



Australian Government

Commonwealth Superannuation Corporation

CSS

Commonwealth
Superannuation
Scheme

Annual Report 2014–15

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About this report

This is the annual report to members of the Commonwealth Superannuation Scheme (CSS) (ABN: 19 415 776 361 RSE: R1004649) for the year ended 30 June 2015.

This report was prepared on 18 November 2015 by Commonwealth Superannuation Corporation (CSC) (ABN: 48 882 817 243 AFSL: 238069 RSEL: L0001397). CSC manages and is responsible for all aspects of CSS, including investment strategy, administration and member communications.

CSC is licensed under the *Corporations Act 2001* and the *Superannuation Industry (Supervision) Act 1993*. CSC is the trustee of four regulated superannuation schemes: CSS, the Public Sector Superannuation Scheme (PSS), the Public Sector Superannuation accumulation plan (PSSap) and the Military Superannuation and Benefits Scheme (MilitarySuper). CSC also administers five exempt public sector and military schemes.

General advice only

Any financial product advice in this report is general advice only and has been prepared without taking account of your personal objectives, financial situation or needs. 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 consult a licensed financial adviser.

Financial advice from Industry Fund Services

CSC has partnered with experienced financial planners from Industry Fund Services. If you choose to take up this service, your financial planner will be a representative of Industry Fund Services Limited (ABN: 54 007 016 195, AFSL: 232514). For further information visit ifs.net.au

Chairman's introduction



2014–15 was another productive and rewarding year for CSS members, with strong investment returns, the enhancement of member services, and the formal integration of the administrator, ComSuper, through merger into CSC.

One integrated superannuation provider now manages your scheme.

Investment performance

The CSS Default Fund far exceeded its long-term return objective of the CPI plus 3.5%, posting a double digit return to 30 June 2015.

Strong listed sharemarket returns were a feature of global investment markets during the year. Returns were underpinned by modest levels of global economic growth, an absence of inflationary pressures and ongoing monetary policy stimulus provided by the central banks of the major developed economies.

The performance of the CSS Default Fund after fees and taxes over one, five and 10 years was:

	1 year (%)	5 years (%) pa	10 years (%) pa
Default Fund	12.2	9.4	6.6

Investment performance relative to other superannuation funds has also been pleasing across all CSC super schemes including CSS. CSC's PSSap default fund – the MySuper Balanced Option – was the number one performing balanced fund for the year to 30 June 2015 with a return of 12.2%, according to research agency, SuperRatings. The CSS Default Fund has the same asset allocation characteristics as the PSSap default fund, also returning 12.2% for the year to 30 June 2015.

While the one-year, peer-relative returns are very gratifying, the CSC Board focuses more on the longer-term objectives, which is appropriate for a superannuation fund where long term wealth creation is the key objective.

Investment return objectives continue to be achieved within Board approved risk limits. The risk limit for our default options is to experience negative returns (ie lose value) in no more than three to four years out of any 20 year period. Our focus on down-side protection, while seeking to capture most (but not all) returns in strong investment markets, is the best way to help members to save an adequate pool of super savings for their future income needs.

Strategic milestones

The Board achieved over 80% of its strategic milestones for 2014–15. Milestones are part of the Board's three year Strategic Plan and reflect our focus on investment performance, governance, a competitive product and service offering, and effective stakeholder and service provider relationships.

For 2015–16, the Board has set 10 milestones, with progress against achievement of specific targets related to each of these milestones to be reported to the Board on a quarterly basis.

Major changes

During the year important Government reforms relating to the structure of CSC and our product and service offering to members were progressed. CSC worked closely with the Government on the following reforms:

- 1) The merger of ComSuper into CSC on 1 July 2015 (ComSuper was the legislatively mandated scheme administrator for CSC's defined benefit schemes, with those functions now performed by our scheme administration business unit);
- 2) The novation of the PSSap scheme administration contract from ComSuper to CSC on 4 December 2014

and
- 3) Improvements to PSSap Ancillary membership (available to eligible CSS and PSS members) and CSCri (CSC's account-based pension product available to eligible public sector scheme members).

I am very pleased with the constructive working relationship that the Board has with all the relevant Ministers, and that CSC has with all Government agencies.

Priorities ahead

Our priorities continue to be the ongoing achievement of our investment return objectives, and provision of competitive and helpful services to our members. Other significant priorities in the coming year include:

- > the efficient and effective operation of CSC as a large diversified superannuation provider following the merger of ComSuper into CSC;
- > further enhancements to PSSap and
- > the full review of the IT platforms for CSS and our other defined benefit schemes.

CSC Board

Your CSC directors constitute a highly-committed and diligent board. While we appreciate 2014–15 was a year of significant achievement, we continue to anticipate ongoing challenges. This reflects lower levels of potential growth around the world, significant levels of debt, fairly-valued asset prices and the potential for some market liquidity challenges.

CSC wouldn't be what it is without the significant contribution of the Board members. In addition to Board meetings, directors are involved in a number of committees including Audit and Risk, Remuneration, Governance and Reconsideration Committees.

There were no changes to the Board in 2014–15. Peter Feltham's Board membership was extended to 30 June 2016.

The past year has been one of enormous effort and change. I thank the CSC staff for its extraordinary diligence and commitment.

I trust our members are satisfied with the performance of CSC and want our members to know we will continue to do our best to look after the superannuation funds they have entrusted to us.



Patricia Cross
Chairman of CSC

Contributing CSS members can now salary sacrifice into PSSap

Over 1,500 CSS and PSS members have joined PSSap as Ancillary members to build extra wealth for their retirement via salary sacrifice and super rollover.

If you join PSSap as an Ancillary member there is no change to your CSS membership or benefit calculation in any way.

Learn more at pssap.gov.au/ancillary

Ask a financial planner if an account-based income stream is right for you

When it comes time to withdraw your final CSS benefit, you may like to consider an account-based income stream to supplement your CPI-indexed pension and non-indexed pension options in CSS.

The account-based income stream available to eligible Australian Government super scheme members is called Commonwealth Superannuation Corporation retirement income (CSCri).

You can receive regular income payments (tax free from age 60) and the freedom to access your money when you want it.

Arrange today to speak with a financial planner about your retirement planning and if this income stream is right for you.

Visit css.gov.au/advice

Investments

Approach

The trustee of CSS, CSC, manages and invests the monies of public sector and military super schemes including CSS jointly in one pooled investment trust, providing economies of scale benefits to members in each regulated scheme.

Strategy

CSC's investment strategy is focused on the provision of financial adequacy in retirement for all scheme members. The level of risk taking is measured and focused on maximising the probability of achieving targeted return objectives for each investment option.

That means CSC investment portfolios should deliver greater wealth preservation through periods of negative equity market returns. The cost of this is that CSC's investment portfolio returns may lag other funds through periods of strong positive equity market returns. Note that through these periods, CSC member returns should be well in excess of their targeted objectives. Over the full investment horizon, as more capital is preserved in weak markets and most of the returns are captured in strong markets, the cumulative return should be very competitive and the volatility of returns should be reduced.

Portfolio construction

CSC constructs a portfolio for each investment option by categorising assets according to their risk profile and their role in diversifying portfolio-level risk. To this end, investments rest within one of four broad asset categories, classified by their diversifying role in the portfolio. The four broad asset categories (corporate assets, real assets, sovereign assets and alternative strategies) are described below:

- > corporate assets comprise Australian shares, international shares, private equity (investment in a company not listed on a stock exchange) and corporate credit investments. These investments earn a real return (ie return above inflation) by financing corporations through public and private equity and debt markets.

- > real assets comprise property and infrastructure investments. These investments earn a real return by financing the building, maintenance, management and trading of real assets, accessed through public and private equity and debt markets.
- > sovereign assets comprise government bonds and cash investments. These investments earn a real return by financing sovereigns and banks, through the holding of government bonds and Australian cash, respectively.
- > alternative strategies comprise investments not included in the traditional asset classes listed above, forming part of the 'other' category of assets disclosed within target asset allocations. Examples include investments in hedge funds and multi-asset diversified funds. These investments can have differing levels of risk depending on the actual strategy employed.

For a general description of the asset classes of cash, fixed interest, equities, property and infrastructure, please refer to the Investment options and risk booklet, which forms part of the **CSS Product Disclosure Statement (PDS)** available at css.gov.au

Performance and earning rates

Performance figures for each investment option are calculated after fees and taxes. Past performance is no indication of future performance. Performance figures are calculated based on the actual value of investment option assets as at the end of the quoted performance period (up to 30 June 2015 for this report) and are indicative only of the performance that a member achieves on their investment. Performance figures are based on final valuations as at period end.

Earning rates are shown on the CSS website and are needed for daily member transactions. They determine the actual performance a member achieves based on the timing of their individual transactions. The earning rates are determined based on the best available information at the time they are declared. Valuations are fed into the earning rates calculations as soon as practical after they are received. Using earning rates to calculate an investment performance figure for the performance periods in this report will provide similar but not identical rates to the investment performance figures published in this report.

More information on the allocation of earning rates can be found on page 4 of this report.

Allocation of earning rates

CSC determines an earning rate for the CSS Default Fund and the CSS Cash Investment Option every business day. Earnings are allocated to member accounts monthly. The daily rates are used to calculate benefit entitlements for members who exit CSS before the end of the month. Daily earning rates are published in the **Investment and Performance** section of the CSS website at css.gov.au

Performance to 30 June 2015

Table 1: Performance to 30 June 2015 of all CSS options

Option	1 year (%)	3 years (%) pa	5 years (%) pa	10 years (%) pa
Default Fund	12.2	12.7	9.4	6.6
Cash	2.1	2.3	3.0	3.9

Note: all returns are calculated as the annually compounded average rate of earnings after tax and fees.

Annual performance

Table 2: Default Fund annual performance last five years

Financial year	Return (%)	Inflation rate (%)
2010-11	7.5	3.6
2011-12	2.7	1.2
2012-13	13.6	2.4
2013-14	11.5	3.0
2014-15	12.2	1.5

Note: all returns are calculated after tax and fees and are for the investment option as a whole; these returns are not your personal investment returns in CSS.

The CSS Default Option posted its third straight year of very strong net returns (after fees and tax) in the year to 30 June 2015, increasing by 12.2%. Performance was buoyed by strong listed share market returns, particularly in overseas markets, and ongoing investor appetite for high-yielding assets. The environment for positive financial market returns was underpinned by modest levels of economic growth, an absence of inflationary pressures and ongoing monetary policy stimulus provided by the central banks of the major developed economies.

Table 3: Cash option annual earning rate last five years

Financial year	Return (%)	Inflation rate (%)
2010-11	4.2	3.6
2011-12	3.9	1.2
2012-13	2.8	2.4
2013-14	2.1	3.0
2014-15	2.1	1.5

Note: all returns are calculated after tax and fees and are for the investment option as a whole; these returns are not your personal investment returns in CSS.

Investment options

Cash Investment Option

Objective

The objective is to preserve its capital and earn a pre-tax return close to that of the Bloomberg AusBond Bank Bill Index by investing 100% in cash assets.

The Bloomberg AusBond Bank Bill Index is a market accepted index that is commonly used to benchmark the performance of short-term cash investment portfolios. The index composition reflects a basket of 13 generic bank bills that range in maturity from one week to 13 weeks. Each week the shortest dated bank bill matures and is replaced by a new 13 week bank bill. In this way, the index has an average maturity of 45 days and is turned over every 90 days.

Risk profile and investor suitability

This investment option may be suitable for those who prefer less risk. The minimum suggested timeframe for holding this option is one year or more. With a very low risk rating (band one), it is estimated that the option will have a negative return (ie will lose value) in less than six months of any 20 year period.

Asset allocation

Asset class	Target (range)	Actual at 30 June 2014	Actual at 30 June 2015
Cash	100% (100%)	100%	100%

Default Fund

Objective

The objective is to outperform the CPI by 3.5% per annum over 10 years.

Risk profile and investor suitability

This investment option may be suitable for those prepared to take more risk in exchange for potentially higher returns on their investment over the medium-to-long term. The minimum suggested timeframe for holding this option is 10 years. With a medium-to-high risk rating (band five), it is estimated that the option will have a negative return (ie will lose value) in three to four years of any 20 year period.

Asset allocation

Asset class	Target (range)	Actual at 30 June 2014	Actual at 30 June 2015
Cash	3% (0–65%)	6.1%	5.2%
Fixed interest	15% (0–65%)	11.7%	12.3%
Equities	53% (15–75%)	55.4%	55.9%
Property	13% (5–25%)	12.0%	11.5%
Infrastructure	2% (0–20%)		
Other	14% (0–30%)	14.8%	15.1%

To manage the level of short-term volatility of returns and maintain appropriate levels of liquidity in the Fund, the target asset allocation to illiquid assets is limited to around 25% of the Default Fund's investments, with a rebalancing range of plus or minus 10% around that target.

Allocation of earning rates

CSC determines an earning rate for the CSS Default Fund and the CSS Cash Investment Option every business day. Earnings are allocated to member accounts monthly. The daily rates are used to calculate benefit entitlements for members who exit CSS before the end of the month. Daily earning rates are published in the **Investment and Performance** section of the CSS website at css.gov.au

Funds under management

	At 30 June 2014 (\$m)	At 30 June 2015 (\$m)
Cash	287.07	241.26
Default Fund	3,778.66	3,521.48
Operational Risk Reserve	4.50	7.20
Total	4,070.23	3,769.94

Note: the Operational Risk Reserve is not an investment option. It is required by law for the purpose of providing a source of financial resources to help protect members' interests should an operational risk event occur, such as the use of an inaccurate unit price to process a transaction that results in losses to the Fund or to members.

Asset in excess of 5% of the Fund

There was one asset greater than 5% of the Fund at 30 June 2015: Platinum Asia Unit Trust, representing 5.8% of the Fund. This trust invests in 75 to 150 listed securities of Asian companies. Meaning, money allocated to this trust is not concentrated in one or a small number of securities. It is a diversified portfolio of securities across more than 10 Asian countries.

Eligible rollover fund

If your super becomes payable as a lump sum and we do not receive instructions on how you want it to be paid within 90 days of you stopping work, it can be paid into an eligible rollover fund. CSC's nominated fund is:

AUSfund
PO Box 2468
Kent Town SA 5071
Phone: 1300 361 798
Email: admin@ausfund.net.au
Website: unclaimedsuper.com.au

If your CSS benefit has been paid to AUSfund, you must claim it from AUSfund, and you will be subject to AUSfund's terms and conditions.

Investment management

The assets of CSS are invested through CSC's investments trust, where they are pooled with the investments of the other CSC managed Funds – PSS, MilitarySuper and PSSap – in order to deliver investment scale and a cost-efficient investment process. CSC's trust invests in multiple specialist investment funds and portfolios.

Listed below are investment managers appointed to invest CSS assets, as well as specialist investment funds and portfolios through which the AIT invests. Arrangements that represent less than 0.5% of CSC's funds under management as at 30 June 2015 are not included.

- > Airlie Funds Management Pty Ltd
- > Anchorage Capital Offshore Fund Limited
- > Arcadia Funds Management Limited
- > Ashmore Investment Management Limited
- > Aurora Investment Management LLC
- > Balanced Equity Management Pty Limited
- > Bluebay Asset Management LLP
- > Bridgewater Associates, Inc
- > BTG Pactual Global Emerging Markets and Macro Fund Limited
- > Challenger Management Services Limited
- > Eureka Funds Management Company
- > Gruss Global Investors Limited
- > Invesco Australia Limited
- > Lend Lease Real Estate Investments Limited
- > Luxor Capital Partners Offshore Limited
- > Macquarie Investment Management Limited
- > Paradise Investment Management Limited
- > Pharo Macro Fund Limited
- > Platinum Asset Management
- > Schroder Investment Management Australia Limited
- > Scopia International Limited
- > State Street Global Advisors Limited
- > Steadfast International Limited
- > Wellington International Management Company Pte Limited

Derivatives policy

Investment managers who enter into an investment management agreement with CSC may use derivative securities (known as 'derivatives') to facilitate increases or decreases in the Fund's exposure to different investment markets.

Derivatives are financial instruments whose value is derived from and changes in line with changes in the value of an underlying asset. Examples include futures, options and foreign exchange forward contracts.

Derivatives within investment mandates are mainly used to reduce risk and implement asset exposures in a more cost effective manner for members. CSC's investment managers are not permitted to use derivative securities for gearing the Fund or any part of the Fund, or for placing the Fund in a position where it is short an asset class.

Any investment mandates which permit an investment manager to use derivatives reflect the derivatives policy of the Fund as a whole.

If CSC's investment managers are permitted to use derivatives, the limits will be clearly set out in the mandate. CSC's internal investment and operations teams (and custodian) monitor whether derivative use is consistent with CSC's policy.

Payment of surcharge liability

Surcharge is a tax on surchargeable superannuation contributions. It was abolished in July 2005 but still applies if a member's adjusted taxable income prior to 2005–06 exceeded a certain amount. If we are informed by the Australian Taxation Office (ATO) that a CSS member is assessed as having a surcharge liability, the member can either have the amount deducted from their final benefit before it is paid, or pay some or all of their surcharge debt at any time before their benefit is payable.

CSS maintains a surcharge debt account for each member to record any surcharge assessments from the ATO, together with any payments made by the member and any interest required to be imposed.

Your trustee

The CSC Board consists of an independent Chair and 10 other directors. Of the 10 other directors, three directors are nominated by the President of the Australian Council of Trade Unions (ACTU) and two directors are nominated by the Chief of the Defence Force. The Minister for Finance chooses the remaining five directors in consultation with the Defence Minister. Director biographies are available at csc.gov.au

CSC Board



Mrs Patricia Cross
Appointed 1 July 2014
to 30 June 2017

- > Chairman of the Board
- > Chairman of the Board Governance Committee
- > Chairman of the Remuneration and HR Committee



Mr Peter Feltham
Reappointed 1 July 2015
to 30 June 2016

- > Director since 1 July 2011
- > Nominee of the President of the ACTU
- > Member of the Audit and Risk Management Committee
- > Member of the APS Reconsideration Advisory Committee



Mr Anthony (Tony) Cole, AO
Reappointed 1 July 2013
to 30 June 2016

- > Director since 1 July 2011
- > Member of the Board Governance Committee
- > Member of the Remuneration and HR Committee



Ms Nadine Flood
Reappointed 1 July 2014
to 30 June 2017

- > Director since 1 July 2011
- > Nominee of the President of the ACTU
- > Member of the Audit and Risk Management Committee



The Hon. Chris Ellison
Appointed 1 July 2014
to 30 June 2017

- > Member of the Board Governance Committee
- > Member of the Remuneration and HR Committee



Ms Lyn Gearing
Reappointed
13 September 2013
to 12 September 2016

- > Director since 13 September 2011
- > Member of the Audit and Risk Management Committee



Ms Winsome Hall
Reappointed 1 July 2013
to 30 June 2016

- > Director since 1 July 2011
- > Nominee of the President of the ACTU
- > Member of the Board Governance Committee
- > Member of the Remuneration and HR Committee



Mr John McCullagh
Reappointed 1 July 2013
to 30 June 2016

- > Director since 1 July 2011
- > Nominee of the Chief of the Defence Force
- > Member of the Audit and Risk Management Committee
- > Chairman of the APS Reconsideration Advisory Committee
- > Deputy Chairman of the MilitarySuper Reconsideration Committee
- > Deputy Chairman of the Defence Force Case Assessment Panel



Ms Peggy O'Neal
Reappointed 1 July 2014
to 30 June 2017

- > Director since 1 July 2011
- > Member of the Board Governance Committee
- > Member of the Remuneration and HR Committee
- > Member of the APS Reconsideration Advisory Committee



Air Vice Marshal Margaret Staib, AM, CSC
Appointed 2 May 2014
to 1 May 2017

- > Nominee of the Chief of the Defence Force
- > Chair of the MilitarySuper Reconsideration Committee
- > Chair of the Defence Force Case Assessment Panel



Dr Michael Vertigan, AC
Reappointed 1 July 2013
to 30 June 2016

- > Director since 1 July 2011
- > Chairman of the Audit and Risk Management Committee

Director indemnity

Anything done, or omitted to be done, in good faith by a director or delegate of the Board, in the performance of functions under relevant CSC legislation will not subject that person to any action, liability, claim or demand. CSC may, however, be subject to an action, liability, claim or demand. In addition to the legislative indemnity, CSC holds trustee liability and comprehensive crime insurance which complies with the *Corporations Act 2001*.

CSS unaudited financial information for 2014–15

	\$ '000
Value of Fund as at 1 July 2014	4,049,149
Inflows	
Changes in net market value of investments	419,409
Interest	1,159
Employee contributions	76,836
Employer contributions	22,135
Low income superannuation contributions	9
Government co-contributions	56
Net appropriation from Consolidated Revenue Fund	3,633,802
Outflows¹	
Benefits paid	(4,430,071)
Transfers to the Public Sector Superannuation Scheme	(216)
Income tax expense	(3,494)
Value of the Fund as at 30 June 2015	3,768,774
Assets and liabilities as at 30 June 2015	
Investments ²	3,763,252
Cash at bank	25,562
Amounts to be appropriated from Consolidated Revenue Fund	216
Other receivables	211
Benefits payable	(16,859)
Other payables	(216)
Tax liabilities	(3,392)
Net assets as at 30 June 2015	3,768,774
Default Fund	3,521,480
Cash Investment Option	241,260
Total Fund	3,762,740
Add/(less)	
Investments backing the operational risk reserve	7,204
Allowance for cost of disposal	(6,692)
	3,763,252

The assets of CSS are invested in the ARIA Investments Trust (AIT), where they are pooled with the investments of other Government superannuation funds – the Public Sector Superannuation Scheme (PSS), the Public Sector Superannuation Scheme accumulation plan (PSSap) and the Military Superannuation and Benefits Scheme (MilitarySuper) – in order to deliver an efficient investment process. The AIT invests in multiple specialist investment funds and portfolios.

The AIT receives income such as dividends, interest, trust distributions and gains and losses on sale and incurs administration and management expenses including expenses that would otherwise be incurred by CSS.

The operating surplus or deficit generated by the AIT is reflected in daily unit prices released by the AIT for its unitholders including CSS, and daily earning rates based on the unit prices are published on the CSS website. If you would like to see a copy of CSS audited financial statements for this year and the report from the auditor, please refer to our **Annual Report to Parliament** (which is published and tabled in the Parliament in November) at csc.gov.au, send an email to members@csc.gov.au, call us on 1300 000 277 or write to CSS, PO Box 2252, Belconnen ACT 2601.

Contact us

CSS

For all the information you need to make smart choices about your super, visit css.gov.au

On our website you'll find:

- > the **CSS Product Disclosure Statement**
- > a handy glossary of terms
- > forms and publications to help you take control of your super
- > news and information
- > dates and locations for CSC's free At Work for You superannuation seminars
- > **Member Services Online**, where you can:
 - use the CSS i-Estimator online calculator to estimate your benefit (if you are a preserved benefit member only)
 - update your address and contact details
 - sign up to receive your **Member Statement** online
 - view and download your **Member Statement**.

To access **Member Services Online**, you will need an Access Number.

If you have lost or forgotten your Access Number, you can re-set it through the **Member Services Online** login page. If you need help to do this, please don't hesitate to contact us.

Web: css.gov.au
Email: members@css.gov.au
Phone: 1300 000 277
Fax: 02 6272 9612
Post: CSS
GPO Box 2252
Canberra ACT 2601

CSC

If you would like more information about your Fund's investments and governance, you can also contact CSC in one of the following ways:

Web: csc.gov.au
Email: secretary@csc.gov.au
Phone: 02 6263 9000
Fax: 02 6263 6900
Post: CSC
GPO Box 2252
Canberra ACT 2601

@ **EMAIL**
members@css.gov.au

🌐 **WEB**
css.gov.au

☎ **PHONE**
1300 000 277

📞 **OVERSEAS CALLERS**
+61 2 6272 9621

👤 **FINANCIAL ADVICE**
1300 277 777

📠 **FAX**
02 6272 9612

✉ **POST**
CSS
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ACT 2601