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The MSB Board
Annual Report



2007-08

Military Superannuation and Benefits Scheme



***The MSB Board Annual
Report to Parliament***

2007–2008





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Note: All contribution, benefit, membership and exit statistics are derived solely from records available to the Commissioner for Superannuation 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 Defence Science and Personnel
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 of Trustees (the Board) is pleased to submit to you its Annual Report on the performance of its functions for the year ended 30 June 2008, together with financial statements in respect of the management of the Military Superannuation and Benefits Fund during 2007–08, 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 after you receive it.

Yours faithfully

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

Tony Hyams
Chairman
Military Superannuation and Benefits Board



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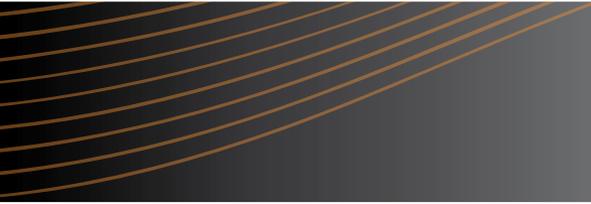
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Chairman's Overview

Military Superannuation and Benefits Scheme

SECTION ONE

1

Chairman's Overview

It is a pleasure to deliver my first report as Chairman of the Military Superannuation and Benefits Board of Trustees. I regard my appointment as both an honour and an important duty.

It is my intention as Chairman to ensure that I continue to build on the heritage provided by my predecessor (Mr Charles Kiefel), under whose leadership the Fund grew in size to \$3 billion and embraced innovative approaches to investment; approaches which are increasingly becoming the norm amongst major superannuation funds.

It is also my intention to look at ways of improving and expanding the services provided to members and to adopt investment strategies aimed at achieving sustainable investment returns for Members over the long term.

This past financial year has not been without its challenges given the extreme volatility experienced in global markets in recent times – driven by concerns about recession in the USA, the sub-prime credit crisis and influenced by the continuing growth story in the emerging economies of China and India. In the six years prior to December 2007, Australian super fund investors witnessed very strong investment returns, largely as a result of sustained bull runs in both domestic and international equities. During this period, members of most superannuation funds enjoyed returns in the mid to high teens; the domestic equity markets in particular providing stellar results. However, investment markets tend to run in cycles and since the beginning of 2008 we have witnessed significant declines and high volatility in investment markets around the world. Indeed from the high in November 2007 to the lows at year end listed markets globally have shed as much as 28% of their value. In Australia despite the encouraging start, the All Ordinaries Index finished the year 16.95% down. This was the worst performance for the index in 26 years and the worst June performance for 40 years.

In this environment most superannuation funds and particularly those with larger exposures to listed equities, have declared substantial negative returns for the first time in many years. For many new superannuation investors this is the first time that they have experienced negative returns on their retirement savings.

Investment Performance

MilitarySuper's smaller exposure to listed markets, its larger exposure to alternative asset classes and its strategic decision to move to larger holdings in cash, have served the Fund and Members well during the current difficult period. Although the Fund recorded negative returns of -.2.62%(net) and -0.48%(net) respectively in the Growth and the Balanced investment options for the year, our strategy helped to cushion the impacts of the market downturn such that our returns for the year are significantly better than most of our peers.

Our returns in the other three investment options were +6.13%(net) in the Cash Option, +2.65%(net) in the Conservative Option and -3.86%(net) in the High Growth Option.

Whilst it may be of some comfort to Members to know that their fund performed better than its peers, the fact remains that the returns for three of the five investment options were negative. Therefore it is timely and appropriate to remind Members that our key objective in

managing these retirement savings is to achieve superior results over the medium and long terms. To demonstrate this important point, the positive average annual returns achieved over the past five years to 30 June 2008 were:

High Growth	12.7%
Growth	11.4%
Balanced	10.7%
Conservative	7.5%
Cash	5.1%

Acknowledgements

During 2007-08 there were three significant changes to the five member Board. After 10 years of exceptional leadership, Mr Charles Kiefel stood down as Chairman. Dr Michael Sharpe retired after 9 years service as both trustee and Chairman of the Board's Audit and Risk Management Committee. Air Commodore Lee Roberts resigned as trustee and Chairman of the Board's Communications Committee in order to take up an overseas employment opportunity. All three trustees made significant contributions to the operations of the Board during their tenure and were unstinting in their determination to serve the best interests of members of the ADF.

Although these departures represented a significant loss of experience I am pleased to advise that the appointments of Mr Gabriel Szondy and Brigadier Bob Brown have ensured that the Board is well equipped to fulfil its role as trustee.

Mr Szondy was formerly a Senior Partner with PricewaterhouseCoopers. He has had over 30 years experience in the superannuation industry and is regarded as a leading authority on Australian superannuation funds. Brigadier Bob Brown has had a distinguished career in the Australian Defence Force and had previously served as a trustee on the MilitarySuper Board. He then served as Chairman of the Board's Communication Committee and now brings a wealth of knowledge and experience as Employee Representative to this Board.

I wish to place on record my appreciation of the efforts of all of the trustees, both current and past, who have done so much to ensure that MilitarySuper continues to serve the interests of Members and government at such a high level. I am also grateful for the ongoing support of the Minister, the Department of Defence and the Chiefs of the Defence Force.

On behalf of the Board I would also like to commend the work of our investment advisers Strategic Capital Management as Lead Adviser, Sovereign Investment Research as adviser in the alternative asset sector, Members of the Board's Investment Committee and the Board's in-house investment team for the significant work undertaken in the research, monitoring and review of the Fund's investment strategy, manager configurations and new investment opportunities. The outcome of this work continues to have significant long-term benefits for all Members of the Scheme.



Chairman's Overview

I would also like to express the Board's thanks to the Board Executive for sound advice, assistance and support; to the Scheme Administrator (ComSuper) for their ongoing commitment to servicing Members of the Scheme in a year of considerable challenge; to the Fund Custodian (National Custodian Services) and to all of the Members of the Board's committees and the Board's advisers for their continuing good work throughout the year.

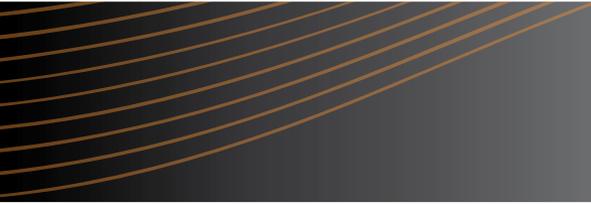
Ongoing commitment

The superannuation industry is developing fast and the MilitarySuper Board is keen to move with and indeed even lead some changes, always in the best interests of our Members. Our ongoing aim is to provide efficient administration and valuable services to Members and to achieve superior investment returns on Member savings over the medium and long terms.

The Board remains determined to ensure that MilitarySuper is one of the best superannuation schemes in Australia.

A handwritten signature in black ink, reading "Tony Hyams". The signature is written in a cursive style with a large, sweeping initial 'T'.

Tony Hyams
Chairman
Military Superannuation Board of Trustees



About the Scheme

Military Superannuation and Benefits Scheme

SECTION TWO

2



About the Scheme

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

Description of the Scheme

MilitarySuper is a hybrid 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 the 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 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 re-appointed to these positions. When the current employer representative appointed at the Minister's pleasure ceases office his replacement will be appointed for a term of up to three years. Trustees are removed in the same way they are appointed.

Trustees holding office at 30 June 2008 were:

Chairman:

Mr Tony Hyams

Trustee since 1 September 2007

Mr Hyams was formerly Head of the Credit Suisse Group in Australia and is now a senior advisor to the Group. He is a director of the Australian Government Employees Superannuation Trust, Chairman of its Investment Committee and Deputy Chairman of the Australian Maritime Safety Authority. He is also a director of several private sector organisations. Mr Hyams holds degrees in Law and Commerce from the University of Melbourne. In addition to his role as Board Chairman, Mr Hyams is also Chairman of the Board's Investment Committee.

About the Scheme

Minister's Nominees:

Mr Gabriel Szondy

Trustee since 1 August 2007

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 CARE Super and is a director of Frontier Investment Consulting. He currently serves as Chairman of the Audit and Risk Management Committee. Mr Szondy replaced Dr Michael Sharpe who retired on 31 July 2007.

Mr Felix Bleeser

Trustee since 1 March 2005

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 has been 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 Audit and Risk Management Committee.

ADF Nominees:

Brigadier Bob Brown CSC

Trustee since 18 October 2007

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 head of GHD's Defence business stream.

He is a Fellow of the Australian Institute of Company Directors and currently serves as Chairman of the Military Superannuation Communications Committee.

About the Scheme

Board meetings

Table 1: Schedule of Board meetings 2007–08

	15-16 Aug 2007	5 Sept 2007	1 Nov 2007	12 Dec 2007	20 Feb 2008	5 Mar 2008*	22-24 Apr 2008	4 Jun 2008
Mr Charles Kiefel ³	P							
Mr Tony Hyams ⁴			P	P	P	P	P	P
Dr Michael Sharpe ¹								
Mr Gabriel Szondy ²	P	P	P	P	P	P	P	P
WOFF Robert Swanwick	P	P	P	P	P	P	P	P
Air Commodore Lee Roberts ⁵	P	P						
Brigadier Bob Brown ⁶			P	P	P	P	P	P
Mr Felix Bleaser	P	P	P	P	P	P	P	P

1 Dr Michael Sharpe resigned as Trustee effective 31 July 2007.

2 Mr Gabriel Szondy was appointed Trustee effective 1 August 2007.

3 Mr Charles Kiefel resigned as Chairman effective 31 August 2007.

4 Mr Tony Hyams was appointed Chairman effective 1 September 2007.

5 Air Commodore Lee Roberts resigned as Trustee effective 17 October 2007.

6 Brigadier Bob Brown was appointed Trustee effective 18 October 2007.

* = Extra-ordinary meeting of the Board

P = Present

Indemnity insurance

The Board is required to maintain a Trustee Indemnity Insurance Policy. This is to ensure that the assets of MilitarySuper 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 Administrator acting as authorised representatives of the Board under its Australian Financial Services Licence. The current policy is held with AIG. The Department of Defence also provides an indemnity against errors and omissions by staff of the Board's Administrator, that cause a loss to the Fund. To date there have not been any claims against the insurance policy or Departmental indemnity, nor have any regulatory penalties been applied to MilitarySuper.





Governance

Military Superannuation and Benefits Scheme

SECTION THREE

3

Governance

During the year the Board continued to give particular attention to processes supporting decision-making, accountability and standards of service.

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.

Vision statement

The Board has adopted the following as its vision for the Scheme:

'Our vision for MilitarySuper is that it be recognised by Members, key stakeholders and peers as, if not the best then amongst the best superannuation schemes in Australia, both in terms of services to Members and in terms of its investments.'

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

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 Board Members 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 Board Members, 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

Board Members will lodge, on appointment and annually thereafter, a Disclosure of Interests Statement and a Declaration of Related Party Transactions. While recognising that circumstances might change, Trustees are required to declare at each annual planning meeting their intentions and availability to continue to serve for the next twelve months.

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

As a general principle Board Members should decline or disclose instances of repeated or significant entertainment or gift from any service provider. Board Member 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. Details of gifts or entertainment that are more than a token must be supplied to the Board's Chief Executive Officer 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 scrutinize 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 Fund and not in their own interests or those of external parties such as service providers, fund managers or investment advisors. 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

- 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 trustees 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



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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 whistle blowing 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 principle 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

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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.

Business plan

The Board’s Business Plan (the Plan) sets out the main objectives of the Board. For each of the significant spheres of investment, administration, communications and corporate governance, the plan identifies the desired outcomes, performance indicators and monitoring arrangements.

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. The Plan has also been developed as a means of clarifying the roles and functions of the Board and its service providers. 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.

Administrative agreement

The Commissioner for Superannuation and, through that office, Commonwealth Superannuation Administration (ComSuper), is the legislated provider of 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.

Delegations

The Board has delegated the majority of its general 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 subcommittee of the full Board. As at 30 June 2008 the Committee comprised Mr Gabriel Szondy (Chairman), WOFF 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 Master 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
- 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.

PwC has also been appointed as the Board's taxation adviser.

Investment Committee

The Investment Committee is a subcommittee of the full Board. At 30 June 2008 the Committee comprised all five trustees with Mr Tony Hyams as Chairman.

The primary objective of the Committee is to act as a stimulant to the promotion of new investment ideas and concepts and to act as a filter for those investment ideas and concepts. Its primary role is to advise the Board on investment issues and related matters that are central to the Board's functions of managing and investing the Fund. It acts as the point of contact and focus between the Board and its key external advisers on investment matters. For this purpose it meets regularly with the Board's primary advisers to monitor Fund performance and actions taken to implement the Board's investment strategy. The Committee's responsibilities are to:

- keep the Board informed on matters within the Committee's authority
- provide analysis and advice to the Board on outcomes relating to new investment opportunities.

The Committee is supported by up to four independent advisers appointed by the Board.

The Committee's responsibilities do not extend to the establishment of investment strategy or the selection of investment products or service providers (although it might advise on these issues). These responsibilities remain the province of the full Board, which may have regard to recommendations of the Committee.

The specific duties the Committee is expected to undertake in meeting its principal purpose, are to:

- consider, review and advise on the Fund's investment objectives
- consider and review the Fund's investment strategies and make recommendations to the Board
- review and evaluate the investment performance of the Fund
- evaluate and advise the Board on specific strategic investment proposals
- monitor investment manager performance
- review and evaluate the performance of asset consultants and other investment related service providers



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- evaluate appropriate investment structures for the holding of the Fund's assets and make recommendations to the Board
- consider and advise on investment manager mandates
- report and make recommendations to the Board on investment matters, including risk and overlay matters.

The Committee met as required during the year in person and via teleconference.

Military Superannuation Communication Committee (MSCC)

The Military Superannuation Communication Committee is a subcommittee of the full Board.

As at 30 June 2008 the Committee comprised Brigadier Bob Brown (Chairman), WOFF Robert Swanwick, Mr Adrian Wellspring (representative of the Department of Defence) and LCDR Roz Fletcher (representative of the DFRDB Authority).

The primary objective of the Committee is to act as an advisory body to the full 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 2008, 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 Donna Craw (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 focus of the Executive during 2007-08 continued to be on the enhancement of in-house capabilities in areas of governance, compliance, scheme administration and investment implementation and monitoring.

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.

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 advisors, fund managers and custodian.

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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 Boards 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 steering committees charged with responsibility for providing guidance and support in the implementation of system changes and in the redevelopment of ComSuper operating systems used for the purposes of the administration of the Scheme.

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 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. Going forward, 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 is 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 will therefore continue to actively negotiate with 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 Administrator have identified a number of administrative errors which have raised concerns about the operating systems used for Scheme Administration. The Administrator has implemented manual processing for a small category of administrative functions pending the implementation of a number of system ‘fixes’ to affect permanent solutions. Longer term it is the Administrator’s intention to migrate existing legacy systems to a single operating platform covering all the Commonwealth Schemes it administers. The Board considers the current identified shortcomings of the existing CAPITAL system, and its planned migration to a new platform, to be areas of increased business risk to MilitarySuper. As a result the Board has revised its risk assessment and initiated an enhanced program of audit review.

Required funding for the systems modernization project was approved in the context of the 2007–08 Budget. This will flow to ComSuper over a three year period, commencing from 1 July 2007, commensurate with the expected timeframe for the specification and build of any replacement system. The Board, through its Executive, is represented on committee’s formed to consider replacement options and will be involved throughout the tender and build phases of the project. The Board has appointed an independent expert to assist it during the extended period of the project to ensure that the outcomes achieved are consistent with the business expectations of the Board and the needs of Members. This is an extensive project requiring significant ongoing input from the Executive.

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 its Administrator (ComSuper). Although the Act remains the primary determinant of the relationship, under the AFS licensing arrangements staff of ComSuper must

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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, although of minor impact, nonetheless were required to be reported.

Product Disclosure Statement

One of the key requirements of the Financial Services Reform legislation 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 only 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 reviews

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.

In addition, the Scheme’s internal auditor undertakes a review of one major service provider (the Administrator, Custodian and Asset Consultant/Advisor) each year, so that all major service providers are reviewed once over a three year cycle. The performance standards referred to in this report are those defined in the current administrative agreement. Performance against the standards, and the standards themselves, are the subject of ongoing annual effectiveness reviews.

Governance

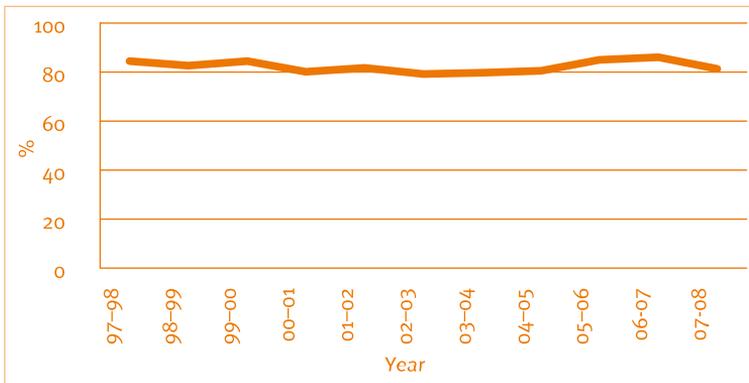
Client feedback

During 2007-08 the Board's administrator continued to conduct client satisfaction surveys with the assistance of the Canberra-based firm Orima Research. Clients who had recent contact were surveyed once during the year. On a point scale of 1-10 the quality of services surveyed was consistently rated highly.

The Quality Service Index (QSI) for Military Members, introduced to measure the survey results and to enable comparison between survey periods, currently ranks in the region of an 85% satisfaction level. Chart 1, which shows ComSuper's QSI scores for the military schemes in each of the twenty-three survey periods since data collection began in 1997-98, shows a consistent level of client satisfaction within the 80-85% range.

The survey results feed into a continuous improvement process. Action plans are derived and reported against, and changes made to procedures as a result of the survey feedback, with the objective of improving client service.

Chart 1: Quality Service Index (QSI) Scores for Military Member Satisfaction





Fund Investments

Military Superannuation and Benefits Scheme

SECTION FOUR



4

Fund Investments

In formulating an investment policy for MilitarySuper, the Board focuses on two primary objectives: to maximise long term Fund returns; 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:

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

The Board has set investment objectives for the Fund and developed strategies to pursue them. As a general principle Fund assets should be allocated in a way that provides the best chance of meeting the Fund's 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 best return on assets should therefore always be sought.

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

(i) Return Objective

The return objective for the balanced, growth and high growth option is expressed as an absolute return target, after fees and taxes. These are 8%, 10% and 11% all net per annum over the long term.

The return objective for the cash and conservative options is expressed as a margin above the UBS Bank Bill Index (Cash).

(ii) Risk Budget

The Risk Budget is a framework that sets risk tolerances that the Fund is prepared to accept to achieve its target return. Standard deviation is used as the main measure of risk. The Risk Budget is expressed as a standard deviation for each of the investment options. The focus of risk control is all of the components of the Strategy, including asset allocation (capital allocation) and manager allocation and not just the individual components. This focus is

designed to prevent the individual mandates from causing the Strategy to be either too aggressive (thus creating an excessive possibility of loss) or too defensive, given the return objective of the Strategy.

Importantly this is a budget which if exceeded acts as a trigger for action by the Board. If the risk budget is exceeded, a decision must be approved and implemented to manage this risk.

Investment strategy

Given that expected returns from traditional listed markets can be volatile, and acting with the advice of its professional investment advisors, the Board has developed an investment strategy for the Fund. This has at its core an absolute return objective in the Growth (Default) option of achieving sustainable long term investment returns of 10% (net) per annum over the long term with reduced risk of negative return. This will be achieved by seeking to add value from a diverse range of non-traditional 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 by pursuing active management strategies capable of delivering above market returns. Because superior stock selection provides the most consistent and reliable opportunity for generating excess return, the manager selection process favours managers with exceptional bottom-up fundamental research capabilities. Therefore, recognising the difficulty of outperforming the market on a consistent basis, emphasis is on selection of managers with high integrity, sound investment philosophies, strong track records, superior organisations, and sustainable competitive advantage.

Reserves

The Board does not maintain a reserve account. In general terms a reserve account is used to smooth rates of return Members receive. Members of MilitarySuper benefit by having all Fund earnings distributed to their accounts (after tax and all expenses are deducted). That is, they generally receive a higher return than would be the case if some of the funds were diverted to a reserve. It also follows that any losses are also passed on to Members as they occur, which means that remaining Members are not subsidising those who leave.

Fund earnings are fully reflected in the unit prices declared each day for each of the investment options.

Diversification and risk control

The investment strategy and risk control framework developed by the Board is focussed on providing adequate diversification and active risk management at a Fund level, asset level and manager level. All manager exposures are monitored individually as well as in aggregate in order to ensure that the respective strategies are within the risk parameters as set out by the risk budget. A similar framework is applied to the sector exposure as well as the individual investment options as part of the risk controls as set out in the risk budget.





Fund Investments

Risk controls are in place to ensure that excessive investment risk (that is risk outside of the risk budget) is taken by the portfolio of investments. Some investment risk will be taken by the portfolio in order to generate excess returns. However, parameters are in place to ensure that risk taken is within the investment guidelines set out by the risk budget.

Business risk can result from poor performance by suppliers. Some important suppliers to the Fund are the Custodian, the Asset Sector Advisors/managers, the Fund Managers, and the Fund 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 eliminate business risk, it does not seek to eliminate investment risk. Investment risk can only be eliminated by adopting a passive investment strategy. This approach is inconsistent with the Board's policy, which is to add value through active management.

The Board's investment policy allows managers to use derivatives subject to strictly controlled limits. Derivatives are used by the Fund and its managers as part of implementing the investment strategy. It includes 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.

In addition, no single share holding can exceed 7.5% of the Fund's total value. The exposure to a single economic entity, as an investment issuer or counterparty, must not exceed 10% of the total Fund value (Australian Government debt is excluded from this). For this purpose a single economic entity is defined as an investment, or an investment vehicle, that has a separate legal identity and (if appropriate) trusteeship arrangement from any parent or related party.

Where either of the above constraints are breached because of extreme market fluctuations leading to a fall in fund values, this will act as a trigger for the Board to consider what corrective action is appropriate.

A focus on quality investment performance

Investment performance is reviewed and monitored on a risk adjusted basis to ensure that the investment is consistent with the overall risk budget (or investment strategy). The Board prefers a portfolio philosophy that is likely to perform well through the full economic cycle rather than one which is very dependent on specific market conditions that are not likely to last a full cycle or are subject 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 this approach is expected to yield better returns. Over time these returns should compound to provide substantial increases in the Fund's value, and thus improve the financial position of the Fund's stakeholders.

Adding value over a passive investment 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 Risk Budget for each of the investment options.

Strategic asset allocations

Consistent with its objectives of reducing dependence on market generated returns (Beta) the Board has implemented investments in Alternative Asset classes such as Private Equity, Unlisted Property, Infrastructure and Uncorrelated Alpha products such as Hedge Funds whose return characteristics are not aligned with the returns of traditional listed markets.

Although it is the Board's intention to maintain the current five choice options, with their current exposure to assets with growth and defensive characteristics, the alternative asset classes being introduced may, 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 Fund is able to allocate its private equity investments on a tactical basis as the best opportunities arise. As commitments are drawn down progressively over time, undrawn commitments are invested in Australian shares and cash.



Fund Investments

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

Asset class	Cash option %	Conservative option %	Balanced option %	Growth option %		High Growth option %
				(a)	(b)	
Cash	100	20	5	10	2	
Debt Instruments (1)		50	33	5.4	10	
Property		7	6	7	8	10
Australian Shares		9	18	19.5	20	30
Private Equity			5	17.3	10	15
International Shares		9	18	17.3	20	30
Infrastructure		3	8	10.8	14	5
Uncorrelated Alpha products (inc. hedge funds)		2	5	5.7	7	10
Alternative Debt			2	7	9	
Total Assets		100	100	100	100	100
Total Growth Assets	100	30	62	84.6	88	100
Illiquid Assets	0	12	26	52.2	50	40

(1) Infrastructure Debt is included in this category

(a) Represents the Growth Option's actual exposure as at 30 June 2008

(b) Represents the long term Strategic Asset Allocation for the Growth Option

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 consultancy 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’s Investment Committee, supported by its specialist advisors, continued the detailed analysis and review of investment managers and investment products consistent with the ongoing implementation of the Fund’s investment strategy.

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 pursued, 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 2008 are shown in Table 8 (page 60).

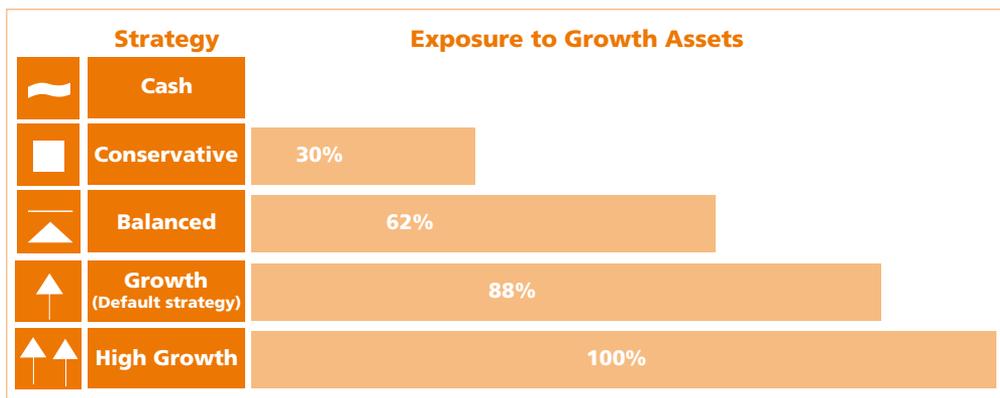
Custodian services

The Master 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 Custodian Services Limited as Master Custodian of the Fund’s assets.

Member investment choice

Members have the choice of five investment strategies for investing their Member benefit. They 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. The five options are depicted in the following diagram:



Impacts of investment strategy on choice options

Members continue to be able to experience 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. Growth Assets compare with more defensive assets such as fixed interest and cash.

The alternative asset classes introduced into the Fund, but particularly Private Equity, direct property and uncorrelated alpha products also display growth characteristics which are generally unaffected by movements in traditional listed markets such as shares. Investments in infrastructure, on the other hand, may take the form of investments in start up projects or in established facilities. Investments in the latter provide access to strong cash flows and potential for future capital growth. Therefore this form of investment displays similar defensive characteristics to more traditional defensive assets such as cash and bonds. Indeed investments in infrastructure projects may comprise elements of both equity and debt, with the latter providing opportunity for senior debt lending, producing bond-like rates of return. As the bulk of the assets of the Fund (i.e. over 90%) are invested in the Growth (Default) investment option, it is possible for each of the remaining four options to be balanced on a weekly basis to the long term asset allocation set for that option. As a result, each of these options is fully exposed to the range of assets (including the new alternative asset classes) set for that option and their returns reflect the full impact of those exposures consistent with the new investment strategy.

Given the volume of funds invested in the Growth option and the volatility in investment markets, it is not always possible for that option to be fully aligned to the long term strategic asset allocation set by the Board. As a result investment ranges are provided around the strategic asset allocations for each asset class within this option. These ranges allow the Board to make active investment decisions and respond appropriately to changing market and economic conditions.

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

Table 3: Investment Objectives for Investment Options

Strategy	Outline	Investment objective	Risk budget (likelihood of a negative return)
Cash	This strategy aims to maximise protection against capital loss. To do this it invests only in secure cash investments such as bank deposits, bills, mortgages and short term funds.	Achieve returns that match the UBS Bank Bill Index over one year period. The investment focus of this option is short-term and is provided for Members expecting to access their funds within 1-2 years and therefore seeking a greater degree of certainty in investment returns.	Very low.
Conservative	This strategy invests in a conservative mix of assets, mostly debt instruments (such as fixed interest, infrastructure debt and cash), with some investment in shares and property.	Achieve returns that match the UBS Bank Bill Index over one year period.	Low.
Balanced	This strategy invests in a diversified mix of assets such as debt instruments (including infrastructure debt), but with a bias towards growth assets.	Achieve returns that are greater than 1% (net) over the UBS Bank Bill Index over most rolling three year periods.	Approximately one year in eight.



Fund Investments

Strategy	Outline	Investment objective	Risk budget (likelihood of a negative return)
Growth (default)	This strategy invests mainly in assets with growth characteristics (including Private Equity, Infrastructure and Uncorrelated Alpha products) with some investment in property, debt instruments and cash. This option currently has a strong bias towards listed equity markets (both domestic and international). This bias towards market generated returns is being reduced with greater exposure to unlisted growth asset classes such as Private Equity, Infrastructure (via both equity and debt), Property and Uncorrelated Alpha products such as hedge funds.	Achieve absolute returns of 10% (Net) per annum over most rolling five year periods.	Approximately one year in seven.
High Growth	This is the most aggressive strategy. It invests totally in growth assets, with no direct investment in cash or debt instruments such as fixed interest. The option's current high dependence on returns generated by listed equity markets was reduced through the introduction of increased allocations to alternative investment growth assets such as Private Equity, Infrastructure, Property and Uncorrelated Alpha products such as hedge funds.	Achieve absolute returns of 11% (Net) per annum over most rolling seven year periods. This strategy has a long term investment focus and is provided for those Members seeking higher rates of return over the lifetime of their investment and who are able to tolerate variability in returns over the shorter term.	Approximately one year in six.

Investment performance

By any measure 2007-08 has been an extraordinarily difficult year for financial markets and investors, given the extreme volatility experienced in global markets; fuelled by concerns about recession in the USA, the sub-prime credit crisis, rising oil prices, fears on inflation and compounded by the extraordinary growth story in the emerging giant economies of China and India. Indeed the past twelve months is a timely reminder of just how fickle share markets can be and how quickly investment fortunes can change.

After six years of strong growth 2007 commenced with promise and by November the local market seemed set to break through the 7000 point barrier for the first time. However, over the course of the next seven months stock values fell to their lowest since 2006 with the All Ordinaries Index ending the year by recording its biggest fall in 26 years. Share markets around the world fared no better.

In this environment most superannuation funds, but particularly those with larger exposures to listed equities, have declared significant negative returns for the first time in many years. For many new superannuation investors this is also the first time that they have experienced negative returns on their retirement savings, with the median balanced fund achieving negative 6.4% returns for the year (balanced funds are defined as those that hold 60-70% of investments in growth assets) with the average growth fund declaring negative returns of between 7 and 8 percent.

MilitarySuper's smaller exposure to listed markets and larger exposure to alternative asset classes, combined with the strategic decision to move to larger holdings in cash, have served the Fund and Members well during the current period of uncertainty. Although the Fund recorded negative returns of -2.62%(net) and -3.86%(net) respectively in the Growth and High Growth investment options for the year, our strategy helped to cushion the impacts of the market downturn such that our returns for the year are significantly better than most of our peers.

Our returns in the other three investment options were +6.0%(net) in the Cash Option, +2.7% (net) in the Conservative Option and -0.5% (net) in the Balanced Option.

Whilst it may be of some comfort to Members to know that their fund performed better than its peers, the fact remains that the returns for the year for three of the five investment options were negative, However, in periods of such extreme volatility as we have just witnessed it is important to stress that, for most Members, retirement savings and investments are about the long term. In any long term investment strategy we will experience both highs and lows in response to economic cycles and political and environmental influences. To demonstrate this, the following tables detail the returns achieved by the Fund over the past five years.



Fund Investments

Table 4: Returns for Growth and High Growth

Year	Growth %	High Growth %
2003-04	15.6	18.9
2004-05	12.0	14.1
2005-06	15.7	18.2
2006-07	16.3	16.4
2007-08	-2.6	-3.9

Over the past five years the returns achieved in these options have averaged 11.4% (net) and 12.75% (net) respectively.

Table 5: Average Yearly Returns for Each of the Options Over 1, 3 and 5 Years.

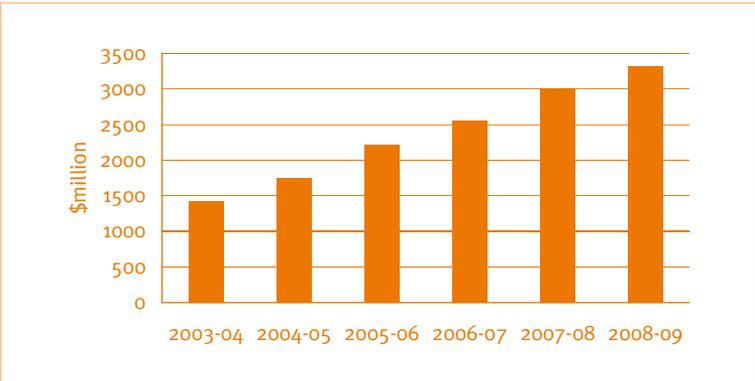
Option	1 year %	3 years %	5 years %
Cash	6.0	5.6	5.1
Conservative	2.7	7.2	7.5
Balanced	-0.5	9.0	10.7
Growth	-2.6	9.8	11.4
High Growth	-3.9	10.2	12.7

Growth of the Fund

Although Fund growth was impacted by the negative investment performance, the Fund's assets continued to grow during the year reaching \$2.94 billion by 30 June 2008. Assuming modest investment performance and continuing strong inwards cash flows by way of new contributions, the Fund is expected to reach \$3.3 billion by the end of 2008-09.

The chart below demonstrates the growth of the Fund over the past five years and projected for 2008-09.

Chart 2: Actual and Projected Fund Growth



Fund Investments

Table 6: Investment Performance by Asset Class 2007-08

Asset Class	Effective exposure at 30 June 2007		Effective exposure at 30 June 2008		Performance 2007-08	
	\$m	%	\$m	%	Fund ¹	Benchmark ²
					%	%
Cash	54	2	413	14	7.0	7.3
Debt Instruments	203	7	346	12	3.9	4.4
Property	184	7	213	7	4.7	12.0
Australian Shares	842	30	588	20	-10.2	-13.7
Private Equity ³	406	15	479	17	5.3	15.0
International Shares ⁴	608	22	392	13	-4.0	-13.7
Uncorrelated Alpha	180	6	173	6	-7.7	-0.2
Infrastructure	248	9	303	10	12.6	12.5
Currency	66	2	16	1	N/A	N/A

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. All international share exposures are fully hedged back to the Australian dollar.

Returns from listed equity markets

International Equities

Investments in international markets carry two distinct forms of risk. One relates to the impact of local market forces on the underlying value of the investment in local currency terms. The second relates to the value of that same investment when viewed in Australian dollars (AUD) terms due to movements (both positive and negative) in international currency exchange rates.

MilitarySuper continues to seek to identify equity managers with demonstrated skill and successful track records in outperforming the relevant market. Such managers seek to add value by pursuing active management strategies, often over a highly concentrated portfolio of stocks.

Share markets around the world were hit by the fall-out from the US sub-prime housing crisis, record high oil prices and fears of inflation. This was a difficult year for international investors with the MSCI World (ex-Aust) hedged index returning -13.7% for the 12 months to 30 June 2008 and -21.3% on an unhedged basis. By comparison the active investment decision taken by MilitarySuper in September 2007 to sell down international equities in order to reduce exposure to the sector added value along with the hedging strategy. On an unhedged basis the portfolio delivered a positive return (in native currency terms) of 2%. On a fully hedged basis MilitarySuper's International Equities portfolio returned -4.0%.

As indicated above, investments in international markets carry an additional risk related to the value of overseas investments as a result of movements in international exchange rates. MilitarySuper employs an active currency management strategy around a 100% hedge benchmark over the Fund's exposure to overseas currencies. The active strategy enables that exposure to be adjusted regularly through use of currency forwards. This is done in order to minimise losses when the overseas currency loses value (against the AUD) while allowing the Fund to participate in growth when the currency increases in value.

Whilst an appreciating AUD is good news for exporters with contracts written in AUD it is less so for overseas investments denominated in USD with much of the unhedged returns from these investments lost when they are translated back to local (AUD) currency. MilitarySuper's dynamic hedge over all of its foreign currency exposure enables the Fund to minimize the impacts of currency movements on investment returns.

The two main choices for strategic currency management are passive hedging or active risk control. The two extremes of passive currency management are to either do nothing or to hedge 100% of the fund's currency exposure. An intermediate stage is to partially hedge the exposure (most commonly a 50% hedge ratio) often described as the benchmark of least regret.

With a dynamic approach the hedges can and do move significantly away from the benchmark when an appropriate opportunity is there, assuming it can be prudently exploited. Both



Fund Investments

hedged and unhedged active strategies have shown the capacity to provide a very good degree of downside protection when the Australian dollar is strong and upside capture when the dollar is weak.

Australian Equities

MilitarySuper has appointed a range of investment managers in the domestic equities sector with demonstrated skills in adding value through stock selection and active management over a concentrated portfolio of stocks. The manager configuration is comprised of a large number of smaller (in terms of assets under management) managers.

As with international markets, 2007-08 was a difficult year for the Australian Market. While booming demand for commodities underpinned strong growth for the resources sector, concerns about the US credit market crisis, increased costs of borrowing, asset write downs, profit downgrades and waning consumer confidence undermined almost every other sector. As Central Banks fought slowing growth and rising inflation the US Federal Reserve cut its rates from 5.25% to 2% whilst at home the Reserve Bank raised rates to a 12 year high of 7.25%. For the first time in six years stocks posted three consecutive quarters of negative returns with the All Ordinaries Index falling by 16.95% for the year to 30 June 2008.

By comparison the MilitarySuper Australian equities portfolio managers produced a combined return of -10.2% for the year. In the portfolio, MilitarySuper had two exceptional Managers (Herschel Concentrated Fund and BGI Market Neutral Fund) that produced positive results in this downward market.

Going forward the Board believes that the current suite of managers will provide increased opportunity to achieve above benchmark returns, reflecting the concentrated and index insensitive approach of the individual managers.

Property

In the finance industry property usually refers to real estate, including land and buildings that can be bought, sold or leased. A Property Trust is a collective investment vehicle which owns a portfolio of real property, thus providing for a wider spread of ownership. Listed Property Trusts are quoted on the stock exchange, and their prices fluctuate with supply and demand. Unlisted Property Trusts are transacted directly with the Trust's manager, who sets prices in relation to the asset backing of the trust based on independent valuation.

Many property investments have fixed income streams attached to them that ensure a minimum level of return on the investment, unaffected by movements in investment markets. Accordingly, many property investments will exhibit characteristics similar to traditional defensive assets.

The Board took a decision in 2005-06 to replace its entire exposure to property through listed trusts with direct exposure via co-investment opportunities both domestically and internationally. This decision has again served the Fund well with our portfolio of direct property investments providing a positive contribution of +4.7% to overall Fund performance for the year.

Infrastructure

Infrastructure involves investment in the development of facilities and services required by the community and for production, such as government buildings, airports, toll roads, power, telecommunications and water supply.

Investment in infrastructure may take the form of investments in start-up projects or in established facilities. Investments in the latter provide access to strong cash flows and potential for future capital growth. Therefore, this form of investment displays similar defensive characteristics to more traditional defensive assets.

The Board continues to develop the Fund's exposure to this asset class as suitable opportunities arise. However, this is being done in a measured way to ensure that the Fund's exposure is achieved through access to high quality assets. Importantly with infrastructure investment MilitarySuper has access to co-investment opportunities through its established relationships. These co-investment opportunities will enable the Fund to participate in investment projects not normally available to superannuation schemes, offering access to superior long term capital growth and stable cashflows.

The return characteristics of these types of investment are not closely correlated to those in listed equities. Consequently they provide a cushioning effect in periods of extreme volatility in public markets. This was the case during 2007-08 with our portfolio of infrastructure investments providing the highest positive contribution of 12.6% to the Fund's overall performance for the year.

Private Equity

Private Equity is generally described as acquiring an equity interest in an unlisted company or enterprise. This type of investment usually refers to investments in relatively small, unlisted companies which have an established track record in their field of business and which require new sources of funding to finance their expansion. This contrasts with venture capital, which in Australian usage tends to refer to investments in start-up companies only.

Private Equity investments offer extremely attractive long term risk-adjusted return characteristics consistent with the absolute return focus of the Fund's investment strategy. This type of investment has return characteristics which are of a growth nature.

Private Equity is a long term investment and does not generally show a return in the early years of the investment because of initial set-up and management costs. The investment gains usually come in later years as the underlying portfolio of companies mature and increase in value. This timing is known as the J-curve effect.

The Board made its first investment in Private Equity in 2000 and has since made regular additional commitments to this asset sector, both domestically and internationally. As the initial investments are maturing, the Fund is now starting to see the benefits from this asset class, with significant returns starting to flow back to the Fund. Indeed at the portfolio level Private Equity investments provided a return of 5.3% for the year with the Fund's domestic private equity investments in particular continuing to provide strong returns. MilitarySuper's





Fund Investments

best performing manager for the year was Australian Private Equity manager, CHAMP Ventures Investment Fund 5, producing an outstanding result from the sale of its underlying portfolio companies during the year of 121% (TWR).

The Fund's more mature international private equity investments are also starting to provide strong returns, although in 2007-08 these have been diluted somewhat by the impacts of currency exchange.

Uncorrelated Alpha

This asset class involves investment in a range of assets whose performance is not directly correlated to the performance of listed equity markets. This type of investment includes investments in real assets (eg, timberland) or in hedge funds which can act as a powerful diversification tool and a generator of strong returns.

A disappointing year for hedge funds resulting directly from the fallout of the credit crisis resulted in a -7.7% (gross) return to the fund this year.

Alternative Debt

This sector covers investments in opportunities such as distressed debt, mezzanine debt and some special debt situations. Several of the Funds in this sector show the characteristics of private equity investments in that they are of a drawdown nature.

Unfortunately this year was not a good year for debt markets, directly attributable to the credit crisis and with a number of our investments in the US combined with the valuations of these affected by the falling USD, a negative return of 11.4% gross for the year resulted in this sector.

Table 7 : Fund Net Assets at 30 June 2008 (After Tax, Charges and Benefits)

	\$m
Opening value of the Scheme as at 30 June 2007	2774
Plus income	
Contributions	461
Gross earning of the Scheme	(82)
Other income	0
Less outgoings	
Benefits paid	207
Tax (benefit)/expenses	8
Expenses and charges	3
Closing value of the Scheme as at 30 June 2008	2935

Investments	
Value of investments at 30 June 2008	\$m
Assets Under Management	
Cash and short term deposits	413
Debt Instruments	346
Property	213
Australian Shares	588
International Shares	392
Private Equity	479
Infrastructure	303
Uncorrelated alpha	174
Currency	16
Total investments	2924
MilitarySuper Net Assets/(Liabilities) ¹	11
Net assets available to pay benefits²	2935

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.



Fund Investments

Table 8 : Investment Managers as at 30 June 2008

Asset class	Investment Managers [#]	Investment \$m	% of Fund
Australian Shares			
	Acorn Aust Small Co Trust	34.84	
	Agora Absolute Return Fund	147.41	
	BGI Equity Market Neutral Fund	57.83	
	Herschel Concentrated Fund	82.52	
	K2 Absolute Return Fund	48.01	
	MIR Australian Equities	99.26	
	PM Australian Opportunities Fund	63.38	
	Aust Equities Cash Holding Account	54.37	
	Australian Shares Total	587.62	20.10
International Shares			
	Artha Emerging Markets	40.49	
	Babcock & Brown Global Coinvestment Fund III	16.61	
	Cru Theta Capture Fund	74.57	
	Driehaus Mid Cap	67.89	
	Driehaus Small Cap Growth	3.06	
	Old Square Capital	27.27	
	TCW Pluris	85.99	
	Wentworth Hauser Violich	75.77	
	International Shares Total	391.65	13.40
Currency			
	Pareto Partners Currency	15.69	
	Private Equity Currency Hedge	0.61	
	Currency Total	16.30	0.56
Uncorrelated Alpha			
	Bridgewater Pure Alpha Fund II	18.76	
	Deutsche Leveraged Note - Mazuma Greenwich	34.10	
	Harris Alternative Aurora 2	42.83	
	Mazuma Partners II	25.33	
	Mazuma Structured Note	25.62	
	Rabobank/ Van Hedge Linked Note	26.26	
	Uncorrelated Alpha Currency Hedge	0.59	
	Uncorrelated Alpha Total	173.50	5.93

Asset class	Investment Managers [#]	Investment \$m	% of Fund
Property			
	Allco Wholesale Property Fund	21.01	
	APN Development Fund 1	12.18	
	Ashington Development Fund No 2	7.08	
	Ashington Property Fund	9.78	
	Babcock Brown Alliance Joint Venture	64.43	
	Charter Hall Opportunities 4	8.19	
	Domaine Property Fund	52.00	
	Doughty Hanson Real Estate	5.22	
	Fiduciary Int Real Estate Fund	6.84	
	Gresham Property Fund 3	7.88	
	High Street Real Estate Fund III	5.61	
	ICA Property 4	12.02	
	Property Currency Hedge	0.39	
	Property Total	212.63	7.27
Infrastructure			
	ALLCO Infrastructure Fund	34.71	
	ANZ IS Energy	112.00	
	CFS Infrastructure	25.29	
	Macquarie Global Infrastructure Fund 1	0.28	
	Macquarie Global Infrastructure Fund 2B	48.85	
	Macquarie Global Infrastructure Fund III	22.21	
	Duncan Solutions	14.07	
	SCM Global Energy & Infrastructure	11.74	
	TCW CDX Acquisition	14.72	
	US Power Fund II	18.65	
	Infrastructure Currency Hedge	0.56	
	Infrastructure Total	303.08	10.37

An organisation that specialises in the investment of a portfolio of investments which may be by the way of individual portfolio or as a pool of investments.



Fund Investments

Asset class	Investment Managers [#]	Investment \$m	% of Fund
Private Equity			
	Archer Capital Fund 3	5.75	
	Babcock Brown Direct Investment	23.04	
	Champ Buyout II Trust	17.02	
	Champ Ventures Investments 5	5.45	
	Champ Ventures Investments 6	3.88	
	Citic Allco Investments Ltd	21.80	
	Credit Suisse First Boston	4.45	
	Crescent Capital Partners II	3.09	
	Crescent Capital Partners III	6.44	
	Deutsche Private Equity Fund	1.17	
	GBS Bioventures III	9.12	
	Gresham Private Equity Fund 1	1.90	
	Gresham Private Equity Fund 2	19.53	
	HarbourVest IV	22.86	
	HarbourVest V	26.84	
	HarbourVest VII Buyout	20.61	
	HarbourVest VII Venture	12.99	
	KKR 2006 Fund	37.36	
	NBC Private Equity Fund II	16.04	
	North Asia Strategic Holdings	17.31	
	Northgate Private Equity Part II	19.85	
	Northgate Venture Partners III	5.52	
	Pacific Equity Partners Fund 2	15.63	
	Pacific Equity Partners Fund 3	36.38	
	Pacific Equity Partners Fund 4	4.51	
	Pantheon Europe III Partnership	4.67	
	Pantheon Global Secondaries Fund II	9.54	
	Pantheon Global Secondaries Fund III	15.40	
	Pantheon USA Fund IV	3.11	
	Propel Private Equity Fund II	7.18	
	Rosemont Cadence LLC	5.21	
	Rosemont Partners II	4.65	
	Sentient Global Resources 1	7.11	
	Siguler Guff Bric Opportunities Fund	15.89	
	Siguler Guff Small Buyout Opportunities Fund	4.48	
	Terra Firma Cap Partners III	11.40	
	Thomas Weisel India Opportunities Fund	9.08	
	YBR Feeder Limited Partnership	22.98	
	Private Equity Total	479.24	16.39

An organisation that specialises in the investment of a portfolio of investments which may be by the way of individual portfolio or as a pool of investments.

Asset class	Investment Managers [#]	Investment \$m	% of Fund
Cash			
	NAB Cash Accounts	79.80	
	NAB - Treasury Fund	198.23	
	Cash Holding Accounts	135.09	
	Cash Total	413.12	14.13
Alternative Debt			
	Allco Aviation Fund	74.36	
	Babcock & Brown Mezzanine Debt	36.47	
	Harbourvest VII Mezzanine Fund	13.54	
	SCM CDO Equity Fund	18.16	
	Siguler Guff MSA Opportunities Fund	6.39	
	Siguller Guff Distressed Opportunties Fund	20.80	
	TCW SHOP 5	11.17	
	YBR Debt Facility	12.03	
	Alternative Debt Currency Hedge	1.00	
	Credit Suisse Enhanced Cash	152.46	
	Alternative Debt Total	346.38	11.85
Total Assets			
	MilitarySuper Fund	2923.52	100

An organisation that specialises in the investment of a portfolio of investments which may be by the way of individual portfolio or as a pool of investments.



Fund Investments

Unitisation

MilitarySuper was unitised with effect from 1 July 2002. Unitisation refers to the conversion of Member interest bearing accounts to unit based accounts within the Fund. Since 1 July 2002, Fund earnings have been reflected in a 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).

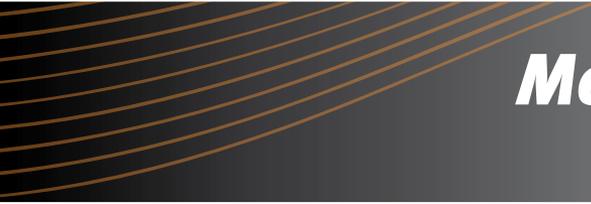
The most current issue and withdrawal prices are provided on the MilitarySuper website for the information of Members. The unit prices at 30 June 2008 are provided in the table below. If there is a difference between the unit price figures on the website and what is on the Scheme's administration system, the figures in the administration system apply.

Table 9: Unit Prices as at 30 June 2008

Strategy	Price \$	Percentage Change YTD
Cash	1.288560	+6.1310
Conservative	1.430446	+2.6247
Balanced	1.649186	-0.2769
Growth	1.655674	-2.0437
High Growth	1.782624	-3.0914

Daily unit prices are struck for each day of the year on the basis of the market value of listed investments on the previous day's close of trading, and on the basis of the best available valuation data on non-listed investments. Non-listed investments by their nature are illiquid and the true value of these investments is determined on the basis of periodic independent valuations or as a result of a sales event. Provisions are also made for taxes, fees and expenses on the income derived from those investments on a daily basis.

At the end of a financial year Fund performance is calculated on the basis of 'hard close' data which only becomes available some time after 30 June. Given this timing difference the unit price for each investment option declared for 30 June may vary from the investment performance of that option subsequently determined on the basis of fully audited accounting and taxation information.



Member Communication

Military Superannuation and Benefits Scheme

SECTION FIVE



Member Communication

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

The Board has established the Military Superannuation Communication Committee (MSCC) 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 Members of the ADF, 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 which confirmed:

- the Scheme is male dominated
- the average age of Members is under 31 years
- that since 30 June 2004, there has been a 20% reduction in the number of female contributing Members
- the most common form of exit from the Scheme is by way of resignation after less than 10 years service
- although contributing Member numbers will increase only slightly over the next eight years, the number of preserved benefit Members will double in this same period to something approaching 100,000
- although small in number, the pensioner population will double in the next eight years to 10,000
- electronic means of communication are increasingly becoming relevant as Members of the ADF increasingly gain access to the internet both at work and at home, demonstrated by the significant 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 that review, the Board has established its objectives in communication as to:

- provide Scheme Members with user-friendly, targeted and timely information that increases their knowledge and understanding of MilitarySuper (and DFRDB) and the benefits derived from scheme Membership as well as the value of services provided by the Board
- 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 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 success in meeting the Board's communication objectives is identified by:

- benchmarking of the Board's communications activities against industry best practice
- the number of requests received for additional information
- the number and subject matter of complaints
- 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
- external assessment by independent communications consultants
- costs for each project being kept to within the agreed budget.





Member Communication

Communication focus 2007–08

- continued development of the form and content of the half yearly mail out to Members (Mid-year Update). The purpose of the Mid-year Update is to inform Members of changes in scheme design or strategy which might impact on their current and future Member contributions
- a communication/education program based on the use of audio visual technologies and drawing on the experience of previous video presentations
- 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
- continuing to leverage off the MilitarySuper website for increasing access by Members to interactive sources of information about their Scheme Membership and benefit entitlements. This includes providing secure facilities for Members to lodge applications to change investment strategies or to lodge benefit applications
- communication of the Board's approach to proposed new Government initiatives.

Counselling and 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.

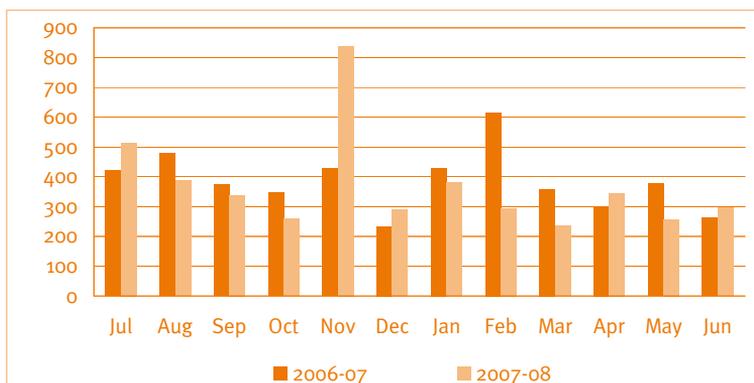
During the year, ComSuper presented 104 seminars to a total of 5567 MilitarySuper Members and provided personal counselling for 2238 military Members. The seminars were primarily conducted in conjunction with transition seminars. A further 18 seminars relating to medical discharge were presented to 216 military Members.

Member Communication

Chart 4: Monthly Email Volume Comparison



Chart 5: Monthly 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 branding

In 2007–08 the Committee focused on unifying the brand of MilitarySuper products and services to its Members. The year was influenced by the superannuation changes to legislation and this posed many new opportunities and challenges in communications. In 2007, a review of MilitarySuper’s products and services via customer surveys and focus groups was conducted. This produced strategies to improve the Committee’s market awareness and ensure that the Scheme is positioned for long term commitment from Members.

During this financial year, changes have begun to impact on a number of areas including repositioning the MilitarySuper brand, with an emphasis on engaging MilitarySuper’s largest demographic, the 18–27 year age group, to ensure they understand their superannuation and to highlight the Board’s commitment to engage its Members.

Marketing and education are important elements in a fund that relies on people making choices about their superannuation. Members must be confident that the system is fairly administered and be aware of their choices. MilitarySuper use marketing and education to encourage Members to understand the value of the unfunded Defined Benefits, and to cultivate a positive attitude towards their superannuation investments.

What is the brand?

The brand is the combined set of impressions and expectations that a customer has of MilitarySuper.

Website development

Online services have become an important component of modern business and MilitarySuper continues to enhance and expand its range of online services designed to make access to services easier for Members.

During 2007-08 improved web-based services, including a new MilitarySuper website and an Online Seminar were launched. Further improvements, including updating the Member Services Online, are planned for the coming year.

This year, the MilitarySuper website received 1 305 590 hits throughout Australia.

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

Member Communication

Secure website access

Member Services Online provides Members with a range of secure services including the calculation of benefits and the ability to view their annual statement online.

Chart 6: Website Hits

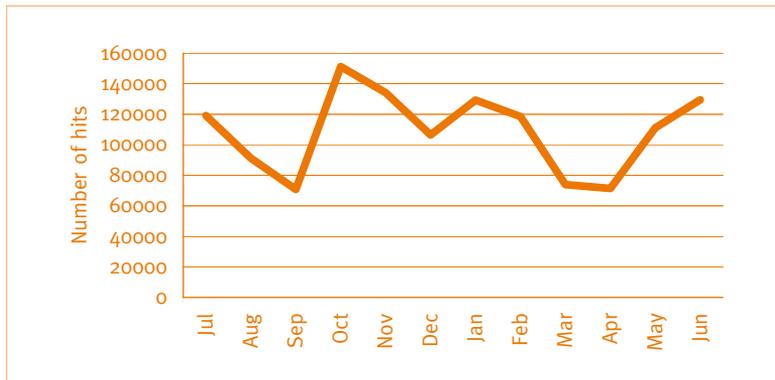


Table 10: Most Requested Web Pages 2007-08

Rank	Web page
1	Unit Price High Growth
2	Unit Price Growth
3	Unit Price Cash
4	Unit Price Balanced
5	Unit Price Conservative
6	Member Services Online
7	MilitarySuper Book
8	Pensioner News
9	Fact Sheet: About to leave the ADF?
10	Member Investment Choice Booklet

Table 11: Website Page Requests Over Past Four Years

Year	Number
2004-05	665 973
2005-06	1 159 783
2006-07	1 282 753
2007-08	1 305 590

Projects

Annual Report project

A key communication channel from the Board to MilitarySuper Members is through the Annual Report, which is distributed to all Contributing and Preserved Benefit Members.

The 2006-07 Annual Report to Members was distributed in October 2007 and received a positive response from Members. The 2007-08 Annual Report to Members will be issued with the annual Member statements to Members in October 2008.

Member Statements

Corporations law requires the Board to distribute annual Member statements by 31 December each year. The statements provide Members with equity figures and withdrawal benefits at the beginning and end of the financial year. Members are also sent a copy of the *About Your Statement* leaflet and from 2008 will be able to access the Annual Report to Members electronically via the MilitarySuper website.

Statements in relation to the 2006-07 year were distributed to the Contributing and Preserved Benefit Members by the end of October 2007. Manual statements were distributed by early December 2007 and Family Law statements were distributed by 21 December 2007.

Next year, Members will be afforded the option to view their statements online and stop receiving a hard copy. The Member will receive a notification email when the statement is available. Members will need to obtain an access number to Member Services Online to choose this option.

Once the Member has an access number they will be able to view statements online, update contact details, switch investment strategies (Member and Ancillary Benefits only) and calculate estimates. It's a great way to manage super and reduce the need for paper. We are encouraging Members to take advantage of our new delivery method and contribute to a greener world.



Mid Year Update

Now in its fourth year, the Mid Year report to Members has seen a few changes including name and brand. However, the purpose of the newsletter has always been to advise Members of issues of interest or significance in relation to MilitarySuper and in respect of development in superannuation policy within the wider community.

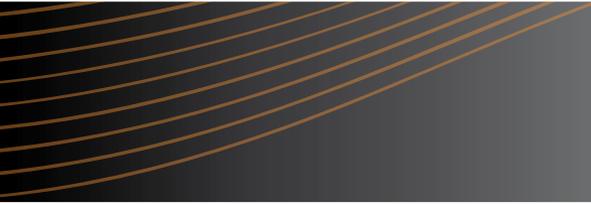
2007 saw some significant changes to superannuation taxation changes (Better Super) and the first release of information to Members was through the Mid Year Update. In 2008 there were further changes to the proportioning rules which were highlighted in the 2008 Mid Year Report and commentary on investment returns during turbulent market conditions.

Pension Update

The first issue of the Pension Update was published in January 2003 and has been released twice a year ever since. Pension Update is aimed at the retired Members of the MilitarySuper Scheme and provides retired Members with details on areas of interest and significant changes that may impact their entitlements. This publication is accompanied by a Consumer Price Index letter advising retired Members of the biannual CPI rate movement and how that translates into their fortnightly pension.

The main story for Issue 10 – June 2007 focussed on the superannuation taxation changes (Better Super) and how this would affect pensions. Ultimately, Better Super meant that most pensions increased, however, the zero increase in CPI was the main source of dissatisfaction from retired Members.

Issue 11 – January 2008 further clarified the Better Super taxation changes and highlighted the amendment to prospectively restore spouse pensions for remarried widows and widowers. The CPI movement also meant that pensions increased by 1.9% as of the first payday in January 2008.



Membership

Military Superannuation and Benefits Scheme

SECTION SIX



Membership

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

Contributors

At 30 June 2008, there were 49 355 contributors to MilitarySuper, 45 863 (93%) of whom were male and 3492 (7%) female. Table 12 shows the number of new entrants and exits and the total Membership at 30 June 2008. Table 13 shows the number of Contributing Members by years of service and by gender.

Table 12: Contributor Composition

	Male	Female	Total
Membership at 30 June 2007	43 802	3 919	47 721
Plus new contributors	8602	280	8882
Less Members left the ADF	6541	707	7248
Membership at 30 June 2008	45 863	3492	49 355

Table 13: Male and Female Contributors by Years of Service

Year	Male	Female	Total
0-9	34 890	1802	36 692
10-14	5266	963	6229
15-19	2951	441	3392
>19	2756	286	3042
Total	45 863	3492	49 355

New Members

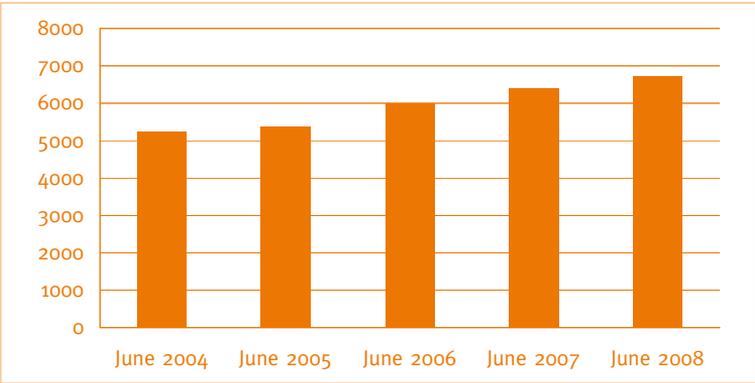
There were 8882 new MilitarySuper Members in 2007–08.

Membership

Pensioners

There were 6710 pensioners in MilitarySuper as at 30 June 2008. Chart 8 shows the growth of pensioners since 30 June 2004.

Chart 8: Growth in Pensioner Population in the Past Five Years





Scheme Administration

Military Superannuation and Benefits Scheme

SECTION SEVEN



Financial resources

The administrative costs of the Board for 2007-08 totalled \$2.435m. These costs include office accommodation lease and operating costs, fees paid to Trustees, Trustee travel costs and the cost of 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 in respect of 2007-08 is as follows:

Fund	\$1.445m
Department of Defence	\$0.990m
Total	\$2.435m

Further details are contained in the financial statements, commencing on page 94.

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 SIS Act /corporations law checklist. The Board's Compliance Manager is responsible for the SIS Act /corporations 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 2007 and, as appropriate, exceptions are reported at each meeting.

As the Board's 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

Scheme Administration

- assists the Board Executive in the preparation of annual APRA returns and the Annual Report to Parliament in accordance with relevant guidelines for reporting by Government agencies and the directions of the Board
- 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 concert with the Fund Custodian and Executive
- provides annual letters of comfort 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 coincidence of 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 in respect of the financial statements of the Scheme and Board for the 2007-08 financial year.

Account maintenance

The maintenance of MilitarySuper Contributing Member, Preserved Benefit Member and Pension Member accounts is a major function provided by the Board's legislated administrator (ComSuper) 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 the Defence organisation.

Collection, recording and maintenance of Member information

The Board's administrator:

- maintains 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

- ensures 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, arranges for an independent audit of those systems and controls to be undertaken from time to time
- maintains a system for locating and reporting lost Members.

Collection, banking, recording and maintaining contributions 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 2007–08 were \$298.6m, of which Member contributions comprised \$167.5m. Employer contributions amounted to \$98.3m. Co-contributions received totalled \$15.4m. The net appropriation for benefits for the year was \$162.7m (\$147.9m for 2006-07).

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

As the Board's administrator, ComSuper:

- maintains appropriate banking arrangements for the payment of contribution remittances into the Fund
- lodges moneys with the Board's custodian for investment by investment managers to the extent that moneys held in the Board's bank account are not required for the purpose of the payment of benefits and other expenses
- maintains appropriate accounting systems for the recording of contribution remittances received
- monitors the collection of contributions and pursues any late remittance of contributions with the Department of Defence.

Scheme Administration

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, 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, plus the earnings on those contributions in the Fund. Members can exercise choice of investment strategy 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 provided under MilitarySuper are defined benefits guaranteed by the Commonwealth. Part of the benefit, the productivity benefit, is funded while the balance of the defined benefit is unfunded. The total employer benefit payable is not affected by market fluctuations.

Discharge benefits

Members who leave MilitarySuper without a pension entitlement must preserve their total employer component until they reach their compulsory 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.

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 has been preserved in the scheme that is not compulsorily preserved; however, it must be withdrawn in \$10 000 multiples and at intervals of no less than six months.

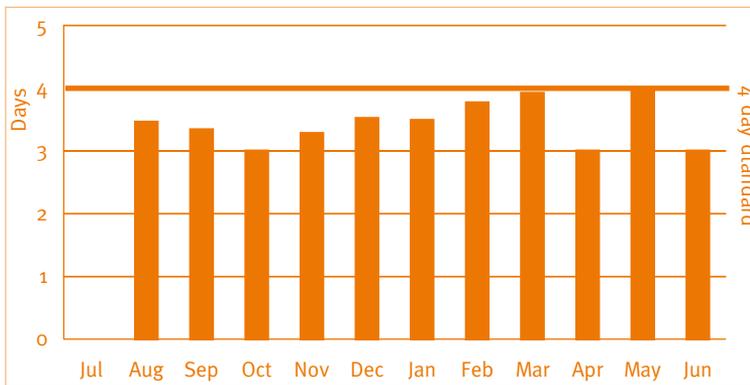
Table 15: Benefits Paid 2007–08

	\$m
Pensions	128.8
Lump Sums	78.2
Total	207.0
Fund Share	44.4
Consolidated Revenue Share	162.6
Total	207.0

Payments

All applications for benefits from contributors and preserved benefit Members are processed in accordance with relevant legislation and within the timeframes agreed between the Board and its administrator. For Members whose applications are processed outside 15 working days, late payment interest is added.

Chart 9: Average Time to Process Benefit Payments 2007–08



Early release of preserved benefits

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

Of the 239 preserved benefits paid in full or part during 2006–07, 133 were released on permanent physical or mental incapacity, severe financial 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.

In determining invalidity benefits due process is followed, with claims processed expeditiously and legislative requirements met. Where applicable, guidelines issued by the Board are followed.

Invalidity classification process

Members of MilitarySuper retired on invalidity grounds receive an A, B or C classification of invalidity, dependant upon the extent of his or her loss of capacity to undertake appropriate civilian employment. Class A and Class B classifications denote, respectively, significant and

Scheme Administration

moderate incapacity and attract different levels of pension. Class C classification reflects comparatively small 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 passed from the ComSuper delegate to the Incapacity Classification Committee (ICC) for decision. 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. The ICC made 13 initial classification decisions during 2007–08.

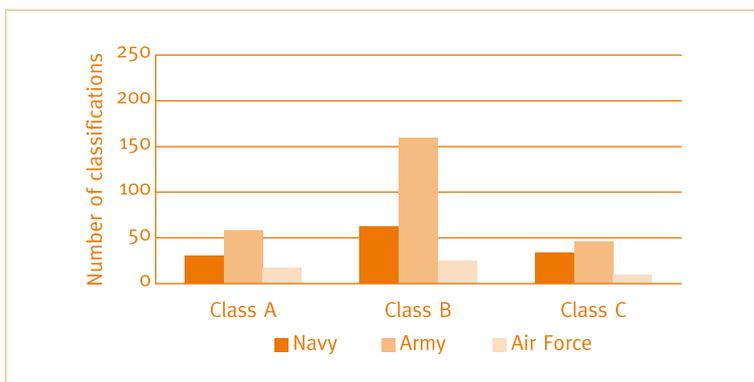
As at 30 June 2008, the ICC comprised Simon Lawson (Chairperson and Team Leader of Military Invalidity Reversionary and Release Section, ComSuper), Wing Commander Bob Harris (Directorate of Personnel – Air Force), and Ms Heather Gill (Superannuation Directorate, Defence).

After a classification decision has been made, the Member is advised in writing and informed of the right to request reconsideration of the decision. Members receive advice of decisions of the Board, delegates and the ICC and also receive a copy of the minute recording the decision.

Invalidity retirement classifications

From 1 July 2007 to 30 June 2008, 439 Members received initial invalidity classifications. Of those who received an invalidity classification, 351 (105 Class A and 246 Class B) became entitled to an invalidity pension. (Note that 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 88 were classified as Class C incapacity. The proportion of invalidity classifications for each Service is shown in Chart 10.

Chart 10: Service Comparison of Invalidity Classifications 2007-08



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 such a review at his or her own request.

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

During 2007–08, 353 cases were examined, 11 of which were reviews requested by Members. As a result of these reviews 92 classifications were changed, as shown in Table 16. The ICC made reclassification decisions in 9 more complex cases during the year.

Table 16: Invalidity Entitlements Reviewed in the Past Five Years

	2003-04	2004-05	2005-06	2006-07	2007-08
Entitlements examined	684	829	325	841	353
Review with medical exam	255	274	147	841	353
Classification raised	38	12	34	66	44
Classification reduced	177	121	61	102	48
Total classification changes	215	133	95	168	92

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 2007-08, the Australian Bureau of Statistics announced changes in the CPI. To arrive at the CPI rate applied to pensions, a calculation is actioned. The rates were 1.9% for the September 2007 period and 2.3% for the March 2008 period.

Pensioners received statements in July 2007 and January 2008 showing their new rate of pension. Their income tax payment summary and other relevant information were also included with the July statement.



Scheme Administration

Pension payments

Employer-financed benefits paid as pension

During the year, 301 new pensions were granted and at 30 June 2008, 6710 Members were receiving MilitarySuper pensions. The total number of pensioners for each class of benefit is detailed in Table 17 for the end of each financial year since 30 June 2003.

The total amount paid as pensions during the year was \$128 803 000. The average pension amounted to \$19 196 per annum.

Table 17: Number of Pensioners Since 30 June 2003, by Type of Benefit

Class of pension benefit	Number of pensioners					
	30 June 2003	30 June 2004	30 June 2005	30 June 2006	30 June 2007	30 June 2008
Retirement	707	796	881	962	1013	1106
Redundancy	1901	1916	1916	1919	1916	1910
Invalidity	2169	2356	2573	2908	3243	3531
Reversionary benefits*	145	164	194	213	237	163
Total	4922	5232	5564	6002	6409	6710

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

Family Law

The *Family Law Act 1975* states that where a Member proposes to split his or her superannuation interest, the Trustee of the superannuation fund where the interest is held must be notified and given an opportunity to object to the terms of the split if it wishes. The Family Law Rules 2004 state that the Trustee has a period of 28 days from the date of notification to state its objections.

During the year there was an average of 55 written responses to Members, non-Members and their solicitors per month. All responses were made within the 28 day timeframe.

Reconsideration of decisions

A person affected by a decision of the Board or a delegate may apply in writing to have the decision reconsidered. If the Board or the Reconsideration Committee took the original decision, the application for reconsideration must be supported by new and relevant evidence. Applications for the reconsideration of a delegate’s decision need not be supported by new evidence. The time limit for requesting reconsideration is within 30 days of receiving advice of the decision. The Board may extend this period in special circumstances.

Requests for reconsideration are investigated in a thorough, objective and effective manner and in accordance with any guidelines issued by the Board.

Requests for reconsideration are treated as complaints for the purposes of section 101 of the SIS Act.

During 2007–08, 113 requests for reconsideration of decisions were received, an increase from the 108 requests received the previous year. Of these, seven requests related to reconsideration of a decision of a Reconsideration Committee or the Board compared with five during 2006–07.

The majority of requests for reconsideration concerned invalidity retirement benefit classification or reclassification decisions, the latter rising, as expected, as the invalidity pensioner Membership grows. The primary issue to be determined in these cases is the Member’s level of physical or mental incapacity to undertake suitable civilian employment. Additional medical evidence is usually obtained as part of the reconsideration process.

During 2007–08 a total of 102 cases were finalised, compared with 133 cases in 2006–07. Twenty-six decisions were affirmed and in 43 cases the decision was set aside or varied in favour of the applicant. Another 33 cases were lapsed or withdrawn with the applicant failing to pursue the matter. Fifty-nine cases remained under investigation at 30 June 2008.

Following determination of a request for reconsideration each applicant receives a comprehensive written statement of reasons for the decision. Applicants are also advised of further appeal rights.

Table 18: Reconsideration Applications for the Past Five Years

	2003-04	2004-05	2005-06	2006-07	2007-08
Requests on hand	39	51	110	73	48
Requests received	177	231	145	108	113
Requests resolved	165	172	182	133	102
Carried forward	51	110	73	48	59

Scheme Administration

Dispute Resolution

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

External review

On 29 June 1995, the Trustees of MilitarySuper signed an election 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).

Seven complaints were lodged with the SCT during the year and five cases were carried over from 2006-07. Six complaints were resolved during the year. Of these, five complaints were treated as withdrawn and one decision was affirmed. As at 30 June 2008, there are six complaints outstanding.

In 2007-2008 there were no applications for review lodged with the Federal Court under the AD(JR) Act in respect of decisions of the Board or its delegates. One SCT decision to treat a complaint as withdrawn was unsuccessfully appealed by the complainant to the Federal Court.

Systems are in place to facilitate the expeditious processing of matters that go to the Superannuation Complaints Tribunal, the Federal Court and other jurisdictions such as the Human Rights and Equal Opportunity Commission. The Board also monitors the outcome of external appeals and their implications.

Enquiries and complaints

The Board has established formal procedures for dealing with Members' complaints received in accordance with 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 which involve investigating a complaint and preparing a response for the Board Executive to provide to the Member.

ComSuper also handles all 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 parliamentary enquiries

Seventy-four complaints and fifteen Ministerial representations were received during the year. Three Ombudsman enquiries were received.

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

The Board, through its Executive monitors all complaints to ensure that ComSuper has internal processes to identify and resolve systemic issues and to continually improve the service provided to Members.

Ministerial Representations relating to military superannuation policy issues are received and responded to within the Department of Defence. In 2007–08 there were 41 relating to MilitarySuper. Of the representations received 15 related to the preservation rules of the scheme and ability to rollover funds from the scheme, and eight were related to the Maximum Benefit Limits applied to the scheme.

There were also 319 Ministerial Representations that related to both MilitarySuper and the DFRDB Schemes. Of these 219 referred to the method used to index military pensions, 74 referred to 1 July 2007 taxation changes, 21 referred to the Review of Military Superannuation Arrangements and five related to general queries.

Following the dissolution of the Government on 17 October 2007 for the Federal Election, the Government assumed a caretaker role. In accordance with caretaker conventions the Department of Defence was unable to provide comments on Government policy. During this period ministerials concerning superannuation policy received a standard carektaker response from the Public Affairs Office.

Legal claims

The Board received one legal claim in the 2007–08 financial year, with no claims carried over from the previous financial year. This claim was unresolved at the end of the financial year.

Freedom of Information

MilitarySuper Members made 44 requests for access to documents during 2007–08. Thirty-seven requests were granted in full and four partially. One request was withdrawn and two requests were refused. The requests took an average of seventeen days to process.

Enquiries relating to the documentary disclosure of information about the personal affairs of clients of the agency under the provisions of the FOI Act should be directed to:

Freedom of Information Officer

ComSuper
PO Box 22
Belconnen ACT 2616
Telephone: 1300 033 732
Facsimile: (02) 6272 9804
TTY: (02) 6272 9827
Email: foi@enq.militarysuper.gov.au





Fund Financial Statements

Military Superannuation and Benefits Scheme

SECTION EIGHT



8



MILITARY SUPERANNUATION AND BENEFITS FUND

INDEPENDENT REPORT BY APPROVED AUDITOR TO THE MINISTER FOR DEFENCE SCIENCE AND PERSONNEL, AND MEMBERS OF THE SCHEME

(A) Financial Statements

Scope

I have audited the financial statements of Military Superannuation and Benefits Fund for the year ended 30 June 2008 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 of Defence, Science and 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, Science and 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.

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.

Audit Opinion

In my opinion:

- (i) The financial statements are in the form as agreed by the Minister for Defence Science and Personnel in accordance with sub-section 26(1) of the *Military Superannuation and Benefits Act 1991*; and
- (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 2008 and the changes in net assets for the year ended 30 June 2008.

(B) Compliance

Trustees' Responsibility for Compliance

The superannuation entity's trustee is responsible for complying with the requirements of the SIS Act, SIS Regulations, the Reporting Standards made under Section 13 of the *Financial Sector (Collection of Data) Act 2001* (FSCODA Reporting Standards), the *Corporations Act 2001* (Corporations Act) and *Corporations Regulations 2001* (Corporations Regulations).

Auditor's Responsibility

My responsibility is to express an opinion on the trustee's compliance with the requirements of the SIS Act, SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations based on the audit. 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. I have conducted tests in accordance with these Auditing Standards as necessary to provide reasonable assurance whether the trustees of the Military Superannuation and Benefits Fund has in all material respects:

- (a) complied with the relevant requirements of the following provisions (to the extent applicable) of the SIS Act and SIS Regulations:
Sections 19(2), 19(3), 36, 65, 66, 67, 69 to 85, 86 to 93A, 95, 97, 98, 101, 103, 104, 105, 106, 107, 109, 35A, 35C, 117, 118, 121, 122, 124, 125, 152, 154;
Regulations 2.33(2), 3.10, 4.08(3), 5.08, 6.17, 7.04, 7.05, 9.09, 9.14, 9.29, 9.30, 13.14, 13.17, 13.17A; and
- (b) complied with the FSCODA Reporting Standards that are subject to audit (to the extent applicable); and
- (c) complied with the relevant requirements of the following provisions (to the extent applicable) of the Corporations Act and Corporations Regulations:

Scheme Financial Statements

Sections 1012B, 1012F, 1012H(2), 1012I, 1013B, 1013D, 1013K(1), 1013K(2), 1016A(2), 1016A(3), 1017B(1), 1017B(5), 1017C(2), 1017C(3), 1017C(5), 1017C(8), 1017D(1), 1017D(3), 1017D(3A), 1017DA(3), 1017E(2), 1017E(3), 1017E(4), 1020E(8) and 1020E(9); and

Regulation 7.9.32(3); and

- (d) complied with the requirement to prepare and lodge the respective forms comprising the APRA Annual Return

for the year ended 30 June 2008.

My procedures with respect to SIS Regulation 6.17 included testing whether amounts identified by the trustee as preserved and restricted non-preserved have been cased or transferred only in accordance with the requirements of Part 6 of the SIS Regulations. These procedures did not include testing of the calculation of the preserved and restricted non-preserved amounts beyond a broad assessment of the apparent reasonableness of the calculations.

My procedures included examination, on a test basis, of evidence supporting compliance with those requirements of the SIS Act, SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations.

These tests have not been performed continuously throughout the period, were not designed to detect all instances of non-compliance, and have not covered any other provisions of the SIS Act and SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations apart from those specified. The superannuation entity's trustees are responsible for complying with the SIS Act and SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations.

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

Auditor's Opinion

In my opinion the trustee of Military Superannuation and Benefits Fund has complied, in all material respects, with the requirements of the SIS Act and SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations for the year ended 30 June 2008.

Australian National Audit Office



Carla Jago
Executive Director

Delegate of the Auditor-General

Canberra

8 September 2008

MILITARY SUPERANNUATION AND BENEFITS FUND

Statement by the Trustees of the Military Superannuation and Benefits Fund

The Board of Trustees 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 *Commonwealth Authorities and Companies Orders (financial statements for reporting periods ending on or after 30 June 2007)*, 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 Fund as at 30 June 2008 and the changes in net assets of the Fund for the financial year ended 30 June 2008;
- (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 Science and 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 Scheme were in accordance with the *Military Superannuation and Benefits Act 1991*; and
- (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.

Signed at Canberra this ^{5th} day of September 2008 in accordance with a resolution of members of the Military Superannuation and Benefits Board of Trustees.



Member



Member
Military Superannuation and Benefits
Board of Trustees



Scheme Financial Statements

MILITARY SUPERANNUATION AND BENEFITS FUND

STATEMENT OF CHANGES IN NET ASSETS FOR THE PERIOD ENDED 30 JUNE 2008

	Note	2008 \$'000	2007 \$'000
Benefits at the Beginning of the Period		2,773,854	2,215,983
Add:			
Investment Revenue			
Interest	3	19,402	14,535
Dividends and trust distributions	3	157,134	162,489
Changes in net market values	3	(241,194)	246,519
Other investment income	3	1,674	2,733
Direct investment expenses	5	(19,829)	(16,232)
Net Investment Revenue		(82,813)	410,044
Contribution Revenue			
Member contributions		167,502	154,204
Employer contributions		98,342	85,656
Co-contributions		32,796	15,434
Appropriation from Consolidated Revenue Fund (CRF)	4	162,669	147,890
Total Contribution Revenue		461,309	403,184
Total Revenue		378,496	813,228
Less:			
General administration expenses	5	2,704	3,385
Benefits paid and payable	4	207,031	203,003
Benefits Paid and expenses		209,735	206,388
Increase in Net Assets for the Year Before Income Tax		168,761	606,840
Less income tax expense/ (benefit)	6 (a)	7,868	48,969
Increase in Net Assets for the Year After Income Tax		160,893	557,871
Net Assets Available to Pay Benefits at the End of The Period		2,934,747	2,773,854

The attached notes form part of these financial statements

MILITARY SUPERANNUATION AND BENEFITS FUND

STATEMENT OF NET ASSETS AS AT 30 JUNE 2008			
	Note	2008 \$'000	2007 \$'000
Investments			
Cash and short term deposits		413,119	53,731
Debt instruments		346,370	202,651
Australian equities		587,615	842,312
International equities		391,657	607,692
Property trusts		212,632	183,365
Currency contracts		16,304	65,629
Private equity		479,247	405,647
Uncorrelated Alpha (Hedge) Fund		173,491	180,585
Infrastructure		303,083	248,292
Total Investments		2,923,518	2,789,904
Other Assets			
Cash at bank		27,320	26,663
Interest receivable		67	1,772
Dividends receivable		1,686	4,180
Trade settlements receivable		11,095	30,159
GST recoverable		428	463
Sundry debtors		1,591	1,104
Benefits payable to be funded by appropriation	4	3,889	5,889
Total Other Assets		46,076	70,230
Total Assets		2,969,594	2,860,134
Less Liabilities			
Benefits payable	4	5,281	8,974
Trade settlements payable		8,849	9,839
Sundry creditors	7	8,765	23,283
Current tax liability	6(b)	8,418	15,622
Deferred tax liability	6(c)	3,534	28,562
Total Liabilities		34,847	86,280
Net Assets Available to Pay Benefits		2,934,747	2,773,854

The attached notes form part of these financial statements



Scheme Financial Statements

MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

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, Urgent Issues Group 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.

The financial statements were authorised for issue by the Military Superannuation and Benefits Board of Trustees on 5th September 2008.

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 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 Science and Personnel and the Military Superannuation and Benefits Board of Trustees in accordance with sub-section 26(1) of the *Military Superannuation and Benefits Act 1991*.

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.

Adoption of new and revised Accounting Standards

In the current year the Fund has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes set out below. The Fund has also adopted the following Standards as listed below which only impacted on the Fund's financial statements with respect to disclosure.

- AASB 7 *'Financial Instruments: Disclosures'*
- AASB 101 *'Presentation of Financial Statements'*

MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

Accounting Standards and Interpretations Issued, but not yet effective

At the date of authorisation of the financial report, the following Standards which are expected to be relevant to the Fund were in issue but not yet effective.

The trustees anticipate the adoption of these Standards will have no material financial impact on the financial report of the Fund.

- AASB 8 Operating Segments replaces the requirements of segment disclosures in AASB 114 *Segment Reporting*. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009.

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 year ended 30 June 2008 and the comparative information presented in these financial statements for the year ended 30 June 2007.



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MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

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 managers' option and are subject to insignificant risk of changes in value.

(b) Revenue Recognition

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

Investment Revenue

Dividend revenue

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

Interest revenue

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

Movement in net market value of investments

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

Contribution Revenue

Employer and Member Contributions

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

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 in which measurement is reliable. Accordingly amounts are recognised when transfer receipts are received by the Fund.

MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

(c) Valuation of Investments

Investments of the Military Superannuation and Benefits 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 yield supplied by independent valuers.
- (ii) Fixed-interest - these securities are valued by marking to market using yields supplied by independent valuers.
- (iii) Futures Contracts - open futures contracts are revalued to closing price quoted at close of business on 30 June 2008 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 2008 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 2008 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 2008 by the relevant securities exchange. In the case of UK securities, the basis of valuation is the average of the bid and offer prices.
- (vii) Units in Property Trusts - units are valued at their net realisable value.
- (viii) Currency contracts - these securities are valued at the relevant exchange rate at close of business on 30 June 2008.
- (ix) Private equity, Infrastructure and 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 Trustees are satisfied that significant diminution in value has not occurred.
- (x) Debt Instruments – 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.
- (xi) Uncorrelated Alpha (Hedge) Funds – Investments via unit trusts are valued at their net realisation 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.



Scheme Financial Statements

MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

(c) Valuation of Investments (cont.)

The following table details the latest date of valuation of private equity, infrastructure and property fund investments as at 30 June 2008:

Fund	Latest valuation
<i>Alternative Debt</i>	
Allco Aviation Fund	31-May-08
Babcock & Brown DIF Mezzanine Fund	30-Jun-08
**HarbourVest Partners VII Mezzanine	30-Jun-08
SCM CDO Equity Fund	31-Mar-08
**Siguler Guff Distressed Opportunities Fund II, L.P.	30-Jun-08
Siguler Guff WLR Opportunity Fund	31-Mar-08
** TCW Shared Opportunity Fund V, L.P.	31-Mar-08
YBR Debt Facility	30-Jun-08

**Estimated valuations received as at 30 June 2008.

All valuations are un-audited.

Fund	Latest valuation
<i>Domestic Private Equity</i>	
Archer Capital fund 3, 3A and 3B (previously GS)	30-Jun-08
Babcock and Brown Direct Investment Fund	30-Jun-08
CHAMP Ventures Trusts No. 5A and 5B	30-Jun-08
CHAMP Ventures Trusts No. 6A and 6B	30-Jun-08
CHAMP Buyout II Trust	32-May-08
Crescent Capital Partners II	30-Jun-08
Crescent Capital Partners III	30-Jun-08
Deutsche Private Equity Fund	30-Jun-08
Deutsche Private Equity Fund No. 2	30-Jun-08
GBS BioVentures III	30-Jun-08
Gresham Private Equity Fund 1 & 1a	30-Jun-08
Gresham Private Equity Fund No. 2A and 2B	30-Jun-08
NBC Private Equity Fund 1 & 1a	30-Jun-08
PEP Funds No. 2 and Supplementary No. 2	30-Jun-08
Pacific Equity Partners Fund 3 and Supp No. 3	30-Jun-08
Pacific Equity Partners Fund IV and Supp No. IV	30-Jun-08

All valuations are un-audited.

MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

(c) Valuation of Investments (cont.)

Fund	Latest valuation
<i>International Private Equity</i>	
*Babcock and Brown Global Co-Investment Fund III	31-May-08
Citic Allco Investments Ltd	31-Mar-08
**CSFB Fund Investment VI Bermuda	30-Jun-08
**HarbourVest Partners IV	30-Jun-08
**HarbourVest Partners VII Buyout	30-Jun-08
**HarbourVest Partners VII Venture	30-Jun-08
**HarbourVest Partners V	30-Jun-08
KKR 2006 Fund, L.P.	31-Mar-08
Pantheon Europe Fund III, L.P.	31-Mar-08
Pantheon Global Secondary Fund II, L.P.	31-Mar-08
Pantheon USA Fund IV, L.P.	31-Mar-08
North Asia Strategic Holdings	21-Dec-07
**Northgate Private Equity Part II	30-Jun-08
**Northgate Venture Partners III	30-Jun-08
Rosemont Partners II, L.P.	30-Jun-08
Rosemont Cadence LLC	30-Jun-08
Sentient Global REsources Trust No. 1	31-Mar-08
**Siguler Guff Bric Opp Fund	30-Jun-08
**Siguler Guff Small Buyout Fund	30-Jun-08
Terra Firma Capital Partners III, L.P.	31-Mar-08
**Thomas Weisel India Opportunity Fund, L.P.	30-Jun-08
YBR Feeder Limited Partnership	31-Dec-07

*New funds - cash flows only

**Estimated valuations received as at 30 June 2008

All valuations are unaudited

Fund	Latest valuation
<i>Infrastructure</i>	
Allco Infrastructure Fund	30-Jun-08
ANZ Infrastructure Services Energy Trust	30-Jun-08
CFS Infrastructure (Brisbane Airport)	30-Jun-08
Macquarie Global Infrastructure Fund 1	31-May-08
Macquarie Global Infrastructure Fund 2b	31-May-08
Macquarie Global Infrastructure Fund 3	31-May-08
Saltbush Parking Services	31-May-08
SCM Global Energy & Infrastructure Fund	31-Mar-08
TCW CDX Acquisition	31-May-08
**US Power Fund II	30-Jun-08

**Estimated valuations received as at 30 June 2008.

All valuations are unaudited



Scheme Financial Statements

MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

(c) Valuation of Investments (cont.)

Fund	Latest valuation
<i>Uncorrelated Alpha</i>	
**Bridgewater Pure Alpha Fund II	30-Jun-08
**Deutsche Variable Note - Mazuma / Greenwich	30-Jun-08
Deutsche Note - Mazuma II - Master Series	31-May-08
Deutsche Note - Mazuma II - October Series	31-May-08
Harris Alternative Aurora 2	31-May-08
**Rabobank - Van Hedge Note	31-May-08

**Estimated valuations received as at 30 June 2008.

All valuations are unaudited.

Fund	Latest valuation
<i>Property</i>	
Allco Wholesale Property Fund	31-May-08
**APN Development Fund 1	30-Jun-08
Ashington Development Fund 2	30-Jun-08
Ashington Property Fund 1	30-Jun-08
Babcock & Brown Alliance JV	30-Jun-08
Charter Hall Opportunities Fund 4	31-May-08
Domaine Property Fund	31-Dec-07
**Doughty hanson EU Real Estate Fund	30-Jun-08
Fiduciary Int Real Estate Fund	31-May-08
Gresham Property Fund 3	30-Jun-08
*High Street Real Estate Fund III	25-Jun-08
ICA (Valad) Property Fund 4	31-Dec-07

*New Fund

**Estimated valuations received as at 30 June 2008.

All valuations are unaudited.

(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 differences are recognised in profit or loss in the period in which they arise except exchange differences on transactions entered into in order to hedge certain foreign currency risks.

(e) Derivative Financial Instruments

The fund uses a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including exchange traded futures and option, 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.

MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

(e) Derivative Financial Instruments (cont.)

Derivatives are initially recognized 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 profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. 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.

The fair value of hedging derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the hedge relationship is more than 12 months and as a current asset or a current liability if the remaining maturity of the hedge relationship is less than 12 months.

Derivatives not designated into an effective hedge relationship are classified as a current asset or current liability.

Fair value hedge

Change in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit and loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

(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 by the balance sheet 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.

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.



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MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

(f) Taxation (cont.)

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 Fund'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 Fund up to the date of measurement.

(i) Superannuation Contributions (surcharge) Tax

The Trustee 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 Trustee and are properly payable by the Fund. All amounts paid are allocated back against the member accounts to which the surcharge relates.

(j) Goods and Services Tax (GST)

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

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

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

(k) Sundry Debtors and Creditors

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

MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

2. DESCRIPTION OF THE SCHEME

- (a) 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 (ABN 72 406 779 248). 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.

Administration of the Scheme is conducted by Commonwealth Superannuation Administration (ComSuper).

The principal place of business of the Scheme Trustee is:

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

- (b) Member Numbers:

	2008	2007
Number of Members		
- Contributors	49,355	47,721
- Deferred Beneficiaries / Preservers	72,812	65,615
- Pensioners	6,710	6,409
Total Number of Members	<u>128,877</u>	<u>119,745</u>

- (c) Employees of the Board:

	2008	2007
Average Staffing Levels	<u>6.7</u>	<u>6.5</u>



Scheme Financial Statements

MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

3. INCOME AND CHANGES IN NET MARKET VALUES

	Interest	Dividends and Trust Distributions	Other	Realised Capital Gain (Loss)	Unrealised Capital Gain (Loss)	Total
30 June 2008	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and Short Term Deposits	3,699	262	444	2,317	1,229	7,951
Debt Instruments	1,244	42,645	443	(5,840)	(55,825)	(17,333)
Australian Equities	8,301	42,778	6	(62,581)	(63,959)	(75,455)
International Equities	297	5,654	24	(72,072)	6,023	(60,074)
Property Trusts	5,821	11,015	605	(4,238)	(4,277)	8,926
Currency Contracts	20	-	-	20,373	16,304	36,697
Private equity	11	40,279	53	(409)	(21,104)	18,830
Uncorrelated Alpha (Hedge) Fund	-	-	99	(3,852)	(4,216)	(7,969)
Infrastructure	9	14,501	-	(918)	11,851	25,443
Total	19,402	157,134	1,674	(127,220)	(113,974)	(62,984)

	Interest	Dividends and Trust Distributions	Other	Realised Capital Gain (Loss)	Unrealised Capital Gain (Loss)	Total
30 June 2007	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and Short Term Deposits	2,072	55	446	(417)	(514)	1,642
Debt Instruments	941	27,054	107	(1,958)	(12,821)	13,323
Australian Equities	3,766	55,747	113	83,174	52,957	195,757
International Equities	717	7,964	7	942	39,013	48,373
Property Trusts	6,920	5,322	1,840	(68)	(4,315)	9,699
Currency Contracts	68	-	-	20,791	65,629	86,488
Private equity	29	47,531	162	(3,201)	308	44,829
Uncorrelated Alpha (Hedge) Fund	7	-	58	(359)	1,821	1,527
Infrastructure	15	19,086	-	121	5,416	24,638
Total	14,535	162,489	2,733	99,025	147,494	426,276

The net gain on foreign currency contracts for the year was \$36.7m (2007: \$86.5m). This amount does not include gains and losses on foreign currency transactions that may have occurred in the pooled trust investments.

MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

4. FUNDING ARRANGEMENTS

The Military Superannuation and Benefits Scheme is a hybrid accumulation defined benefit scheme governed by a Trust Deed and Rules established under the Military Superannuation and Benefits Act 1991. This legislation also established the Military Superannuation and Benefits Fund No. 1 (‘the Fund’).

Members contribute to the scheme 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 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

	2008	2007
	\$’000	\$’000
Lump Sums	78,228	87,635
Pensions	128,803	115,368
Total	207,031	203,003

Financed by:

Military Super Scheme	44,362	55,113
Consolidated Revenue Fund	162,669	147,890
Total	207,031	203,003

Of the \$5.281million (2007: \$8.974 million) benefits payable as at 30 June 2008, the Fund’s share amounted to \$1.392 million (2007: \$3.085 million) with the Consolidated Revenue Fund’s share being \$3.889 million at 30 June 2008 (2007: \$5.889 million).



Scheme Financial Statements

MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

5. COST OF ADMINISTERING THE SCHEME AND MANAGING AND INVESTING IN 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 Scheme are met from monies appropriated for its purpose.

	2008	2007
	\$'000	\$'000
Fund Management and Investment Expenses met by Fund		
<i>General Administration Expenses</i>		
Accounting services	127	272
Professional advisers	671	409
Share of trustee fees, travel and incidental costs	969	990
Taxation services	241	213
Communications	327	63
APRA lodgement fees and industry levy	268	366
Insurance	(84)	317
External audit	57	130
Internal audit	(3)	378
ATO Revised assessment interest charge	-	41
Other Expenses	34	83
Non recoverable GST	97	123
Total	<u>2,704</u>	<u>3,385</u>
<i>Direct Investment Expenses</i>		
Investment management fees	13,023	9,876
Asset consultancy and portfolio management	3,975	3,875
Custodian	2,533	2,226
Other investment expenses	6	198
Non recoverable GST	292	57
Total	<u>19,829</u>	<u>16,232</u>

MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

Cost of Administering the Scheme and Managing and Investing in the Fund (cont.)

Under section 27 of the *Military Superannuation and Benefits Act 1991* the Commissioner for Superannuation and the staff of ComSuper provide scheme administration services to the Board. The Department of Defence pays ComSuper for the costs of scheme 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.

	2008	2007
	\$'000	\$'000
Scheme Administration Expenses met by Department of Defence		
<i>ComSuper Administration Fees</i>	14,153	11,636
<i>Board Administration Expenses</i>		
Share of trustee fees, travel and incidental costs	94	92
Support staff and facilities	644	613
Professional advisers	-	15
Total	738	720



Scheme Financial Statements

MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

6. INCOME TAX

The taxation liability at 30 June 2008 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 Profit or Loss

	2008	2007
	\$'000	\$'000
Tax Expense (Income) comprises:		
Current tax expense/income	36,117	39,597
Deferred tax expense/(income)	(25,028)	9,787
Under/(over) provided in prior	(3,221)	(415)
Total tax expense/(income)	<u>7,868</u>	<u>48,969</u>
Income tax expense is attributable to:		
Profit from continuing operations	<u>7,868</u>	<u>48,969</u>
Aggregate income tax expense	<u>7,868</u>	<u>48,969</u>
Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease (increase) in deferred tax assets	(24,168)	1,711
(Decrease) increase in deferred tax liabilities	(860)	8,076
	<u>(25,028)</u>	<u>9,787</u>
The prima facie income tax expense on pre-tax changes in net assets reconciles to the income tax expense in the financial statements as follows:		
Profit from continuing operations before income tax expense	<u>168,672</u>	606,840
	<u>168,672</u>	606,840
Income tax expense calculated at 15%	25,301	91,026
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-taxable member contributions	(54,445)	(47,629)
Non-deductible benefit payments	31,054	30,450
Difference between accounting and tax gains	42,058	(11,298)
Imputation and foreign tax credits	(7,578)	(13,165)
Under/(over) provision of income tax in previous year	(3,221)	(415)
	<u>7,868</u>	<u>48,969</u>

MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

(b) Current tax liabilities

	2008	2007
	\$'000	\$'000
Current tax payables:		
Income tax payable	8,418	15,622
	<u>8,418</u>	<u>15,622</u>

(c) Deferred tax balances

	2008	2007
	\$'000	\$'000
Deferred tax liabilities comprise:		
Temporary differences	3,534	28,562
	<u>3,534</u>	<u>28,562</u>

Taxable and deductible temporary differences arise from the following:

	2008	2007
	\$'000	\$'000
Amounts received in profit or loss:		
Unrealised capital gains	4,353	25,203
Accrued income	(750)	3,466
Accrued expenses	(69)	(107)
Net deferred tax liabilities	<u>3,534</u>	<u>28,562</u>

Movements:

Opening Balance as at 1 July	28,562	18,775
Charged/(credited) to the income statement	<u>(25,028)</u>	<u>9,787</u>
	<u>3,534</u>	<u>28,562</u>



Scheme Financial Statements

MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

7. SUNDRY CREDITORS

	2008	2007
	\$'000	\$'000
Investment expenses payable	6,100	6,196
Unallocated contributions	1,635	16,072
Accrued expenses	892	872
Tax payable to the ATO	138	143
Total	<u>8,765</u>	<u>23,283</u>

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 of Trustees 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 of Trustees has determined that the appointment of these managers is appropriate for the Fund and is in accordance with the Board of Trustees' investment strategy.

National Custodian Services acts as master custodian on behalf of the Board of Trustees and as such 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 of the Fund. 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 income 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 that is carrying value approximates fair value. Changes in net market value are recognised through the statement of changes in net assets.

MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

Financial Instrument Disclosures (cont.)

(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 Fund's risk management and investment policies approved by the Board of Trustees, 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 of Trustees has developed, implemented and maintains a Risk Management Strategy (RMS) and a Risk Management Plan (RMP).

The RMS and RMP identify the Board of Trustees' 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 of Trustees certifies to APRA that adequate strategies have been put in place to monitor those risks, that the Board of Trustees has systems in place to ensure compliance with legislative and prudential requirements and that the Board of Trustees 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 of Trustees has adopted the policy of spreading the aggregate value of transactions concluded 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 of Trustees 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 counter party or any group of counterparties having similar characteristics. It is the opinion of the Board of Trustees 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. No individual investment exceeds 5.0% of net assets at 30 June 2008, except for Credit Suisse Cash Enhanced (5.2%) and NAB Treasury (6.8%). At 30 June 2007 one investment exceeded 5% of net assets; the Agora Absolute Return Fund (5.7%).

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. For derivative positions, the credit risk is equal to the net market value of positive (asset) derivative positions which amount to nil (2007: \$0.3million).



MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

Financial Instrument Disclosures (cont.)

(f) Liquidity risk

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

The Fund's listed securities and 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. While 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 this is only likely in extreme market conditions.

The Fund's liquidity risk is managed in accordance with the Fund's investment strategy. The Fund has a high level of net inward cash flows (through new contributions) which provides significant capacity to manage liquidity risk. The Fund also 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 cannot have an exposure of less than 50% of assets invested in liquid asset classes at any one point in time. The Fund's overall strategy to liquidity risk management remains unchanged from 2007.

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

MILITARY SUPERANNUATION AND BENEFITS FUND

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Financial Instrument Disclosures – Liquidity Risk (cont.)

	Less than 3 months	3 months to 1 Year	1 - 5 years	Over 5 Years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2008					
Trade settlements payable	8,849	-	-	-	8,849
Sundry creditors	8,765	-	-	-	8,765
Benefits payable	5,281	-	-	-	5,281
Current tax liability	-	8,418	-	-	8,418
Deferred tax liability	-	-	3,534	-	3,534
Vested benefits	2,939,000	-	-	-	2,939,000
Total	2,961,895	8,418	3,534	-	2,973,847
	Less than 3 months	3 months to 1 Year	1 - 5 years	Over 5 Years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2007					
Trade settlements payable	9,839	-	-	-	9,839
Sundry creditors	23,823	-	-	-	23,283
Benefits payable	8,974	-	-	-	8,974
Current tax liability	11,774	3,848	-	-	15,622
Deferred tax liability	-	-	-	-	28,562
Vested benefits	2,775,500	-	28,562	-	2,775,500
Total	2,829,370	3,848	-	-	2,861,780

(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 Fund's 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 it manages and measures the risk.



Scheme Financial Statements

MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

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.

	Fixed Interest Rate					Total
	Floating Interest Rate	1 Year or Less	1 - 5 Years	Over 5 Years	Non-Interest Bearing	
30 June 2008	\$'000	\$'000	\$'000	\$'000	\$'000	
Financial Assets						
Cash & short term deposits	133,650	198,220	-	-	81,249	413,119
Debt instruments	12,035	-	229	-	334,335	346,370
Australian equities	-	-	-	-	587,386	587,615
International equities	8,836	-	-	48,613	382,821	391,657
Property trusts	-	-	-	-	164,019	212,632
Currency contracts	-	-	-	-	16,304	16,304
Private equity	776	-	-	-	478,471	479,247
Uncorrelated Alpha (Hedge) Fund	10	-	111,307	-	62,174	173,491
Infrastructure	-	-	-	-	303,083	303,083
Other Assets	27,320	-	-	-	18,756	46,076
Total	182,627	198,220	111,536	48,613	2,428,598	2,969,594

	Fixed Interest Rate					Total
	Floating Interest Rate	1 Year or Less	1 - 5 Years	Over 5 Years	Non-Interest Bearing	
30 June 2007	\$'000	\$'000	\$'000	\$'000	\$'000	
Financial Assets						
Cash & short term deposits	29,048	3,951	-	-	20,732	53,731
Debt instruments	11,146	-	-	-	191,505	202,651
Australian equities	-	-	210	-	842,102	842,312
International equities	2,739	-	-	-	604,953	607,692
Property trusts	-	-	-	44,452	138,913	183,365
Currency contracts	-	-	-	-	65,629	65,629
Private equity	167	-	-	-	405,480	405,647
Uncorrelated Alpha (Hedge) Fund	37,589	-	85,695	-	57,301	180,585
Infrastructure	103	-	-	-	248,189	248,292
Other Assets	26,663	-	-	-	43,567	70,230
Total	107,455	3,951	85,908	44,452	2,618,371	2,860,134

MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

Interest rate sensitivity analysis

At 30 June 2008 should interest rates have lowered by 50 basis points (2007: 25 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 \$190 million (2007: \$105 million). If interest rates had risen by 50 basis points (2007: 25 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 \$190 million (2007: \$101 million). These increases / decreases in net assets attributable to members are calculated on an undiscounted basis. The analysis is performed on the same basis for 2007.

(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 hedges its exposure to currency risk 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 Fund has adopted a 100% hedged benchmark and for the absolute return strategies the fund employs an actively managed program with an unhedged benchmark. The Fund's overall strategy in foreign currency risk management remains unchanged from 2007.



Scheme Financial Statements

MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

(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 2008							
Cash and short term deposits	279,377	132,055	44	55	1,337	251	413,119
Debt instruments	243,937	95,073	-	-	7,360	-	346,370
Australian equities	587,615	-	-	-	-	-	587,615
International equities	-	376,273	-	6,817	5,445	3,122	391,657
Property trusts	157,224	52,156	-	-	3,252	-	212,632
Currency contracts	563,317	(289,944)	(50,386)	(57,921)	(148,762)	-	16,304
Private equity	176,112	219,932	-	-	65,891	17,312	479,247
Uncorrelated Alpha (Hedge) Fund	100,973	72,518	-	-	-	-	173,491
Infrastructure	274,188	39,788	-	(4,025)	(6,868)	-	303,083
Total investments	2,382,743	697,851	(50,342)	(55,074)	(72,345)	20,685	2,923,518
Other assets							
Cash at bank	27,320	-	-	-	-	-	27,320
Interest receivable	48	16	-	-	3	-	67
Dividends receivable	843	663	-	6	5	169	1,686
Trade settlements receivable	106	-	-	66	53	10,870	11,095
GST recoverable	428	-	-	-	-	-	428
Sundry debtors	1,102	414	-	5	8	62	1,591
Benefits payable to be funded by appropriation	3,889	-	-	-	-	-	3,889
Total Other Assets	33,736	1,093	0	77	69	11,101	46,076
Total Assets	2,416,479	698,944	(50,342)	(54,997)	(72,276)	31,786	2,969,594
Less Liabilities							
Benefits payable	5,281	-	-	-	-	-	5,281
Trade settlements payable	672	-	-	68	54	8,055	8,849
Sundry creditors	8,765	-	-	-	-	-	8,765
Current tax liability	8,418	-	-	-	-	-	8,418
Deferred tax liability	3,534	-	-	-	-	-	3,534
Total Liabilities	26,670	0	0	68	54	8,055	34,847
Net Assets Available to Pay Benefits	2,389,809	698,944	(50,342)	(55,065)	(72,330)	23,731	2,934,747

MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

(h) Currency risk management (cont.)

	AUD	USA	JPY	GBP	EUR	Other	Total
	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000
30 June 2007							
Cash and short term deposits	30,936	21,346	-	12	1,381	56	53,731
Debt instruments	126,926	64,979	-	-	10,746	-	202,651
Australian equities	842,312	-	-	-	-	-	842,312
International equities	51	411,889	23,318	48,695	76,150	47,589	607,692
Property trusts	110,933	69,153	-	-	3,279	-	183,365
Currency contracts	1,015,963	(556,046)	(114,451)	(51,540)	(228,297)	-	65,629
Private equity	153,661	202,387	-	-	49,599	-	405,647
Uncorrelated Alpha (Hedge) Fund	77,828	102,757	-	-	-	-	180,585
Infrastructure	179,989	68,303	-	-	-	-	248,292
Total investments	2,538,599	384,768	(91,133)	(2,833)	(87,142)	47,645	2,789,904
Other assets							
Cash at bank	26,663	-	-	-	-	-	26,663
Interest receivable	49	926	-	-	797	-	1,772
Dividends receivable	3,434	488	37	61	95	65	4,180
Trade settlements receivable	23,538	6,180	74	93	152	122	30,159
GST recoverable	463	-	-	-	-	-	463
Sundry debtors	740	190	17	39	80	38	1,104
Benefits payable to be funded by appropriation	5,889	-	-	-	-	-	5,889
Total Other Assets	60,776	7,784	128	193	1,124	225	70,230
Total Assets	2,599,375	392,552	(91,005)	(2,640)	(86,018)	47,870	2,860,134
Benefits payable	8,974	-	-	-	7	-	8,974
Trade settlements payable	6,833	2,980	5	5	-	9	9,839
Sundry creditors	23,283	-	-	-	-	-	23,283
Current tax liability	15,622	-	-	-	-	-	15,622
Deferred tax liability	28,562	-	-	-	-	-	28,562
Total Liabilities	83,274	2,980	5	5	7	9	86,280
Net Assets Available to Pay Benefits	2,516,101	389,572	(91,010)	(2,645)	(86,025)	47,861	2,773,854



MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

Foreign currency sensitivity

In 2008 a foreign currency rate of 5% movement in all currencies excluding the Japanese Yen (10%) against the Australian Dollar is considered prudent in assessing sensitivity to foreign exchange movements.

In 2007 a foreign currency rate of 5% movement in all currencies excluding the USD (10%) against the Australian Dollar is considered prudent in assessing sensitivity to foreign exchange movements.

At 30 June 2008, had the Australian dollar weakened by the above currency movements against other currencies to which the fund is exposed to, with all other variables held constant, the decrease in net assets attributable to members (and in net loss after tax) would amount to approximately \$47.9 million (2007: \$7.1 million) respectively. Had the Australian dollar strengthened by the above currency movements against other currencies to which the fund is exposed to, with all other variables held constant, the increase in net assets attributable to members (and in net profit after tax) would amount to approximately \$59.2 million (2007: \$8.2 million) respectively. The analysis is performed on the same basis for 2007.

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 financial instruments 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 2008, if the equity prices had increased by 10% (2007:5%) with all other variables held constant, this would have increased net assets attributable to members (and net profit after tax) by approximately \$233 million (2007: \$120 million). Conversely, if the equity prices had decreased by 10% (2007:5%) with all other variables held constant, this would have decreased net assets attributable to members (and net loss after tax) by approximately \$265 million (2007: \$120 million).

The Fund's sensitivity to market risk has decreased during the current period mainly due to the reduction in equity investments and increased exposure to absolute return strategies.

MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

9. VESTED BENEFITS

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

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

	2008	2007
	\$m	\$m
Funded component	2,939	2,775
Unfunded component	11,833	10,484
Total vested benefits	14,772	13,259

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

	2008	2007
	\$m	\$m
Funded component	2,939	2,775
Net assets adjusted for benefits payable and cost of disposal	2,939	2,782
Surplus	-	7

The value of vested benefits represents the liability that would have fallen on the Scheme in the unlikely event that all members ceased service on 30 June 2008 and elected the option which is most costly to the Scheme. The likelihood of such an occurrence is extremely remote.



Scheme Financial Statements

MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

10. LIABILITY FOR ACCRUED BENEFITS

The amount of 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 membership date. 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, (ie. accumulated member contributions and, where applicable, productivity contributions, plus interest) and an unfunded component to be financed, by the Commonwealth, from the Consolidated Revenue Fund, at the time the superannuation benefits become payable. The valuation of the accrued benefits was undertaken by the Australian Government Actuary as part of a comprehensive review during 2005-06. An extract of the Australian Government Actuary's report is attached.

	2005	2002
	\$b	\$b
Funded component	1.7	1.0
Unfunded component	8.8	5.9
Total accrued benefits	10.5	6.9

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

	2005	2002
	\$b	\$b
Funded component	1.7	1.0
Net assets	1.7	1.0
Surplus/(deficiency) Reserve	0.0	0.0

The liability for accrued benefits has been updated following the comprehensive actuarial review, which was completed early 2006 using data as at 30 June 2005. The next valuation of accrued benefits is as at 30 June 2008 and is expected to be completed by June 2009.

11. GUARANTEED BENEFITS

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

MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

12. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel of the Military Superannuation and Benefits Scheme 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) (appointed 1 September 2007)

Mr G Szondy (appointed 1 August 2007)

Brigadier R Brown (appointed 18 October 2007)

Warrant Officer R C Swanwick

Mr F Bleeser

Mr C P H Kiefel (Chairman) (resigned 31 August 2007)

Dr M J Sharpe, AO (resigned 31 July 2007)

Air Commodore L Roberts (resigned 17 October 2007)

Executive of the MSB Board of Trustees No. 1

Mr K J McCullagh (Chief Executive Officer)

(a) Key Management Personnel Compensation

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

	2008	2007
	\$'000	\$'000
Short-term employee benefits	516,533	486,021
Other long-term employee benefits	18,370	4,346
	534,903	490,367

13. AUDITORS REMUNERATION

	2008	2007
	\$	\$
The amount paid and payable in respect of audit services provided by ANAO (exclude GST)	-	71,340

Deloitte Touche Tohmatsu (Deloitte) 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 2008 (value \$83,770). In 2007 these services were paid by the Fund.

Other services provided by the Australian National Audit Office included an audit of the RSE and FSR licensee requirements. This service was provided for a fee of \$15,000 (2007: \$20,830).

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



MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

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.

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 2008 the Fund had outstanding investment capital commitments of \$463m (2007: \$774m). 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 2008 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 for the review of decisions relating to benefit entitlements of the Scheme 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 of Trustees, these requests do not represent a material liability on the Scheme.

There were no other contingent liabilities which have been identified as at 30 June 2008 (2007:\$Nil).

MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

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 Scheme 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:

	2008	2007
	\$'000	\$'000
Total surcharge liability outstanding at start of year	19,350	17,635
Surcharge liability recorded against member accounts in respect of surcharge assessments received during the year	<u>31</u>	<u>1,396</u>
	19,381	19,031
Less Amount paid by members	(151)	(148)
Less Amounts deducted from members' benefit payments	<u>(737)</u>	<u>(669)</u>
	18,493	18,214
<i>Plus:</i>		
Interest applied to outstanding surcharge liability at 30 June 2006	<u>1,182</u>	<u>1,136</u>
Total surcharge liability outstanding at end of year	19,675	19,350

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.



Scheme Financial Statements

MILITARY SUPERANNUATION AND BENEFITS FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2008

19. RELATED PARTIES

The Trustee of the Military Superannuation and Benefits Scheme 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 C P H Kiefel (former Chairman – resigned 31 August 2007)

Mt T Hyams (Chairman – appointed 1 September 2007)

Dr M J Sharpe, AO (resigned 31 July 2007)

Mr G Szondy (appointed 1 August 2007)

Air Commodore L Roberts (resigned 17 October 2007)

Brigadier R Brown (appointed 18 October 2007)

Warrant Officer R C Swanwick

Mr F Bleeser

The Chief Executive of the MSB Board of Trustees No. 1 is Mr K J McCullagh.

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

Employer Sponsor

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.

As disclosed in Note 5 the Department of Defence pays ComSuper for the costs of scheme administration and ComSuper recognises this administration revenue in the annual financial statements prepared by the Commissioner for Superannuation. A component of the ComSuper administration fees is used to meet administration costs directly incurred by the Board and its staff.

Contributions and Retirement Benefits of Key Management Personnel

With the exception of one Trustee, members of the Board or of its Executive Unit are not eligible to contribute to the Scheme. Contributions paid by the 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.

Other Related Party Disclosures

During part of the year, a member of the Board was a Director of a company which manages investments in which the Fund has investments. The Director took no part in any decisions affecting this investment. This arrangement ceased on 1 August 2007.

The Chief Executive Officer has been appointed, at the Board's request, as Director of a company in which the Fund has an investment.

20. SUBSEQUENT EVENTS

There have not been any matters or circumstances arising since 30 June 2008 that have significantly affected or may significantly affect the Fund.



Australian Government
Australian Government Actuary

17 August, 2006

MILITARY SUPERANNUATION AND BENEFITS SCHEME
SUMMARY OF THE 2005 LONG TERM COST REPORT

1. A report on the long term cost of the Military Superannuation and Benefits Scheme (MSBS) and the Defence Force Retirement and Death Benefits Scheme (DFRDB) was carried out using data as at 30 June 2005 by the Australian Government Actuary.
2. The MSBS is partially funded and the DFRDB (closed to new entrants since October 1991) is unfunded. Both schemes have an underlying Government guarantee. For the MSBS, member contributions and the employer 3% Productivity contributions are paid into the MSBS Fund. Any MSBS benefit payment amounts not paid from Fund assets are paid from Consolidated Revenue. Projections of the actual annual employer costs of the two schemes combined as a percentage of Gross Domestic Product (GDP) were made over a period of 40 years.
3. These projections showed a progressive fall in the combined cost of the two schemes as a percentage of GDP. Given the underlying Government guarantee, I was therefore of the opinion that the financial position of the schemes as at 30 June 2005 was satisfactory.
4. The value of net assets of the MSBS available to pay benefits as at 30 June 2005 reported in the audited financial statements of the Fund was \$1,749 million.
5. Vested benefits of the MSBS were not calculated as part of the Long Term Cost Report as at 30 June 2005, but were calculated separately and covered contributors, preserved members and pensioners. They amounted to \$9.6 billion.

It should be noted that this value of vested benefits represents the liability that would have fallen on the scheme if all members had ceased service on 30 June 2005 and elected the most costly option to the scheme. The likelihood of such an occurrence is extremely remote.

6. The value of Accrued Benefits for the MSBS using the actuarial Projected Unit Credit (PUC) methodology as at 30 June 2005 was \$10.5 billion. This comprised \$8.8 billion in unfunded Accrued Benefits and \$1.7 billion in funded Accrued Benefits. The value of Accrued Benefits is the present value of the portion of projected benefit payments that had accrued in respect of membership of the MSBS to 30 June 2005. The employer component of the benefits for contributors was apportioned on a pro-rata basis using the ratio of current length of membership to the total length of projected membership at exit for each individual.
7. As would be expected in a substantially unfunded arrangement, the value of total Accrued Benefits is more than the audited value of scheme assets at the same date.

8. A summary of the data used for the valuation is set out below:

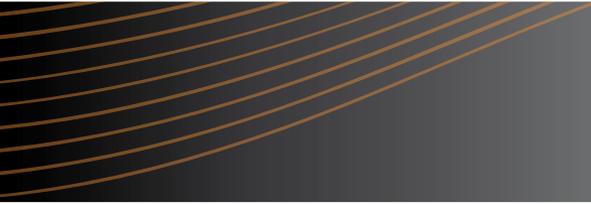
- 44,491 contributors with total superannuation salaries of \$2,359m
- 57,631 preserved beneficiaries with total nominal preserved benefits of \$2,893m
- 5,509 pensioners with total annual pensions of \$93m.

9. The major assumptions used in the calculations were as follows:

- Pension increases (CPI): 2.5% per annum
(unchanged from the 2002 review)
- Interest Rate: 3.5% per annum real (unchanged from the 2002 review)
- Inflationary salary increases: 1.5% per annum real (unchanged from the 2002 review)
- Promotional salary increases: scales based upon age and length of service (slightly revised from the 2002 review)
- GDP increases: a series of rates starting at 2.2% (real) for 2005/06, increasing to 3.0% (real) for 2006/07 and then falling to 2.0% per annum (real) in 2044/45 (slightly revised from the 2002 review)



Peter Martin
Fellow of the Institute of Actuaries of Australia
Australian Government Actuary



Appendices

Military Superannuation and Benefits Scheme

SECTION NINE



Appendix 1: MilitarySuper in brief

Investment

Effective asset allocation	30 June 2007		30 June 2008	
Sector	\$m	%	\$m	%
Cash	54	2	413	14
Debt Instruments	203	7	346	12
Property	184	7	213	7
Australian Shares	842	30	588	20
Private Equity	406	15	479	17
International Shares	608	22	392	13
Uncorrelated Alpha	180	6	173	6
Infrastructure	248	9	303	10
Currency	66	2	16	1
Investment performance	30 June 2007		30 June 2008	
Sector	Fund % ¹	Benchmark % ²	Fund % ¹	Benchmark % ²
Cash	6.2	6.4	7.0	7.3
Debt instruments	7.3	6.4	3.9	4.4
Property	5.1	10.0	4.7	12.0
Australian Shares	28.4	29.2	-10.2	-13.7
Private Equity ³	15.4	15.0	5.3	15.0
International Shares ⁴	23.1	23.7	-4.0	-13.7
Uncorrelated Alpha	4.0	10.0	-7.7	-0.2
Infrastructure	8.1	10.0	12.6	12.5

1. Figures shown are gross of management fees and tax.
2. Benchmark is the most commonly used index or other market measurement which is used as a yardstick to assess the risk and performance of a portfolio. The benchmark usually represents the minimum performance objective.
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. All international share exposures are fully hedged back to the Australian dollar.

Membership

Contributors at 30 June	2007	2008	Increase (decrease)
Males	43 802	45 863	2061
Females	3919	3492	(427)
Total	47 721	49 355	1634
Total Member contributions	\$154.2m	\$167.5m	\$13.3m
Contributor Exits			
Age retirement	90	143	53
Resignation	2057	3523	1466
Redundancy	4	6	2
Invalidity	395	718	323
Death	25	55	30
Other	3291	2803	(488)
Total	5862	7248	1386
Pensions in force			
Retirement	1013	1106	93
Redundancy	1916	1910	(6)
Invalidity	3243	3531	288
Reversionary	237	163	(74)
Total	6409	6710	301
Pensions paid	\$115m	\$128m	\$13m
Average pension	\$18 000	\$19 196	\$1196
Preserved benefit Members at 30 June	65 615	72 812	7197



Appendix 2: 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
AD(JR) Act	<i>Administrative Decisions (Judicial Review) Act 1977</i>
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
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 management	a style of investment management that seeks to achieve performance 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

Appendix 3: publications

The Board publishes booklets and a series of leaflets for the benefit of Members. The following two documents together form the Product Disclosure Statement for MilitarySuper:

The MilitarySuper Book

Your Guide to Investment Choice Booklet

These are general information books that are intended as a reference for Members and pay officers.

The Your Guide to Investment Choice Booklet is an overview of the general objectives that underpin the Board's investment policy and the specific strategy through which these objectives will be realised.

Also available is the *Family Law and Splitting Super – How it's done and what happens next? Booklet*.

The Board also publishes a series of fact sheets that deal with specific topics in more depth. The fact sheets are entitled:

About to Leave the ADF?

Additional Personal Contributions

Appeal Rights

Death and Dependents' Benefits

Early Access to MilitarySuper Benefits

Family Law and Your Super

Government (Super) Co-contributions

Invalidity Benefits - The Classification Process Leave Provisions

Maximum Benefit Limits

Pension Rebates Reaching the Maximum Pension Limit

Rejoining the ADF

Salary Sacrifice Contributions

Summary of the Scheme

Superannuation Contributions Surcharge

Spouse Contributions

Taxation of Lump Sums

Taxation Concessions – Superannuation

The Productivity Benefit

Transfer Amounts

Unitisation

All of these publications can be obtained from Members' Pay Offices, or the MilitarySuper website www.militarysuper.gov.au.

Appendix 4: 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 2007-08 financial year.

Instruments made under the Act

- Military Superannuation Benefits (Eligible Member) Declaration 2007
ComLaw ref: F2007Lo3897

This Declaration specifies new categories of employment for those Members who may be unlikely to meet the eligibility criteria for the Retention Benefit and therefore could be disadvantaged, and lists persons who due to their employment category and other circumstances have been unable to meet the strict eligibility criteria to access the Retention Benefit.

Amending Trust Deeds

One amending Trust Deed was issued during the 2007-08 financial year.

- Military Superannuation and Benefits Amendment Trust Deed 2007 (No. 4)
ComLaw ref: F2007Lo4121

The Rules were amended to improve access to reversionary benefits in certain circumstances where the retirement pensioner commenced a marital relationship after age 60 years.

One amending Trust Deed issued during the 2006-07 financial year took effect at the start of the 2007-08 financial year, i.e. on 1 July 2007.

- Military Superannuation and Benefits Amendment Trust Deed 2007 (No. 3)
ComLaw ref: F2007Lo2209





Appendices

The Rules were amended to provide for the treatment of Member contributions that are paid into MilitarySuper where no tax file number has been provided. Superannuation funds will not be able to accept after-tax Member contributions if the Member does not provide a tax file number to the fund from 1 July 2007. A definition of tax file number was also inserted into the Rules.

ComLaw

The consolidated *Military Superannuation and Benefits Act 1991*, Trust Deed and Rules and each Amending Trust Deed are available from the ComLaw website www.comlaw.gov.au

Appendix 5: compliance

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 ComSuper’s operations are provided in the Commissioner for Superannuation Annual Report 2007–08. Annual reporting requirements that are met in the Commissioner for Superannuation’s report are indicated below by an asterisk.

Requirement	Page
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Glossary	138
Corporate overview	*
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Social justice and equity	*
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Appendix 6: freedom of information

Freedom of Information Act statement

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

Functions of ComSuper

The general functions of ComSuper are described in the main body of this report and in the Commissioner for Superannuation Annual Report 2007–08.

Decision-making powers

The decision-making powers of the Board are set out in Clause 3 of the Trust Deed. The authority for the Board to delegate its powers and functions is contained in Clause 12 of the 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. The documents are then obtained and the request is considered by the Officer.

Decisions to grant access are made under delegation by Board to authorised persons in the Legal and Compliance Unit.

Requests for internal review of FOI decisions are also referred to the unit. They are then forwarded to the Reconsideration Section where they are investigated by Executive Level 1 officers prior to submission to the Authority for decision under Section 54 of the FOI Act.

Facilities for access

Facilities for viewing documents are provided only at the ComSuper office in Canberra, as ComSuper has no regional offices. Publications may be inspected at ComSuper, and copies (for which there may be a charge) can be obtained by writing to ComSuper.

Information about facilities for access by people with disabilities can be obtained by contacting the Freedom of Information Officer.

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 schemes and their underlying legislation are referred to the Superannuation Branch of the Department of Defence which has responsibility for advising the Minister Assisting the Minister for Defence and the Minister for Veterans' Affairs on such matters.

Categories of documents

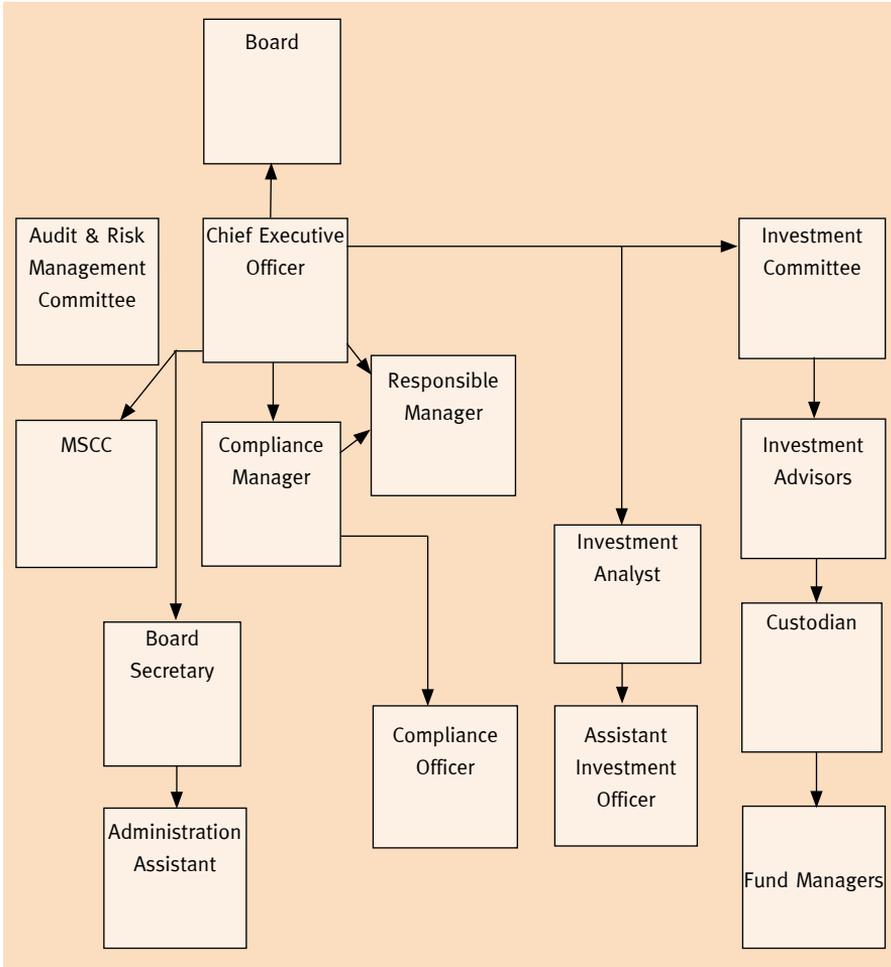
The Board maintains no categories of documents that are open to public access as part of a public register or otherwise, in accordance with an enactment other than the FOI Act, where that access is subject to a fee or other charge.

Books, leaflets and fact sheets that describe various aspects of the Military Superannuation and Benefits 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.



Appendix 7: Executive

Staff resources



During 2007-08 the staff resources of the Executive comprised staff employed directly by the Board on fixed term contracts.

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 2007-08 all Trustees and Board staff had access to a range of continuing professional development activities including attendance at major industry conference 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*
- there were no workplace inspections carried out by Comcare
- there were 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 a charge against the Fund. Fees paid to the Chairman of the Board and a proportion of those paid to Board Members and Members of the Executive are also a charge against the Fund.

All other costs incurred by the Board are met from moneys 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 has assumed responsibility from ComSuper for the processing of Board accounts, maintaining accounting records and for the production of Board 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: staffing statistics of the Executive

Employment category	Male	Female	Total
Full-time	2	3	5
Part-time	1	2	3
Total	3	5	8



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