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## Investment performance

The PSS Default Fund achieved a return of 13.1% per annum in 2005/06, continuing the double digit performance of recent years. This investment performance again was in excess of our long-term target of 7% per annum. Performance of the PSS Default Fund for three, five and 10 year periods is: 13.7%, 7.4% and 9.1% per annum respectively.

The PSS Cash Investment Option performance is in line with its benchmark, achieving a return of 4.8% per annum for 2005/06.

The PSSap investment choice options performed well in 2005/06, their first year of existence. The Trustee Choice default fund returned 14.3% per annum, which was above its long-term target return of 7% per annum.

The other three pre-mixed, diversified options also achieved good performance, with the highest returns achieved by the options having the largest allocation to equities. The Aggressive option returned 16.1% per annum, the Balanced option 10.2% per annum and the Conservative option 7.7% per annum.

For contributing members of the PSS, investment performance is not particularly significant. Investment performance does have a significant impact on the Government's long-term liability in relation to the defined benefit scheme. Performance is however, significant for PSS preserved benefit members and those members who have transferred superannuation from other funds into the PSS.

## Regulatory environment


During the year the PSS Board obtained a licence from the Australian Prudential Regulation Authority, and undertook a significant review of its policies and procedures to ensure compliance with the regulatory requirements. The schemes are now subject to a dual ASIC/APRA regulatory regime and it has and will continue to require significant resources to meet the enhanced demands.

In 2005/06 there were errors in the published exit rates such that members who exited the scheme were underpaid benefit entitlements. The variation in earnings as compared to the published exit rates was between 0.5% and, towards the end of the financial year, up to around 5.5%. Remedial action and a review of processes has been underway for sometime and we are involved in a process with our two regulators to finalise this matter.

## New governance structure to better serve members' interests



On 1 July 2006, the PSS Board merged with the CSS Board to create Australian Reward Investment Alliance (ARIA) – a simplified, sustainable and more effective governance structure which will greatly enhance our ability to serve the interests of members and stakeholders.



The superannuation environment in Australia has undergone a huge change over the past few years, with financial services reform, increased regulation and choice of fund. Our existing structure, in combination with that of the Commonwealth Superannuation Scheme (CSS) Board, created unnecessary duplications which meant that superannuation arrangements for Australian Government employees would not have been sustainable or cost effective in the long-term.

It was obvious that, to continue to meet members' needs into the future, the PSS Board and the CSS Board had to adapt.

The new structure will enable the PSS to introduce a range of improvements. We will be able to:

- achieve new cost efficiencies through the elimination of outdated complexities and duplications in administration, investment, liability management, risk management and regulatory compliance, which will have a positive effect on investment returns over time
- ensure sustainability for the future with the use of a single investment trust which will provide greater economies of scale in managing the closed PSS Fund and help us to maintain competitive cost structures
- maintain a strong governance structure in line with the Australian Government's new best-practice corporate governance principles, to uphold our high levels of accountability and transparency
- improve communication and education services with the delivery of seminars and individual consultations to members at their place of work.

The single Trustee structure is another step in the process of modernising the PSS with best practice corporate governance principles and more equitable distribution of earnings between departing and remaining members.

## May Budget announcement

Significant proposed changes were announced in the May 2006 Budget that will have an impact on both taxed and untaxed superannuation schemes. We will continue our discussions with Government on the impact of these proposals on the PSS Schemes.

## Systems issues

We have been involved in discussions with our administrator and with Government in relation to the replacement of our administrator's computer system that now creates regulatory and compliance risks because of its nature and age. We expect decisions to be made on this matter prior to the end of the calendar year.

## Exit rate policy

The current policy of not allocating earnings until members exit the scheme continued in 2005/06. Legislation has been passed by Parliament to enable the Board to allocate more equitably Fund earnings between members who leave the scheme and those that stay. This legislative change will more accurately reflect the actual investment earnings of the Fund. The Board intends crediting unallocated earnings to member accounts as soon as systems issues allow it to do so. We will advise members of the details during the course of the year.



## Choice of fund for PSSap members

From 1 July 2006 all new government employees have a choice of superannuation funds. This new environment will change fundamentally the dynamics of the superannuation industry and we have already witnessed significant rationalisation within the industry, for example, with the merging of major funds. The establishment of ARIA is in part a response to these major industry changes and it will enable us to provide members of all the schemes for whom the Trustee is responsible with competitive and sustainable superannuation arrangements into the future.

## Future directions

Over the next twelve months, our efforts will continue to focus on providing competitive returns, whilst staying within the risk and volatility constraints that ARIA sees appropriate. We will continue our proactive risk management programs such as the Governance Advisory Service and our proxy voting responsibilities.

We will continue to work closely with the Department of Finance and Administration, members and other key stakeholders to ensure we are able to provide members with cost efficient superannuation arrangements.

Steve Gibbs

Chief Executive Officer  
Australian Reward Investment Alliance (ARIA)