Military Super
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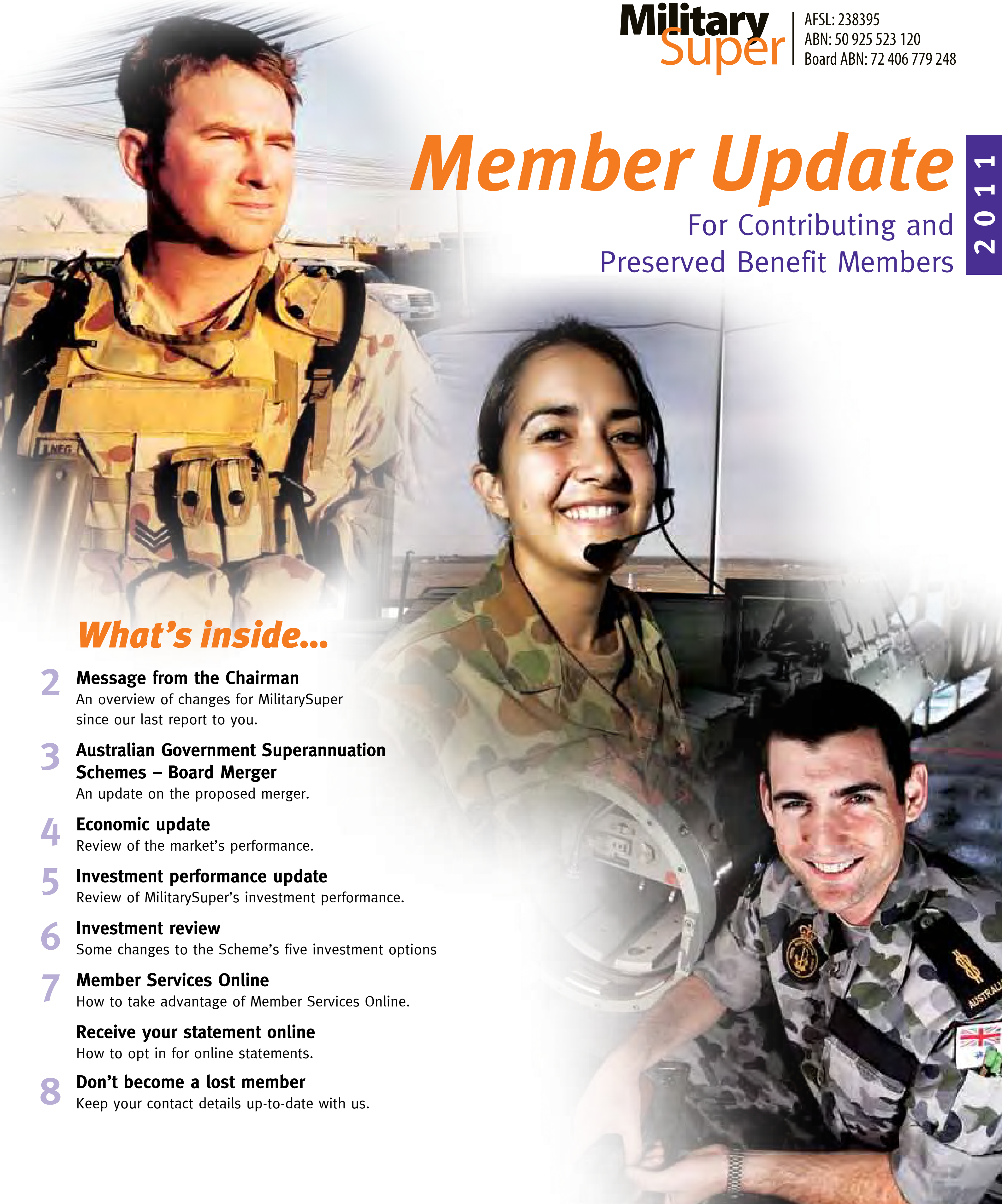
Member Update

For Contributing and Preserved Benefit Members

2011



What's inside...

Message from the Chairman

On behalf of the Board and its management team, I am pleased to present MilitarySuper's 2011 Mid Year Member Update.

Investment update

The global economy continues to rebound from the effects of the global financial crisis in 2008-2010. This rebound has been tested on many occasions, such as during the March 2011 quarter when there were several significant natural disasters and instances of political unrest in some countries. Whilst there was some negative reaction initially, sharemarkets (being forward looking) have generally been resilient. However several areas of concern remain throughout the world and these are discussed later in this report.

Assisted by solid returns from most sharemarkets, MilitarySuper has experienced strong investment returns across all its investment options during the nine months to 31 March 2011. Despite this rebound in sharemarkets, the performance of the unlisted asset sector continues to lag. Valuations of these assets are less frequent than their listed equivalents and have historically been slow to respond to economic recoveries.

We are comfortable with our exposure to these assets and believe that they are well placed to benefit from improvements in the economy.

To ensure that MilitarySuper has the most appropriate investment advice and structure in place, the Board has undertaken a comprehensive review of its investment arrangements. In late 2010 the Board appointed Towers Watson, a leading global investment consultancy firm, as the Board's primary investment consultant. Since then, the Board and management have been working with Towers Watson to review our investment operations. This is a major task and whilst some changes have already been made, the majority of the changes will occur over the next few months.

Notice of the main changes can be found later in this report, along with full details of our recent investment returns.

Australian Government superannuation schemes – Board merger

The Board and its management continue to work closely with the Government and key stakeholders on the changes announced in October 2008 relating to the merger of the MilitarySuper Board, DFRDB Authority and ARIA Board. The Government intends this merger to take effect from 1 July 2011, however relevant legislation has not yet been passed by Parliament.

The Board will continue to keep members advised of progress in this matter via MilitarySuper's website. Further details about the current status of the proposed board merger can be found later in this report.

Tony Hyams
Chairman

IT IS IMPORTANT YOU KNOW: This document contains general advice or information only. 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 advisor.

Australian Government Superannuation Schemes – Board Merger

In October 2008, the Government announced that it intended to merge the MilitarySuper Board, the DFRDB Authority and the ARIA Board (the trustee of the CSS, PSS and PSSap civilian schemes). It is intended that the new single board will operate under a new name (proposed to be the Commonwealth Superannuation Corporation).

The proposed board consolidation aims to modernise and improve the framework for Australian Government superannuation, to be more in line with arrangements in the broader superannuation industry in Australia. The merger is intended to provide more efficient trustee arrangements, improved member services and better outcomes for members.

MilitarySuper has been working closely with the Government and its relevant policy departments to ensure that the reforms and outcomes from this process will meet the Government's requirements and the best interests and expectations of scheme members.

What is the current status of the board merger?

In February 2010 the Government introduced into Parliament a package of Bills to support these changes. In June 2010 these Bills were passed by the House of Representatives. However, as the Senate had not completed its consideration of the Bills before it rose for its winter recess in late June 2010, the proposed commencement date of 1 July 2010 for the new single board was not achieved. The Bills subsequently lapsed when Parliament rose before the 2010 Federal Election.

In March 2011, revised Bills covering the proposed merger, intended to take effect from 1 July 2011, were introduced into Parliament. Until this or similar legislation is passed by Parliament, the existing MilitarySuper Board continues to be responsible for management of the MilitarySuper Scheme and Fund.

How will the proposed board merger affect you as a member of MilitarySuper?

For members of MilitarySuper, the Government's stated intentions are that:

- there will be no change to existing benefits or entitlements (for example, the existing features and benefits that reflect the special nature of service in the Australian Defence Force, such as death and disability arrangements, will be maintained)
- although there will be a change at Board level, each scheme will maintain its own unique branding and continue to look and feel the same to its members
- ComSuper will continue to be the scheme administrator and your first point of contact for any queries about your scheme membership.

Additionally and importantly, the interests of MilitarySuper members will continue to be represented on the new single Board. The Chief of the Defence Force will be responsible for nominating two directors to represent military members.

Economic update

The global economy is usually a mix of good and bad news, and that is the case in 2011.

The global financial crisis (GFC) of 2008-2010 was a severe hit to the global economy, with different parts of the world suffering more than others. As most investment markets continue to improve on the back of a rebound in company earnings, they are being continually tested by new challenges, such as the impact of natural disasters and political upheaval in some countries.

In broad terms, the global economic outlook is sound, but further analysis shows that there are some areas of concern:

- The devastating earthquake and tsunami in Japan, followed by the nuclear crisis at Fukushima, have rocked the Japanese economy, one of the world's largest. Recovery from these events will be long and difficult.
- Some European countries have severe debt problems, resulting in increasing interest rates and fears of sovereign debt defaults.
- Political unrest in some northern African countries has added to the steady increase in the oil price, which is a key input to the global economy. The price of oil now sits at around twice its level of just two years ago. Markets do not like uncertainty, so the continued unrest in oil producing nations like Libya is a concern.
- The US has very high levels of debt but its economy is slowly recovering, being dependent on the resilience of the consumer to keep spending. Whilst there are signs of a recovery in corporate earnings, the housing market is still weak with home mortgage foreclosures expected to peak later this or next year. With the US sharemarket having rallied strongly in the six months to 31 March 2011, the question for investors is whether or not the expected longer term recovery has already been priced into share prices.

Australia is not immune from the rest of the world, so the above concerns affect us in one way or another. They affect the volatility of our sharemarket. However strong growth in China and its demand for our resources continues to be positive, as does our relatively low level of unemployment which supports private consumption.

In summary, the outlook is mixed from country to country, with the long term 'moderately positive' global view tempered by some areas of significant concern that will not go away quickly or easily.

Investment performance update

The following table shows the performance of the major investment markets and currencies in the last nine months (1 July 2010 to 31 March 2011).

MAJOR MARKET & CURRENCY MOVEMENTS (before tax, no fees)			
Index / Currency	30 June 2010	31 March 2011	
	Index	Index	FYTD return
ASX 200 (Australia)	4,302	4,838	+12.5%
S&P 500 (US)	1,031	1,326	+28.6%
FTSE 100 (UK)	4,917	5,909	+20.1%
Nikkei (Japan)	9,383	9,755	+4.0%
AUD / US Dollar	0.8447	1.0342	+22.4%
AUD / Euro	0.6896	0.7287	+5.7%
AUD / UK Pound	0.5646	0.6452	+14.3%
AUD / Japanese Yen	74.74	85.71	+14.7%

FYTD return *is the return in the nine months to 31 March 2011*

Overseas sharemarkets have been strong whilst Japan has struggled since the earthquake, tsunami and nuclear crisis in early March 2011. The Australian sharemarket has lagged largely because it did not fall as much as other markets during the GFC.

The Australian dollar has been a big mover, up 22% against the US dollar. This large movement is in part due to weakness in the US dollar rather than just a strong Australian dollar. Movements against other currencies have been lower, reflecting this. A strong rise in the Australian dollar can be negative for overseas investments, as explained below.

Whilst strong sharemarket returns are welcome, two factors have impacted negatively on our investment options' returns in the past nine months, particularly the Growth option:

- The strong Australian dollar means that, in Australian dollar terms, our overseas investments have fallen in value, even though they may have performed well in their local currency. We continue to be concerned at the risk of a possible sharp reversal in the value of the Australian dollar, now trading at around 70% higher than its level (against the US dollar) in late 2008, after the Australian dollar fell by 30% in just a few months. We have implemented some currency risk reduction strategies ('currency hedging') to reduce the negative impact of currency movements.
- Our unlisted asset portfolio (those assets that are not readily bought and sold on a financial market such as the Australian sharemarket) has not performed as well as listed sharemarkets over the nine months to 31 March 2011—for example:
  - our private equity investments have returned just 0.1% (due mainly to the strong Australian dollar impact)
  - our infrastructure investments have returned 4.8%
  - our property investments have returned 2.8%.

Valuations of unlisted assets are less frequent than their listed equivalents and have historically been slow to respond to economic recoveries. We believe these assets are well placed to benefit from a global recovery.

The following table shows the performance of our five investment options in the nine months to 31 March 2011. The returns are quite strong in an absolute sense and compared to inflation.

INVESTMENT PERFORMANCE (change in unit prices, after tax and investment fees)			
Investment Option	30 June 2010	31 March 2011	
	Unit Price	Unit Price	FYTD Return
Cash	$1.396660	$1.442496	+3.3%
Conservative	$1.380573	$1.450563	+5.1%
Balanced	$1.510086	$1.623145	+7.5%
Growth	$1.490661	$1.582309	+6.1%
High Growth	$1.437878	$1.593759	+10.8%

FYTD return *is the return in the nine months to 31 March 2011*

Members should note that investment returns do not affect all of their MilitarySuper benefit, as MilitarySuper is a 'hybrid' defined benefit scheme. A hybrid scheme means that your member benefit (that is, your own contributions plus investment earnings) accumulates separately from your employer (government)-funded benefit, which is a guaranteed amount and generally forms the larger component of your total benefit in MilitarySuper. The employer (government)-funded benefit is calculated on the basis of your length of service and final average salary (your average superannuation salary over the last three years of service) and is unaffected by investment returns.

Investment review

In late 2010 the Board undertook a comprehensive review of its investment arrangements and appointed Towers Watson, a leading global investment consultancy firm, as the Board's primary investment consultant. Since then, the Board and management have been working with Towers Watson to review our investment operations. This has been a major task and whilst some changes have already been made, the majority of the changes will occur over the next few months.

As a result of this review, the Board has decided to change some features of the scheme's five investment options from 1 July 2011. Some of the changes are subtle but the key driver is a heightened focus on investment risk. This will be reflected in revised target asset allocations and the future selection of investment managers.

Effective from 1 July 2011, the five investment options in MilitarySuper will have the features as listed in the table below.

These revised features will be reflected in a new edition of the Member Investment Choice Guide, which will be available on our website or in hard copy on request, after 1 July 2011.

Within the parameters outlined below, and always with a focus on investment risk, the Board will continue to refresh the Fund's portfolio of assets to ensure that MilitarySuper has the most appropriate investment structure for its members.

Investment Feature	Investment Option				
	Cash	Conservative	Balanced	Growth	High Growth
Risk Profile	Low	Low	Medium	Medium-to-High	High
Expected frequency of a negative annual return	Less than 1 year in 20	1-2 years in 20	3-4 years in 20	4-5 years in 20	5-6 years in 20
Return Objective*	UBS Bank Bill Index over 1 year	CPI +2.5%pa over rolling 3 years	CPI +3.5%pa over rolling 5 years	CPI +4.5%pa over rolling 7 years	CPI +5.0%pa over rolling 10 years

Asset Class	Target Asset Allocation (investment ranges in brackets)				
	Cash	Conservative	Balanced	Growth	High Growth
Cash	100% (100%)	50% (30 – 60%)	10% (5 – 20%)	5% (2 – 15%)	3% (2 – 10%)
Government Bonds	0%	16% (10 – 25%)	15% (5 – 25%)	5% (0 – 15%)	0% (0 – 10%)
Global Credit	0%	8% (0 – 15%)	7% (0 – 20%)	5% (0 – 15%)	0% (0 – 10%)
Real Assets	0%	8% (0 – 15%)	14% (5 – 20%)	10% (5 – 20%)	0% (0 – 15%)
Diversified Investments	0%	8% (0 – 15%)	8% (0 – 15%)	7% (0 – 15%)	0% (0 – 15%)
Private Capital	0%	0% (0 – 5%)	8% (0 – 15%)	18% (0 – 25%)	25% (0 – 30%)
Australian Shares	0%	5% (0 – 15%)	17% (10 – 30%)	22% (15 – 35%)	32% (25 – 50%)
International Shares	0%	5% (0 – 15%)	21% (10 – 30%)	28% (15 – 35%)	40% (25 – 50%)

*Return Objective is before tax and other fees for the Cash option, and after tax fees for all other options.

Member Services Online

Member Services Online offers a range of services to help members manage their superannuation. The service is designed to give you greater access to your personal and financial information with MilitarySuper. Member Services Online lets you:

- use the i-Estimator to project your potential final benefit
- view and print your Member Statements from 2008 onwards
- view your transaction history
- update your contact details.

If you haven't previously used the Member Services Online section of the MilitarySuper website, you will need an Access Number. To receive one simply call our Customer Service Centre on 1300 006 727 and we'll issue you with your individual Access Number.

Receive your statement online

2009 was the first year in which members could choose to receive their Annual Member Statement online. Since then many members have taken advantage of this efficient and environmentally friendly way of receiving their Member Statements. We hope to further minimise our carbon footprint and have as many members as possible sign up to receive their statement online.

Benefits of online delivery include:

- it's more convenient for you
- greater delivery security
- you can access your Statement any time
- all your information is conveniently available in one secure place.

How to receive your Member Statement online

1. Go to **www.militarysuper.gov.au**.
2. Log into **Member Services Online** using your access number.
3. Follow the links to sign up and receive your updates online.

If you have not previously used **Member Services Online**, simply call our Customer Service Centre on **1300 006 727** to receive your individual Access Number.

Don't become a lost member

Please remember to keep us up-to-date with any changes to your postal address so we can keep in touch with you.

Contributing Members are asked to update their address details in the Defence PM Keys system before 30 June 2011 to ensure you receive your 2011 Annual Member Statement.

If you are a Preserved Benefit Member you can contact our Customer Service Centre on *1300 006 727* to update your address or, if you have an Access Number, simply log in to Member Services Online to update your address details before 30 June 2011.

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