No. 1

Mr P Watson (Chief Executive Officer)

(a) Key Management Personnel Compensation

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

	2010	2009
	\$	\$
Short-term employee benefits	506,888	638,930
Other long-term employee benefits	6,877	1,974
	<u>513,765</u>	<u>640,904</u>

13. AUDITORS REMUNERATION

The amount paid and payable in respect of audit services provided by ANAO (excluding GST) is \$0 (2009: \$0)

Deloitte Touche Tohmatsu has been contracted by the Australian National Audit Office (ANAO) to assist the ANAO in providing the audit services to the Fund. These services were provided free of charge in 2010 (Value \$126,770) and 2009 (Value \$102,710).

Other services provided by the Australian National Audit Office included an audit of the RSE, FSR and AFSL licensee requirements. This service was provided for a fee of \$16,538 (2009: \$15,750).

No other services were provided by the Australian National Audit Office or Deloitte Touche Tohmatsu during the reporting period.

14. SEGMENT REPORTING**Business Segments**

The Fund operates solely to provide benefits for its members in accordance with the Trust Deed and the provisions of the *Superannuation Industry (Supervision) Act 1993*.

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2010

Geographical Segments

The Fund operates in Australia and the primary assets it invests in on behalf of its members are managed and administered both in Australia and overseas. The members of the Fund are based in Australia.

15. COMMITMENTS FOR EXPENDITURE

At 30 June 2010 the Fund had outstanding investment capital commitments of \$327m (2009: \$346m). 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.

16 UNRECOGNISED INSTRUMENTS / COLLATERALS

As at 30 June 2010 the Fund had no unrecognised instruments. No financial assets have been pledged as collaterals for liabilities or contingent liabilities.

17. 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. In the opinion of the Board, these requests do not represent a material liability or contingent liability on the Fund as at 30 June 2010.

There were no other contingent liabilities which have been identified as at 30 June 2010 (2009: Nil).

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2010

18. 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:

	2010 \$'000	2009 \$'000
Total surcharge liability outstanding at start of year	20,127	19,675
Surcharge liability recorded against member accounts in respect of surcharge assessments received during the year	<u>16</u>	<u>82</u>
	20,143	19,757
Less Amount paid by members	(144)	(122)
Less Amounts deducted from members' benefit payments	<u>(975)</u>	<u>(699)</u>
	<u>19,024</u>	<u>18,936</u>
<i>Plus:</i>		
Interest applied to outstanding surcharge liability at 30 June 2010	<u>1,049</u>	<u>1,191</u>
Total surcharge liability outstanding at end of year	<u>20,073</u>	<u>20,127</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.

19. RELATED PARTIES

The Trustee of the Military Superannuation and Benefits Fund is 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 of the Board is Mr P Watson.

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

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2010

RELATED PARTIES (cont.)

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 one exception the Board Trustees and staff of its executive are not eligible to contribute to the Military Superannuation and Benefits Scheme. Contributions paid by one Trustee, who is eligible to do so as a member of the Australian Defence Force, 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.

20. SUBSEQUENT EVENTS

There have not been any matters or circumstances arising since 30 June 2010 that have significantly affected or may significantly affect the Fund.



Appendices

SECTION 9

Appendix 1: MilitarySuper in Brief

Investment

Fund Asset Allocation	30 June 2009		30 June 2010	
Asset Class	\$m	%	\$m	%
Cash	174	6	290	9
Debt	484	18	264	9
Alternative Debt	191	7	199	6
Property	141	5	137	4
Australian Shares	535	19	982	31
Private Equity	516	19	548	18
International Shares	309	11	367	12
Uncorrelated Alpha	74	3	132	4
Infrastructure	267	10	259	8
Currency	52	2	-32	-1

Investment Performance	30 June 2009		30 June 2010	
Asset Class	Fund % ¹	Benchmark ²	Fund % ¹	Benchmark % ²
Cash	5.09	5.48	4.04	3.89
Debt ⁴	3.90	5.48	4.06	3.89
Alternative Debt ⁴	2.02	12.50	9.96	12.50
Property	-43.84	12.50	-38.04	12.50
Australian Shares	-9.01	-20.34	7.30	13.05
Private Equity ³	-15.39	15.00	5.18	15.00
International Shares	-24.98	-28.39	2.25	14.04
Uncorrelated Alpha	-39.17	12.50	9.92	12.50
Infrastructure	-6.83	12.50	5.50	12.50

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. Absolute return benchmarks established by the Board in the absence of any commonly accepted benchmark.

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.

Membership

	2009	2010	Increase (decrease)
Contributors at 30 June			
Males	44,262	46,519	2,257
Females	7,393	8,006	613
Total	51,655	54,525	2,870
Total Member contributions	\$186.5m	\$208.7m	\$22.2m
Contributor Exits			
Age retirement	262	303	41
Resignation	1,081	616	(465)
Redundancy	9	12	3
Invalidity retirement	633	426	(207)
Death	108	113	5
Preserved claim hardship, TPI	-	232	232
Preserved claim	-	437	437
Ancillary claim	-	836	836
Unclaimed*	4,008	2,444	(1,564)
Other	44	-	(44)
Total	6,145	5,419	(726)
Pensions in force			
Retirement	1,220	1,314	94
Redundancy	1,914	1,920	6
Invalidity	3,913	4,130	217
Reversionary	180	320	140
Total	7,227	7,684	457
Pensions paid	\$146m	\$163.2m	\$17.2m
Average pension	\$19,690	\$21,967	\$2,277
Preserved Benefit Members at 30 June	75,929	76,430	501

Appendix 2: Publications

The Board publishes 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**.

Annual Reports

- The MSB Board Annual Report to Parliament
- Annual Report to Contributing Members
- Annual Report to Preserved Benefit Members

Publications

- Financial Services Guide
- The MilitarySuper Book*
- Your Guide to Investment Choice Booklet*
- Family Law and Splitting Super – How its done and what happens next?

* *These two documents together form the MilitarySuper Product Disclosure Statement.*

Newsletters

- MilitarySuper Mid-Year Update

Pensions

- Pension Update – issued twice yearly
- Taxation Concessions for Pensions
- Marital Relationship
- Superannuation Contributions Surcharge

Factsheets

- About to Leave the ADF?
- Additional Personal Contributions
- Appeal Rights
- Dependants' Benefits
- Early Access to your Superannuation Benefit
- 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 3: 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.).

Amendments to the Act

There were no amendments to the *Military Superannuation and Benefits Act 1991* during the 2009–10 financial year.

Amendments to the Trust Deed

There were no amendments to the MSB Trust Deed and Rules during the 2009–10 financial year.

Other Legislative Events

The Board approved the Military Superannuation and Benefits (Delayed Payment of Benefits) Determination 2009 and associated guidelines effective from 30 October 2009. The Determination was registered with the Federal Register of Legislative Instruments on 29 October 2009.

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.

Appendix 4: Commonwealth Disability Strategy

Within the framework of the Commonwealth Disability Strategy (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 disabilities
- 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 Commonwealth Disability Strategy in its role as provider.

Quality improvement and assurance mechanisms were in place during the year in the form of a client satisfaction survey conducted through independent research firm Orima Research.

Through ComSuper, Members have access to:

- a TTY phone line
- a service charter specifying the roles and responsibilities of the Scheme Administrator and its clients
- a complaints system to address issues and concerns raised by Members.

Appendix 5: 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 Annual Report 2009–10* available from 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	i
	Table of contents	Mandatory	iii
	Index	Mandatory	145
	Glossary	Mandatory	143
	Contact officer(s)	Mandatory	Back cover
	Internet home page address and Internet address for report	Mandatory	Back cover
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	Overview description of department	Mandatory	*
	Role and functions	Mandatory	*
	Organisational structure	Mandatory	77
	Outcome and program structure	Mandatory	*
	Where outcome and program structures differ from PB 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	Portfolio departments – mandatory	*
Report on Performance	Review of performance during the year in relation to programs and contribution to outcomes	Mandatory	*

Part of Report	Description	Requirement	Page Reference
	Actual performance in relation to deliverables and KPIs set out in PB Statements/PAES or other portfolio statements	Mandatory	*
	Performance of purchaser/provider arrangements	If applicable, suggested	*
	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	*
	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 justice and equity impacts	Suggested	*
	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	*
Management Accountability			*
Corporate Governance			*
	Statement of the main corporate governance practices in place	Mandatory	15
	Names of the senior executive and their responsibilities	Suggested	10
	Senior management committees and their roles	Suggested	26
	Corporate and operational planning and associated performance reporting and review	Suggested	*
	Approach adopted to identifying areas of significant financial or operational risk	Suggested	*

9

Appendices

Part of Report	Description	Requirement	Page Reference
	Agency heads are required to certify that their agency comply with the Commonwealth Fraud Control Guidelines.	Mandatory	*
	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	*
External Scrutiny	Significant developments in external scrutiny	Mandatory	*
	Judicial decisions and decisions of administrative tribunals	Mandatory	*
	Reports by the Auditor-General, a Parliamentary Committee or the Commonwealth Ombudsman	Mandatory	*
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, determinations, common law contracts and AWAs	Suggested	*
	Training and development undertaken and its impact	Suggested	141
	Occupational health and safety performance	Suggested	141
	Productivity gains	Suggested	*
	Statistics on staffing	Mandatory	141
	Enterprise or collective agreements, 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	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.	Mandatory	*

Part of Report	Description	Requirement	Page Reference
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	*
Commonwealth Disability Strategy	Report on performance in implementing the Commonwealth Disability Strategy	Mandatory	133
Financial Statements	Financial Statements	Mandatory	89
Other Information		Mandatory	*
	Occupational health and safety (section 74 of the <i>Occupational Health and Safety Act 1991</i>)	Mandatory	141
	Freedom of Information (subsection 8(1) of the <i>Freedom of Information Act 1982</i>)	Mandatory	138
	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	142
Other	Grant programs	Mandatory	*
	Correction of material errors in previous annual report	If applicable, mandatory	*
	List of Requirements	Mandatory	134

Appendix 6: 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 the Scheme Administrator (ComSuper) are described in the main body of this report and in the *Commissioner for Superannuation Annual Report 2009–10*.

Decision-making powers

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

FOI internal procedures

All requests for documents are referred to ComSuper's Freedom of Information Officer. Compliance with the application fee provisions of the FOI Act are verified and the request is registered and acknowledged.

Decisions to grant access, levy charges or refuse access are made by a delegated officer. Requests for internal review of FOI decisions are forwarded to the appropriate reconsideration section where they are investigated before being submitted to the Commissioner for Superannuation to be decided under section 54 of the FOI Act. All decisions on internal reviews are made by either the Commissioner for Superannuation or the Board.

Requests for documentation concerning the internal administration of ComSuper are directed to the Corporate FOI Officer for consideration. Decisions on internal review are made by the Commissioner for Superannuation or ComSuper's Chief Governance Officer.

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.

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 www.militarysuper.gov.au.

FOI enquiries

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

	FOI ComSuper		
Postal Address	PO Box 22 Belconnen ACT 2616	Email	foi@comsuper.gov.au
		Phone	02 6272 9285
Street Address	Unit 4, Cameron Offices Chandler Street Belconnen ACT 2617	Fax	02 6272 9804
		TTY	02 6272 9827

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 2009–10, we 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.

We also responded to specific member requests by disclosing information to agencies including the Child Support Agency for 6,200 Scheme members.

Our privacy officers addressed 34 requests for information which needed more detailed consideration. In seven cases, we released information in accordance with IPP¹¹ (1)(b) where the individual concerned consented to the disclosure. In 23 cases, we released the information in accordance with IPP 11(1)(d), as the disclosure was required or 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. Three requests were denied.

Developing good privacy practice

We constantly review our 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 call:

Phone (02) 6272 9465 for Military schemes
(02) 6272 9042 for non-scheme related matters.

Written enquiries should be sent to:

ComSuper
PO Box 22
Belconnen ACT 2616

Appendix 7: Executive

Staff resources

During 2009–10 the staff resources of the Executive comprised staff employed directly by the Board on fixed term contracts. In this period the number of MilitarySuper employees increased from 8 to 9, in accordance with additional demands in the management of the Scheme and the Fund.

Employment category	Male	Female	Total
Full-time	3	4	7
Part-time	1	1	2
Total	4	5	9

Professional Development

Ongoing staff training and development is 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 2009–10 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 are 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.

Financial resources

Board Administration Costs

The Board is responsible for the administration of the Scheme and the management and investment of the Fund. Costs of the Board which are related to its responsibilities for the management of the Fund and the investment of its monies are met from the assets of the Fund, in accordance with legislation. Fees paid to the Chairman of the Board and a proportion of those paid to other trustees and the Board's Executive are also a charge against the Fund.

All other costs incurred by the Board are met from monies appropriated to the Department of Defence and paid to ComSuper in relation to the administration of MilitarySuper.

Funding Arrangements

The MSB legislation only allows the Board to hold monies belonging to the Fund. The legislation does not provide any capacity for the Board to hold 'public' monies in respect of an administration activity.

The Board has sought legislative change to enable it to be financially accountable and responsible for its own administration expenses. Until such time as separate funding arrangements can be made, administration expenses related to the Board's non-investment activities are drawn by ComSuper from the administration fees paid by Defence and maintained separately from ComSuper's own operating budget. These funds may only be used to meet Board administrative expenditure as determined by the Board.

The Executive processes all Board accounts, maintains accounting records and produces the Board's financial statements.

Ecologically Sustainable Developments and Environmental Performance

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

- all waste paper and cardboard are recycled
- lighting and energy use are minimised
- the Board's offices, where practicable, use recycled paper and other products in its activities.

Fraud Control

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

Appendix 8: Glossary

active management	an approach to investment where the manager varies its strategy depending on current market conditions. Active managers regularly review their investments with a view to benefiting from changes in the market or from growth in specific assets.
ADF	Australian Defence Force
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investment Commission
Board	Military Superannuation and Benefits Board of Trustees No 1
CDF	Chief of the Defence Force
ComSuper	Commonwealth Superannuation Administration
core manager	a manager whose portfolio is constructed so as to provide a high probability of capturing the market return for a particular asset class. Core managers are used to control liabilities
CPI	Consumer Price Index
defensive assets	assets (such as cash and bonds) that are not very susceptible to market fluctuations
derivatives	investment products (such as an option on a share) that are derived from other securities or assets. Their value is linked to the value of the underlying security
DFRDB	Defence Force Retirement and Death Benefits
direct property	property that is purchased by an investor to be held by that investor (see also indirect property)
FSA	Financial Services Australia
FSG	Financial Services Guide
FSR	Financial Services Reform

growth assets	assets (such as shares and property) which provide investment returns (comprising both capital growth and income) which outperform inflation
ICC	Incapacity Classification Committee
indirect property	an investment in property made by purchasing units in a property trust, or shares in a property company
IPP	Information Privacy Principles
IVR	Interactive Voice Response telephone system
LWOP	leave without pay
MilitarySuper	Military Superannuation and Benefits Scheme
MSB	Military Superannuation and Benefits
MSBS	Military Superannuation and Benefits Scheme
MSCC	Military Superannuation Communication Committee
passive	a style of investment management that seeks to achieve performance management equal to the market or index without making any active investment decisions
PDS	Product Disclosure Statement
RC	Reconsideration Committee
SCT	Superannuation Complaints Tribunal
SIS Act	<i>Superannuation Industry (Supervision) Act 1993</i>
SRC Act	<i>Superannuation (Resolution of Complaints) Act 1993</i>
surcharge	<i>Superannuation Contributions Tax (Assessment and Collection) Act 1997</i> , a tax on employer-financed superannuation contributions
unitisation	the conversion of Member interest-bearing accounts to unit-based accounts within the Fund

Index

A

Annual Effectiveness Review, 32
 Annual Report to Contributing Members, 31, 68, 131
 Annual Report to Preserved Benefit Members, 68, 131
 Auditor-General, i, 79, 136–137
 Australian Bureau of Statistics, 85
 Australian Prudential Regulation Authority (APRA),
 17, 19, 31, 79, 143

B

benefits, 81
 Discharge, 81
 Early Release of Preserved, 82
 Employer-financed, 81, 85
 Invalidity, 83, 131
 Member-financed, 81
 Payments, 81–82
 Pension, 85
 Reversionary, 85
 Bleeser, Mr Felix, 11–12, 26
 Board, 10, 19, 26
 Bray AM, Brigadier Peter, 28
 Brown CSC, Brigadier Bob, 11–12, 27
 business plan, 24

C

Callesen, Ms Chloe, 28
 Chairman, i, 5, 10–11, 141
 Charles, Colonel M, 28
 Charley, Mr Phil, 28
 Chief of the Defence Force, 5, 10, 62, 143
 Combet AM MP, The Hon. Greg, 5

committees
 Audit and Risk Management, 10–11, 26, 78–80, 88
 Complaints, 28
 Military Superannuation Communication (MSCC),
 11, 27, 61, 144
 Reconsideration, 28, 86–87, 144
 Risk Budget, 10, 27
Commonwealth Authorities and Companies Act 1997, 24
 complaints, 63, 86–88, 133, 135
 ComSuper, 5, 25–26, 28–32, 65, 78–81, 83, 87–88,
 133–134, 138–143
 Consumer Price Index (CPI), 68, 85, 139, 143
 Cooper Report, 4
 Corporate Governance Statement, 15
Corporations Act 2001 (Corporations Act), 12, 22, 31,
 37, 67
 Corporations Law, 22–23, 29, 78
 Custodian, 26, 29, 39, 43, 79, 81
 Customer Service Centre, 65

D

Declaration of Related Party Transactions, 17
 Defence Force Retirement and Death Benefits
 Scheme (DFRDB), 4, 9, 24, 27–28, 32, 61, 143
 Department of Defence, 9, 12, 16, 25, 27, 63, 78,
 80–81, 139, 141
 Department of Veterans' Affairs, 139
 Disclosure of Interests Statement, 17

E

Executive, 17–19, 28–30, 32, 77–79, 88, 141–142

F

Factsheets, 131
Financial Management and Accountability Act 1997, 24
Financial Services Guide (FSG), 31, 131, 143
Fletcher, CMDR Roz, 27
Freedom of Information Act 1982 (FOI Act), 88, 138–139

G

Griffin MP, the Hon. Alan, 5

H

Henry Review, 4
Houston AC AFC, Air Chief Marshal Angus, 5
Hyams, Mr Tony, i, 5, 10–12, 27

I

Indemnity Insurance, 12
invalidity
 benefits, 83, 86, 131
 Classification Process, 83
 Classification Review, 84
 Retirement Classifications, 84
investment
 beliefs, 38
 managers, 42–43, 54–57, 81
 managment, 29, 38, 41–42
 objectives, 37
 options, 3, 9, 41–46, 48, 58
 performance, 3–4, 40, 47–49, 58, 129
 policy, 27, 37, 42
 strategic asset allocations, 41
 strategy, 38–42

L

Lawson, Mr Simon, 83
Letter of Transmittal, i
licences
 Australian Financial Services (AFS), 12, 17, 29, 32, 63, 141
 Australian Prudential Regulation Authority (APRA), 29, 31

M

Members
 Contributing, 4, 31, 61, 68, 71, 80, 82, 131
 Exits, 71–72
 New, 71
 Preserved Benefit, 4, 61, 68, 73, 80, 82, 130–131
Member Services Online (MSO), 62, 66–67
Member Statements, 63, 67, 80
Mid-Year Update, 63, 66, 68, 131
Military Reconsiderations Unit, 86
Military Superannuation and Benefits Act 1991 (MSB Act), i, 9, 15, 78, 132
Mills, Commander Ross, 83
Minister for Defence Personnel, Materiel and Science, 5
Minister for Finance and Deregulation, 5, 24
Ministerial Enquiries, 88

O

Occupational Health and Safety (Commonwealth Employment) Act 1991, 141
online services, 66
organisational structure, 77
Orima Research, 32, 133

P

Pensioner Services Online (PSO), 66, 68
 Pension Update, 68, 131
 PricewaterhouseCoopers (PwC), 10, 27
Privacy Act 1988 (Privacy Act), 139–140
 Product Disclosure Statement (PDS), 31, 131, 144

Q

Quality Service Index (QSI), 32–33

R

Remuneration Tribunal, 16
 Ripoll Review, 4

S

Safety, Rehabilitation and Compensation Act 1988, 141
 Scarlett, Mr Craig, 27
 Scullion, Ms Louise, 83
 Secretary of Defence, 5
 Service Level Agreement (SLA), 25, 30, 80
 Snowdon MP, The Hon. Warren, i
 Staff resources, 141
 Strategic Asset Allocations, 41
Superannuation Industry (Supervision) Act 1993
 (SIS Act), 15, 17, 22, 27, 29, 31, 37, 61–63,
 78, 80, 86–88, 144
Superannuation (Resolution of Complaints) Act 1993
 (SRC Act), 87, 144
 Swanwick MAICD, Warrant Officer Robert, 11–12, 26–27
 Szondy, Mr Gabriel, 10, 12, 26–27

T

Tanner MP, the Hon. Lindsay, 5
 Trust Deed, 15, 20, 25, 132, 138

U

Uhrig Report, 23
 Unitisation, 58
 unit prices, 29, 58, 79
 Balanced, 58
 Cash, 58
 Conservative, 58
 Growth, 58
 High Growth, 58

V

Vision Statement, 15

W

Watt AO, Dr Ian, 5
 website, 31, 58, 62–66, 68, 139
 Whistleblower Protection, 22

Street address

MilitarySuper
Suite 3-07, 3rd Floor
10 Rudd Street
Canberra City ACT 2601

Postal address

GPO Box 636
Canberra ACT 2601

Telephone

(02) 6122 6700

Facsimile

(02) 6122 6777

Annual report enquiries

(02) 6122 6704

Internet

www.militarysuper.gov.au

Annual report online

[www.militarysuper.gov.au/
annualreports](http://www.militarysuper.gov.au/annualreports)

MSB Fund ABN

50 925 523 120

SPIN

CMS0103AU

ISSN 1037 7956

ISBN 978-1-921246-49-4