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The MSB Board
Annual Report
2008-09

The MSB Board Annual Report to Parliament

Military Superannuation and Benefits Scheme

2008-09



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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. Greg Combet AM MP
Minister for Defence Personnel, Materiel and Science
Minister Assisting the Minister for Climate Change
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 2009, together with financial statements in respect of the management of the Military Superannuation and Benefits Fund during 2008–09, 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.

Tony Hyams
Chairman
Military Superannuation and Benefits Board

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Chairman's overview

Military Superannuation and Benefits Scheme

SECTION ONE

1



On behalf of the Board I am pleased to present this report on the operations of the Military Superannuation and Benefits Board of Trustees for the financial year to 30 June 2009.

Global Financial Crisis

From an investment perspective 2008–09 was a tough year as superannuation funds and investors across the world grappled with the continuing fall-out from the Global Financial Crisis (GFC). After years of above average returns, by the end of 2007 investors could have been forgiven for believing that investment markets and underlying asset values only move in a positive direction. However, that is not the case.

The GFC which took hold in late 2007 resulted from systemic problems in the financial markets, the collapse of the US housing sector and related sub-prime mortgages and excessive borrowings. The increasing complexity of financial instruments and poor risk management led to huge losses by lenders and to bank failures. Bear Sterns, regarded as a Wall Street stalwart was the first to fail and the subsequent failure of the 158 year old Lehman Brothers led to the near collapse of the global financial system.

The GFC has since come to be described as the most serious financial crisis since the massive stock market crash of 1929 which ushered in the Great Depression that lasted for more than a decade. Indeed there are similarities between the 1929 crash and more recent events, with current global effects characterised by the failure of key businesses, declines in consumer wealth, substantial financial commitments incurred by governments and a significant decline in economic activity.

The response from the US Federal Reserve and central banks around the world has been dramatic as they have taken steps to expand money supplies to the financial markets. Governments have enacted large scale fiscal stimulus packages to offset the reduction in liquidity and demand in the private sector.

In this environment, from its peak in November 2007 until March 2009 the Australian share market fell by almost 55%. This was similar to the experience of public markets around the world.

History tells us that investment markets move in cycles and that despite short term volatility, in the long term markets recover and ultimately exceed their previous high points. Therefore the Board remains committed to buying and holding quality assets for the longer term and across economic boom and bust cycles.

MilitarySuper's Investment Performance

MilitarySuper's investments have been adversely affected by the GFC as reflected in the Fund's performance to 30 June 2009. The Fund ended the financial year with net assets of \$2.81 billion, a decline of \$124 million from the prior year end.

The vast majority of Members are invested in MilitarySuper's Growth Option which is the Fund's default option. It returned -13.0 percent net of fees, charges and taxes. This compared

to the average growth option net return of -15.6% percent for Australian superannuation funds as reported by the independent ratings agency SuperRatings for the financial year to 30 June 2009.

Despite the difficult investment environment, for the financial year to 30 June 2009 SuperRatings assessed MilitarySuper's performance in all investment options with the exception of the Conservative Option, as being amongst the top performing funds for the year. Further details of MilitarySuper's comparative performance in each of the five investment options against returns for comparable funds across 1, 3 and 5 year periods are provided later in this report.

Despite the negative short-term impact of such results on the Fund, the current investment environment is providing considerable opportunities for patient, long-term, capital investors such as MilitarySuper to identify and take advantage of quality assets at affordable prices that have the potential to deliver strong returns to the Fund in years to come.

The Year Ahead

The Board recognises that the road to full economic recovery will probably be slow and that there may be setbacks along the way. Volatility and risk in financial markets and growth in the short to medium term will remain challenges for most western economies. To some extent we are in uncharted waters involving untested stimulus measures and other government and central bank actions designed to restore economic activity.

In these circumstances the Board believes that we can expect lower average investment returns and increased variability of returns in future.

Our focus on managing risk and exercising caution in deploying cash back into investment markets, especially during the recovery phase of the financial crisis, should shield Members from some of this expected volatility. Like many other superannuation funds the Board and Management of MilitarySuper will be looking to learn from the GFC in reviewing and setting future investment strategies.

Merger of the Boards of the Major Commonwealth Superannuation Schemes

In October last year the Government announced that it intends to merge the boards of the MilitarySuper and the DFRDB Authority with the ARIA board (the trustee of the CSS, PSS and PSSap civilian schemes). It is the Government's intention that the boards will merge from 1 July 2010.

This amalgamation into one board requires a deal of collaboration between all parties and your Board is working closely with Government and other key stakeholders to ensure that the outcome from this process will meet the special needs and expectations of the Members of each Scheme.

The Board will keep Members advised of progress in this matter during 2009-10.

Appointment of New Chief Executive Officer

In November 2008 the Board appointed a new Chief Executive Officer, Mr Paul Watson. Mr Watson succeeded Mr John McCullagh who retired from that position after a 17 year association with MilitarySuper, the last five as CEO.

Mr Watson has extensive experience in the superannuation and financial services industries. He has held senior management positions with several of Australia's industry and public sector funds and senior officer positions within the Department of Finance, the Australian Taxation Office, ComSuper and the Department of Defence.

Thank You

On behalf of the Board and its management team, I wish to thank John McCullagh for his significant contribution and dedicated service to MilitarySuper. He was a fine leader of this organisation and he will be missed. We wish him a happy and fulfilling retirement.

I am grateful for the support over the past year of the former Minister for Defence Science and Personnel, the Hon. Warren Snowdon, MP, the Minister for Defence Personnel, Materiel and Science, the Hon. Greg Combet, AM, MP, and I want to thank the former Minister for Superannuation and Corporate Law, Senator the Hon Nick Sherry for his keen interest and valuable guidance throughout the year. I also recognise and express my appreciation to the Chief of the Defence Force, Air Chief Marshal Angus Houston, AC, AFC, for his constructive ongoing support.

I wish to place on record my appreciation of the efforts and support of my fellow trustees who are doing so much to ensure that MilitarySuper continues to serve the interests of Members and the government at such a high level.

Finally, the Board again acknowledges the immensely important role played by our staff in realising our achievements. We appreciate their professionalism and encourage a continuing high level of performance to meet the challenges of the coming year.

Ongoing Commitment

There are many challenges confronting superannuation funds generally and MilitarySuper specifically over the coming year. The Board is committed to move with the changes and indeed to lead some of these changes with a view to ensuring the best outcomes for Members.



Tony Hyams
Chairman
Military Superannuation and Benefits Board

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 a minimum 5% to a maximum of 10%.

In addition, Members are able to transfer amounts from other superannuation funds into the Scheme and make pre-tax Member contributions and contributions for the benefit of their spouse to the Scheme. These additional ancillary benefits are invested according to the Member's investment choice and are payable in addition to other benefits.

On resignation from the Defence Force the Member benefit accrued to 30 June 1999 can be paid as a lump sum to the Member, but the balance of the Member benefit must be preserved until the Member's preservation age; either in MilitarySuper or in another complying superannuation fund selected by the Member. The employer component, including productivity contributions, must be preserved in MilitarySuper until the Member reaches age 55, or in another complying superannuation fund until the Member's preservation age.

The Board

The Military Superannuation and Benefits Board (the Board) consists of five trustees appointed by the Minister for Defence Personnel, Materiel and Science (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 2009 were:

Chairman

Mr Tony Hyams

Trustee since 1 September 2007

Mr Hyams was formerly Head of Credit Suisse 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. He has degrees in Law and Commerce from the University of Melbourne and brings to the role of Chairman an extraordinarily broad knowledge and understanding of investment and financial matters. In addition to his role as Board Chairman, Mr Hyams was also Chairman of the Board's Investment Committee, prior to the Committee being subsumed by the full Board.

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.

About the Scheme

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 was a Member of numerous Defence review bodies, including the review of the Defence Force Retirement and Death Benefits Scheme, the Defence Efficiency Review and the Strategic Review of Defence Personnel Policies into the 21st Century. He is a past Director of Superannuation Policy in Defence and an alternate Member of the Defence Force Retirement and Death Benefits Authority, the Military Rehabilitation and Compensation Commission and the Government's Safety Rehabilitation and Compensation Commission. He is a Member of the Australian Institute of Company Directors and serves on 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 working at Headquarters Joint Operations Command. He has a Masters of Strategic Studies and is a Fellow of the Australian Institute of Company Directors; and currently serves as Chairman of the Military Superannuation Communications Committee.

WOFF Robert Swanwick MAICD

Trustee since 22 September 1997

Warrant Officer Swanwick is an Air Force Loadmaster who has served throughout Australia and overseas for 30 years and is currently the Airmen Aircrew Work Force Planner, within the Directorate of Personnel - Air Force. He has been posted to various Tri Service programs within Defence HQ, Air Force and Army units and attached to Navy establishments. He has completed several operational deployments including to the Sinai Peace Keepers and three recent deployments to the Middle Eastern Area of Operations. He holds diplomas in frontline management and aviation and has extensive training in communications, investment and superannuation administration. Over the past twelve years, he has held the position of other Rank Trustee, and is a Member of the Audit and Risk Management Committee and a Member and former Chairman of the Military Superannuation Communication Committee.

The Board



Standing (from left)

Brigadier Bob Brown, Mr Gabriel Szondy, WOFF Robert Swanwick

Seated (from left)

Mr Felix Bleeser, Mr Tony Hyams

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 Scheme 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.

Board Meetings

Table 1: Schedule of Board Meetings 2008–09

	15 Jul 2008	5 Sept 2008	5 Nov 2008	3 Dec 2008	4 Feb 2009	5 Mar 2009*	7-8 May 2009	10-11 Jun 2009
Mr Tony Hyams	P	P	P	P	P	P	P	P
Mr Gabriel Szondy	P	AP	AP	P	P	P	P	P
WOFF Robert Swanwick	P	P	P	P	P	P	P	P
Mr Felix Bleeser	P	P	P	P	P	P	P	P
Brigadier Bob Brown	P	P	P	P	P	P	P	P

* Extraordinary meeting of the Board

P = Present

AP = Attendance by Telephone

Governance

Military Superannuation and Benefits Scheme

SECTION THREE

3



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

Chief Executive Officer

In November 2008 the Board appointed a new Chief Executive Officer, Mr Paul Watson. Mr Watson succeeded Mr John McCullagh who stepped down from the CEO Role after a long association with MilitarySuper, the last five years as CEO.

Mr Watson has extensive experience in the superannuation and related financial services industry.

Corporate Governance Statement

The Military Superannuation and Benefits Board (the Board) is constituted under the *Military Superannuation and Benefits Act 1991* (the Act) and the associated Trust Deed and Scheme Rules. The Board stands independent of the government of the day and independent of any other constituency. It is accountable to the Members of the Military Superannuation and Benefits Scheme (the Scheme) under the Act, under the *Superannuation Industry (Supervision) Act 1993* (the SIS Act) and under general corporate legislation. The principal responsibility of the Board is to act in good faith, with prudence and in the Members' best interests in respect of the investment and administration of the Scheme.

The Board's Charter is to:

- administer the *Military Superannuation and Benefits Act 1991* and to effectively and efficiently meet its responsibilities under the Act
- manage and invest the Fund to provide real growth for Members' investments while managing risk levels carefully.

Vision Statement

The Board has adopted the following as its vision:

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

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

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

Principal Duties

The Board's principal duties are to:

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

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

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

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

Governance Matters Outside the Board's Control

The Board does not control its own composition or its remuneration. The power to appoint Board Members is vested in the Minister for Defence Personnel, Materiel and Science 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. 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 scrutinise its own processes to ensure transparency in identification of conflicts and separation of functions. Board committees are subject to written terms of reference and care is taken to ensure the activities of each committee remain consistent with the Board's duty of governance over the Scheme's activities. Each committee reviews its performance annually and the Chair of each committee reports to the Board following each review.

Meetings and Agenda

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

Professional Development

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

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

Managing Conflicts of Interest

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

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

- (1) That each trustee shall:
 - a) As soon as possible after, but in any case no later than 60 days after appointment as a trustee.
 - 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 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 that assessment the Minister concluded that the existing board template is the preferred governance framework for the Board for the following reasons:

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

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

Merger of the Boards of the Major Commonwealth Superannuation Schemes

In a joint media release dated 31 October 2008 the Minister for Finance and Deregulation and the then Minister for Superannuation and Corporate Law announced the Government's

decision that ARIA (the trustee for the Government's superannuation schemes for its civilian employees) the MSB Board and the DFRDB Authority merge to form a single trustee board from 1 July 2010.

The schemes for which the new Board will have responsibility are:

- The Commonwealth Superannuation Scheme (CSS) – both 1922 and 1976 Acts
- The Public Sector Superannuation Scheme (PSS)
- The Public Sector Superannuation Accumulation Plan (PSSap)
- The Military Superannuation and Benefits Scheme (MSBS)
- The Defence Force Retirement and Death Benefits Scheme (DFRDB)
- The Defence Forces Retirement Benefits Scheme (DFRB)
- Certain closed PNG schemes.

The trustee board consolidation decision is seen by Government as part of an integrated package of measures aimed at a modernised and improved framework for Australian Government superannuation, more in line with arrangements in the broader superannuation industry in Australia. The package aims to provide improve efficiency of the trustee arrangements and services to Members of the schemes.

The Government has provided an assurance that the reforms will not affect Members' superannuation benefits and entitlements in any way. Each scheme will retain its own rules, including investment strategies and Member investment options.

With this objective in mind the MSB Board and its Executive are working closely and co-operatively with the Department of Finance and Deregulation, the Department of Defence, the DFRDB Authority and ARIA on all aspects of the merger to ensure that the outcomes from this process continue to meet the special needs and expectations of all Members of each scheme.

Business Plan

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

The Plan identifies areas of Board responsibility and accountability and articulates the framework of internal and external governance measures employed by the Board to ensure that those responsibilities and accountabilities are properly discharged. It identifies environmental and other factors which will impact on the Board's responsibility for the administration of the Scheme and the management and investment of Members' moneys which comprise the Fund. The Board's approach to control of the main business risks is also

covered. From an investment perspective the Plan has regard to the current membership and liabilities of the Scheme and makes some assumptions regarding the future growth of the Scheme given the ever-changing superannuation environment. As such, it provides the basis for monitoring long term Fund performance, having regard to market influences and the changing demographics and needs of Scheme Members. The Board reviews its business plan each year.

Scheme Administration

The Commissioner for Superannuation and, through that office, Commonwealth Superannuation Administration (ComSuper), is the legislated provider of scheme administration services to the Board. The cost of these services is met by the Department of Defence. Recognising that it is not currently possible to create any legally binding or enforceable arrangements between the parties, a Service Level Agreement has been negotiated covering arrangements between the Defence Organisation (comprising the Department of Defence and the Australian Defence Force), the Board and ComSuper. This agreement reflects the shared understanding of the commitments each of the parties is providing under the agreement. These are matters which would otherwise be reflected if the parties were able to contract with each other.

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

Objectives

The Board's administration objectives are to have continuing access to high quality, cost effective administration services which meet the needs of the Board and Members of the Scheme by:

- having executive support services which efficiently and effectively respond to the Board's needs
- delegating Board powers and functions under the Act and Trust Deed to ComSuper, in order to facilitate good service to Members
- having arrangements with its major service providers which ensure that each party is accountable for their own acts and that the assets of the Fund are protected
- having access to ongoing sources of funding to ensure that the costs incurred directly by the Board in pursuit of its responsibilities for the administration of the Scheme, other than in respect to its responsibilities for the management and investment of the Fund, are met by the Department of Defence
- having processes in place which enable the Board to influence the standards of services provided to Members

- managing key relationships with stakeholders and service providers
- having clear-cut and streamlined administration at competitive costs commensurate with above average service levels.

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

At the time of preparation of this Annual Report the Government had made no announcements regarding the outcome from that scoping review or the impact on future superannuation administration arrangements.

Delegations

The Board has delegated the majority of its general Scheme administrative powers and functions to the Commissioner for Superannuation and to ComSuper staff. The major areas of delegation include the maintenance of Membership records, the receipt of Member and employer contributions and the calculation and payment of benefits.

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

Board Committees

Audit and Risk Management Committee

The Audit and Risk Management Committee is a committee of the Board. As at 30 June 2009 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 Custodian and other service providers.

The role of the Committee encompasses the Board's responsibilities for risk management. Primary responsibilities of the Committee are to assure the Board that:

- its financial statements are derived from appropriate accounting systems and methods and reflect current accounting standards

- the audit arrangements within service-providing agencies are operating effectively
- appropriate audit and fraud control strategies are in place to protect Board and Member interests
- a proper assessment of risks is carried out for consideration by the Board.

The Committee met on four 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

For a number of years the Board operated an Investment Committee. During 2008–09, the Committee comprised all five trustees, with Mr Tony Hyams as Chairman.

The primary objective of the Committee was to act as a stimulant in the promotion of new investment ideas and concepts and to act as a filter for those investment ideas and concepts. Its primary role was to advise the Board on investment issues and related matters central to the Board's functions of managing and investing the Fund. It acted as the point of contact and focus between the Board and its key external advisers on investment matters.

Following changes to the nature of the investment environment affecting a number of investments, and unrelated changes to investment advisory arrangements, the Board determined that the operations of a separate Investment Committee was no longer the preferred approach. As a consequence the role and responsibilities of the Committee were subsumed by the full Board. The Board continues to be supported in its investment operations by independent investment advisers and its Executive.

Military Superannuation Communication Committee (MSCC)

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

As at 30 June 2009 the Committee comprised Brigadier Bob Brown (Chairman), WOFF Robert Swanwick, Mr Craig Scarlett (representative of the Department of Defence) and CMDR Roz Fletcher (representative of the DFRDB Authority).

The primary objective of the Committee is to act as an advisory body to the Board in relation to ensuring the Board meets the information disclosure requirements flowing from the Board's AFS Licensing obligations and as otherwise imposed by the SIS Act. This is done through clear, timely and accurate reporting to Members and ensuring that Members are informed of Board decisions and other developments which may affect Members' interests.

It also provides a forum by which the communications activities of MilitarySuper can be coordinated with those related to Members and beneficiaries of the DFRDB Scheme. The Committee is, therefore, the point of communication between the Board, the DFRDB Authority, the Department of Defence, the scheme administrator and other service providers for communication issues relating to Members and beneficiaries of the MilitarySuper and DFRDB schemes.

The Committee met six times during the year.

Reconsideration Committee

As at 30 June 2009, 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 Karen Moloney (representative of ComSuper).

The Committee's role is:

- to consider requests for reconsideration of a delegate's decision made under the MSB Rules and either affirm the decision, vary it or set it aside and substitute another decision for it
- to make recommendations to the Board in respect of requests for reconsideration of decisions made either by itself or the Board under the MSB Rules.

The Committee met in person on 11 occasions and considered several cases out of session during the year.

Complaints Committee

The powers of the Reconsideration Committee are limited to reconsidering decisions made under the Rules and do not currently extend to decisions made under the Act. Pending legislative change to remove this restriction, the Board approved the establishment of a Complaints Committee, with the same Membership and Chairman as the Reconsideration Committee.

Executive

The role of the Executive is to provide high level support to the Board in meeting its responsibilities for the administration of the Scheme and the management and investment of the Fund. The Executive has overall responsibility for the management of the Board's day-to-day operations and the management of the Board's relationships with its key service providers and stakeholders.

The focus of the Executive during 2008–09 continued to be on the enhancement of in-house capabilities in areas of governance, compliance, scheme administration and investment implementation and monitoring.

In investment matters the Executive is:

- the central co-ordinator of activities related to asset allocation, cash flow management, oversight of the calculation of daily and monthly Net Asset Value (NAV), daily unit prices, provision of instructions to the custodian, legal due diligence and negotiation of investment management agreements and legal contracts, mandate and SIS Act compliance
- responsible for treasury management, daily monitoring of portfolio performance, reconciliation of custodian reporting and asset valuation, unit pricing and for providing consolidated performance reporting at portfolio and asset sector level, as required by the Board
- solely authorised to issue instructions for the purposes of implementing the Board's investment decisions and to sign documents for that purpose
- co-ordinator of the actions required for the transition of assets between sectors and/or managers
- the link and manages the relationships between the Board and its advisers, fund managers and custodian.

On administration matters the Executive:

- manages the relationships between the Board and the Department of Defence (as employer sponsor and on policy matters), the Administrator (ComSuper), External Auditors and the Board's independent audit and tax advisors, and legal counsel
- performs the function of Responsible Manager under the 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 the Single Board Merger project liaison working group formed to provide a forum for communication between the key stakeholders and to assist in facilitating a smooth transition to the new single board arrangements to be implemented by 1 July 2010.

Financial Issues and Budget Strategies

Section 25 of the Act prescribes that the Board must pay all moneys received by it in respect of the Fund into an account maintained by it with a bank. Clause 9 defines the assets that comprise the Fund. Moneys related to the administration of MilitarySuper are appropriated to the Department of Defence which pays ComSuper a user charge based on a negotiated annual Scheme administration fee. The fee includes a component for administering the Scheme on the Board's behalf and a component for costs incurred by the Board and its Executive in respect of their administrative activities. ComSuper provides the Board with a notional budget in relation to that second element, which includes moneys that are recoverable from the Fund in accordance with the legislation.

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

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

The Executive and the Scheme Administrator, ComSuper, have identified a number of administrative errors which have raised concerns about the operating systems used for scheme administration. ComSuper has implemented manual processing for a small category of administrative functions pending the implementation of a number of system 'fixes' to affect permanent solutions. It was ComSuper's intention to migrate existing legacy systems to a

single operating platform covering all the Commonwealth Schemes it administers. The Board had considered the identified shortcomings of the existing CAPITAL system to be areas of increased business risk to MilitarySuper. As a result the Board revised its risk assessment and implemented an enhanced program of audit review.

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

The impact on future scheme administration arrangements cannot be determined until the outcomes from that review and any decisions by Government in relation to it are released. However, it remains the Board's firm commitment to ensure that whatever the outcome, Members of MilitarySuper continue to have access to high quality administration services.

Status Under the SIS Act and Corporations Legislation

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

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

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

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

Product Disclosure Statement

One of the key requirements of the 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*
- *The MilitarySuper Book*

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

Financial Product Advice the Board Can Provide

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

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

General Product Advice Provided by Authorised Representatives of the Board

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

Evaluation

Annual Effectiveness 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 Scheme Administrator, Custodian and Asset Consultant/Adviser) 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.

Client Feedback

During 2008–09 the Scheme Administrator continued to conduct Member satisfaction surveys with the assistance of the Canberra-based firm Orima Research. Members who had recent contact with the Scheme were surveyed once during the year. The quality of services surveyed was consistently rated highly by Members.

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

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

Chart 1: Quality Service Index Scores for Military Member Satisfaction



Fund Investments

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 return and to manage and control business and investment risks.

Investment Policy

The investment of funds must comply with the legislative and regulatory requirements promulgated under the *Superannuation Industry (Supervision) Act 1993* and the *Corporations Act*. These Acts provide general prudential guidelines for superannuation trustees, and specifically address non-arms length transactions, borrowing, loans to Members, 'in-house' assets, insider trading and derivative controls.

Investment Objectives

The general investment objectives for the Fund are to:

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

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

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

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

(i) Return Objectives

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

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

(ii) Risk Budget

The risk budget is an expression of the level of risk that the Board is prepared to accept to achieve its target returns for the Fund. Variation in asset prices are used as the main

measure of risk and the risk budget is expressed in these terms. The focus of risk control is for the Fund's Investment strategy as a whole and not just its individual components. This focus is designed to prevent the distinct mandates from causing the strategy to be either too aggressive (that is, 'over-spending the risk budget and creating an excessive possibility of loss) or too defensive, given the return objective of the strategy.

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

Investment Beliefs

The Board's investment beliefs are paramount in guiding its fiduciary investment role for Members and in determining investment strategies, policies, guidelines and behaviours that seek to 'live out' these core beliefs.

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

The Board's core investment beliefs are:

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

Investment Strategy

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

The Fund continues to have a significant exposure to listed markets where it seeks to add value through the engagement of active management strategies capable of identifying and

exploiting market inefficiencies with a view to delivering above market returns. Because superior stock selection provides the most consistent and reliable opportunity for generating excess return, the Board's manager selection process favours managers with demonstrated bottom-up fundamental research capabilities. Therefore recognising the difficulty of outperforming the market on a consistent basis, emphasis on manager selection is on those with high integrity, sound investment philosophies, strong track records, superior organisations and governance frameworks and demonstrated sustainable competitive advantage.

Reserves

Given that the Fund offers Members a range of investment options, including a cash only option, the Board does not maintain a separate or overlay investment reserve across the Fund's investments and does not seek to smooth declared returns from the Fund in the application of its unit pricing within these options.

Socially Responsible Investments and Climate Change

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

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

Diversification and Risk Control

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

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

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

Investment risk results from the concentration of a Fund's investments in fewer than the total universe of available investments. While the Fund ideally seeks to diminish business risk, it

does not seek to eliminate investment risk. Investment risk can only be reduced to minor levels by adopting a passive investment strategy and avoided altogether by investing entirely in cash and sovereign bonds (that is, the 'risk free' rate of return). Such an approach would be inconsistent with the Board's mandate and charter to provide a relevant risk adjusted return to the Scheme's Members over the long-term for their retirement.

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

Risk Budgeting

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

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

Review of Core Inputs

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

A Focus on Quality Investment Performance

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

Adding Value through Active Management

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

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

Strategic Asset Allocations

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

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

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

The following Board approved Strategic Asset Allocation was in place as at 30 June 2009:

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

Asset Class	Investment Option				
	Cash	Conservative	Balanced	Growth	High Growth
Cash	100%	20%	5%	4.5%	
Debt		50%	33%	7.5%	
Australian Shares		9%	18%	20%	30%
International Shares		9%	18%	18%	30%
Property		7%	6%	6%	10%
Infrastructure		3%	8%	11%	5%
Uncorrelated Alpha		2%	5%	9%	10%
Alternative Debt			2%	9%	
Private Equity			5%	15%	15%
Total	100%	100%	100%	100%	100%

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

Investment Management

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

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

Fund Investments

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

Investment Managers

The investment managers appointed by the Board manage their portfolios in accordance with specific mandates agreed by the Board. Those mandates include directions as to the types of investments to be held, the maximum and minimum holdings for each type of investment, and the expected rates of return.

The Board does not, however, involve itself in individual stock selection, relying on the demonstrated skills of the manager in the area of the market in which it has been selected to operate on behalf of MilitarySuper. The Board's investment managers at 30 June 2009 are shown in Table 7 (page 60).

Custodian Services

The Fund's Custodian safeguards and maintains the assets of the Scheme on behalf of the Board, performing various functions such as settlement of trades, physical custody and safekeeping of securities, collection of dividends and preparation of accounts.

The Board has appointed National Asset Services Limited as Custodian of the Fund's assets.

Member Investment Options

Members have the choice of five investment options for investing their Member and Ancillary benefits. Members can choose one or a combination of the strategies and, if a Member chooses not to make an investment choice, their Member benefit is invested in the Growth (Default) option. Each of the five options consists of investments across a range asset classes with differing investment return objectives and risk characteristics expressed in the form of volatility and the likelihood of a negative return.

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

Within the current investment options offered by the Fund, the allocation to growth assets across these is achieved predominantly by investments in exchange listed domestic and

international shares. However, listed share markets are cyclical and volatile and recent history has demonstrated the capacity for market-generated returns to be highly volatile in response to macro-economic events. The Board's investment research suggests that diversifying into other asset classes with different characteristics and correlations to mainstream listed markets can benefit the portfolio's risk adjusted outcomes over time.

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

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

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

Table 3: Investment Objectives for Investment Options

Option	Outline	Investment Objective	Risk Budget (Volatility, and Likelihood of a Negative Return)
Cash	This option aims to maximise protection against capital loss, investing only in secure cash investments such as bank deposits, bills, and short-term funds.	To achieve returns that match the UBS Bank Bill Index (net of fees) over a one year period. The investment focus of this option is short-term and is suited to Members expecting to access their funds within 1-2 years and therefore seeking a greater degree of certainty in investment returns.	Risk: Very low. This option is expected to experience low volatility and a consistent but lower level of return compared with the other options.

Fund Investments

Option	Outline	Investment Objective	Risk Budget (Volatility, and Likelihood of a Negative Return)
Conservative	This option invests in a conservative mix of assets, mostly debt instruments (such as fixed interest, infrastructure debt and cash), with some investment in growth-type assets, such as shares and property.	<p>To achieve a return that is greater than 1% over the UBS Bank Bill Index, (net of fees and taxes) a year over rolling three year periods.</p> <p>The investment focus of this option is to maintain a low risk of capital loss and is suited to Members expecting to access their superannuation within 2-5 years and/or who have a low appetite for investment risk.</p>	<p>Risk: Low.</p> <p>This option might produce negative returns from time to time.</p> <p>It is expected to experience lower volatility compared with the Fund's Balance, Growth and High Growth options.</p>
Balanced	This option invests in a diversified mix of assets such as debt instruments (including infrastructure debt), but with a bias towards growth assets such as shares and property.	To achieve a return of 8% a year (net of fees and taxes) over rolling five-year periods.	<p>Risk: Moderate</p> <p>This option might produce negative returns from time to time.</p>

Option	Outline	Investment Objective	Risk Budget (Volatility, and Likelihood of a Negative Return)
Growth (default)	<p>This option invests mainly in assets with growth characteristics including private equity, infrastructure, shares and property products with some investment in debt instruments and cash.</p>	<p>To achieve returns of 10% a year (net of fees and taxes), over rolling five-year periods.</p> <p>This option has a long-term investment focus and is suited to those Members seeking higher rates of return over the lifetime of their investment while accepting a risk of occasional period of negative returns.</p> <p>The Growth option is the Fund's default option.</p>	<p>Risk: High</p> <p>This option is likely to experience return volatility in the short to mid-term and might produce negative returns from time to time.</p> <p>It is expected, however, to experience lower volatility compared with the High Growth option.</p>
High Growth	<p>This is the most aggressive option, investing totally in growth assets, with no direct investment in cash or debt instruments such as fixed interest.</p> <p>The option's performance is highly dependent upon the returns generated by listed equity markets.</p>	<p>To achieve returns of 11% a year (net of fees and taxes) over most rolling seven year periods.</p> <p>This option has a long term investment focus and is suited to those Members seeking to achieve higher rates of return over the lifetime of their investment and while accepting that there may be periods of negative returns.</p>	<p>Risk: Very High</p> <p>This option is likely to experience return volatility in the short and mid-term and might produce negative returns from time to time.</p> <p>As such it is expected to experience higher volatility compared with the other investment options.</p>

Investment Performance

The Global Financial Crisis

By any measure 2008–09 was a difficult year for financial markets and investors, given the extreme volatility experienced in global markets as a result of what is now widely labelled the ‘Global Financial Crisis’, or GFC.

However, the second half of 2008, and the first quarter of 2009, saw this situation deteriorate further as the GFC’s grip extended beyond world financial markets to negatively affect wider world economic growth, employment markets and ultimately consumer confidence generally.

During the first nine months of the financial year a number of major economies fell into recession, including the USA, UK, Japan and most major EU countries. Many commentators attribute the immediate cause or trigger of the crisis to the bursting of the United States housing bubble which peaked in approximately 2005–06. High default rates on ‘sub-prime’ and adjustable rate mortgages began to increase quickly in the aftermath of the end of the long term trend of rising housing prices that encouraged borrowers to take on large and questionably unaffordable mortgages in the belief that they would be able to quickly refinance on more favourable terms. However, as interest rates began to rise and housing prices rapidly fell refinancing became more difficult leading to increased defaults and foreclosures.

Arguably in addition to easy credit conditions, both government and competitive pressures contributed to an increase in the amount of sub-prime lending during the years preceding the crisis. Major US investment banks and government sponsored lenders like Fannie May and Freddy Mac played an important role in the expansion of higher-risk lending.

Mounting losses placed increased pressure on a struggling financial system leading to the failure of the iconic Wall Street investment bank, Bear Sterns. The subsequent failure of the 158 year old Lehman Brothers (which as one of the world’s largest investment banks acted as a major counterparty to world financial market transactions) led to further deterioration in confidence within credit and equity markets and led the world to the near collapse of the global financial system in September 2008.

While Australia’s economy arguably fared better during this period, it was far from immune from these tumultuous events. Indeed, the Australian share market, as measured by the ASX200 Index, fell by more than 35% in the nine months to March 2009, but recovered some ground in the last quarter to finish the year some -23% lower than its July 2008 level. During this period, Australia’s commodity prices suffered as well, which affected our export earnings, and the Australian Dollar retreated from being near-parity with the US Dollar at the start of 2008 to around \$0.68c.

During the first quarter of 2009 the governments of a number of major world economies, such as the US, Japan and Europe, rolled-out a range of stimulus packages and measures designed to stem the economic carnage. As we start the new financial year it appears that these actions may be having the desired effect. The Australian and other world share markets

have clawed back some of the losses experienced over the past 12 months and performed strongly in the first quarter of the new financial year. Daily volatility in these markets has also moderated, banks have resumed lending (albeit cautiously) and the price falls experienced in the commodity markets have stabilised.

Notwithstanding the late rally in 2008–09 the Australian share market recorded its worst year in performance for a quarter of a century.

MilitarySuper’s Investment Performance

MilitarySuper, like all superannuation funds, maintains a diverse spread of investments across both listed and unlisted investments and markets. Just as Australian households and businesses have seen their balance sheets affected by falling asset prices, so too have MilitarySuper and all other superannuation funds.

Listed share markets have fallen some 25% over the past year, directly impacting MilitarySuper’s investment returns, as reflected in the reduction in the value of daily unit prices. However, the Fund has been somewhat cushioned from the full brunt of negative returns as a result of the Board’s strategic investment policy and asset allocation model. MilitarySuper’s strategy includes maintaining a sizeable exposure to unlisted assets, such as infrastructure, direct property and private equity, the performances of which to a degree do not necessarily move in parallel with the movements of listed markets.

This investment strategy, coupled with a decision by the Board in late 2007 to invest net new funds in cash rather than equity and growth-orientated asset classes, held the Fund in good stead during 2008–09.

Despite the difficult investment environment, for the financial year to 30 June 2009, MilitarySuper achieved the following investment returns, (net of taxes and fees) across each of the five investment options:

Table 4: Peer Comparative Performance by Investment Option

Performance for period ended 30 June 2009						
Option	5 year return		3 year return		1 year return	
	MilitarySuper	Median*	MilitarySuper	Median*	MilitarySuper	Median*
High Growth	3.8%	2.9%	-3.6%	-5.5%	-20.0%	-18.2%
Growth	5.0%	3.3%	-0.5%	-3.9%	-13.0%	-15.6%
Balanced	5.4%	3.8%	0.4%	-2.6%	-10.3%	-13.2%
Conservative	4.7%	4.3%	2.1%	1.4%	-5.3%	-3.6%
Cash	5.1%	4.8%	5.2%	4.8%	4.3%	4.1%

* Source: SuperRatings Fund Crediting Rate Survey

Fund Investments

In the period from 2002 to late 2007, Australian superannuation fund members witnessed very strong growth in investment returns, largely as a result of a prolonged 'bull' market in both domestic and international equities. During this period members of most super funds, including MilitarySuper, enjoyed net investment returns in the mid to high teens, fuelled predominantly by the Australian domestic share market.

However investment markets tend to run in cycles and since the beginning of 2008 we have witnessed extreme volatility in markets around the world. Indeed from the high in November 2007 to the recent low in the Australian share market in March 2009, the market has experienced its worst performance in some 26 years.

In this unpredictable 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.

As unnerving as these periods are, this is a natural feature of investment markets and cycles.

Asset Revaluations

MilitarySuper regularly reviews all assets in its investment portfolio to ensure the valuations of these investments accurately recognise and reflect current fair market value. While seeking to ensure that appropriate fairness and equity is observed, but without placing excessive costs on Members, the frequency at which unlisted assets are valued tends to be less frequently than for listed assets - which are effectively valued daily by listed markets. Assets such as direct property, private equity and infrastructure by their nature and character are less frequently brought and sold and therefore the valuation of such assets may occur monthly, quarterly or annually.

During the latter part of the financial year MilitarySuper generally experienced a decline in the carrying values and returns of a number of its unlisted assets. These revaluations were largely as a result of the severe impact of the GFC on key economic fundamentals that directly affect such assets. As a result, MilitarySuper's overall investment performance was negatively affected. Also, the Board's decision to underweight the Fund's exposure to the listed share markets during this time, a period when these markets have enjoyed somewhat of a rally, has amplified this short term negative result.

As a responsible asset manager that takes a keen interest in the performance of each and every investment, MilitarySuper's Board and management have undertaken a series of evaluations and reviews to assess and understand the drivers and causes of the underlying performance of its assets during this difficult time for investors.

As an outcome of that process, the Board has continued to take a cautious approach when considering the probability that the value and return characteristics of its unlisted assets will remain subdued or weakened in the short to mid-term as a result of the current economic circumstances. This includes the Board continuing to re-value assets as necessary

to accurately reflect their current economic worth - which in some cases may continue to see some assets fall materially below their previous valuations. Such decisions, while unpalatable are both prudent, equitable and in line with the practice of super funds, banks and other asset owners in this current financial and economic climate.

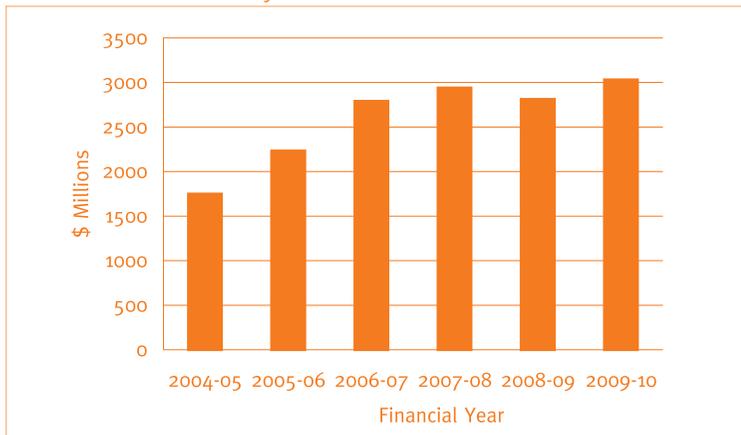
Growth of the Fund

As a result of the impact of the continuing financial crisis and its flow-on effects on investment performance, the year to 30 June 2009 saw the value of Fund assets decline to \$2.811 billion.

However, assuming modest investment performance and continuing strong inwards cash flows by way of new contributions, the Fund is expected to reach \$3.1 billion by the end of 2009-10.

The chart below demonstrates the growth of the Fund over the past six years and projected for 2009-10.

Chart 2: Actual and Projected Fund Growth



Fund Investments

Table 5: Investment Performance by Asset Class 2008–09

Asset Class	Effective exposure at 30 June 2008		Effective exposure at 30 June 2009		Performance 2008–09	
	\$m	%	\$m	%	Fund ¹	Benchmark ²
					%	%
Cash	413	14	174	6	5.09	5.48
Debt ⁵	152	5	484	18	3.90	5.48
Alternative Debt ⁵	194	7	191	7	2.02	12.50
Property	213	7	141	5	-43.84	12.50
Australian Shares	588	20	535	19	-9.01	-20.34
Private Equity ³	479	17	516	19	-15.39	15.00
International Shares ⁴	392	13	309	11	-24.98	-28.39
Uncorrelated Alpha	173	6	74	3	-39.17	12.50
Infrastructure	303	10	267	10	-6.83	12.50
Currency	16	1	52	2	N/A	N/A

1. Figures shown are gross of management fees and taxes.

2. Benchmark is the most commonly used index or other market measurement which is used as a yardstick to assess the risk and performance of a portfolio. The benchmark usually represents the minimum performance objective. Absolute return benchmarks established by the Board in the absence of any commonly accepted benchmark.

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

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

5. Debt and Debt Instruments make up the 'Debt Instruments' classification described in the Fund's financial statements.

Listed Share Markets

Despite a strong last quarter listed share markets had another difficult year. The Australian share market experienced its worst fall in over a quarter of a century with the S&P 300 Accumulation Index falling 20% for the year to 30 June 2009.

International shares also had the same experience although some of the fall in value on the global markets was cushioned by a fall in the value of the Australian Dollar (this has the effect of making the value of overseas investments increase when converted to Australian dollars).

International Shares

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 employs an active currency management strategy around a 50% 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. This strategy served the Fund well during the year as hedges were progressively removed as the value of the AUD against the USD increased during the latter part of the year.

Listed markets were the hardest hit by the global financial crisis and MilitarySuper's returns for this sector were no different. On a hedged basis this sector returned the Fund -24.98% (gross) in comparison with the benchmark return of -28.39%.

Australian Shares

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 comprises a number of smaller (in terms of assets under management) managers.

MilitarySuper's Australian share managers collectively returned -9.01% (gross) in comparison to the ASX 300 accumulation index which returned -20.34%. The managers in this sector were conservative in their approach with some moving a major portion of funds to cash during times of high market volatility, particularly in the second half of calendar 2008.

The Board believes that the current suite of managers will provide increased opportunity to achieve above benchmark returns as markets improve, reflecting the concentrated and index unaware approach of the individual managers.

Property

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.

MilitarySuper's property investments are comprised mainly of unlisted trusts. Continuing global financial uncertainty and the volatility in credit markets combined to negatively affect domestic and global property markets. During 2008–09 all of MilitarySuper's property investments fell in value resulting in this sector recording a return of -43.84% (gross).

While commercial property markets will remain under pressure in the short term, the Board believes current market uncertainty will provide good investment opportunities over the medium to longer term which will also assist to restore value and performance to the Funds existing portfolio.

Alternative Investments

Alternative investments are investments that fall outside the mainstream asset classes such as listed shares, bonds and listed property. As a general rule these types of assets provide some protection against a fall in the value of traditional listed assets. However, in the climate which existed during 2008–09 many of these assets suffered a fall in value. Notwithstanding their defensive characteristics, given the severity of the GFC, virtually no asset class (with the exception of government bonds and cash) was immune from the impacts of the crisis.

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 partnerships 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. While this portfolio delivered these expected characteristics, the return for infrastructure this year was still negative at -6.83% (gross).

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 tends to refer to investments in start-up companies only.

Private Equity investments offer attractive long term risk-adjusted return characteristics consistent with the absolute return focus of the Fund's investment strategy. 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 companies mature and increase in value. This timing is known as the J-curve effect.

MilitarySuper's investment portfolio has a large proportion of assets in this sector. As a result of our weighting towards international private equity returns have also been negatively affected by market changes experienced during the year. The sector returned -15.39% (gross) which was disappointing given the expected benefits of these assets being to varying degrees uncorrelated to mainstream listed assets.

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.

2008–09 was a disappointing year for hedge funds which returned -39.17% (gross) to the Fund this year. The Board undertook a strategic review of its investment strategy in May 2009 which in part confirmed that this sector had not delivered the expected uncorrelated benefits to listed markets and as a result the Board is progressively reducing its allocation to this sector in 2009–10.

Alternative Debt

This sector covers investments in opportunities such as distressed debt, mezzanine debt and some special debt situations. This sector returned 2.02% in 2008–09, which was a positive result despite the dislocation of credit markets and the fluctuation in currency markets during the year.

Cash Investments

Debt

This sector includes liquid assets such as cash management accounts, fixed interest and government bonds. During the year the Board increased the Fund's investment to this sector as a result of its tactical allocation decisions during the GFC. The sector returned 3.90% for the year.

Fund Investments

Cash

Cash held in this sector comprises of liquid cash assets through which the Board seeks to ensure that Members who selected the Cash option receive a return aligned with the Bank Bill index. The Fund holds bank bills and term deposits designed to achieve this outcome. The sector returned 5.09% (gross) during the year compared to the targeted benchmark of 5.48%.

Looking Ahead

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

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

The Road to Recovery

There is a growing mood and belief amongst economists that the global economy is slowly recovering. This has been highlighted as share markets have rallied from their low points in March 2009, commodity prices have experienced a bounce and credit markets, which are essential for economic growth, have begun to thaw as market volatility has reduced.

But the road to economic recovery will be prolonged and bumpy. MilitarySuper anticipate a period of slower growth in the next few years as economies rebuild and consumer confidence returns. While listed investment markets have offered better value in recent months as a result of value being realised due to reduced prices this rally may be tested as economic data such as unemployment, housing lending, consumer spending, business profits and the like unfold.

MilitarySuper will closely monitor such data as part of determining the Fund's investment strategy and asset allocation decisions over the next year.

Table 6: Fund Net Assets at 30 June 2009 (After Taxes, Charges and Benefits)

Opening value of the Fund as at 30 June 2008	\$m 2935
Plus income	
Contributions	536
Gross earning of the Scheme	(444)
Other income	0
Less outgoings	
Benefits paid	234
Tax (benefit)/expenses	(20)
Expenses and charges	2
Closing value of the Fund as at 30 June 2009	2811
Investments	\$m
Assets Under Management	
Cash and short term deposits	174
Debt Instruments ³	675
Property	141
Australian Shares	535
International Shares	309
Private Equity	516
Infrastructure	267
Uncorrelated Alpha	74
Currency	52
Total Investments	2743
MilitarySuper Net Assets/(Liabilities) ¹	68
Net Assets Available to Pay Benefits ²	2811

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

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

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

Fund Investments

Table 7: Investment Managers as at 30 June 2009

Asset Class	Investment Managers#	Investment \$m	% of Fund
Australian Shares			
	Acorn Aust Small Co Trust	24.78	
	Agora Absolute Return Fund	136.55	
	BGI Equity Market Neutral Fund	58.45	
	Herschel Concentrated Fund	71.41	
	K2 Absolute Return Fund	82.62	
	MIR Australian Equities	71.76	
	NAB - Cash Holding Account	89.03	
	Australian Shares Total	534.60	19.49
International Shares			
	Artha Emerging Markets	0.42	
	Cru Theta Capture Fund	43.20	
	Driehaus Mid Cap	44.89	
	Driehaus Small Cap Growth	2.08	
	LSV International Concentrated Value Fund	65.21	
	Old Square Capital	19.67	
	Pengana Global Volatility Fund	20.68	
	TCW Pluris	64.54	
	Wentworth Hauser Violic	48.16	
	International Shares Total	308.85	11.26

Asset Class	Investment Managers#	Investment \$m	% of Fund
Uncorrelated Alpha			
	Bridgewater Pure Alpha Fund II	19.19	
	Deutsche Leveraged Note - Mazuma Greenwich	5.18	
	Mazuma Partners II	18.10	
	Mazuma Structured Note	18.00	
	Rabobank/ Van Hedge Linked Note	12.17	
	Pareto Partners (Currency Hedge)	1.75	
	Uncorrelated Alpha Total	74.39	2.71
Property			
	Australian Wholesale Property Fund	12.31	
	APN Development Fund 1	16.10	
	Ashington Property Fund	7.02	
	Ashington Development Fund No 2	17.31	
	Babcock Brown Alliance Joint Venture	0.00	
	Cerberus Institutional Real Estate Fund	4.13	
	Charter Hall Opportunities 4	7.82	
	Domaine Property Fund	32.94	
	Doughty Hanson Real Estate	4.34	
	Fiduciary International Real Estate Fund	6.36	
	Gresham Property Fund 3	20.40	
	High Street Real Estate Fund III	6.37	
	ICA Property 4	4.15	
	Pareto Partners (Currency Hedge)	2.12	
	Property Total	141.37	5.15

Fund Investments

Asset Class	Investment Managers#	Investment \$m	% of Fund
Infrastructure			
	ANZ IS Energy	100.25	
	CFS Infrastructure (Brisbane Airport)	28.25	
	Macquarie Global Infrastructure Fund 1	0.12	
	Macquarie Global Infrastructure Fund 2B	41.56	
	Macquarie Global Infrastructure Fund III	27.62	
	Saltbush Parking Services	9.23	
	SCM Global Energy & Infrastructure	32.14	
	TCW CDX Acquisition	0.00	
	US Power Fund II	25.15	
	Pareto Partners (Currency Hedge)	3.01	
	Infrastructure Total	267.33	9.74
Private Equity			
	Archer Capital Fund 3	6.09	
	Babcock & Brown Global Coinvestment Fund III	1.85	
	Babcock Brown Direct Investment	4.10	
	Champ Buyout II Trust	25.88	
	Champ Ventures Investments 5	3.70	
	Champ Ventures Investments 6	5.28	
	Citic Capital China Mezzanine Fund	48.67	
	Credit Suisse First Boston	4.05	
	Crescent Capital Partners II	2.47	
	Crescent Capital Partners III	6.15	
	Deutsche Private Equity Fund	0.83	
	Dover Street VII	3.71	
	GBS Bioventures III	9.24	
	Gresham Private Equity Fund 1	0.00	

Asset Class	Investment Managers#	Investment \$m	% of Fund
Private Equity (cont)			
	Gresham Private Equity Fund 2	15.43	
	HarbourVest IV	15.52	
	HarbourVest V	28.40	
	HarbourVest VII Buyout	18.86	
	HarbourVest VII Venture	14.65	
	KKR 2006 Fund	33.27	
	NBC Private Equity Fund II	8.69	
	North Asia Strategic Holdings	50.89	
	Northgate Private Equity Part II	22.38	
	Northgate Venture Partners III	8.59	
	Pacific Equity Partners Fund 2	12.15	
	Pacific Equity Partners Fund 3	31.09	
	Pacific Equity Partners Fund 4	5.20	
	Pantheon Europe III Partnership	3.65	
	Pantheon Global Secondaries Fund II	8.39	
	Pantheon Global Secondaries Fund III	17.84	
	Pantheon USA Fund IV	2.74	
	Pomona Capital VII Fund	5.52	
	Propel Private Equity Fund II	5.69	
	Rosemont Cadence LLC	6.19	
	Rosemont Partners II	6.04	
	Sentient Global Resources 1	4.80	
	Siguler Guff Bric Opportunities Fund	20.53	
	Siguler Guff Small Buyout Opportunities Fund	9.78	
	Terra Firma Cap Partners III	9.78	
	Thomas Weisel India Opportunities Fund	11.15	
	YBR Feeder Limited Partnership	16.73	
	Private Equity Total	515.97	18.81

Fund Investments

Asset Class	Investment Managers#	Investment \$m	% of Fund
Cash			
	NAB - Cash and Cash Holding Accounts	98.44	
	NAB - Treasury Fund	75.07	
	Cash Total	173.51	6.32
Debt*			
	BT Institutional Managed Cash Fund	235.59	
	Credit Suisse Cash Management Fund	248.05	
	Debt Total	483.64	17.63
Alternative Debt*			
	Allco Aviation Fund	93.81	
	Babcock & Brown Mezzanine Debt	27.21	
	Harbourvest VII Mezzanine Fund	16.47	
	SCM CDO Equity Fund	0.17	
	Siguler Guff MSA Opportunities Fund	8.03	
	Siguler Guff Distressed Opportunities Fund	16.97	
	TCW SHOP 5	12.06	
	YBR Debt Facility	12.20	
	Pareto Partners (Currency Hedge)	4.32	
	Alternative Debt Total	191.24	6.97
Currency			
	Pareto Partners Currency Hedge	52.38	
	Currency Total	52.38	1.92
Total Assets			
TOTAL	MilitarySuper Fund	2743.28	100.00

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.

* Debt and Debt Instruments make up the 'Debt Instruments' classification described in the Fund's financial statements.

Unitisation

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

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

The most current unit prices for the five investment options are provided on MilitarySuper's website. The unit prices at 30 June 2009 are provided in the table below.

Table 8: Unit Prices as at 30 June 2009

Investment Option	Price \$	Percentage Change YTD
Cash	1.348084	+4.6194
Conservative	1.378598	-3.6246
Balanced	1.501694	-8.9433
Growth	1.462881	-11.6443
High Growth	1.463625	-17.8949

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

5

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's Military Superannuation Communication Committee (MSCC) has a key role to ensure the effective and timely provision of quality information and education on superannuation matters to ADF members. Membership of MSCC includes a representative from the DFRDB Authority to recognise the role played by the Board in communications with all ADF Members, including those who are Members of the now closed DFRDB Scheme.

MSCC's role is to:

- ensure effective 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 majority of Contributing Members are in their early to mid 20s, while the predominance of Preserved Benefit Members are in their mid 30's to 40's
- the most common form of exit from the Scheme remains resignation after less than ten years service
- although Contributing Member numbers are expected to increase moderately over the next seven years, the number of Preserved Benefit Members are anticipated to approach 100 000 in the same period
- although off a smaller base, the pensioner population is expected to reach 10 000 in the next seven years
- electronic means of communication are increasingly becoming relevant as Members of the ADF increasingly gain access to the internet both at work and at home.

Addressing the outcomes from the review, the Board has established its communication objectives 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 and on behalf of the Board

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

In meeting these objectives the Board, as a minimum, is committed to complying with the information disclosure requirements prescribed by the SIS Act but which also comply with the Board's requirements and obligations as an Australian Financial Services (AFS) license holder.

Performance Indicators

The effectiveness of the implementation of the Board's communication strategy will be evaluated using the following criteria:

- benchmarking of the Board's communications activities against industry best practice
- the number of requests received for additional information from Members
- the number and subject matter of complaints from Members
- client satisfaction as measured through responses to an annual communication survey
- timely provision of annual Member statements and reports consistent with SIS Act and financial services reform requirements and industry best practice
- the Minister's satisfaction with the Board's administration of the Scheme
- costs for each project being kept to within the agreed budget.

Communication Focus 2008–09

- Continued development of the form and content of the half yearly mail out to Members (Mid-year Update)
- a communication/education program based on the use of audio visual technologies and drawing on the experience of previous video presentations

Member Communication

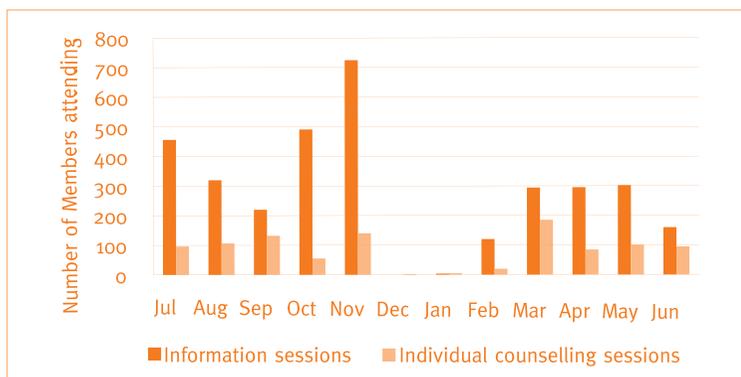
- increased access to web enabled interactive tools for Member communications
- delivery of a communication/education program to cover the Scheme's ancillary benefits initiatives
- promotion of the availability of MilitarySuper seminars and increased accessibility to seminars for new entrants to the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

Counselling 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 51 seminars to a total of 3387 MilitarySuper Members and provided personal counselling for 1021 MilitarySuper Members. The seminars were primarily conducted in conjunction with transition seminars. A further 15 seminars relating to medical discharge were presented to 123 military Members.

Chart 3: Information Seminars 2008-09



The MilitarySuper website continues to provide a convenient channel for Members with a significant increase in information available to those with Internet access.

Most Member contacts are by telephone, with an average of 1715 telephone calls recorded per week compared with 1734 in 2007–08. The Interactive Voice Response (IVR) telephone service recorded 89 205 calls from military (MilitarySuper and DFRDB) Members, compared with 95 572 in 2007–08.

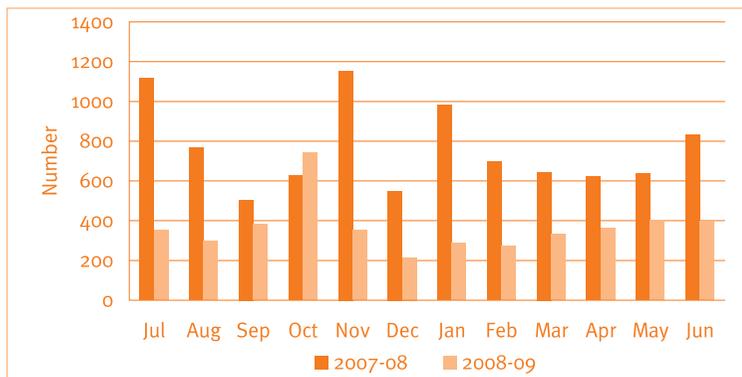
ComSuper staff responded to 8954 emails and 3856 written enquires from military Members, compared with 9138 and 4437 respectively in 2007–08.

The following charts for call volume, email volume and written volume, comparing services used by the military Members, demonstrates a decline in the reliance of these services by the Membership. It corresponds with an increase in the use of the MilitarySuper website, as described in Table 10 on page 74.

Chart 4: Call Volume Comparison



Chart 5: Email Volume Comparison



Member Communication

Chart 6: Written Volume Comparison



Pensioner Communications

The Customer Service Centre assists military pensioners to understand their superannuation entitlements and maintain their pension accounts in accordance with the service standards agreed between the Board and ComSuper.

Information officers can be contacted by telephone, letter, facsimile or email. Pensioners with hearing impairments can use a special teletypewriter (TTY) facility. Information officers are available for personal counselling at ComSuper's office. Pensioners who use the Internet can get general information from the MilitarySuper website.

Website Development

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

During 2008–09 improvements were made to the secure access areas of the website, namely Member Services Online (MSO) and Pensioner Services Online (PSO). The improvements included providing Members and Pensioners with the ability to view and update personal information and banking details, and improvements to the benefit calculators.

MilitarySuper can provide Members with access numbers to the secure online services areas over the phone once the Member's identity is confirmed.

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.

The following tables and chart provide details of the most commonly accessed pages within the MilitarySuper website, website usage during 2008–09 and illustrate the increasing use of the MilitarySuper website as a primary source of information.

Table 9: Most Requested Web Pages 2008–09

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

Chart 7: Website Hits 2008–09

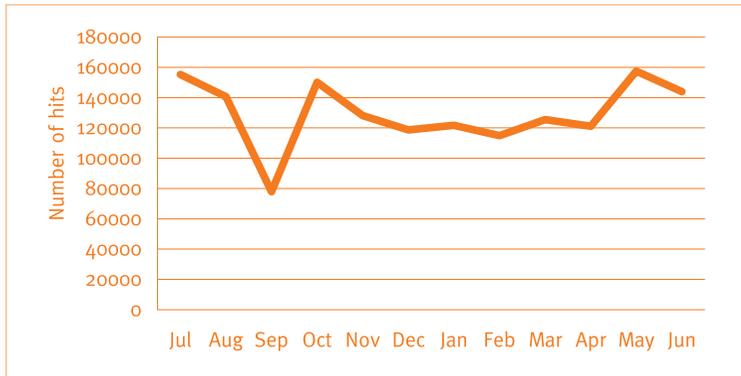


Table 10: Website Page Requests over the Past Four Years

Year	Number
2005-06	1 159 783
2006-07	1 282 753
2007-08	1 305 590
2008-09	1 555 242

Projects

Member Statements

Corporations law requires the Board to provide each Member of the Scheme with an Annual Member Statement by 31 December each year. The statement provides Members with equity figures and withdrawal benefits at the beginning and end of the financial year.

Statements relating to the 2007-08 year were distributed progressively from the end of September through to the end of October 2008 and the 2009 statements are scheduled to be delivered within the same timeframe.

Annual Reports

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 report provides a summary of the year's activities and performance of the Fund during the financial year.

In the past MilitarySuper has provided Members the Annual Report with the Annual Member Statement. However, in 2008 the Government through ASIC granted superannuation funds more flexibility around how they communicate with their members in this area. As a result in 2008-09 MilitarySuper was able to provide its Members with access to the Annual Report online as the primary delivery method. Printed copies were available for any Member requiring the document in this form.

Mid-Year Update

The Autumn 2009 Mid-Year Update provided Members with information on the effects of the Global Financial Crisis and its impact on the investment returns of the MilitarySuper Fund. Also included were details regarding changes to superannuation and the appointment of the new CEO for MilitarySuper.

The Mid-Year Update was also available on the website in a new online magazine format. The format was well received by Members and, in the first month of the magazines' release on the website, it was accessed 13 629 times.

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 Military Super 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 two issues released in 2008–09 were Issue 12 (July 2008) and Issue 13 (January 2009).

Issue 12 announced a 2.3% increase in CPI for retired Members, upgrades to Pensioner Services Online (PSO), a new look payment summary for the 2007-08 financial year, the restoration of reversionary pensions and other regular articles.

Issue 13 announced another increase of 2.7% for retired Members, information about the medicare levy exemption, new ID requirements for benefit applications and other general information.

Results from a survey of retired Members showed that there was a significant increase in satisfaction ratings of understanding of Pension Update between July 2008 and January 2009 with ratings for understanding reaching 88%; relevance 89% and effectiveness of presentation 90%.

Membership

Military Superannuation and Benefits Scheme

SECTION SIX

6



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 2009, there were 51 655 contributors to MilitarySuper, 44 262 (86%) of whom were male and 7393 (14%) female. Table 11 shows the number of new entrants and exits and the total Membership at 30 June 2009. Table 12 shows the number of Contributing Members by years of service and by gender.

Table 11: Contributor Composition

	Male	Female	Total
Membership at 30 June 2008	42 513*	6842*	49 355
Plus new contributors	7516	929	8445
Less Members left the ADF	5767	378	6145
Membership at 30 June 2009	44 262	7393	51 655

** The split between male and female Membership at 30 June 2008 does not accord with those in the 2007-08 report. Data quality fixes to the Scheme Administrator's system have amended the status of females incorrectly recorded as males.*

Table 12: Male and Female Contributors by Years of Service

Year	Male	Female	Total
0-9	32 896	4235	37 131
10-14	5459	2206	7665
15-19	3052	556	3608
>19	2855	396	3251
Total	44 262	7393	51 655

New Members

There were 8445 new MilitarySuper Members in 2008–09.

Exits

There were 6145 exits from MilitarySuper during the year. The types of exit are shown in Table 13 below.

Table 13: Modes of Exit in the Past Five Years

Year	2004-05	2005-06	2006-07	2007-08	2008-09
Age retirement	80	51	90	143	262
Resignation	2299	2110	2057	3523	1081
Redundancy	5	6	4	6	9
Invalidity retirement	456	450	395	718	633
Death	19	17	25	55	108
Unclaimed*	1840	3135	3291	2803	4008
Other#					44
Total	4699	5769	5862	7248	6145

* Unclaimed benefits relate to Members who have left the ADF but have not submitted a benefit application instruction form regarding their benefits in the Scheme. The benefits are preserved in the Scheme if no claim is made within 90 days. In previous years, these benefits were shown as 'Other'.

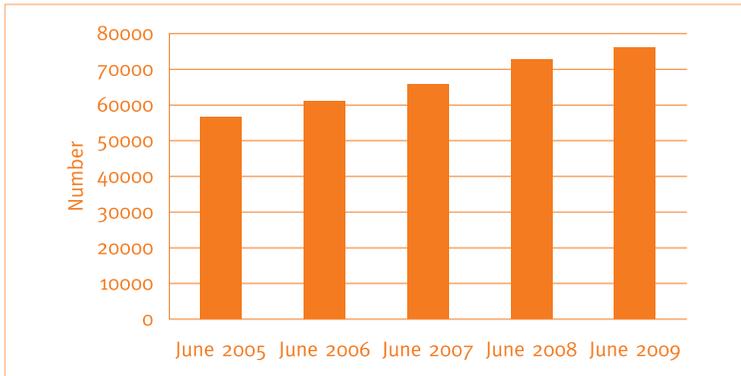
Includes early release of benefits due to hardship

Preserved Benefit Members

There were 75 929 Preserved Benefit Members in MilitarySuper as at 30 June 2009 compared with 72 812 Preserved Benefit Members as at 30 June 2008. Chart 8 shows the growth of Preserved Benefit Members during 2008–09.

Membership

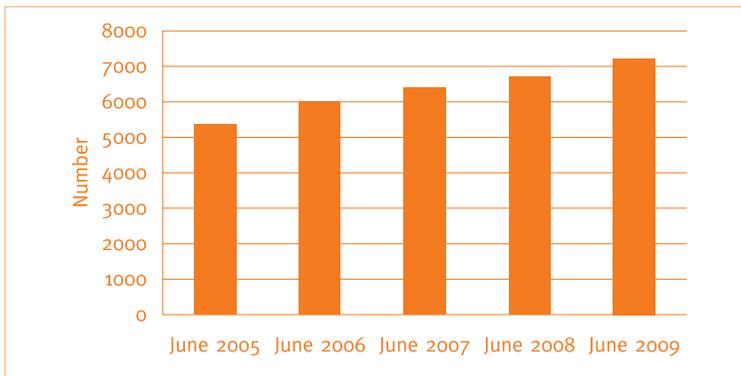
Chart 8: Growth of Preserved Benefit Member Population in the Past Five Years



Pensioners

There were 7227 pensioners in MilitarySuper as at 30 June 2009. Chart 9 shows the growth of pensioners since 30 June 2005.

Chart 9: Growth of Pensioner Population in the Past Five Years



Scheme Administration

Military Superannuation and Benefits Scheme

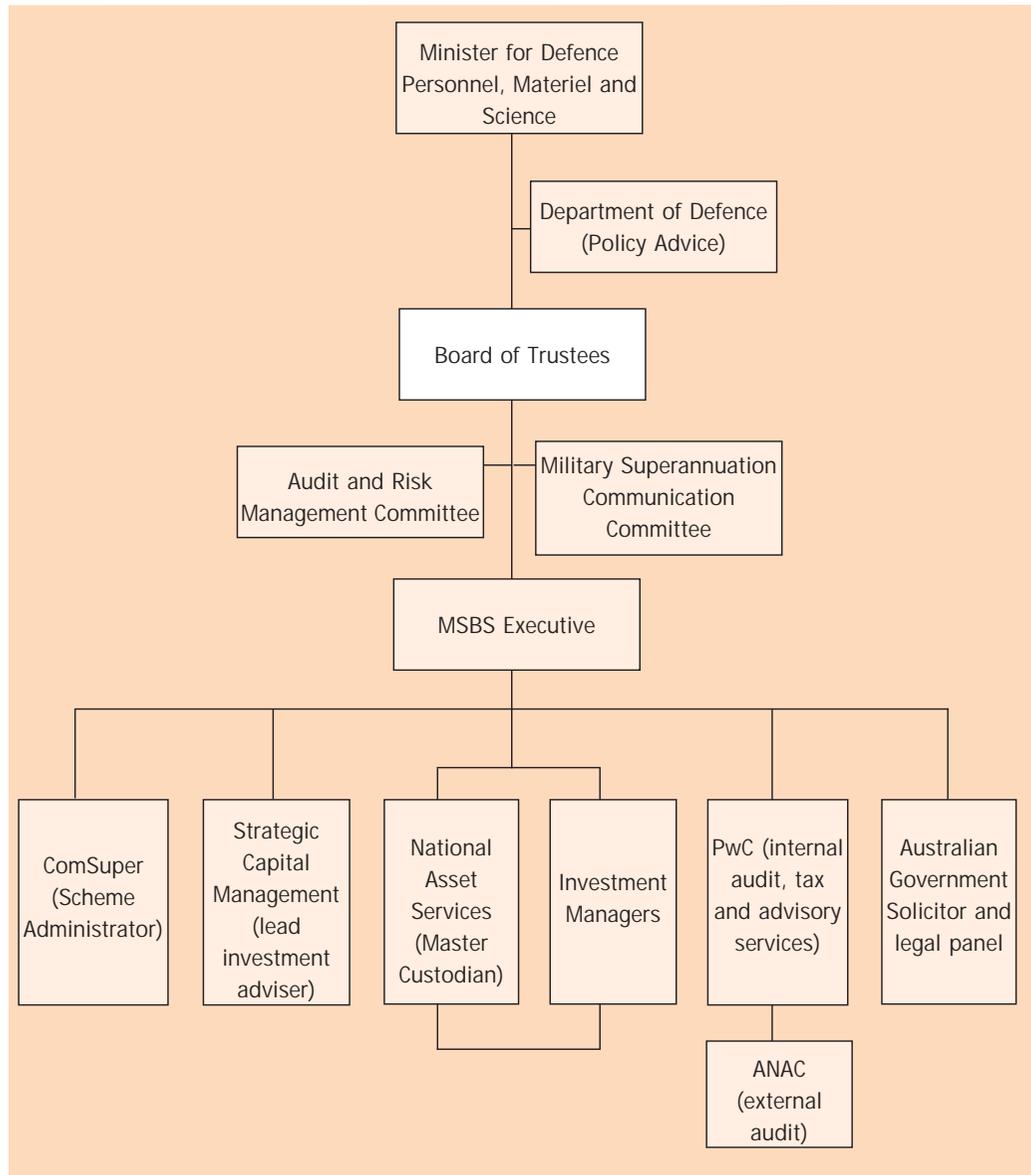


SECTION SEVEN

7

Administrative Arrangements

Organisational Structure of MilitarySuper



Financial Resources

The administrative costs of the Board for 2008–09 totalled \$2.545 million. 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 2008–09 is as follows:

Fund	\$1.555 million
Department of Defence	\$0.990 million
Total	\$2.545 million

Further details are contained in the financial statements, commencing on page 95.

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 2008 and, as appropriate, exceptions are reported at each meeting.

As the Board's Scheme administrator, ComSuper:

- maintains the Fund's general ledger summarising monthly contributions, benefits and investment transactions as reported by the Fund Custodian
- prepares the annual financial statements of the Scheme in a form approved by the Board and the Minister
- prepares monthly (unaudited) financial statements in a form agreed with the Board

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 2008–09 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 Scheme 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 Scheme Administrator (ComSuper):

- 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 Contribution Remittances

The basic rate of Member contribution to MilitarySuper is 5% of salary, including higher duties and the Qualification and Skills element of certain Environmental Allowances. Members can elect to contribute up to 10% of salary, and from early in 2005–06 have been able to make additional voluntary pre and post tax contributions. The Employer Benefit is unfunded except for the 3% productivity contribution which is paid into the Fund by the Department of Defence. Members may also be entitled to superannuation co-contributions from the Australian Government.

Total contributions to the Fund during 2008–09 were \$347.4m (\$298.6m for 2007–08), of which Member contributions comprised \$186.5m (\$167.5m for 2007–08). Employer contributions amounted to \$142.4m (\$98.3m for 2007–08). Co-contributions received totalled \$18.5m (\$32.8m 2007–08). The net appropriation for benefits for the year was \$188.3m (\$162.7m for 2007–08).

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 Scheme 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.

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, Ancillary Benefits, plus the earnings on those contributions in the Fund. Members can exercise investment choice from the five investment options offered by the Fund 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

MilitarySuper Employer benefits are defined benefits guaranteed by the Commonwealth. Part of the benefit, the productivity benefit, is funded while the remaining balance of the defined benefit is unfunded. The total employer benefit payable is not affected by investment market fluctuations.

Discharge benefits

Members who leave MilitarySuper without a pension entitlement must preserve their total employer component until they reach their compulsory minimum preservation age. From age 55, they can roll it over to another complying fund of their choice until their preservation age is reached and they have retired from the workforce. Member's who reach age 55 can also convert a minimum of 50% of their Employer Component to a pension and roll over the balance.

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

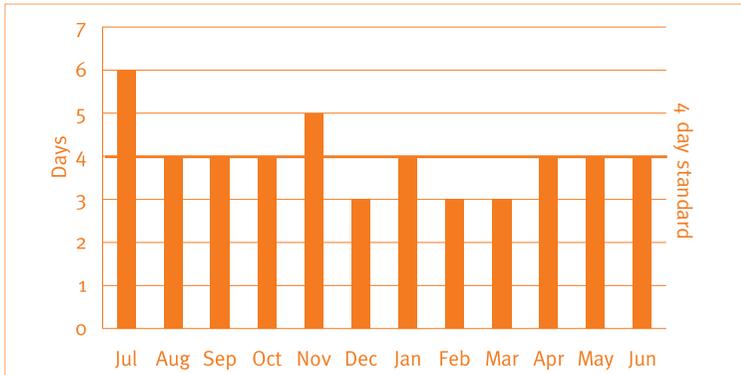
Table 14: Benefits Paid 2008–09

	\$m
Pensions	146.2
Lump Sums	88.2
Total	234.4
Fund Share	46.1
Consolidated Revenue Share	188.3
Total	234.4

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 Scheme Administrator.

Chart 10: Average Time to Process Benefit Payments 2008–09



Early Release of Preserved Benefits

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

Of the 307 preserved benefits paid in full or part during 2008–09, 97 were released on permanent physical or mental incapacity, severe financial hardship or compassionate grounds.

Processing of Invalidation Claims

Invalidity Benefits

A Member is retired on the ground of invalidity if he or she does not meet the required standard of fitness for retention in the Defence Force, even though he or she may be capable of employment in the civilian workforce.

Invalidity Classification Process

MilitarySuper Members 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 moderate incapacity and attract different levels of pension. Class C classification reflects comparatively low incapacity and a lump sum rather than a pension is payable. If there is a conflict in the medical information, or reasonable doubt as to the classification, the case is 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 four initial classification decisions during 2008–09.

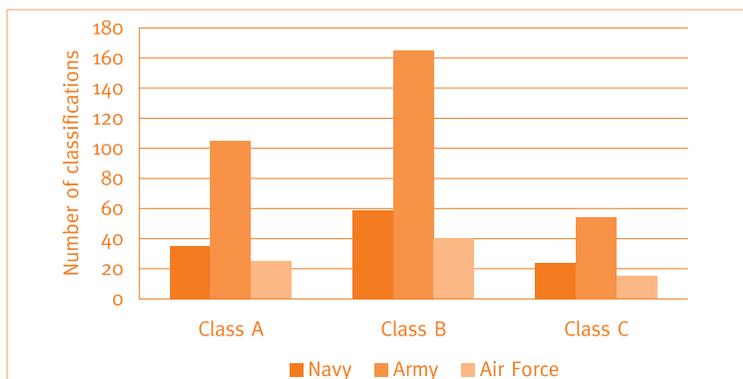
As at 30 June 2009, the ICC comprised Simon Lawson (Chairperson and Team Leader of Military Invalidity Reversionary and Release Section, ComSuper), Wing Commander Bob Harris (Directorate of Personnel - Air Force), and Ms Heather Gill (Superannuation Directorate, Defence).

After a classification decision has been made, the Member is advised in writing and informed of the right to request reconsideration of the decision.

Invalidity Retirement Classifications

During 2008–09, 533 Members received initial invalidity classifications. Of those who received an invalidity classification, 429 (165 Class A and 264 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 104 were classified as Class C incapacity. The proportion of invalidity classifications for each Service is shown in Chart 11.

Chart 11: Service Comparison of Invalidity Classifications 2008–09



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 2008–09, 352 cases were examined, 32 of which were reviews requested by Members.

As a result of these reviews 150 classifications were changed, as shown in Table 15. The ICC made no reclassification decisions during the year.

Table 15: Invalidity Entitlements Reviewed in the Past Five Years

	2004-05	2005-06	2006-07	2007-08	2008-09
Entitlements examined	829	325	841	353	352
Review with medical exam	274	147	841	353	296
Classification raised	12	34	66	44	134
Classification reduced	121	61	102	48	16
Total classification changes	133	95	168	92	150

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 2008-09, the Australian Bureau of Statistics announced changes in the CPI. The rates were 2.3% for the July 2008 increase and 2.7% for the January 2009 increase.

Pensioners received statements in July 2008 and January 2009 showing their new rate of pension. Their income tax payment summary and other relevant information were also included with the July statement.

Pension Payments

Employer-financed benefits paid as pension

During the year, 517 new pensions were granted and at 30 June 2009, 7227 Members were receiving MilitarySuper pensions. The total number of Pensioners for each class of benefit is detailed in Table 16 for the end of each financial year since 30 June 2005.

The total amount paid as pensions during the year was \$146 196 000. The average pension amounted to \$19 690 per annum.

Table 16: Number of Pensioners Since 30 June 2005, by Type of Benefit

Class of Pension Benefit	Number of Pensioners				
	30 June 2005	30 June 2006	30 June 2007	30 June 2008	30 June 2009
Retirement	881	962	1013	1106	1220
Redundancy	1916	1919	1916	1910	1914
Invalidity	2573	2908	3243	3531	3913
Reversionary benefits*	194	213	237	163	180
Total	5564	6002	6409	6710	7227

* 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 51 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 2008–09, 76 requests for reconsideration of decisions were received, a decrease from the 113 requests received the previous year. Of these, four requests related to reconsideration of a decision of a Reconsideration Committee or the Board compared with seven during 2007–08.

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 2008–09 a total of 103 cases were finalised, compared with 102 cases in 2007–08 and of these 25 decisions were affirmed and in 42 cases the decision was set aside or varied in favour of the applicant. Another 36 cases were lapsed or withdrawn with the applicant failing to pursue the matter. Thirty-three cases remained under investigation at 30 June 2009.

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 17: Reconsideration Applications for the Past Five Years

	2004-05	2005-06	2006-07	2007-08	2008-09
Requests on hand	51	110	73	48	59
Requests received	231	145	108	113	76
Requests resolved	172	182	133	102	103
Carried forward	110	73	48	59	33

Dispute Resolution

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

External Review

On 29 June 1995, the Trustees of MilitarySuper 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).

Eight complaints were lodged with the SCT during the year and six cases were carried over from 2007-08. Seven complaints were resolved during the year. Of these, five complaints were treated as withdrawn and one decision was affirmed. One complaint was conceded on the basis of new evidence. As at 30 June 2009, there are seven complaints outstanding.

In 2008–2009 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 Federal Court decision was successfully appealed by the complainant to the Full Court of the Federal Court.

Systems are in place to facilitate the prompt 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 Ministerial Enquiries

Forty complaints and nine Ministerial representations were received during the year. Two 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 and Audit and Risk Management Committee, 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 2008–09 297 Ministerial Representations were received.

There were 68 representations specifically identified as relating to MilitarySuper. These representations were concerned with the method used to index military pensions (40),

Maximum Benefit Limits (18), the inability to rollover preserved MSBS benefits (eight) and general queries (two).

One hundred and fifteen respondents requested advice on general military superannuation policy without identifying themselves as MilitarySuper or Defence Force Retirement and Death Benefits (DFRDB) Scheme Members. Of these respondents 64 were concerned with the method used to index military pensions, 11 were concerned with the taxation of military pensions due to the unfunded status of the schemes, five were concerned with the Review of Military Superannuation Arrangements and 38 related to general queries (note: some representations addressed more than one issue).

The remaining 114 representations were in respect of the DFRDB Scheme.

Legal Claims

The Board received no legal claims in the 2008–09 financial year. One claim was carried over from the previous financial year and was not accepted. No claims were unresolved at the end of the financial year.

Freedom of Information

MilitarySuper Members made 47 requests for access to documents during 2008–09. Thirty-four requests were granted in full and 12 partially. One request was withdrawn. No requests were refused.

Fund Financial Statements

Military Superannuation and Benefits Scheme

SECTION EIGHT

8





MILITARY SUPERANNUATION AND BENEFITS FUND
(ABN: 50925523120)

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

(A) *Financial Statements*

Scope

I have audited the financial statements of Military Superannuation and Benefits Fund for the year ended 30 June 2009 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 Personnel, Materiel and Science 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 of Defence Personnel, Materiel and Science.

My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of Material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of Material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the trustee's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the trustee's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustees, as well as evaluating the overall presentation of the financial statements.

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

GPO Box 707 CANBERRA ACT 2601
18 National Circuit BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

Independence

In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the ethical requirements of the Australian accounting profession.

Audit Opinion

In my opinion:

- (i) The financial statements are in the form as agreed by the Minister of Defence Personnel, Materiel and Science 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 2009 and the changes in net assets for the year ended 30 June 2009.

(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), 35A, 35C, 36, 65, 66, 67, 69 to 85, 86 to 93A, 95, 97, 98, 101, 103, 104, 105, 106, 107, 109, 117, 118, 122, 124, 125, 126k, 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;
- (b) complied with the FSCODA Reporting Standards that are subject to audit (to the extent applicable);
- (c) complied with the relevant requirements of the following provisions (to the extent applicable) of the Corporations Act and Corporations Regulations:
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);
- (d) complied with the requirement to prepare and lodge the respective forms comprising the APRA Annual Return; and

- (e) complied with the requirements of Section 155(2) of the SIS Act in that the trustee has appropriate processes in place to identify and resolve s.155 cases, and has adhered to those processes in determining issue and redemption prices.

for the year ended 30 June 2009.

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 2009.

Australian National Audit Office



Carla Jago
Executive Director

Delegate of the Auditor-General

Canberra

4 September 2009

MILITARY SUPERANNUATION AND BENEFITS FUND

Statement by the Trustees of the Military Superannuation and Benefits Fund

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

- (a) of the matters required by AAS 25 and Schedule 1 of the *Commonwealth Authorities and Companies Orders (financial statements for reporting periods ending on or after 30 June 2008)*, as amended from time to time except where there is a conflict between Schedule 1 and Australian Accounting Standard AAS 25 *Financial Reporting by Superannuation Plans* (AAS 25), the latter shall take precedence;
- (b) of the net assets of the Military Superannuation and Benefits Fund (Fund) as at 30 June 2009 and the changes in net assets of the Fund for the financial year to 30 June 2009;
- (c) that at the date of this statement there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they fall due;
- (d) that the financial statements are in a form approved by the Minister for Defence Personnel, Materiel and Science 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 4 day of September 2009 in accordance with a resolution of Members of the Military Superannuation and Benefits Board of Trustees No. 1.



Member



Member

Military Superannuation and Benefits
Board of Trustees No. 1.

MILITARY SUPERANNUATION AND BENEFITS FUND

Statement of Changes in Net Assets For the Year ended 30 June 2009

	Note	2009 \$'000	2008 \$'000
Net Assets Available at 1 July		2,934,747	2,773,854
<i>Add:</i>			
<i>Investment Revenue</i>			
Interest	3	9,140	19,402
Dividends	3	92,785	157,134
Other Investment Revenue	3	1,157	1,674
Changes in Net Market Values	3	(537,405)	(241,194)
Direct Investment Expenses	5	(9,728)	(19,829)
Net Investment Revenue		(444,051)	(82,813)
<i>Contributions Revenue</i>			
Member Contributions		186,509	167,502
Productivity Contributions		142,351	98,342
Co-Contributions		18,580	32,796
Net Appropriation from Consolidated Revenue Fund	4	188,321	162,669
Total Contributions Revenue		535,761	461,309
Total Revenue		91,710	378,496
<i>Less:</i>			
General Administration Expenses	5	(2,003)	(2,704)
Benefits Paid	4	(234,412)	(207,031)
Total Expenses		(236,415)	(209,735)
Total Revenue Less Expenses and benefits Paid Before Tax		(144,705)	168,761
Income Tax Expense	6	20,534	(7,868)
Net Investment and Net Contribution Revenue After Tax		(124,171)	160,893
Net Assets Available to Pay Benefits at 30 June 2009		2,810,576	2,934,747

The attached notes form part of these financial statements

MILITARY SUPERANNUATION AND BENEFITS FUND

Statement of Net Assets As at 30 June 2009			
	Note	2009	2008
		\$'000	\$'000
Investments			
Cash and Short Term Deposits		173,507	413,119
Debt Instruments		674,876	346,370
Australian Equities		534,602	587,615
International Equities		308,850	391,657
Property Trusts		141,370	212,632
Currency Contracts		52,379	16,304
Private Equity		515,974	479,247
Uncorrelated Alpha (Hedge) Funds		74,394	173,491
Infrastructure		267,333	303,083
Total Investments		2,743,285	2,923,518
Other Assets			
Bank		29,598	27,320
Interest Receivable		277	67
Dividends Receivable		1,943	1,686
Trade Settlements Receivable		1,831	11,095
GST Recoverable		337	428
Sundry Debtors		849	1,591
Benefits Payable to be funded by Appropriation	4	5,530	3,889
Net Deferred Tax Assets	6	44,385	-
Total Other Assets		84,750	46,076
Total MSB Fund Assets		2,828,035	2,969,594
Less Liabilities			
Benefits Payable	4	7,573	5,281
Trade Settlements Payable		2,134	8,849
Sundry Creditors	7	8,843	8,765
Provision for Income Tax		(1,091)	8,418
Net Deferred Tax Position	6	-	3,534
Total MSB Fund Liabilities		17,459	34,847
Net Assets Available to Pay Benefits at 30 June 2009		2,810,576	2,934,747

The attached notes form part of these financial statements

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and Interpretations, the *Superannuation Industry (Supervision) Act 1993* and provisions of the Trust Deed. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('AEIFRS') 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 No.1 on 4 September 2009.

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 Personnel, Materiel and Science and the Military Superannuation and Benefits Board of Trustees No.1 in accordance with sub-section 26(1) of the *Military Superannuation and Benefits Act 1991*.

Key Estimates and Judgements

In the application of accounting standards, including AEIFRS, 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.

Key Sources of Estimation Uncertainty

The following is a key assumption concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a risk of causing a material adjustment to the carrying amounts of vested benefits and accrued benefits:

On 1 July 2007 the Compulsory Retirement Age for serving Members of the Australian Defence Force was increased from age 55 years to age 60 years. This change was not intended to alter the calculation of death and invalidity benefits, however, the practical outworking of the change to the legislation to increase the Compulsory Retirement Age was to increase death and invalidity benefits (excluding invalidity C benefits).

Legal advice has recently been received by the Department of Defence that asserts that death and invalidity benefits arising since 1 July 2007 cannot be retrospectively reduced to the level that would have applied prior to 1 July 2007. The scheme's governing rules can, however, be amended so that any future benefits payable as a result of a serving

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements For the financial year ended 30 June 2009

Members' death or invalidity occurring after such a rule change would be calculated in line with the conditions that applied prior to 1 July 2007.

Notwithstanding the above, for the purposes of the financial statements only, the accrued benefits at 30 June 2008 (most recent valuation) has been calculated on the basis that all future death and invalidity benefits will be paid at the higher level, that is, based on the Compulsory Retirement Age applicable since 1 July 2007, and assuming no retrospective corrective action by Department of Defence. The value of accrued benefits at 30 June 2008 as disclosed in note 10 of \$16.1 billion includes an additional \$0.4 billion in respect of deaths and invalidities arising since 1 July 2007.

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 8 '*Operating segments*'
- AASB 101 '*Presentation of Financial Statements*'

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 issued but not yet effective.

- AASB 2009-02 *Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments* requires enhanced disclosures about fair value measurements and liquidity risk. AASB 2009-02 is applicable for annual reporting periods beginning on or after 1 January 2009.

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

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concept of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies set out below have been applied in preparing the financial statements for the financial year ended 30 June 2009 and the comparative information presented in these financial statements for the 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

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

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2009

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 are recognised as income (or expense) and are determined as the difference between the net market value at year end or consideration received (if sold during the year) and the net market value as at the prior year end or cost (if the investment was acquired during the period).

Movement in net market value of financial liabilities

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

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

(c) Valuation of Investments

Investments of the Fund are included in the Statement of Net Assets at net market value as at reporting date and changes in the net market value of assets are recognised in the Statement of Changes in Net Assets in the periods in which they occur. Net market value of investments includes an amount for selling costs which would be expected to be incurred if the investments were sold. Net market values have been determined as follows:

- (i) short-term Money Market - these securities are valued by marking to market using yields information supplied by independent valuers.
- (ii) Fixed-interest - these securities are valued by marking to market using yields information supplied by independent valuers.
- (iii) Futures Contracts - open futures contracts are revalued to closing price quoted at close of business on 30 June 2009 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 2009 by the relevant stock exchange, or last bid where a sale price is unavailable.

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements

For the financial year ended 30 June 2009

- (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 2009 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 2009 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) Currency contracts - these securities are valued at the relevant exchange rate at close of business on 30 June 2009.
- (ix) Alternate Debt – Certain investments are valued by marking to market using yields supplied by independent valuers. The remainder of this class of investments is valued by the most recent valuation obtainable from:
 - an independent external valuer;
 - a third party arms length transaction; or
 - the current and future earnings on corporate debt instruments in the portfolio.
- (ix) Uncorrelated Alpha (Hedge) Funds – Investments via unit trusts are valued at their net realisable value. The remainder of this class of investments is valued by the issuing bank having regard to the net realisable value of the underlying financial instruments.
- (x) Private equity, Infrastructure and unlisted Property funds – these asset classes are valued according to the most recent valuation obtainable from:
 - an independent external valuer;
 - a third party arms length transaction;
 - the current and future earnings of companies or assets in the portfolio; or
 - cost (less any diminution in value) in cases where investments have been held for a short time and the Board is satisfied that significant diminution in value has not occurred.

Fund Financial Statements

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements

For the financial year ended 30 June 2009

(c) Valuation of Investments (cont.)

The following table details the latest date of valuation of unlisted private equity, infrastructure and property fund investments as at 30 June 2009:

Fund	
<i>Domestic Private Equity</i>	Latest valuation
Archer Capital fund 3, 3A and 3B (previously GS)	30-Jun-09
Babcock and Brown Direct Investment Fund	30-Jun-09
CHAMP Ventures Trusts No. 5A and 5B	30-Jun-09
CHAMP Ventures Trusts No. 6A and 6B	30-Jun-09
CHAMP Buyout II Trust	30-Jun-09
Crescent Capital Partners II	30-Jun-09
Crescent Capital Partners III	30-Jun-09
Deutsche Private Equity Fund	30-Jun-09
Deutsche Private Equity Fund No. 2	30-Jun-09
GBS BioVentures III	30-Jun-09
Gresham Private Equity Fund 1 & 1a	30-Jun-09
Gresham Private Equity Fund No. 2A and 2B	30-Jun-09
NBC Private Equity Fund 2A and 2B	30-Jun-09
PEP Funds No. 2 and Supplementary No. 2	30-Jun-09
Pacific Equity Partners Fund 3 and Supp No. 3	30-Jun-09
Pacific Equity Partners Fund IV and Supp No. IV	30-Jun-09

**Estimated valuations received as at 30 June 2009

Valuations may not have been audited.

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2009

(c) Valuation of Investments (cont.)

<i>International Private Equity</i>	
Babcock and Brown Global Co-Investment Fund III	30 Jun 09
Citic Allco Investments Ltd	31 May 09
**CSFB Fund Investment VI Bermuda	31 May 09
**HarbourVest Partners IV	30 Jun 09
**HarbourVest Partners VII Buyout	30 Jun 09
**HarbourVest Partners VII Venture	30 Jun 09
**HarbourVest Partners V	30 Jun 09
KKR 2006 Fund, L.P.	31 Mar 09
**Pantheon Europe Fund III, L.P.	30 Jun 09
**Pantheon Global Secondary Fund II, L.P.	30 Jun 09
**Pantheon Global Secondary Fund III, L.P.	30 Jun 09
**Pantheon USA Fund IV, L.P.	30 Jun 09
North Asia Strategic Holdings	22 Jun 09
Northgate Private Equity Part II	31 Dec 08
Northgate Venture Partners III	31 Mar 09
Rosemont Partners II, L.P.	30 Jun 09
Rosemont Cadence LLC	30 Jun 09
Sentient Global Resources Trust No. 1	31 Mar 09
Siguler Guff Bric Opp Fund	31 Mar 09
Siguler Guff Small Buyout Fund	31 Mar 09
Terra Firma Capital Partners III, L.P.	31 Mar 09
Thomas Weisel India Opportunity Fund, L.P.	31 Mar 09
YBR Feeder Limited Partnership	31 Dec 08

**Estimated valuations received as at 30 June 2009

Valuations may not have been audited.

Fund Financial Statements

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements

For the financial year ended 30 June 2009

(c) Valuation of Investments (cont.)

Fund	
<i>Alternative Debt</i>	Latest valuation
Allco Aviation Fund	30 Jun 09
Babcock & Brown DIF Mezzanine Fund	26 Jun 09
**HarbourVest Partners VII Mezzanine	30 Jun 09
SCM CDO Equity Fund	23 Nov 08
Sigular Guff Distressed Opportunities Fund II, L.P.	31 Mar 09
Sigula Guff WLR Opportunity Fund	31 Dec 08
TCW Shared Opportunity Fund V, L.P.	31 Mar 09
YBR Debt Facility	30 Jun 09

**Estimated valuations received as at 30 June 2009

Valuations may not have been audited.

Fund	
<i>Infrastructure</i>	Latest valuation
ANZ Infrastructure Services Energy Trust	30 Jun 09
CFS Infrastructure (Brisbane Airport)	30 Jun 09
Macquarie Global Infrastructure Fund 1	31 May 09
Macquarie Global Infrastructure Fund 2b	31 May 09
Macquarie Global Infrastructure Fund 3	31 May 09
Duncan Solutions/Saltbush Parking Services	29 Oct 08
SCM Global Energy & Infrastructure Fund	31 Mar 09
TCW CDX Acquisition	30 Jun 09
**US Power Fund II	30 Jun 09

**Estimated valuations received as at 30 June 2009.

Valuations may not have been audited.

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2009

(c) Valuation of Investments (cont.)

Fund	
<i>Uncorrelated Alpha</i>	Latest valuation
**Bridgewater Pure Alpha Fund II	30 Jun 09
**Deutsche Variable Note - Mazuma / Greenwich	31 Jan 09
Deutsche Note - Mazuma II - Master Series	30 Jun 09
Deutsche Note - Mazuma II - October Series	30 Jun 09
Harris Alternative Aurora 2	30 Jun 09
**Rabobank - Van Hedge Note	31 May 09

**Estimated valuations received as at 30 June 2009.

Valuations may not have been audited.

Fund	
<i>Property</i>	Latest valuation
Australian Wholesale Property Fund	30 Jun 09
APN Development Fund 1	31 May 09
Ashington Property Fund 1	30 Jun 09
Ashington Development Fund 2	30 Jun 09
Babcock & Brown Alliance JV	30 Jun 09
Cerberus Institutional Real Estate Fund II	31 Mar 09
Charter Hall Opportunities Fund 4	30 Jun 09
Domaine SEQ Property Fund	31 Mar 09
**Doughty Hanson EU Real Estate Fund	30 Jun 09
Fiduciary Int Real Estate Fund	31 May 09
Gresham Property Fund 3	30 Jun 09
High Street Real Estate Fund III	31 May 09
ICA (Valad) Property Fund 4	31 Mar 09

**Estimated valuations received as at 30 June 2009.

Valuations may not have been audited.

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2009

(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 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 risks, including exchange traded futures and options, over the counter options, foreign exchange forward contracts, interest rate swaps and cross currency swaps. Derivatives may also be used to manage the risk of the portfolio, manage transaction cost (including market impact), to implement investment positions in the portfolio, obtain market exposure to an asset class, hedge market risk and provide portfolio insurance. Derivatives are not used for speculation in any market or for gearing the portfolio. Further details of derivative financial instruments are disclosed in Note 8 to the financial statements.

Derivatives are initially 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 as at the reporting date.

Deferred Tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2009

(f) Taxation (cont.)

The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. The tax base of an asset is the amount that will be deductible for tax purposes against any taxable benefits that will flow to the entity when it recovers the carrying amount of the asset. The tax base of a liability is its carrying amount less any amount that will be deductible for tax purposes in respect of that liability in future periods.

Temporary differences may be either:

- *Taxable temporary differences*: arise when the carrying amount of an asset exceeds its tax base, as the future recovery of its carrying amount will generate taxable profit with an obligation to pay the resulting taxes in future periods. Further, a taxable temporary difference arises when the carrying amount of a liability is less than its tax base, as the future settlement of its tax base will generate taxable profit.
- *Deductible temporary differences*: arise when the carrying amount of a liability exceeds its tax base, as the future settlement of its carrying amount will be deductible in determining taxable income. Further, a deductible temporary difference arises when the carrying amount of an asset is less than its tax base, as its future recovery will generate a tax deduction.

Deferred tax liability

A deferred tax liability is recognised when there is a taxable temporary difference between the tax base of an asset or liability and its carrying amount in the balance sheet.

Deferred tax asset

A deferred tax asset is recognised when there is a deductible temporary difference between the tax base of an asset or liability and its carrying amount in the balance sheet, but only to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.

A deferred tax asset is also recognised for the carry-forward of unused tax losses and credits, but only to the extent that it is probable that the future taxable profit will be available against which the unused tax losses and credits can be utilised.

(g) Benefits Payable

Benefits payable include benefits in respect of Members who ceased employment with the employer sponsor prior to financial year end who are entitled to receive a benefit but had not been paid by that date.

(h) Liability for Accrued Benefits

The liability for accrued benefits is not included in the statement of net assets, but the liability at the latest measurement date is reported by way of note. Where accrued benefits are measured during the reporting period, the benefits which have accrued since the latest measurement date are also reported by way of note. The liability for accrued benefits is actuarially measured on at least a triennial basis, and represents the value of the 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 Board recognises amounts paid or payable in respect of the surcharge tax as an expense of the Fund. The expense (and any corresponding liability) is brought to account in the period in which the assessments are received by the Board and are properly payable by the Fund. All amounts paid are allocated back against the Member accounts to which the surcharge relates.

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2009

(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 unpaid goods and services provided prior to the end of the financial year. The amounts are unsecured. Sundry debtors and creditors are subject to normal trade credit terms.

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2009

2. DESCRIPTION OF THE SCHEME

- (a) The Military Superannuation and Benefits Scheme (ABN 72 406 779 248) is a hybrid accumulation-defined benefits scheme which provides benefits to its Members under the *Military Superannuation and Benefits Act 1991*. The Trustee at balance date is the Military Superannuation and Benefits Board of Trustees No. 1. The Scheme is operated for the purpose of providing for Members (and their dependants or beneficiaries) of the Australian Defence Force lump sum and pension benefits upon retirement, termination of service, death or disablement.

Administration of the Scheme is conducted by 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:

	2009	2008
Number of Members		
- Contributors	51,655	49,355
- Deferred Beneficiaries / Preservers	75,929	72,812
- Pensioners	<u>7,227</u>	<u>6,710</u>
Total Number of Members	<u>134,811</u>	<u>128,877</u>

- (c) Employees of the Board:

	2009	2008
Average Staffing Levels	<u>7.3</u>	<u>6.7</u>

Fund Financial Statements

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2009

3. INCOME AND CHANGES IN NET MARKET VALUES

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

	Interest	Dividends	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)

The net loss on foreign currency contracts for the year was \$28.2 million (2008: Net gain of \$36.7 million).

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2009

4. FUNDING ARRANGEMENTS

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

	2009	2008
	\$'000	\$'000
Lump-Sums	88,216	78,228
Pensions	146,196	128,803
Total	<u>234,412</u>	<u>207,031</u>

Financed by:

Military Super Fund	46,091	44,362
Consolidated Revenue Fund	188,321	162,669
Total	<u>234,412</u>	<u>207,031</u>

Of the \$7.573 million (2008: \$5.281 million) benefits payable as at 30 June 2009, the Fund's share amounted to \$2.043 million (2008: \$1.392 million) with the Consolidated Revenue Fund's share being \$5.530 million at 30 June 2009 (2008: \$3.889 million).

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2009

5. COST OF ADMINISTERING, MANAGING AND INVESTING THE FUND

Under Clause 9(3) of the Trust Deed set up under section 4 of the *Military Superannuation and Benefits Act 1991*, the Fund shall be used to pay costs and expenses of the management and investment of the Fund. Costs of the administration of the Fund are met from monies appropriated for the purpose.

	2009	2008
	\$'000	\$'000
Fund Management and Investment Expenses met by the Fund		
<i>General Administration Expenses</i>		
Accounting services	127	127
Professional advisers	408	671
Share of trustee fees, travel and incidental costs	1,163	969
Taxation services	112	241
Communications	(205)	327
APRA lodgement fees and industry levy	(4)	268
Insurance	88	(84)
External audit	59	57
Internal audit	151	(3)
Other expenses	31	34
Non recoverable GST	73	97
Total	2,003	2,704
<i>Direct Investment Expenses</i>		
Investment management fees	5,788	13,023
Asset consultancy and portfolio management	1,266	3,975
Custodian	2,581	2,533
Other Investment Expenses	11	6
Non recoverable GST	82	292
Total	9,728	19,829

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2009

6. INCOME TAX

The taxation liability at 30 June 2009 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

	2009	2008
	\$'000	\$'000
Tax Expense (Income) comprises:		
Current tax expense	24,123	36,117
Deferred tax (income)	(47,919)	(25,028)
Under/(over) provided in prior years	3,262	(3,221)
Total Tax expense/(income)	<u>(20,534)</u>	<u>7,868</u>
 Income tax expense is attributable to:		
Profit from continuing operations	<u>(20,534)</u>	<u>7,868</u>
Aggregate income tax expense	<u>(20,534)</u>	<u>7,868</u>
Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease (increase) in deferred tax assets	4,356	(24,168)
(Decrease) increase in deferred tax liabilities	43,563	(860)
	<u>47,919</u>	<u>(25,028)</u>
 The prima facie income tax expense on pre-tax changes in net assets reconciles to the income tax expense in the financial statements as follows:		
(Loss)/Profit from continuing operations before income tax expense	<u>(144,705)</u>	<u>168,672</u>
	<u>(144,705)</u>	<u>168,672</u>
Income tax expense calculated at 15%	(21,706)	25,301
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-taxable Member contributions	59,012	(54,445)
Non-deductible benefit payments	35,162	31,054
Difference between accounting and tax gains	(113,891)	42,058
Imputation and foreign tax credits	(4,079)	(7,578)
Under/(over) provision of income tax in previous year	3,262	(3,221)
	<u>(20,534)</u>	<u>7,868</u>

Fund Financial Statements

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements

For the financial year ended 30 June 2009

Income Tax (cont.)

(b) Current tax liabilities

	2009	2008
	\$'000	\$'000
Current tax payables:		
Income tax payable	(1,091)	8,418
	<u>(1,091)</u>	<u>8,418</u>

(c) Deferred tax balances

	2009	2008
	\$'000	\$'000
Deferred tax liabilities comprise:		
Temporary differences	(44,385)	3,534
	<u>(44,385)</u>	<u>3,534</u>

Taxable and deductible temporary differences arise from the following:

	2009	2008
	\$'000	\$'000
Amounts received in profit or loss:		
Unrealised capital gains / (losses)	(41,019)	4,353
Accrued income	(3,337)	(750)
Accrued expenses	(29)	(69)
Net deferred tax liabilities	<u>(44,385)</u>	<u>3,534</u>

Movements:

Opening Balance as at 1 July	3,534	28,562
Charged/(credited) to the income statement	(47,919)	(25,028)
	<u>(44,385)</u>	<u>3,534</u>

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2009

7. SUNDRY CREDITORS

	2009	2008
	\$'000	\$'000
Investment expenses payable	4,656	6,100
Unallocated contributions	3,603	1,635
Accrued expenses	375	892
Tax payable to the ATO	209	138
Total	<u>8,843</u>	<u>8,765</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 by specialist sector fund managers who are required to invest the assets allocated for management in accordance with the terms of a written investment mandate. The Board has determined that the appointment of these managers is appropriate for the Fund and is in accordance with the Board's investment strategy. National Asset Servicing acts as master custodian on behalf of the Board and 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 (ie 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 2009

(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, seek to minimise the potential adverse effects of these risks on the Fund's financial performance. These policies may include the use of certain financial derivative instruments.

The Board has developed, implemented and maintains a Risk Management Strategy (RMS) and a Risk Management Plan (RMP).

The RMS and RMP identify the Board's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Fund. Annually, the Board certifies to APRA that adequate strategies have been put in place to monitor those risks, that the Board has systems in place to ensure compliance with legislative and prudential requirements and that the Board has satisfied itself as to the compliance with the RMS and RMP.

(e) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Fund. The Board has adopted the policy of spreading the aggregate value of concluded transactions amongst approved counterparties with appropriate credit qualities, as a means of mitigating the risk of financial loss. The Fund's exposure and the credit ratings of its counterparties are continuously monitored by the Board where these are appropriate.

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

The Fund does not have significant exposures to any individual counterparty or any group of counterparties having similar characteristics. It is the opinion of the Board that the carrying amounts of the financial assets represent the maximum credit risk exposure at the reporting date. There were no significant concentrations of credit risk to counterparties, however the following investments exceeded 5.0% of net assets as at 30 June 2009 (2008: Nil):

BT Institutional Managed Cash Fund	8.33%
Credit Suisse Cash Management	8.80%

The net market value of financial assets, with the exception of derivative positions, included in the statement of net assets represents the Fund's exposure to credit risk in relation to those assets. For derivative positions, the credit risk is equal to the net market value of positive (asset) derivative positions which amount to \$63.6m at 30 June 2009 (2008: Nil). The \$63.6m comprises \$52.4m in Currency Contracts and a further \$11.2m in Derivative Contracts which have been classified in the asset class against which the hedges have been made.

(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 unfunded component of benefit payments is financed by the Commonwealth, from the CRF. As such there is minimal liquidity risk. The Fund's exposure to liquidity risk is therefore limited to those circumstances in which the Scheme Rules allow Members to withdraw benefits.

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.

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2009

Financial Instrument Disclosures – Liquidity Risk (cont.)

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 has a targeted 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 2008.

The following tables summarise the maturity profile of the Fund's financial liabilities. Vested benefits have been included in the less than three 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.

	Less than 3 months	3 months to 1 Year	1 - 5 years	Over 5 Years	Total
30 June 2009	\$'000	\$'000	\$'000	\$'000	\$'000
Trade settlements payable	2,134	-	-	-	2,134
Sundry creditors	8,843	-	-	-	8,843
Benefits payable	7,573	-	-	-	7,573
Vested benefits	2,850,000	-	-	-	2,850,000
Total	2,868,550	-	-	-	2,868,550

	Less than 3 months	3 months to 1 Year	1 - 5 years	Over 5 Years	Total
30 June 2008	\$'000	\$'000	\$'000	\$'000	\$'000
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

(g) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: market interest rates (interest rate risk), foreign exchange (currency risk), and market prices (price risk). The policies and procedures put in place to mitigate the Fund's exposure to market risk are detailed in the Board's investment policies and the RMS and the RMP. There has been no change to the Fund's exposure to market risks or the manner in which it manages and measures the risk.

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements

For the financial year ended 30 June 2009

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 2009	\$'000	\$'000	\$'000	\$'000	\$'000	
Financial Assets						
Cash & short term deposits	12,814	75,073	-	-	85,620	173,507
Debt instruments	106,014	248,204	-	-	320,658	674,876
Australian equities	-	-	353	-	534,249	534,602
International equities	-	-	-	-	308,850	308,850
Property trusts	-	-	-	-	141,370	141,370
Currency contracts	-	-	-	-	52,379	52,379
Private equity	163,434	-	-	-	352,540	515,974
Uncorrelated Alpha (Hedge) Fund	-	-	53,395	-	20,999	74,394
Infrastructure	-	-	-	-	267,333	267,333
Other Assets	29,598	-	-	-	55,152	84,750
Total	311,860	323,277	53,748	-	2,139,150	2,828,305

	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	-	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

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2009

(g) Market risk (cont.)

Interest rate sensitivity analysis

At 30 June 2009 should interest rates have lowered by 50 basis points (2008: 50 basis points) with all other variables held constant, the decrease in net assets attributable to Members (and in net loss after tax) for the period would amount to approximately \$177 million (2008: \$190 million). If interest rates had risen by 50 basis points (2008: 50 basis points) with all other variables held constant, the increase in net assets attributable to Members (and in net profit after tax) for the period would amount to approximately \$177 million (2008: \$190 million). These increases / decreases in net assets attributable to Members are calculated on an undiscounted basis.

(h) Currency risk management

Foreign currency risk is the risk that the net market value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

An investment in the currency of countries other than Australia is a natural consequence of international investing and hence the Fund is exposed to the effects of exchange rate fluctuations. In line with the Board's Investment Policies and Derivatives Risk Management Strategy and Plan, the Fund 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 adopted a 50% hedged benchmark from 6 August 2008 (previously 100%), and for 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 2008.

Fund Financial Statements

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2009

(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 2009							
Cash and short term deposits	119,670	52,987	-	4	645	201	173,507
Debt instruments	573,449	94,203	-	-	7,404	-	674,876
Australian equities	534,602	-	-	-	-	-	534,602
International equities	23,363	218,074	6,716	7,334	22,344	31,019	308,850
Property trusts	146,365	(7,922)	-	-	2,927	-	141,370
Currency contracts	390,651	(293,702)	-	-	(44,570)	-	52,379
Private equity	141,867	263,787	-	-	58,360	51,960	515,974
Uncorrelated Alpha (Hedge) Fund	31,504	42,890	-	-	-	-	74,394
Infrastructure	251,216	27,384	-	(1,851)	(9,416)	-	267,333
Total investments	2,212,687	397,521	6,716	5,487	37,694	83,180	2,743,285
Other Assets							
Cash at bank	29,598	-	-	-	-	-	29,598
Interest receivable	231	-	-	-	46	-	277
Dividends receivable	1,197	746	-	-	-	-	1,943
Trade settlements receivable	948	883	-	-	-	-	1,831
GST recoverable	337	-	-	-	-	-	337
Sundry debtors	849	-	-	-	-	-	849
Benefits payable to be funded by appropriation	5,530	-	-	-	-	-	5,530
Deferred Tax Asset	44,385	-	-	-	-	-	44,385
Total Other Assets	83,075	1,629	-	-	46	-	84,750
Total Assets	2,295,762	399,150	6,716	5,487	37,740	83,180	2,828,035
Less Liabilities							
Benefits payable	7,573	-	-	-	-	-	7,573
Trade settlements payable	1,041	1,093	-	-	-	-	2,134
Sundry creditors	8,843	-	-	-	-	-	8,843
Current tax liability	(1,091)	-	-	-	-	-	(1,091)
Total Liabilities	16,366	1,093	-	-	-	-	17,459
Net Assets Available to Pay Benefits	2,279,396	398,057	6,716	5,487	37,740	83,180	2,810,576

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2009

(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 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	-	77	69	11,101	46,076
Total Assets	2,416,479	698,944	(50,342)	(54,997)	(72,276)	31,786	2,969,594
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	-	-	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 2009

(h) Currency risk management (cont.)

Foreign currency sensitivity

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

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

At 30 June 2009, had the Australian dollar weakened by the above currency movements against other currencies to which the Fund is exposed, with all other variables held constant, the decrease in net assets attributable to Members (and in net loss after tax) would amount to approximately \$21.5 million (2008: \$47.9 million) respectively. Had the Australian dollar strengthened by the above currency movements against other currencies to which the Fund is exposed, with all other variables held constant, the increase in net assets attributable to Members (and in net profit after tax) would amount to approximately \$23.9 million (2008: \$59.2 million) respectively. The analysis is performed on the same basis as for 2008.

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 2009, if the equity prices had increased by 10% (2008:10%) with all other variables held constant, this would have increased net assets attributable to Members (and net profit after tax) by approximately \$235 million (2008: \$233 million). Conversely, if the equity prices had decreased by 10% (2008:10%) with all other variables held constant, this would have decreased net assets attributable to Members (and net loss after tax) by approximately \$235 million (2008: \$265 million).

The Fund's sensitivity to market risk has increased slightly during the current period mainly due to reduction in value of non listed investments.

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2009

9. VESTED BENEFITS

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

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

	2009	2008
	\$m	\$m
Funded component	2,850	2,939
Unfunded component	13,401	11,833
Total vested benefits	<u>16,251</u>	<u>14,772</u>

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

	2009	2008
	\$m	\$m
Funded component	2,850	2,939
Net assets adjusted for benefits payable and cost of disposal	2,811	2,939
Surplus/(Deficit)	<u>(39)</u>	<u>-</u>

The value of vested benefits represents the liability of the Fund in the unlikely event that all Members ceased service on 30 June 2009 and elected the option which is most costly to the Fund. The likelihood of such an occurrence is extremely remote.

At 30 June 2009, the value of the funded component of vested benefits exceeds the value of net assets of the Fund as a result of an adjustment to the net market value of investments for late valuations received in respect of investments held at 30 June 2009. These adjustments, amounting to \$39 million, have been incorporated into prospective unit prices and consequently this difference is a temporary difference as at the reporting date.

The vested benefits payable on death and invalidity (excluding invalidity C) of serving Members includes an additional amount of \$92.6 million which has accrued as a consequence of changes to the definition of Compulsory Retirement Age as discussed in Note 1.

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2009

10. LIABILITY FOR ACCRUED BENEFITS

The liability for accrued benefits has been determined on the basis of the present value of expected future payments which arise from Membership of the Fund up to the date of valuation. The figure reported has been determined by reference to expected future salary levels and by application of a market-based, risk-adjusted discount rate and relevant actuarial assumptions. The accrued benefits are comprised of a funded component, which will be met from the Fund, (i.e. accumulated Member contributions and, where applicable, productivity and salary sacrifice contributions, less contribution tax, plus interest) and an unfunded component to be financed, by the Commonwealth, from the Consolidated Revenue Fund, at the time the superannuation benefits become payable.

The Australian Government Actuary undertook a comprehensive review of the Scheme using data as at 30 June 2008 which was completed in June 2009. An extract of the Australian Government Actuary's report is attached. At the time of completion of the review it was anticipated that the unintended increase in death and invalidity benefits following the change in legislation to increase the Compulsory Retirement Age would be reversed. The liability for accrued benefits was reported as \$15.7 billion. This comprised of \$12.8 billion in unfunded accrued benefits and \$2.9 billion in funded accrued benefits.

Following the decision that these financial statements be based on the assumption that the unintended increase in death and invalidity benefits would not be reversed, the Australian Government Actuary advised that this assumption would give rise to an increase of \$0.4 billion in the unfunded accrued benefits relative to the figure reported in the review. The figures quoted below include this additional amount, resulting in total accrued benefits of \$16.1 billion.

Comparative figures from the previous comprehensive review using data as at 30 June 2005 are also provided below.

	2008	2005
	\$b	\$b
Funded component	2.9	1.7
Unfunded component	13.2	8.8
Total accrued benefits	<u>16.1</u>	<u>10.5</u>

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

	2008	2005
	\$b	\$b
Funded component	2.9	1.7
Net assets	<u>2.9</u>	<u>1.7</u>
Surplus/(deficiency) Reserve	<u>-</u>	<u>-</u>

The next comprehensive actuarial review is expected to be completed by December 2011 and will use data as at 30 June 2011.

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2009

11. GUARANTEED BENEFITS

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

12. KEY MANAGEMENT PERSONNEL COMPENSATION

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

The Trustees of the MSB Board of Trustees No. 1

Mr T Hyams (Chairman)

Mr G Szondy

Brigadier R Brown

Warrant Officer R C Swanwick

Mr F Bleeser

Executive of the MSB Board of Trustees No. 1

Mr K J McCullagh (Chief Executive Officer) resigned 14 November 2008

Mr P Watson (Chief Executive Officer) began 17 November 2008

(a) Key Management Personnel Compensation

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

	2009	2008
	\$'000	\$'000
Short-term employee benefits	612,691	516,533
Other long-term employee benefits	1,974	18,370
Termination benefits	26,239	
	<u>640,904</u>	<u>534,903</u>
Employees of the Board		
	2009	2008
Average Staffing Levels	<u>7.3</u>	<u>6.7</u>

13. AUDITORS REMUNERATION

	2009	2008
	\$	\$
The amount paid and payable in respect of audit services provided by ANAO (exclude GST)	<u>-</u>	<u>-</u>

Deloitte Touche Tohmatsu has been contracted by the Australian National Audit Office (ANAO) to assist the ANAO in providing the audit services to the Fund. These services were provided free of charge in 2009 (Value \$102,710) and 2008 (Value \$83,770).

Other services provided by the Australian National Audit Office included an audit of the RSE, FSR and AFSL licensee requirements. This service was provided for a fee of \$15,750 (2008: \$15,000).

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 2009

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 2009 the Fund had outstanding investment capital commitments of \$346m (2008: \$463m). 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 2009 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 Fund which could result in additional benefits becoming payable in the future. Each request is considered on its merits prior to any benefit becoming payable. In the opinion of the Board, these requests do not represent a material liability or contingent liability on the Fund as at 30 June 2009.

There were no other contingent liabilities which have been identified as at 30 June 2009 (2008: Nil).

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2009

18. SUPERANNUATION CONTRIBUTIONS SURCHARGE

Under the *Superannuation Contributions Tax (Assessment and Collection) Act 1997*, the holder of surchargeable contributions for the financial year is liable to pay the superannuation contributions surcharge. The surcharge is levied on surchargeable contributions depending on the individual Member's adjusted taxable income. The Fund has recognised the surcharge liability when the assessment (including advance instalment) is received from the Australian Taxation Office. The surcharge is no longer levied on surchargeable contributions made after 1 July 2005, however assessments relating to the period prior to this date continue to be received.

A summary of transactions follows:

	2009	2008
	\$'000	\$'000
Total surcharge liability outstanding at start of year	19,675	19,350
Surcharge liability recorded against Member accounts in respect of surcharge assessments received during the year	<u>82</u>	<u>31</u>
	19,757	19,381
Less Amount paid by Members	(122)	(151)
Less Amounts deducted from Members' benefit payments	<u>(699)</u>	<u>(737)</u>
	18,936	18,493
<i>Plus:</i>		
Interest applied to outstanding surcharge liability at 30 June 2006	<u>1,191</u>	<u>1,182</u>
Total surcharge liability outstanding at end of year	<u>20,127</u>	<u>19,675</u>

No liability is recognised in the 'Statement of Net Assets' for the estimated value of the surcharge liability because the liability will be either met by the Members during their period of Membership or will be recovered from Member benefits when they are paid.

MILITARY SUPERANNUATION AND BENEFITS FUND

Notes to and forming part of the financial statements
For the financial year ended 30 June 2009

19. RELATED PARTIES

The Trustee of the Military Superannuation and Benefits Fund is the Military Superannuation and Benefits Board of Trustees No. 1 (ABN 72 406 779 248). The names of the Members of the Board who held office during the year are:

Mr T Hyams (Chairman)

Mr G Szondy

Brigadier R Brown

Warrant Officer R C Swanwick

Mr F Bleeser

The Chief Executive of the MSB Board of Trustees No. 1 is Mr P Watson (began 17 November 2008). Mr K J McCullagh (Chief Executive Officer) resigned 14 November 2008.

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 Fund. 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 cost of fund administration and ComSuper recognises this administration revenue in the annual financial statements prepared by the Commissioner for Superannuation. A component of the ComSuper administration fees is used to meet administration costs directly incurred by the Board and its staff.

Contributions and Retirement Benefits of Key Management Personnel

With the exception of one Trustee, Members of the Board or of its Executive Unit are not eligible to contribute to the Fund. 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

The Chief Executive Officer was appointed, at the Board's request, as a Director of a company, Duncan Solutions Limited, in which the Fund has an investment. Following a rights issue, in which Military Superannuation and Benefits Fund did not participate, the Fund's percentage share holding in this investment fell below the level at which there was an automatic entitlement to a Board seat. The CEO therefore stood down from the position of Director with effect from 20th November 2008 and did not stand for renomination at the 21st November 2008 Annual General Meeting.

20. SUBSEQUENT EVENTS

There have not been any matters or circumstances arising since 30 June 2009 that have significantly affected or may significantly affect the Fund.



Australian Government
Australian Government Actuary

25 August, 2009

MILITARY SUPERANNUATION AND BENEFITS SCHEME
SUMMARY OF THE 2008 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 2008 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. From 1 July 2008, following changes in the Superannuation Guarantee regime, additional employer superannuation contributions are paid into the Ancillary Section of MSBS in respect of allowances that are regarded as being part of Ordinary Time Earnings but are not included in the existing definition of superannuation salary. These additional contributions are payable in respect of members of both MSBS and DFRDB.
3. Projections of the actual annual employer costs of the MSBS and DFRDB combined as a percentage of Gross Domestic Product (GDP) were made over a period of 40 years. 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 2008 was satisfactory.
4. The value of net assets of the MSBS available to pay benefits as at 30 June 2008 reported in the audited financial statements of the Fund was \$2,935 million.
5. The value of the vested benefits of the MSBS was not calculated as part of the 2008 Long Term Cost Report. This value is calculated separately on an annual basis for the MSBS financial statements and covers contributors, preserved members and pensioners. As at 30 June 2008, the value of vested benefits was \$14.8 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 2008 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 2008 was \$15.7 billion. This comprised \$12.8 billion in unfunded Accrued Benefits and \$2.9 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 2008. The employer component of the benefits for contributors was apportioned on the basis used to calculate accrued benefits for purposes of Australian Accounting Standard AASB 119. In aggregate, the resulting liability is slightly higher than the approach used for previous Long Term Cost Reports of using the ratio of current length of membership to the total length of projected membership at exit for each individual.

7. On 1 July 2007, the compulsory retirement ages for most ADF personnel were increased with the intention of providing greater employment flexibility. The change had an unintended flow-on effect on the calculation of death and invalidity benefits paid under the MSBS. At the time of completion of the report, no death or invalidity benefits had been paid using the higher retirement age and steps were being taken to clarify that the change in compulsory retirement age did not flow through to the calculation of death and invalidity benefits. We therefore assumed that death and invalidity benefits would not be impacted by the change in compulsory retirement age. If the unintended flow-on to the calculation of death and invalidity benefits becomes permanent, then there will be an increase in the value of Accrued Benefits of \$0.4 billion relative to that reported. There would also have been an increase in the value of vested benefits as at 30 June 2008 of less than \$0.1 billion relative to what was reported in 2008.
8. 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.
9. A summary of the MSBS data used for the valuation is set out below:
- 49,307 contributors with total superannuation salaries of \$3,018m
 - 71,054 preserved beneficiaries with total nominal preserved benefits of \$4,795m
 - 6,760 pensioners with total annual pensions of \$133m.
10. The major assumptions used in the calculations were as follows:
- Pension increases (CPI): 2.5% per annum
(unchanged from the 2005 review)
 - Interest Rate: 3.5% per annum real (unchanged from the 2005 review)
 - Inflationary salary increases: 1.5% per annum real (unchanged from the 2005 review)
 - Promotional salary increases: scales based upon age and length of service
(unchanged from the 2005 review)
 - GDP increases: a series of rates starting at 4.2% (real) for 2008/09, falling to -0.1% (real) for 2009/10, then increasing to 2.6% per annum (real) in 2013/14 and then gradually falling to 2.1% (real) from 20047/48 onwards.



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

Appendices

Military Superannuation and Benefits Scheme

SECTION NINE

9



Appendix 1: MilitarySuper in Brief

Investment

Fund Asset Allocation	30 June 2008		30 June 2009	
Asset Class	\$m	%	\$m	%
Cash	413	14	174	6
Debt	346	12	484	18
Alternative Debt	194	7	191	7
Property	213	7	141	5
Australian Shares	588	20	535	19
Private Equity	479	17	516	19
International Shares	392	13	309	11
Uncorrelated Alpha	173	6	74	3
Infrastructure	303	10	267	10
Currency	16	1	52	2
Investment Performance	30 June 2008		30 June 2009	
Asset Class	Fund % ¹	Benchmark % ²	Fund % ¹	Benchmark % ²
Cash	7.0	7.3	5.09	5.48
Debt	3.9	4.4	3.90	5.48
Alternative Debt	-11.36	12.5	2.02	12.50
Property	4.7	12.0	-43.84	12.50
Australian Shares	-10.2	-13.7	-9.01	-20.34
Private Equity ³	5.3	15.0	-15.39	15.00
International Shares ⁴	-4.0	-13.7	-24.98	-28.39
Uncorrelated Alpha	-7.7	-0.2	-39.17	12.50
Infrastructure	12.6	12.5	-6.83	12.50

1. Figures shown are gross of management fees and tax.
2. Benchmark is the most commonly used index or other market measurement which is used as a yardstick to assess the risk and performance of a portfolio. The benchmark usually represents the minimum performance objective. Absolute return benchmarks established by the Board in the absence of any commonly accepted benchmark.
3. Private Equity is a long term investment and does not generally show a return in the early years of the investment because of set-up and management costs. The investment gains usually come in the later years as the underlying companies mature and increase in value. The effect of this timing is known as the J-curve Effect.
4. All international share exposures are fully hedged back to the Australian dollar.

Membership

	2008	2009	Increase (decrease)
Contributors at 30 June			
Males	42 513*	44 262	1749
Females	6842*	7393	551
Total	49 355	51 655	2300
Total Member contributions	\$167.5m	\$186.5m	\$19m
Contributor Exits			
Age retirement	143	262	119
Resignation	3523	1081	(2442)
Redundancy	6	9	3
Invalidity	718	633	(85)
Death	55	108	53
Unclaimed	2803	4008	1205
Other	-	44	44
Total	7248	6145	(1103)
Pensions in force			
Retirement	1106	1220	114
Redundancy	1910	1914	4
Invalidity	3531	3913	382
Reversionary	163	180	17
Total	6710	7227	517
Pensions paid	\$128m	\$146m	\$18m
Average pension	\$19 196	\$19 690	\$494
Preserved Benefit Members at 30 June	72 812	75 929	3117

* The split between male and female Membership at 30 June 2008 does not accord with those in the 2007-08 report. Data quality fixes to the scheme Administrator's system have amended the status of females incorrectly recorded as males.

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	a style of investment management that seeks to achieve performance management equal to the market or index without making any active investment decisions
PDS	Product Disclosure Statement
RC	Reconsideration Committee
SCT	Superannuation Complaints Tribunal
SIS Act	<i>Superannuation Industry (Supervision) Act 1993</i>
SRC Act	<i>Superannuation (Resolution of Complaints) Act 1993</i>
surcharge	<i>Superannuation Contributions Tax (Assessment and Collection) Act 1997</i> , a tax on employer-financed superannuation contributions
unitisation	the conversion of Member interest-bearing accounts to unit-based accounts within the Fund

Appendix 3: Publications

The Board publishes booklets and a series of factsheets 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 factsheets that deal with specific topics in more depth. The factsheets are entitled:

About to Leave the ADF?

Additional Personal Contributions

Appeal Rights

Death and Dependants' Benefits

Dependants' Benefits

Early Access to your Superannuation Benefit

Government (Super) Co-Contributions

Invalidity Benefits

Invalidity Benefits - The Classification Process

Leave Provisions

Maximum Benefit Limits

Relationship definitions

Rejoining the ADF

Salary Sacrifice Contributions

Spouse Contributions

Summary of the Scheme - for new starters

Superannuation Contributions Surcharge

Taxation Concessions for pensions

Taxation of Contributions

Taxation of Lump Sums

The Productivity Benefit

Transfer Amounts

Unitisation

All of these publications can be obtained from Member's 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 2008–09 financial year.

Amending Trust Deeds

Two amending Trust Deeds were issued during the 2008–09 financial year.

- Military Superannuation and Benefits Trust Deed Amendment 2008 (No. 1)

[ComLaw ref: F2008L04766] – the Rules were amended to remove discrimination against same-sex couples within the Scheme

- Military Superannuation and Benefits Trust Deed Amendment 2008 (No. 2)

[ComLaw ref: F2008L04787] – the Rules were amended to allow superannuation guarantee top-up contributions made by the Department of Defence to be accepted as ancillary contributions.

Family Law

The *Family Law Act 1975* was amended by:

- *Statute Law Revision Act 2008* (No. 73, 2008) [ComLaw ref: C2008A00073] – to make various amendments of the statute law of the Commonwealth, to repeal certain obsolete Acts, and for related purposes.
- *Family Law Amendment (De Facto Financial Matters and Other Measures) Act 2008* (No. 115, 2008) [ComLaw ref: C2008A00115] – to bring de facto relationships within the scope of the Act, and for related purposes.
- *Same-Sex Relationships (Equal Treatment in Commonwealth Laws—General Law Reform) Act 2008* (No. 144, 2008) [ComLaw ref: C2008A00144] – to address discrimination against same-sex couples and their children in Commonwealth laws, and for other purposes.

Appendices

The Family Law (Superannuation) Regulations 2001 were amended by the Family Law (Superannuation) Amendment Regulations 2009 (No. 1) [ComLaw Ref: F2009L00263] (Select Legislative Instrument 2009 No. 19) – to provide for the new financial settlement regime for de facto couples included in the *Family Law Act 1975* by the *Family Law Amendment (De Facto Financial Matters and Other Measures) Act 2008*.

ComLaw

The consolidated *Military Superannuation and Benefits Act 1991*, Trust Deed and Rules, each Amending Trust Deed and other Commonwealth legislation 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 2008–09. Annual reporting requirements that are met in the Commissioner for Superannuation's report are indicated below by an asterisk.

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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 2008–09.

Decision-making Powers

The power of the DFRDB Authority to administer the provisions of the *Defence Forces Retirement Benefits Act 1948* and the *Defence Force Retirement and Death Benefits Act 1973* is set out in section 8 of the DFRDB Act. The power of the Authority to delegate its powers and functions is set out in section 15.

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, levy charges, or refuse access are made by an officer 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 Military Reconsideration Section within ComSuper where they are investigated by a more senior officer 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. Copies of publications (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 FOI Officer at the address and telephone numbers shown below.

Consultative Arrangements

Informal and ad hoc arrangements exist whereby the national, state and territory branches of the Regular Defence Force Welfare Association may make representations relating to the general administration of the scheme. Representations are also received which relate to the determination of individual benefit entitlements.

Requests for consultation and/or representations relating to policy aspects of the schemes and their underlying legislation are referred to the Military Superannuation Branch of the Department of Defence which has responsibility for advising the Minister for Defence Science and Personnel and the Minister for Veterans' Affairs on such matters.

Categories of Documents

The Authority 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.

A booklet and fact sheets that describe various aspects of the DFRDB Scheme, and annual reports, are made available to Members of Parliament, Senators and the public free of charge upon request. They are also available free of charge via the website www.militarysuper.gov.au

In the interests of timeliness and conciseness, this report has been designed to provide only fundamental information. Requests for more detailed information should be directed to:

Freedom of Information Officer

ComSuper

Postal address: PO Box 22
Belconnen ACT 2616

Street address: Unit 4
Cameron Offices
Chandler Street
Belconnen ACT 2617

Telephone: 1300 033 732

Facsimile: (02) 6272 9804

TTY: (02) 6272 9827

Appendix 7: Executive

Staff resources

During 2008–09 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 2008–09 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 processes all Board accounts, maintains accounting records and produces the Board's financial statements.

Ecologically Sustainable Developments and Environmental Performance

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

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

Fraud Control

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

Appendix 8: Staffing Statistics of the Executive

Employment category	Male	Female	Total
Full-time	2	4	6
Part-time	1	1	2
Total	3	5	8

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aboutus/annual_reps.htm](http://www.militarysuper.gov.au/aboutus/annual_reps.htm)

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