Military Super

AFSL: 238395

Annual Report 2004-05

for contributing members

Contents

This report is issued by the Military Superannuation and Benefits Board of Trustees No.1 (the MilitarySuper Board) and forms part of the annual member statement package:

More information is available on request

For up-to-date information about MilitarySuper and to estimate your benefit using the i-Estimator, visit **www.militarysuper.gov.au**

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Product Disclosure Statement

This Annual Report forms part of the MilitarySuper Product Disclosure Statement, along with the Scheme's *MilitarySuper Book, Supplementary Disclosure Statement* and *Your Guide to Investment Choice*.

Any financial product advice in this document is general advice only and has been prepared without taking account of your personal objectives, financial situation or needs. Therefore, before acting on any such general advice, you should consider the appropriateness of the advice, having regard to your own objectives, financial situation or needs. You may wish to do so with or without the assistance of a licensed financial adviser.

The information contained in this document is correct at the time of printing in September 2005. Changes to Government legislation or superannuation rules made after this date may affect its accuracy.

Chairman's **overview**

In the Board's Annual Report for 2003-04 I noted that research from around the world had indicated that there would remain a low return environment for equity markets in the immediate future. Indeed, most observers are forecasting returns from equity markets of between 7-9% pa over the next ten years.

In such an environment MilitarySuper's previous high exposure to listed equity markets represented a risk to long term, sustainable investment returns. Consequently the Board informed members of changes to the Fund's investment strategy, which will see a reduction in the Fund's exposure, over time, to market generated returns - through the introduction of new classes of investments whose return characteristics are not closely correlated to those of listed equities.

Investment Returns for 2004-05

2004-05 was once more a year of challenge, characterised by significant volatility in worldwide markets. Rising interest rates and higher commodity prices pressured nearly every equity market in the developed world during much of the year.

The Australian Share Market defied expectations rising to record levels during the year on the back of rising commodity prices and record corporate profits. However, going forward the common prediction is that slack domestic demand and a slowing global economy will lead to subdued earnings growth in domestic markets in 2005-06.

In these highly volatile market conditions your Fund's investment return (net of all fees, taxes and expenses) of 12.0% (14.5% gross) in the Growth (Default) investment option, in which the bulk of the assets of the MSB Fund are invested, was a good result given that the fund is only partway through implementation of the new long-term investment strategy. The High Growth option achieved a net return of 14.1% (16.6% gross).

Returns from Listed Equity Markets

International equity markets returned 9.8% in local currencies for the 12 months to 30 June 2005. However, when these returns were translated back to the Australian dollar the market return (on an unhedged basis) was only 0.06%. The appreciation of the Australian dollar over the 12 months resulted in the difference between the two returns.

Fortunately as part of the strategic review the Fund moved from a 50% to a 100% hedge on all foreign currency exposures in December 2004 and the Fund benefited from this strategy in the second half of the year. On a hedged basis the net contribution made by the international equity sector to overall fund performance was 8.7% for the year.

Most serious observers of the world economy believe that the long-term dominance of the global economy by the US, Western Europe and Japan will gradually be diluted in the next few decades. The emergence of China continues to impact the rest of the world, both as a consumer of materials (causing higher commodity prices) and as an exporter of manufactured goods. Apart from China, the future grouping of economic "super powers" is likely to include countries such as Brazil, Russia and India. With the assistance of its advisors, your Board is monitoring developments in these four economies to identify potential future investment opportunities.

Strong performances in the first three quarters of the financial year saw the Australian Share Market rise to record highs by late February/early March, before declining, along with other share markets, in the latter part of March in response to rising oil prices and indications of emerging inflationary pressures in the US. In April 2005 Australian shares followed the lead of global equity markets, succumbing to increasing investor nervousness. The All Ordinaries Accumulation Index lost 3.1% with rising domestic concerns over company earnings, profit warnings and signs of slowing global growth causing investors to sell off domestic equities in search of more defensive assets and investments.

The last quarter of the financial year saw markets around the world, but particularly in Australia, recover some lost ground; due largely to the China-driven resources boom - which has created the best conditions for miners in decades as prices have risen for most metals. Indeed, by 30 June the Australian Share Market had recorded its second consecutive year of double digit growth.

It is this very volatility which prompted the Board to undertake the detailed review of the Fund's investment strategy during 2003-04. This review led to the decision to reduce the Fund's exposure to listed equity markets and to replace that exposure over time with increased investments in a range of alternative asset classes (such as Private Equity, Infrastructure and Property) whose return characteristics are not directly linked to listed equity markets. Although this process of transition is not fully implemented, the Fund is already starting to see the benefits which these new asset classes add to the Portfolio of investments, especially in periods of volatile returns from traditional listed markets.

Private Equity

Your Fund made its first investment in Private Equity (P/E) in 2000 and has since made regular additional commitments to this asset class in the intervening years. These are long term investments which do not generally show a return in the early years of the investment because of initial set up and management cost. The investment gains usually come in the later years as the underlying portfolio of companies mature and increase in value.

As the Fund's initial investments are maturing we are now starting to see the benefits with significant returns starting to flow back to the Fund. Indeed at the portfolio level our Private Equity investments provided a return of 11.1% for the year; with one of our domestic P/E investments achieving an impressive 56% net internal rate of return since the inception of the investment in December 2003.

Our more mature international Private Equity investments are also starting to provide strong returns, although in 2004-05 these have been diluted somewhat by the impacts of the appreciating AUD.

Infrastructure

Our initial Infrastructure investment, involving an investment in one of Australia's major international airports, has to this point been a particularly successful one producing both access to secure income streams and fortuitously a significant immediate capital gain. The investment was initially placed in late December 2004, and for the six months to 30 June has produced a net return of 25.9% (52% annualised) on the amount invested.

This sector contributed 11.7% to the overall fund return for the six months that the investments were in place.

The Board will continue to seek opportunities, both in Australia and internationally, for investments in this sector that will provide exposure to strong long term income streams and opportunity for capital growth. With the advice of its investment advisors the Board is looking to achieve a long term exposure of 10% of total fund assets to this investment sector. However, this will be done progressively and prudently as new and sustainable investment opportunities emerge.

Property

The Fund's Property Portfolio has a significant weighting to listed property and therefore has benefited from the strong performance of listed property during 2004-05; producing a return of 17.0% for the year.

Notwithstanding the strong performance of listed property in 2004-05, the Board will continue to explore investments in non-listed areas. This will be done having regard to the objective of identifying opportunities that provide access to long-term sustainable income streams and capital growth potential consistent with the new investment strategy.

Transition to the New Long-term Asset Allocation

The Board, with the assistance of its advisors, has made considerable progress in the transition of the Fund to its new long term investment strategy, but much remains to be done. However, the Board is strongly focused and committed to implementing investment strategies for the Fund and its members which are capable of producing consistent and sustainable returns over the lifetime of members investments. We believe that the steps already taken are beginning to bear fruit and that the new strategy will place the MSB Fund at the forefront of investment philosophy and strategy in Australia.

In-house Investment Activities

During the year the resources of the Board's Executive Unit were expanded to enable a range of previously outsourced administrative functions associated with the Fund's investment activities to be brought in-house within the Executive Unit. This action has resulted in increased levels of control and supervision of investment activities and enabled the Board to receive more timely and efficient reporting on Fund and manager performance on a daily basis.

Introduction of Ancillary Benefits

It has been a long term goal of your Board to expand the design of the Scheme to enable members to make personal, salary sacrifice and spouse contributions into the Fund and to allow members to transfer benefits held in other superannuation schemes into MilitarySuper. The necessary legislative changes have been made and these new features are available from 1 August 2005. Further information is provided later in this report.

Ongoing Commitment

It is your Board's ongoing commitment to ensure that MilitarySuper is seen by members and its peers within the Superannuation Industry as one of the very best Superannuation Funds in Australia; providing valuable services to its members and ensuring that members' moneys entrusted to its care achieve good and sustainable investment returns over the lifetime of a member's investment. We believe that with the continuing support of ComSuper and the Department of Defence we will continue to improve service delivery to members. In addition, we strongly believe that the changes to investment strategy already commenced will help ensure that members' investments are insulated, as far as is practicable, from the vagaries of market fluctuations and that members should enjoy sustainable long-term returns in most, if not all, market conditions.

Charles Kiefel
Chairman

Summary of **changes**

During 2004-05, MilitarySuper

Achieved net Investment returns of

- 14.1% for the High Growth Strategy
- 12.0% for the Growth (Default) Strategy
- 12.5% for the Balanced Strategy
- 7.8% for the Conservative Strategy
- 4.3% for the Cash Strategy.

Stepped up the implementation of

changes to the investment strategies on offer to members for the member-financed component of your member Benefit. This involved

- Transition of the domestic equity portfolio to new manager arrangements
- Making the Fund's first investments in the infrastructure sector.

Increased the net assets of the fund from

1,429 million to 1,742 million.

Introduced ancillary benefits

which will allow payment of:

- Additional personal contributions
- Salary sacrifice amounts
- Spouse contributions

AND

allow transfer of other superannuation benefits from other schemes to MilitarySuper.

More information can be found in the Hot Topics section on page 24 and on the MilitarySuper website **www.militarysuper.gov.au**

Welcomed Mr Felix Bleeser

as a new Trustee of the Scheme following the retirement of Mr Phil Charley.

New contact points for MilitarySuper members

To further enhance the service to you, the Board is introducing new contact centre details dedicated to MilitarySuper matters.

The new telephone number is **1300 006 727** and the new email address is **members@enq.militarysuper.gov.au**

Please use these contact points if you have a question about your MilitarySuper benefit entitlements.

2004-05 **super changes**

What is Fund Choice about?

From 1 July 2005 superannuation legislation allows certain members of superannuation plans to transfer all or part of their super to another complying fund of their choice.

Under the current legislation, MilitarySuper members are not able to choose their own fund.

This is because MilitarySuper is a hybrid Defined Contribution/Defined Benefit Scheme in which by far the largest component of a retirement benefit is in the form of an 'unfunded' employer benefit. That is, the employer benefit is calculated on the basis of years of service and final average salary and is paid from Consolidated Revenue when it falls due. Therefore, unlike the members own contributions, there are no moneys invested in a super fund to cover the employer benefit. However, unlike most other superannuation arrangements, MilitarySuper members are not required to pay administration fees and charges as these charges are currently paid for by the Department of Defence. MilitarySuper also provides members with access to generous death and invalidity insurance cover at no additional cost to the member and attractive pension options.

Although Fund Choice does not apply, MilitarySuper offers a choice of investment options for the member component of your MiltarySuper benefit. These choices correspond to commonly chosen investment strategies offered, have been developed with the assistance of independent investment experts and are managed by professional investment managers

You can choose any one or a combination of the five investment options available and are able to change your investment choice at any time, free of charge. This gives you the flexibility to make investment decisions which best meet your needs.

Choosing the right investment strategy is an important decision affecting your financial future. The Trustee recommends that you read the investment material available to you in the *Your Guide to Investment Choice* document and, if you have access, on the MilitarySuper website. The information in these documents describes the choices you have available to you and may assist you in making your choice.

If you need help in making an investment decision, you should seek advice from a licensed financial advisor.

Extra Benefits for MilitarySuper members

From 1 August 2005, the Board has introduced ancillary benefits that allow you to pay:

- Additional personal contributions
- Salary sacrifice amounts
- Spouse contributions

into the MilitarySuper Fund.

AND

Allow you to transfer superannuation benefits from other schemes into MilitarySuper.

The changes provide you with opportunities that may assist you to improve your super position.

More information can be found in the Hot Topics section on page 24 or on the MilitarySuper website **www.militarysuper.gov.au**

Co-contributions

The Government Super Co-Contribution scheme was introduced from 1 July 2003 and enables low income earners who satisfy eligibility conditions and make personal after tax contributions to a superannuation fund to receive matching contributions from the Government.

For the 2003-04 financial year, the matching contribution was $1 for each $1 of after tax member contribution, up to a maximum of $1,000. From 1 July 2004, the co-contribution increased to $1.50 for each $1 of after-tax member contribution up to a maximum of $1,500.

For 2003-04, the maximum co-contribution that could be received phased out for incomes between $27,500 and $40,000 and for the 2004-05 financial year for incomes between $28,000 and $58,000.

You do not need to make an application to claim a co-contribution. The Scheme Administrator will submit information on your contributions to the Australian Taxation Office (ATO). The ATO will then use this information and your tax return for that year to determine whether you are entitled to receive a co-contribution.

Surcharge

The Surcharge Tax is a tax on employer superannuation contributions for higher income earners which was introduced in 1996.

For the 2004-05 financial year the surcharge tax applicable was 12.5% on employer contributions and applied to persons on higher incomes.

The surcharge tax rate increases on a sliding scale from zero by 1% for each $1,709 that your adjusted taxable income is in excess of $99,710 up to a maximum rate of 12.5% if your adjusted taxable income for 2004-05 is $121,075 or more.

Your adjusted taxable income includes your taxable income plus your reportable fringe benefits and any notional contributions.

Surcharge tax may also automatically apply to you if you have not provided your tax file number, irrespective of what you earn.

Changes…

In this year's Federal budget the Treasurer announced that from 1 July 2005, the surcharge tax would be abolished. This means that from 1 July 2005 onwards employer contributions paid into a superannuation fund on your behalf will incur no additional taxation irrespective of your level of taxable income.

Any surcharge debt you may have incurred for financial years prior to 2005-06 must still be paid. Your member statement provides details of any surcharge debt you may have.

New PDS

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 Product Disclosure Statement (PDS) for MilitarySuper was recently updated to reflect the changes in the Trustees' investment strategies for the Fund. The PDS consists of the following four documents:

- The *Annual Report to Members*
- *Your Guide to Investment Choice*
- *The Supplementary Product Disclosure* Statement
- *The MilitarySuper Book*.

Together these documents describe all the main features of MilitarySuper. You can get electronic copies (or order paper copies) from the MilitarySuper website **www.militarysuper.gov.au**

APRA Licensing

During the year, the Board undertook significant work in preparation for lodging its APRA license. The Board lodged its application in July 2005.

Online Services

We are committed to providing you with secure online access to information about your super. You can view general information about the Scheme as well as personal benefit details from this website. You can also access the i-Estimator to project the potential value of your retirement benefits.

If you would like an access number, complete an access number form and post it to MilitarySuper. Please note that MilitarySuper cannot issue access numbers via email, fax or over the phone.

Once you have received your new access number you are encouraged to visit Member Services Online to activate your access number.

When you complete and send MilitarySuper the enclosed form, MilitarySuper will send your future annual member statements and other correspondence from MilitarySuper to the address you provide on that form. Please note that you will be able to use Member Services Online to keep your contact details up to date when you move residence.

Recognising Environmental Allowance

The qualification and skill elements of Flying Allowance, Submarine Service Allowance, Specialist Operations Allowance and Special Action Forces Allowance have been recognised for superannuation purposes from 12 August 2004. This means that:

- Whilst you are in receipt of such an allowance it will be included in the calculation of your final average salary for benefit purposes
- You will be required to pay contributions to MilitarySuper on the basis of a salary that includes that allowance.

i-Estimator, the calculator for projecting future value of your benefit, now incorporates the inclusion of the allowance, if applicable.

MilitarySuper **Board of Trustees**

Chairman

Mr Charles Kiefel BCom, FCA, FAICD

Trustee since 11 July 1997

Mr Kiefel is a Director of a number of private companies and was formerly Managing Director of Corporate Finance at ANZ Investment Bank. He has a Bachelor of Commerce degree, is a Fellow of the Institute of Chartered Accountants and a Fellow of the Australian Institute of Company Directors. In addition to his role as Chairman of the Board, he also serves as Chairman of the Investment Committee.

Employer representatives (appointed by the Minister)

Dr Michael Sharpe AO, Hon DScEcon (Syd.), BEc, FCA, FAICD

Trustee since 29 April 1998

Dr Sharpe is a Director of the Australian Stock Exchange Limited and Babcock and Brown Pty Ltd. During his career, Dr Sharpe has served as Chairman of the International Accounting Standards Committee, President of the Institute of Chartered Accountants in Australia, Senior Audit Partner of the firm now known as PricewaterhouseCoopers, a trustee of State Super (NSW), Chairman and Director of many companies and as an advisor to Government. He serves as Chairman of the Audit and Risk Management Committee and is a member of the Investment Committee.

Mr Felix Bleeser

Trustee since 1 March 2005

Mr Bleeser is the Assistant Secretary Financial Training in the Defence Chief Finance Office and was previously the Director General Defence Occupational Health Safety and Compensation. He has extensive experience in personnel policy and management in Defence, and has been a member of numerous Defence review bodies, including the review of the Defence Force Retirement and Death Benefits Scheme, the Defence Efficiency Review and the Strategic Review of Defence Personnel Policies into the 21st Century. He is a past Director of superannuation policy in Defence and an alternate member of the Defence Force Retirement and Death Benefits Authority, the Military Rehabilitation and Compensation Commission and the Government's Safety Rehabilitation and Compensation Commission. He is a member of the Audit and Risk Management Committee.

Mr Felix Blesser replaced Mr Phil Charley who retired on 28 February 2005. Mr Charley had been a Trustee of the MilitarySuper Board of Trustees since 14 September 2000.

Employee representatives (nominated by the Chief of the Defence Force)

Air Commodore Lee Roberts CSC, MSc, GradDip Strat Studies, BSc, FAICD

Trustee since 26 September 2003

Air Commodore Lee Roberts is currently the Director General Personnel - Air Force. He has served as a pilot and flying instructor extensively within Australia and overseas during his 33-year Air Force career. He is a Fellow of the Australian Institute of Company Directors, holds a Certificate of Superannuation Trusteeship and has previous experience as an Alternate Trustee of the MilitarySuper Scheme. He currently serves as Chairman of the Military Superannuation Communication Committee.

WOFF Robert Swanwick MAICD, JP

Trustee since 22 September 1997

Warrant Officer Swanwick is a Loadmaster with No 37 Squadron at RAAF Base Richmond. He has served throughout Australia and overseas for 26 years as a Loadmaster, has been posted to Air Force and Army units, and attached to Navy establishments. He holds diplomas in frontline management and aviation and has extensive training in investment and superannuation administration. Over the past nine years, he has held the position of the Other Rank Trustee, and is a member of the Board's Audit and Risk Management Committee and a member and former Chairman of the Military Superannuation Communications Committee.

Managing your super

A Board of five Trustees is responsible for managing the MilitarySuper Scheme. These five Trustees include:

- An independent chairperson (appointed by the Minister Assisting the Minister for Defence, after consultation with the Minister for Finance and Administration)
- Two employee representatives (one officer and one other-rank member) nominated by the Chief of the Defence Force and appointed by the Minister Assisting the Minister for Defence
- Two employer representatives (appointed by the Minister Assisting the Minister for Defence) who are experienced in government policy and administration.

The chairperson and the employee representatives hold office for a period of up to three years, and can be re-appointed to these positions. The employer representatives hold office 'at the Minister's pleasure'. Trustees are removed in the same way they are appointed.

The MilitarySuper Board ensures that the Scheme is operated according to the rules specified in the Scheme's Trust Deed, and according to superannuation law. The Trust Deed is the Scheme's governing legal document. It sets out the duties of the Trustees towards all members and the responsibilities and powers of the MilitarySuper Board. These include directing the Scheme's investments, managing member communications and ensuring the smooth administration of the Scheme.

Indemnity insurance

The Board is insured with American Home Insurance Company against losses, liabilities, actions, claims or demands arising from the performance of its functions. To date there has never been a claim against the insurance policy, nor have any regulatory penalties been applied.

MilitarySuper's **investment strategy**

How the MilitarySuper Board makes investment decisions

Managing and investing MilitarySuper's assets is a prime responsibility of the MilitarySuper Board. The Board is responsible for investing both the member and the funded employer productivity contributions that comprise the assets of the Fund. This excludes the 'unfunded' employer benefit which is funded from the Consolidated Revenue Fund when it becomes payable. The MilitarySuper Board, with the help of specialist investment consultants, develops a long-term investment strategy for the assets of MilitarySuper. The Board regularly reviews the investment strategy with the assistance of the Fund's Lead Investment advisor and a number of asset sector specialist advisors.

To implement the investment strategies and on the advice of its advisors a number of specialist fund managers are appointed to invest the assets of MilitarySuper. Each of the selected fund managers are provided with specific instructions (called investment mandates) about how the funds are to be invested and the return objectives to be achieved.

Working with its investment committee and specialist advisors, the MilitarySuper Board continuously monitors the performance of its fund managers to ensure that they are adhering to the strategy and to measure performance against the targets set by the Board.

Investment management is not an easy task, and the investment market volatility experienced in recent years has added further complexity. By having a long-term strategy and using specialist advisors and fund managers with a great depth of investment experience, the MilitarySuper Board is able to ensure the ongoing viability of MilitarySuper and help members achieve financial security in retirement.

For more information on the Scheme's investment strategies, refer to the booklet, *Your Guide to Investment Choice*, which can be accessed from the MilitarySuper website at **www.militarysuper.gov.au**

Derivatives policy

The Fund's investment policy allows managers to use derivatives subject to strictly controlled limits that are designed to protect the underlying assets. Derivatives such as options, futures and forward foreign exchange contracts may be used to reduce the Fund's exposure to market fluctuations. Derivatives are not used for speculative purposes or for leverage.

No reserves

The Board does not maintain any reserves. All investment earnings are distributed to members.

No buy/sell spread

After considering the nature of the Fund and it's liabilities, the Board has determined not to apply a buy/sell spread on entry or exit from the Fund and on switch between investment choices. However, this policy may be reviewed in the future.

Summary of new investment strategy

- Move from benchmark driven return objectives to an absolute return focus
- Introduction of new asset classes not directly correlated to market returns
- Retention of existing choice options.

Impacts on Investment Choice Options of new Investment Strategy.

Members continue to be able to exercise choice in relation to their individual tolerance for risk and appetites for exposure to 'Growth Assets'.

Growth Assets is a general term for assets such as shares and property, which provide investment returns (comprising both capital growth and income), which are generally expected to outperform inflation. Growth Assets compare with more defensive assets such as fixed interest and cash.

The new alternative asset classes being introduced into the Fund, particularly Private Equity, Direct Property and Uncorrelated Alpha products also display growth characteristics which are generally unaffected by movements in traditional listed markets such as shares. Investments in infrastructure, on the other hand, may take the form of investments in start up projects or in established facilities. Investments in the latter provide access to strong cash flows and potential for future capital growth. Therefore this form of investment displays similar defensive characteristics to more traditional defensive assets such as cash and bonds. Indeed investments in infrastructure may comprise elements of both equity and debt, with the latter providing opportunity for senior debt lending producing bond-like rates of return.

As the bulk of the assets of the Fund (ie over 95%) are invested in the Growth (Default) investment option, it is possible for each of the remaining four options to be balanced on a daily basis to the long-term asset allocation set for that option. As a result, each of these options is fully exposed to the range of assets (including the new alternative asset classes) set for that option and their returns reflect the full impact of those exposures consistent with the new investment strategy.

Given the volume of funds invested in the growth option it is not currently possible for that option to be fully transitioned to the new long-term strategic asset allocation set by the Board. This will occur progressively over time as new opportunities for investments in alternative asset classes arise. In the interim the growth option will carry higher physical exposures to listed equities and debt instruments, which will be sold down progressively to fund new investments in those alternative asset classes. As a consequence the investment returns for the growth option in 2004-05 are not fully reflective of the returns which would have been achieved had it been possible for that option to be fully transitioned to the new strategy.

Your **Investment Choices**

Cash

This strategy aims to maximise protection against capital loss. To do this it invests only in secure cash investments such as bank deposits, bills, mortgages, and short-term funds.

Investment objectives

- To achieve returns that match the UBS Bank Bill Index over a 1 year period
- The investment focus of this option is short term and is provided for members expecting to access their funds within 1-2 years and therefore seeking a greater degree of certainty in investment returns.

Level of Risk

- Very low.

Asset Allocation

	30 June 2005
Cash	100%

Investor suitability

This strategy may be suitable if:

- you need your super within two years

AND

- your most important consideration is avoiding a negative return in any one year.

Conservative

This strategy invests in a conservative mix of assets, mostly debt instruments (such as fixed interest, infrastructure debt and cash), with some investment in shares and property.

Investment objectives

- To achieve returns that are greater than 1% over the UBS Bank Bill Index over most rolling 3 year periods
- This strategy is aimed at maintaining an extremely low risk of capital loss and is therefore provided for members expecting to access their superannuation within 2-5 years and have a low appetite for investment risk.

Level of Risk

- Low.

Asset Allocation

	30 June 2005
Cash	20%
Debt Instruments	50%
Property	7%
Australian Shares	14%
International Shares	9%

Investor suitability

This strategy may be suitable if:

- you have two to five years until you will need your super

AND

- you are able to tolerate a degree of variability of returns over the short term with a view to achieving reasonable returns over the medium term.

Balanced

This strategy invests in a diversified mix of assets such as debt instruments (including infrastructure debt), but with a bias towards growth assets.

Investment objectives

- To achieve returns that are greater than 2% over the UBS Bank Bill index when measured over a rolling five-year period.

Level of Risk

- Moderately low
- Likelihood of a negative return is approximately 1 year in 8.

Asset Allocation

	30 June 2005
Cash	5%
Debt Instruments	25%
Property	6%
Australian Shares	22%
International Shares	27%
Private Equity	5%
Infrastructure	5%
Uncorrelated Alpha	5%

Investor suitability

This strategy may be suitable if:

- you have five to seven years until you need your super

AND

- you wish to achieve a relatively attractive return over the longer term, and are able to tolerate a reasonable level of variability in returns over the shorter term.

Growth

This strategy invests mainly in assets with growth characteristics (including Private Equity, Infrastructure and Uncorrelated Alpha products) with some investment in property, debt instruments and cash. This strategy currently has a strong bias towards listed equity markets (both domestic and international). However, over the coming years, this bias towards market generated returns will be reduced through a greater exposure to unlisted growth asset classes such as Private Equity, Infrastructure, real property and hedge funds.

Investment objectives

- To achieve absolute returns of 10% net per annum over most rolling 5 year periods.

Level of Risk

- Moderate
- Likelihood of a negative return is approximately 1 year in 7.

Asset Allocation

	Actual 30 June 2005	Target
Cash	1%	5%
Debt Instruments	12%	5%
Property	8%	10%
Australian Shares	32%	25%
International Shares	28%	30%
Private Equity	6%	10%
Infrastructure	5%	10%
Uncorrelated Alpha	8%	5%

Investor suitability

This strategy may be suitable if:

- you have more then six years until you need your super

AND

- you wish to achieve an attractive return over the longer term and are able to tolerate a reasonably high level of variability in returns over the shorter term.

High Growth

This is the most aggressive strategy. It invests exclusively in growth assets with a strong bias towards Australian and International shares, but with no direct investment in cash or debt instruments such as fixed interest. During 2004-05, this options' historically high dependence on returns generated by listed equity markets was reduced through increased allocations to unlisted growth assets such as Private Equity, Property and Uncorrelated Alpha products such as hedge funds. This option does not have exposure to infrastructure investments.

Investment objectives

- To achieve absolute returns of 11% per annum over most rolling 7 year periods.

Level of Risk

- Moderately high
- Likelihood of a negative return is approximately 1 year in 6.

Asset Allocation

	30 June 2005
Property	10%
Australian Shares	35%
International Shares	35%
Private Equity	10%
Uncorrelated Alpha	10%

Investor suitability

This strategy may be suitable if:

- you have seven or more years until you need your super

AND

- you wish to achieve an attractive return over the longer term, and are able to tolerate a reasonably high level of variability in returns over the shorter term.

A few terms **to know**

Investment Objectives

This identifies the return the Fund aims to achieve for each of its investment options. Please note that the aim described for the options should not be treated as a guarantee of any future returns for the option.

Risk

Risk is not simply the chance of a loss. Risk is the chance that the return can be more or less than expected. Many technical measures of risk exist, including standard deviation. Note that the description of risk for each option is only indicative and based on historical data and should not be considered to be a guarantee of returns.

Risk Budget

The Risk Budget is an expression of the level of risk that the Fund is prepared to accept in order to achieve its target return. The focus of risk control is for the investment strategy as a whole and not just the individual components. This focus is designed to prevent the individual manager mandates from causing the strategy to be either too aggressive (thus creating an excessive possibility of loss) or too defensive, given the return objective of the strategy.

Target Asset Allocation

This refers to the optimal long term mix of asset classes allocated to an investment strategy. Each investment option has a different mix of assets according to its investment objectives.

UBS Bank Bill Index

The UBS Australian Indices provide investors with a stable and objective basis for evaluating the performance of the Australian Debt markets.

Active Management

The Board adopts the view that in some sectors active investment management can add value to the Fund. To achieve this increase in value requires adherence to well considered strategies throughout different investment circumstances. On average this approach is expected to yield better returns for members. Over time these returns are expected to compound to provide substantial increases in the Fund's value, and thus improve the financial position of the members' benefits.

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

Because superior stock selection provides a consistent and reliable opportunity for generating excess return (commonly described as Alpha), the manager selection process adopted by the Fund favours managers with exceptional bottom-up fundamental research capabilities. Recognising the difficulty of outperforming the market on a consistent basis, emphasis on manager selection is on high integrity, sound investment philosophies and process, strong track records, superior organisations and sustainable competitive advantages.

Default Strategy

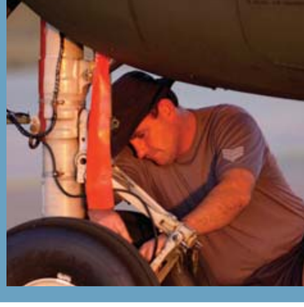
If you do not make an investment choice, your Member Benefit will automatically be invested in the Growth strategy.

Investment **managers**#

appointed by MilitarySuper to invest your super as at 30 June 2005

Asset Class	Investment Manager	How much $m
Cash	National Custodian Services	19.6
Debt Instruments	Braemer Power Project Debt	16.0
	Credit Suisse Cash Enhanced	194.8
Australian Property	AMP Core Property Trust	49.7
	APN Development Fund 1	2.1
	CitiGroup Asset Management	44.9
	Macquarie ICA Property 4	1.0
	SG Hiscock & Company	43.4
International Property	Fiduciary International Real Estate Fund	3.6
Australian Shares	Acorn Capital	19.2
	Barclays Global Investors	125.9
	Challenger Australian Equities	71.4
	Herschel Asset Management	30.6
	JM Australian Equities	73.4
	K2 Australian Absolute Return	36.6
	MIR Australian Equities	70.7
	PM Australian Opportunty Fund	61.6
	SG Hiscock Small Company Trust	17.6
	Tyndall Australian Equities	64.2
International Shares	Artha Emerging Markets	13.7
	Axiom Investors International	50.0
	Causeway Capital (EAFE)	71.2
	Causeway Capital (Large Cap)	36.6
	Driehaus International	28.6
	Dresdner International (Long/Short)	15.3
	Gardner Lewis (Large Cap)	41.8
	Gardner Lewis (Long/Short)	22.1
	Hodgkis & Wiley	43.2
	Sterling Johnston (Long/Short)	17.0
	Sterling Johnston (Small Cap)	27.7
	T.Rowe Price	30.6
	TCW Pluris	29.4
	TCW Value Opportunities	41.5
	International Cash Holding Account	25.4
Private Equity Global	CSFB IV	5.8
	HarbourVest IV (Partnership)	13.0
	HarbourVest VII (Mezzanine)	2.5
	HarbourVest VII (Venture)	3.2

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



Private Equity Global continued	HarbourVestVII (Buyout)	4.4	
	Northgate Capital Partners II	0.0	*
	Pantheon Europe III	1.2	
	Pantheon Global Secondary Fund II	6.1	
	Pantheon USA Fund IV	2.3	
	Rosemont Partners II	1.0	
	Rosemont Partners II - Cadence Co-investment	0.0	*
	Sentient	4.2	
	Sigular Guff BRIC Investments	0.0	*
	TCW Shop 5	2.6	
Private Equity Domestic	Babcock & Brown Direct Investment Fund	16.7	
	CHAMP Buyout II Trust	0.0	*
	CHAMP Ventures Investment Trust 5a	1.4	
	CHAMP Ventures Investment Trust 5b	1.4	
	Crescent Capital Partners II	0.5	
	Deutsche Private Equity Fund	5.7	
	Deutsche Private Equity Fund 2	2.3	
	GBS BioVentures	0.0	*
	Gresham Fund No.1	3.5	
	Gresham Fund No.1A	1.2	
	Gresham Private Equity Fund 2A	1.4	
	Gresham Private Equity Fund 2B	1.4	
	GS Private Equity Fund 3	0.0	*
	GS Private Equity Fund 3A	0.7	
	GS Private Equity Fund 3B	0.7	
	NBC Private Equity Fund IIA	1.1	
	NBC Private Equity Fund IIB	1.1	
	Pacific Equity Partners	3.3	
	Pacific Equity Partners Supplementary Fund	4.3	
	Private Equity Cash	11.1	
Infrastructure	ANZ Infrastructure Services - Energy Infrastructure Trust	28.8	
	Colonial First State Airports Fund	15.8	
	Macquarie GIF A	7.5	
	Macquarie GIF B	7.8	
	Macquarie GIF C	1.2	
	Macquarie GIF D	1.3	
	Macquarie GIF II	15.4	
Non-Correlated Alpha	BGI Equity Market Neutral Fund	37.5	
	BGI Total Return GI Equity Mkt Neutral Fund	27.0	
	CFS Wholesale Global Diversified	31.2	
	Harris Alternative Aurora 2	32.1	
Currency	Bridgewater Associates	3.1	
	FX Concepts	5.3	
	Pareto Partners	0.0	*
TOTAL		**1,759**	

* Calls against Capital commitments for these investments had not been made as at 30 June 2005.

Investment **performance**

MilitarySuper delivers on its absolute return objective despite a volatile investment environment; returning 12% (net) in the Growth (default) option for the year.

The war in Iraq, the ongoing threat of terrorism, rising interest rates and higher commodity prices pressured nearly every equity market in the developed world during much of the 2004-05 financial year. Against this trend the Australian share market performed strongly, particularly in the last quarter, delivering double digit returns for the second consecutive year.

As indicated in the Chairman's overview it is this volatility which prompted the Board to undertake a detailed review, supported by international research and advice from independent experts, aimed at developing an investment strategy capable of delivering sustainable investment returns in most, if not all, market conditions. Given that the strategy involves a shift away from reliance on 'market' generated returns, this means that MilitarySuper may not fully participate in the 'upside' when traditional listed markets perform strongly, but importantly when listed markets perform poorly the Fund will be insulated from the 'down side' due to its exposure to alternative asset classes.

The absolute return objective set for the Growth (Default) option is 10% net of all fees, taxes and expenses. The return of 12.0% achieved for 2004-05 is consistent with that objective, notwithstanding that the Fund is still in the process of transition to the new range of alternate assets which will underpin the long-term investment strategy for this option.

The four other investment options are already fully exposed to the new asset classes and therefore their returns reflect the long-term return expectations for those options; with the High Growth option returning 14.1% (net) for the year.

Many retail superannuation funds or products, and comparative surveys of fund investment returns, report investment performance only in gross terms. For MilitarySuper the Board's intentions have always been to report investment performance net of all fees charges and taxes as this is truly reflective of the return to members of the Scheme. However, on this occasion the returns achieved by each of the five investment options are detailed below in both net and gross return terms for comparison purposes.

Returns for 2004-05

	Net	Gross
Cash	4.3%	5.5%
Conservative	7.8%	9.4%
Balanced	12.5%	14.7%
Growth	12.0%	14.5%
High Growth	14.1%	16.6%

The annual returns and the average returns over rolling 5-year periods for the Growth strategy are shown in the table below. As the other investment strategies were introduced from 1 July 2003, the annual returns and the average returns over rolling 2-year periods are shown for these options on the following page.

Annual net returns and average compound returns (Growth strategy)

5 years ending	Annual net return	Average compound annual rate of return
30 June 2005	12.0%	3.5%
30 June 2004	15.6%	3.8%
30 June 2003	-2.0%	2.4%
30 June 2002	-8.7%	4.6%
30 June 2001	1.8%	10.5%

Annual returns since 1 July 2003

	2003-04	2004-05
Cash	4.4%	4.3%
Conservative	8.1%	7.8%
Balanced	14.2%	12.5%
Growth	15.6%	12.0%
High Growth	18.9%	14.1%

Average compound annual rate of return* (since 1 July 2003)

Strategy	Compound returns to 30 June 2005
Cash	4.4%
Conservative	7.9%
Balanced	13.3%
Growth	13.8%
High Growth	16.5%

* As the investment options other then Growth started in 2003-04, for comparison purposes average returns are based on the last 2 years.

Performance by asset class

2004-05 performance

Sector	MilitarySuper [1] %	Benchmark [2] %
Cash	5.8	5.6
Property	17.0	16.8
Australian shares	23.3	26.0
Private equity [3]	11.1	N/A
International shares [4]	8.7	13.3
Uncorrelated Alpha	13.0	5.3
Infrastructure [5]	11.7	N/A

1. Figures are gross of tax and management fees.
2. The benchmark return for an asset class is the return achieved by the overall market, assuming that all dividends and interest payments are re-invested in the market. Benchmarks are gross of management fees and tax.
3. 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 the later years as the underlying portfolio of companies mature and increase in value. This timing is known as the J-curve effect.
4. All of the international share exposure was hedged.
5. Return is for the six months that these investments have been in place.

Returns from listed equity markets

International Equities

The net contribution made by this sector to overall Fund performance was 8.7% for the year on a fully hedged basis.

Notwithstanding the difficult market conditions in 2004-05 the new managers appointed during the year in this sector performed well against the benchmark when that performance is viewed against the native currency exposure.

Importantly the new manager configuration has significantly outperformed the old, consistent with the Board's belief that it is possible to add value through use of active management. With the new manager configuration the Fund is well placed to take advantage of any upswing in growth and any recovery in the small cap end of international markets (that is, companies listed outside the top 100 shares on a stock exchange), particularly in the US.

Australian Equities

The restructuring of the Fund's Australian equities portfolio commenced at the end of August 2004 and was completed by the end of March 2005. In this period 80% of the domestic equity portfolio was transitioned to a suite of new investment managers.

Given that most of these new managers were in place for a relatively short part of the year, the performance of the domestic equity portfolio was noteworthy, notwithstanding the strength in the market over much of the year. The new manager configuration is comprised of a larger number of smaller (in terms of assets under management) managers; six of whom are classified as broad market managers, two are long-biased managers and two specialise in small companies.

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

The contribution made by this sector to overall Fund performance for the year was 23.3%.

Property

The Fund's exposure to Property is at present achieved largely through exposure to listed property trusts and, to a lesser extent, through exposure to non-listed funds which invest in opportunistic property development projects. The latter act in a similar way to Private Equity investments in that commitments are drawn down progressively as investment opportunities arise over a number of years.

The listed property sector continued its run of strong returns, producing a sector return of 17.0% for the 2004-05 year.

Notwithstanding the strong performance of listed property in recent years the Board will continue to explore investment opportunities in non-listed areas. This will be done having regard to the objective of identifying opportunities providing access to long-term sustainable income streams and capital growth potential consistent with the new investment strategy.

Private Equity

The Fund made its first investment in Private Equity in 2000 and has since made regular additional commitments to this asset sector, both domestically and internationally. These are long term investments which do 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 the latter years as the underlying portfolio of companies mature and increase in value.

As the Fund's initial investments are maturing we are now starting to see the benefits, with significant returns starting to flow back to the Fund. Indeed at the portfolio level our Private Equity Investments provided a return of 11.1% for the year; with one of the domestic private equity investments achieving an impressive 56% net internal rate of return since the inception of the investment in December 2003.

Our more mature international private equity investments are also starting to provide strong returns, although in 2004-05 these have been diluted somewhat by the impacts of currency exchange.

Infrastructure

During the year the Fund made its first investments in the Infrastructure sector as part of its strategy of developing a portfolio of infrastructure investments. These initial investments included an investment in the Brisbane Airport.

The exposure to Brisbane Airport is through a specialist fund managed by Colonial First State Global Asset Management (the Colonial First State Airports Fund). Brisbane Airport is a major international gateway to Australia and has enjoyed strong growth in air traffic. The airport was recently recognised by the International Air Transport association (IATA) as the world's most efficient and customer focused privatised airport. This investment has made a strong contribution to the performance of the infrastructure portfolio, producing a net return of 25.9% (annualised 52%) since the investment was made in December 2004.

Other investments have been made in the Macquarie Global Infrastructure Fund and most recently in the ANZ Energy Infrastructure Trust. These investments too have posted significant gains through capital appreciation.

Importantly, with infrastructure investments the Fund is seeking to participate in a range of co-investment opportunities through its established investment relationships. These co-investment opportunities will enable the Fund to participate in investment projects not normally available to superannuation schemes, offering access to superior long-term capital growth and stable cashflows.

This sector produced an overall return of 11.7% (23.4% annualised) for the six months that the investments have been in place.

Brisbane Airport

Master custodian

MilitarySuper has appointed National Custodian Services Limited as master custodian of the Fund's investments. This means that National Custodian Services is responsible for allocating money to each of the Scheme's chosen investment managers, according to the directions and guidelines developed by the MilitarySuper Board. National Custodian Services holds, but does not own, the assets that make up the Military Superannuation and Benefits Fund. It settles trades, collects dividends, settles accounts and is responsible for the physical custody and safekeeping of securities.

Financial **statements**

The Scheme's unaudited financial statements are summarised below

A copy of the audited statements will be available on request or can be downloaded from **www.militarysuper.gov.au**

	2004-05 $m	2003-04 $m
Opening value of the Scheme	1,429	1,120
Plus income		
Contributions	327	295
Gross earning of the Scheme	210	218
Less outgoings		
Benefits paid	(181)	(162)
Tax benefit/(expense)	(27)	(31)
Expenses and charges	(16)	(11)
Closing value of the Scheme	**1,742**	**1,429**

	2004-05 $m	2003-04 $m
Assets under management		
Cash	20	69
Debt instruments	211	66
International fixed interest	0	67
Property	145	76
Australian shares	571	534
International shares	494	469
Private equity	104	72
Infrastructure	78	0
Non-Correlated Alpha	128	55
Global emerging markets	0	20
Currency	8	0
Total investments	**1,759**	**1,428**
+/- MilitarySuper net assets / (liabilities)*	(17)	1
Net assets of Scheme	**1,742**	**1,429** **

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

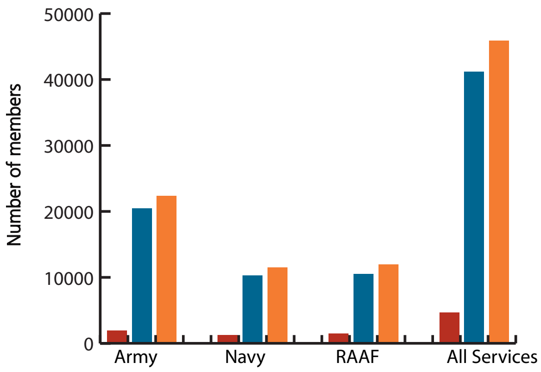
** The value of the Scheme represents the investments of the Scheme. The Net Assets of the Scheme shows the amount available to members at 30 June after allowing for tax, cash at bank and benefits payable to former contributors.

Management & **business overview**

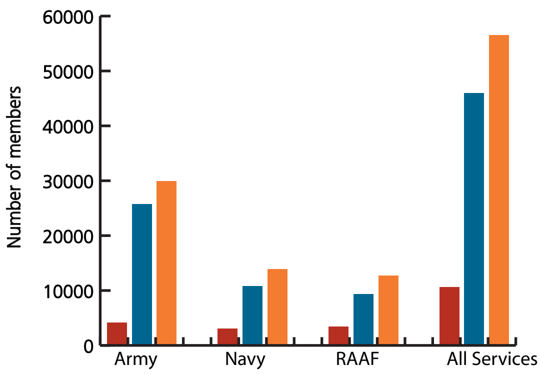
Membership of MilitarySuper

Female Male Total

Contributors at 30 June 2005



Preserved members at 30 June 2005



Fees and charges

The net income of the Fund, after allowing for tax and other expenses directly related to its operation, is available for distribution to members, and is reflected in daily unit prices. Charges against the Fund include the fees paid to investment managers. The fees charged by individual managers vary according to the asset class, the investment style of the manager and the amount under management. These fees have already been deducted from the rate of return reported on page 18 and 19. Further information about these deductions can be obtained from the MSB Board.

Members do not pay administrative fees or any transaction costs in relation to their membership. The cost of MilitarySuper's administration is met by the Department of Defence. These fees are not charged against the Fund and do not affect the Fund's earning rates for the five investment options.

A fee of $150 is currently payable for the preparation of a response for superannuation information made in accordance with the Family Law legislation. This may increase in the future and the Fund may introduce administration fees to cover the cost of Family Law valuations and for changes to your investment choice. These fees will only apply if you request these services. You will be advised of the introduction of any fees or charges before they commence.

More information can be found in the *Family Law and Your Super* fact sheet that is available on the MilitarySuper website at **www.militarysuper.gov.au**, or by calling the Contact Centre on **1300 006 727**.

Day-to-day administration

MilitarySuper is administered by Commonwealth Superannuation Administration (ComSuper) on behalf of the MilitarySuper Board. ComSuper maintains all member records, makes payment of Member Benefits and is the key source of superannuation information for MilitarySuper members.

Hot topics - **FAQs**

Extra benefits for MilitarySuper members

What are Ancillary contributions?

Ancillary contributions is the term used to cover the range of voluntary superannuation contributions or transfers that current contributing members of MilitarySuper can now make for themselves and for their spouses to the MilitarySuper scheme.

What type of contributions are Ancillary contributions?

Ancillary contributions can be:

Additional personal contributions

These are contributions you can voluntarily make in addition to your regular fortnightly MilitarySuper contributions. There is no limit on how much or how often you can contribute but once paid, you can't get them back until the benefit becomes payable.

Salary sacrifice contributions

These are contributions you can voluntarily make in addition to your regular fortnightly MilitarySuper contributions from your pre-tax salary. You can contribute as often as you like but once paid, you can't get them back until the benefit becomes payable.

Spouse contributions

Spouse contributions are contributions you can voluntarily make on behalf of your spouse. There is no limit on how much or how often you can contribute but once paid, they belong to your spouse. Your spouse can't get them back until the benefit becomes payable.

These contributions will be allocated to a separate MilitarySuper account in your spouse's name and he or she will become a beneficiary of the scheme.

Transfer amounts

A transfer amount is all or part of another superannuation benefit you can pay into the MilitarySuper Fund.

A transfer amount can be accepted from:

- another regulated superannuation fund
- an Approved Deposit Fund
- a Retirement Savings Account
- the Special Account (previously called the Superannuation Holding Account Reserve or SHAR).

Note that 15% tax will be deducted from any untaxed portion of the transfer amount on receipt.

Who can pay Ancillary contributions?

Current contributing MilitarySuper members including members on leave without pay, can make Ancillary contributions.

How are Ancillary contributions invested?

These amounts are held within your MilitarySuper account and are invested in the same strategy or combination of strategies as your regular member contributions. Changes in your investment strategy automatically include your Ancillary contributions.

In relation to your spouse benefit, your spouse has a choice of five investment strategies. Your spouse can invest in one or a combination of these strategies *and can even have a different strategy for existing contributions and future contributions*. Initially, these contributions will be invested in the 'Default' strategy which is the Growth strategy.

You and your spouse may elect to vary your investment strategy at any time, free of charge, using the *Member Investment Choice* form (MIC1). The trustees may introduce a fee to switch investment strategies in the future but you and your spouse will be notified in advance if this happens.

More information on Ancillary benefits, including:

- How to arrange transfer of previous benefits into MilitarySuper
- How to pay additional personal contributions and salary sacrifice contributions
- The type of benefit payable as a result of the making additional contributions and transfers
- The investment options available

is available from the MilitarySuper website **www.militarysuper.gov.au**

MilitarySuper Contact Centre

The MilitarySuper Contact Centre helps members understand their super. Along with the Scheme's website, it is a one-stop source of super information. The Contact Centre's information officers have instant access to up-to-date information about each member's MilitarySuper arrangements. They can also tell you where you can go for further information or advice.

The MilitarySuper Contact Centre's staff take over 50,000 calls each year from members around the world. Between them, the staff have over 50 years of service with MilitarySuper, and 100 years of experience in customer service.

The Contact Centre uses a range of performance benchmarks to ensure they deliver a high standard of service to members. For example, calls are answered on average within 30 seconds and around 85% of enquiries are answered on the spot. Enquiries that can't be dealt with immediately are usually answered within 24 hours.

In addition to telephone calls the Contact Centre handles more than 5,500 emails per year, 98% of which are responded to within 24 hours.

If you have any questions about your super, call the Contact Centre on **1300 006 727**. They are available to help you from 9am until 5pm (Canberra local time), Monday to Friday.

How can I find out how much my superannuation benefit is worth?

If you are intending to leave the ADF within the next three months you can request a written benefit estimate by calling the Contact Centre on **1300 006 727** or by sending an email request to ComSuper through the MilitarySuper website by following these steps:

1. Click on 'Got a question about your super?' on the MilitarySuper homepage

2. Then select 'How can I get an estimate of my superannuation benefit?'

3. Choose the type of benefit estimate you want (retirement, invalidity, resignation) and

4. Click on 'Email Request' for a 'retirement/invalidity/resignation estimate'.

In all cases, to get an estimate you will need to provide your:

- Name
- Service number
- Service
- Date of birth
- Eligible service period
- Proposed date of resignation/retirement/discharge
- Return address.

If you wish to project the future value of your retirement benefits you can also use the i-Estimator on the MilitarySuper website. With the i-Estimator you can estimate what your benefits may be worth in the future, even if you are not retiring or leaving the ADF within the next 12 months. Simply visit **www.militarysuper.gov.au** and click on the link to Member Services Online. You will require your access number to view your personal benefit information.

See page 7 for more on accessing Member Services Online.

What happens to my super if I die?

Benefits are payable to your eligible spouse and/or children should you die in service. They are also payable on death after retirement if you were in receipt of a MilitarySuper pension at the time of death.

Eligible spouse of a contributor

If you die whilst a contributor, your eligible spouse will receive a lump sum of your member benefit and your employer benefit, less an adjustment to recover any surcharge debt, as:

- A CPI indexed pension based on 67% of the potential Class A invalidity benefit, at the time of death. The percentage of the pension is increased if you have one or more eligible children

OR

- A part pension and part lump sum (this option allows your eligible spouse to convert at least half of the spouse's lump sum to a pension.) The percentage of the pension is increased if you have one or more eligible children

OR

- A full lump sum based on the potential Class A invalidity benefit at the time of death.

Eligible spouse of a pensioner

If you die following retirement, your eligible spouse is entitled to receive a pension of 67% of the pension actually being paid to you at the time of your death. The percentage of the pension is increased if you have one or more eligible children – by 11 per cent for one child, 22 per cent for two children, and 33 per cent for three or more children.

Orphans

If you die and are not survived by an eligible spouse but you have an eligible child or children, an orphan's pension is payable. Orphans receive the member benefit lump sum, plus an employer-financed pension. The rate of pension is 45 per cent of the member’s notional Class A invalidity pension for one orphan, 80 per cent for two, 90 per cent for three and 100 per cent for four or more.

Benefit options where there are no dependants

If you die before retirement, leaving no eligible spouse or children, a benefit comprising the total of your member and employer components is payable to your estate or the Board has discretion to pay to a nominated beneficiary in certain circumstances.

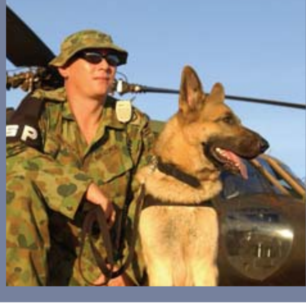
What does ‘eligible spouse’ mean?

Eligibility requirements must first be met before a death benefit is payable. Broadly speaking, your eligible spouse will receive a benefit from the Scheme if he/she is a person of the opposite sex with whom you had what is referred to as a "marital relationship" at the time of death. This can include a de facto relationship.

If you have an eligible surviving spouse or children they should call the MilitarySuper Contact Centre on **1300 006 727** for information and to obtain an appropriate claim form. Information is also available on the MilitarySuper website at **www.militarysuper.gov.au**

What happens if I am injured?

Members retired from the ADF on invalidity grounds may be eligible to receive a benefit in one of three classifications that reflect the member’s loss of capacity to obtain appropriate civilian employment. Invalidity classifications are Class A (incapacity of 60 per cent or more), Class B (incapacity 30 per cent – 59 per cent), and Class C (incapacity less than 30 per cent). Further information on invalidity benefits is available on the MilitarySuper website at **www.militarysuper.gov.au** or by calling the MilitarySuper Contact Centre on **1300 006 727**.



Privacy, **enquiries & complaints**

About your privacy

MilitarySuper is committed to protecting your privacy and personal information is not disclosed to another party without your consent, or unless required by law. MilitarySuper abides by Privacy Law. Our Privacy Policy Statement is available at **www.militarysuper.gov.au** or by phoning **1300 006 727**.

Enquiries and complaints

If you are unhappy with the service you receive from MilitarySuper or ComSuper and you wish to raise a comment or concern or register a complaint, we would like to know. Initial enquiries and complaints should be directed to:

The Complaints Officer
ComSuper
PO Box 22
BELCONNEN ACT 2616

Phone: (02) 6272 9081

If you are not satisfied with the handling of your complaint, you may then contact the Superannuation Complaints Tribunal (SCT), except in relation to privacy matters. The SCT is an independent arbitrator set up by the Australian Government to assist in resolving members' complaints. You can lodge a complaint with the SCT if you are dissatisfied with ComSuper's response or we cannot resolve your complaint within 90 days. The SCT can be contacted as follows:

Phone: 1300 780 808
Fax: 03 8635 5588
Post: Superannuation Complaints Tribunal
Locked Bag 3060 GPO
MELBOURNE VIC 3001

Also, if you are dissatisfied with a decision of the Board or one of the Board's delegates you are entitled to request reconsideration. You must do so within 30 days of advice of the decision. If you are dissatisfied with a decision of the Board you must support your request with new evidence. For privacy-related matters, the Federal Privacy Commissioner may review your complaint. You can contact the Privacy Commissioner on 1300 363 992.

MilitarySuper - **how does It compare?**

You know that MilitarySuper is a scheme designed especially for members of the ADF but how well does it compare to other superannuation schemes?

MilitarySuper offers you five good reasons to be a member:

1. **The employer benefit is calculated on your salary in the last three years of service, complemented by an excellent employer benefit accrual rate.**

Most private sector employees receive an employer contribution which is about 9 percent of salary at any given point in time. For MilitarySuper members the employer contribution at the time of exit ranges from 18 percent to 28 percent per year of contributory membership of your salary averaged over your last three years of service.

Years of service	% of Final Average Salary per year
Enlistment to 7 years	18%
7 years 1 day to 20 years	23%
20 years 1 day onwards	28%

2. **Excellent invalidity and dependant's benefits.**

See page 26 for more information on the invalidity and death benefits available.

3. **No administration fees, transaction costs, or charges payable by you - all are met by your employer.**

All fees payable are met by your employer. Other schemes may apply annual administration charges, entry charges and exit fees.

Investment management charges are deducted before unit prices are declared.

The Management Expense Ratio (MER) reflects the ratio of direct and indirect management expenses as a proportion of total assets. The MER for each investment strategy is updated regularly on the MilitarySuper website. Further information about charges associated with the management and investment of the fund can be obtained from:

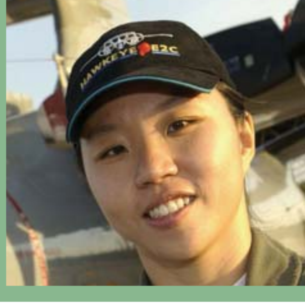
The Secretary
MSB Board of Trustees No.1,
GPO Box 636,
Canberra City 2601

4. **Attractive lump sum/pension conversion rates, and pensions indexed twice yearly.**

Upon retirement you can elect to receive a lump sum, a full pension, or you may elect to take part lump sum and part pension. If you choose the latter, you must take 50 per cent or more as a pension, and the remainder as a lump sum.

MilitarySuper provides very attractive lump sum to pension conversion rates.

Pensions are subject to full CPI updating every six months (ensuring that $1 in 2005 will be equivalent to $1 in 2025).



5. The member benefit accumulates separately from your employer benefit.

The member benefit is 'funded', which means that your contributions are paid into an investment fund where they are invested according to the investment strategy you select. The value of your member benefit lump sum depends on the rate of contributions you pay and the investment return of investment strategy you have selected.

In contrast, your employer benefit is a guaranteed amount defined by your years of service and your final average salary and is unaffected by investment conditions. So you have the best of both worlds.

AND

The employer benefit accrual rate means that if you continue to contribute to MilitarySuper through to retirement age you can accrue a substantial benefit towards funding your retirement lifestyle.

For example, if you choose to take your employer benefit entirely as a CPI indexed pension for life it could be as high as the rates shown in the following table.

Maximum MilitarySuper pension benefits* as a percentage of final average salary**			
Age at retirement	Years of service with MilitarySuper		
	20 years	25 years	30 years
55	35.4%	47.1%	58.8%
60	38.6%	51.4%	64.1%
65	42.5%	56.5%	70.5%

* Your member benefit is payable as a lump sum, in addition to the employer benefit.
** Final average salary is the average of your superannuation salary over the last three years of your service.

MilitarySuper: a Scheme especially for you

MilitarySuper provides an excellent standard of benefits for its members. As a member, you enjoy:

- A significant Employer Benefit that is fully paid for by the Australian Government. When you retire, you receive between 18% and 28% of your final average salary for every year you have served. Your Employer Benefit is guaranteed by the Government and is not affected by investment returns while you are a contributing member.
- Generous death and invalidity benefits that provide you and your family with financial protection if you are injured or die while you are a member of MilitarySuper.
- An attractive pension option that is fully indexed by the Consumer Price Index.
- No administrative fees or charges – these are currently all paid for by your employer.
- A Member Benefit that accumulates separately from the Employer Benefit and investment choice from five investment strategies to invest your Member Benefit.

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