



On COURSE 2010/11





This is important

The information in this Annual Report is general information only and has been prepared without taking into account your personal objectives, financial situation or needs. You should consider any advice in this document in light of your personal objectives, financial situation and needs before acting on it. You may wish to contact a licensed financial planner to do this. If you are looking at acquiring a financial product, you should obtain a product disclosure statement and consider its contents before making any decisions. This document was prepared on 29 August 2011 by ARIA ABN: 48 882 817 243 AFSL: 238069 RSE Licence No: L0001397, Trustee of the CSS ABN: 19 415 776 361 CSS RSE: R1004649.

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Chairman's report

It's with great pleasure that I present the Annual Report in which you'll find a summary of the operations of the CSS for the year ending 30 June 2011.

Investment performance

In the 2010/11 financial year, performance has been solid against a background of challenges faced by markets, such as the earthquake and tsunami in Japan, European sovereign debt worries, and more locally, the New Zealand earthquakes and the Queensland floods.

In the year ending 30 June 2011, the CSS Default Fund recorded a return of 7.5% after taxes, fees and charges and the CSS Cash Investment Option returned 4.2% after taxes, fees and charges. For more information, see [Investments](#) on page 8.

The year ahead

For the coming year, our focus remains on achieving competitive investment returns over the long-term and giving you the information and resources you need to make better super decisions.

One of our major tasks is working to implement changes following the [merger between the ARIA and Military Super Boards](#) (see over the page). These changes will not alter your scheme rules, benefits or entitlements in any way.

Trustee Board

During the year we welcomed Tony Cole to the Trustee Board and bade farewell to Margaret Gillespie who tendered her resignation on 13 May 2011. Dennis Trewin and Brian Daley completed their terms on 30 June 2011. I would like to thank them for their contribution to ARIA and its members in recent years.

Thank you

My thanks go to the management team, staff and our service providers for their efforts during another year of volatility and change. I look forward to continuing our work together in 2011/12.

I trust you'll find this Annual Report a useful and helpful source of information about the CSS.

Tony Hyams
Chairman



What's happening

Upcoming changes

On Friday 1 July 2011, ARIA's name changed to CSC (Commonwealth Superannuation Corporation) and it merged with the former Board of MilitarySuper. This followed the passage by the Parliament of a package of legislation including the *Governance of Australian Government Superannuation Schemes Act 2011*.

There is no change to your scheme rules, benefits or entitlements as a result of this merger.

Throughout the year, you will see signage changes on websites and your member communications to reflect this new name.

Inaugural environmental and social governance report released

We became a signatory to the United Nations Principles for Responsible Investment (UNPRI) in 2006, and these Principles reflect the view that environmental, social and corporate governance (ESG) is an important consideration in the management of investment portfolios.

During the year, we released our first environmental, social and governance (ESG) update for members. The report outlines our commitment to the UNPRI, and addresses the management of ESG risk in our investment portfolio. This report is available on www.css.gov.au.



Changes to superannuation in Federal Budget 2011

There were no real surprises for super in the 2011/2012 Budget delivered by the Treasurer, The Hon Wayne Swan MP on 10 May 2011. Confirmation of previously announced policies included:

- > **Excess contributions tax relief:** From 1 July 2011, people who breach the concessional contributions cap by up to \$10,000 can request a refund of the excess contributions, rather than paying excess tax on the amount.
- > **Over-50s concessional contributions cap:** The over-50s concessional contributions cap is to be 'indexed' rather than remaining at \$50,000. This change was announced last year in response to the Henry Review.
- > **An extended freeze on the indexation of the co-contribution income thresholds:** The Federal Government has again frozen the income thresholds for the co-contribution. The freeze that is in place for the 2010/2011 and 2011/2012 financial years will now be extended to the 2012/2013 year.

- > **Greater use of TFNs:** From 1 July 2011, the Government will permit super fund trustees to use tax file numbers to locate member accounts, to help consolidate multiple member accounts and thus reduce account fees incurred by multiple accounts.
- > **Disclosure of super contribution payments:** From 1 July 2012, employers must provide superannuation payment amounts on employees' pay slips. Employees and employers will also receive notification from their superannuation fund if regular payments cease.

These proposed Budget changes to super are not yet law. We will keep you up to date with any changes and what they mean to you at www.css.gov.au.



Your super in focus

Unlike most Australian super schemes, your super is part defined benefit and part accumulation. For contributing members (if you leave as an age-retiree), your CPI-indexed pension isn't affected by the fund's investment performance.

CSS members benefit from super mix

CSS members benefit from super mix

For CSS members, your benefit is comprised of:

Your membership component

This is made up of your basic contributions (5% or 0% of your salary) and your supplementary contributions (any contributions above your basic contributions), and includes any fund earnings (positive or negative).

Your productivity component

This is made up of your fortnightly employer contributions as well as any fund earnings (positive or negative).

Employer-financed component

This is a defined amount financed by your employer, which you receive as an indexed pension when you leave the workforce.

Additional amounts

Any additional amounts you've transferred in from other super funds and any government super co-contributions.

Why your contributions are important

If you're a CSS contributing member, one of the most important choices you need to make is deciding the rate at which you're going to contribute. For many people, this mostly affects the accumulation part of their super, but for some members it will also affect the pension benefit that they're entitled to. Before you decide to stop contributing, you should seek professional advice from an experienced financial adviser.

To find out more read the **Contributions fact sheet** at www.css.gov.au.





How the CSS benefits you

As a member of the CSS, you get:

- > a high-value employer benefit, well above the government's 9 per cent Superannuation Guarantee
- > no administration fees – your employer covers these costs
- > the option of changing your contribution rate at any time to suit your financial needs
- > automatic death and invalidity cover at no extra cost
- > a choice between two different investment options – the Default Fund or the Cash Investment Option
- > a range of flexible retirement options, including a CPI-indexed pension for life.

Eligible rollover fund

If your super becomes payable as a lump sum and we don't receive instructions on how you'd like your claim paid within 90 days of you stopping work, it can be paid into an eligible rollover fund. ARIA's nominated fund is:

AUSfund
PO Box 2468
Kent Town SA 5071
Phone: 1300 361 798

If your benefit has been transferred, you must claim it from the rollover fund, and you'll be subject to AUSfund's terms and conditions.

Superannuation surcharge tax

The Australian Government abolished the superannuation surcharge from 1 July 2005, but you may still have to pay it in certain circumstances. For example, if your adjusted taxable income for any years when the surcharge applied, was higher than the annual thresholds, you may have some outstanding tax to pay. Also, if you didn't provide your tax file number to the CSS, you may have a surcharge debt in relation to certain employer contributions reported to the ATO up to and including the 2004/05 financial year.

The ATO determines whether you've incurred a surcharge debt, and if you have, the amount will be shown in the surcharge debt table on your **Member Statement**. If you have a surcharge debt, you don't have to pay it now – it will be deducted from your CSS benefit when it's paid to you. If you want to, you can reduce your surcharge debt by making early payments.

Interest calculated at the 10-year Treasury Bond Rate will be applied to any outstanding balance of your surcharge debt account as on 30 June each year. If the surcharge amount shown in your **Member Statement** varies from the amount you were advised by the ATO, please contact them on **13 10 20**.



Investments

The CSS investment strategy is based on four key principles which are explained in more detail below.

The CSS Default Fund posted a net return of 7.5% for the 2010/11 financial year.

1. Taking a global view

Investing only in Australia can limit potential returns, so ARIA also searches for investment opportunities in both established and emerging international markets.

2. Long term versus short term

We focus on acquiring assets that can sustainably deliver returns to members over the long term. We seek to exploit shorter-term pricing opportunities to enter or exit our investment strategies, and we are aware of the desirability of reducing short-term volatility, where possible.

3. Diversification

Where fund investment constraints permit, we invest your super across different asset classes to reduce concentration of risk in any one theme.

4. Best-practice due diligence and manager selection

We focus on identifying asset managers with the skills to understand asset market fundamentals, price risk appropriately, and generate consistent risk-adjusted returns.

2010/11 investment performance summary

In the 2010/2011 financial year, the CSS Default Fund posted a net return of 7.5%. Performance has been strong, considering the multiple challenges faced by markets during the past financial year, such as the earthquake and tsunami in Japan, European sovereign debt worries, and locally, the New Zealand earthquakes and the Queensland floods.

Listed Australian equities finished up 11.9%, due to strong gains in materials, industrials and utilities. ARIA's passive exposure to listed International equities rose by 14.5% in hedged terms. In unhedged terms, returns were lower at 2.7%, due to the rise in the Australian dollar. Investment-grade credit rose by 7.6% in hedged terms.

Other sectors performed well over the year, the strongest being our alternatives and inflation-linked fixed income sectors, with strong double-digit returns. Our property investments again did well, returning 8.4% over the financial year.



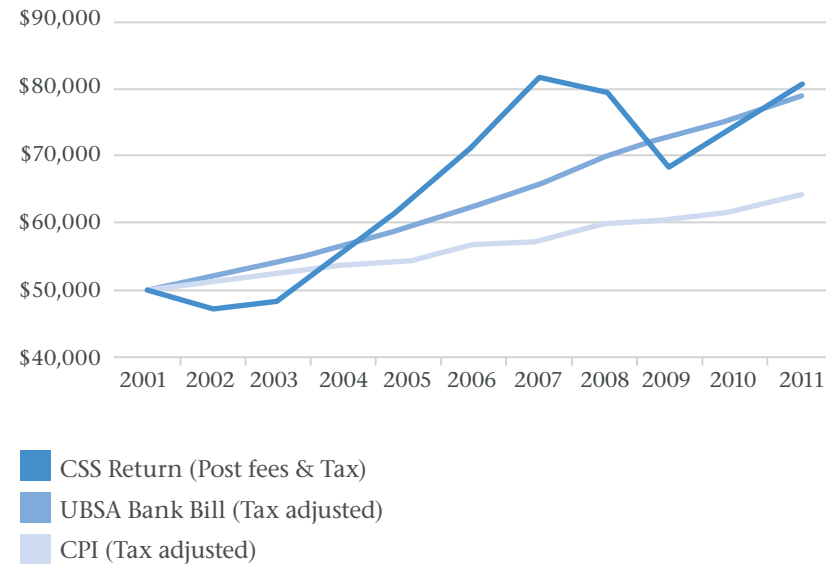
The CSS Default Fund had an average net return of 2.4% per annum over the past five years, and 5.5% per annum over the past seven years.

The CSS Cash Investment Option posted a net return of 4.2% for the 2010/2011 financial year. This is in line with its target objective, once the impact of tax is taken into account.

Investment option performance summary			
Investment option	1 year to 30 June 2011	5 years to 30 June 2011	10 years to 30 June 2011
Default Fund	7.5%	2.4%	4.9%
Cash Investment Option	4.2%	4.7%	N/A

All returns are calculated as the compound average rate of earnings after fees and taxes. Be aware that long-term performance figures outlined above are for the investment options as a whole, and are not your personalised investment returns in CSS.

CSS 10-year rate comparison



The chart above shows how \$50,000 invested in the CSS has grown in the Default Fund over the past ten years (including tax), compared with how it would have grown if invested in a low-risk asset class like bank bills or cash (including tax).

Remember, super is a long-term investment, and past performance is no indication of future performance - investment markets are volatile, and it is not possible to predict when they will go up or down, or how quickly this will happen.



Changing investment strategies: making the right choice

You can choose how your super is invested. Both the Default Fund and the Cash Investment Option are available to you, and which one you choose should depend upon your personal goals, financial situation and plans for the future.

Before you change

In this report, you'll find information on the investment objectives and strategies for both CSS investment options. In addition to reviewing this information, there are some other things you should consider before changing your investment strategy

- 1. What is your investment timeframe?** How long do you plan to invest your money before withdrawing it for retirement?
- 2. What level of investment earnings are you hoping for?** If you're looking for a higher return, you will need to be willing to accept a greater degree of volatility.
- 3. What level of risk are you willing to tolerate?** Different investment options carry different levels of risk, and you will need to decide which level you are comfortable with.

If you have not made a choice, your super will be invested in the Default Fund. The Cash Investment Option is an alternative to this, and provides an opportunity to have less volatile earnings for your taxed accumulation (member and productivity) components, in exchange for the possibly higher, but more volatile, return of the Default Fund.

Before you make an investment choice, you should get advice from a licensed financial adviser and read through the **CSS product disclosure statement** which is available at www.css.gov.au.

If you decide that you would like to change your investment strategy, you can download a **Transfer** form from the CSS website at www.css.gov.au or call 1300 000 277 and we will send one to you.



Investment managers

ARIA works with leading investment managers to make sure that your super is well-managed.

Our policy on derivatives

Investment managers who enter into an investment management agreement with ARIA 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 changes in response to the changes in underlying variables. Examples include futures, options and forward exchange contracts.

Derivatives within investment mandates are mainly used to reduce risk for you. Our 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.

The investment mandates we grant to our investment managers, allowing them to use derivatives, reflect the policy for the fund as a whole. If ARIA's investment managers are permitted to use derivative securities, the limits will be clearly set out in the mandate. ARIA's internal investment team (and custodian) monitor whether derivative use is consistent with ARIA's policy.

If you would like more information about our derivatives policy, call ARIA on 02 6263 6999.

CSS Default Fund investment managers 2010/11:

- > Alleron Investment Management Limited
- > Arcadia Funds Management Limited
- > Balanced Equity Management Pty Limited
- > Bridgewater Associates, Inc
- > Citigroup Global Markets Australia Pty Ltd
- > Colchester Global Investors Limited
- > Eureka Funds Management Company
- > Goldman Sachs & Partners Australia
- > Integrity Investment Management Limited
- > JCP Investment Partners Limited
- > Macquarie Investment Management Limited
- > Marathon Asset Management Limited
- > Marvin & Palmer Associates Inc
- > Merrill Lynch (Australia) Futures Ltd
- > Paradice Investment Management Limited
- > PIMCO Australia Pty. Ltd.
- > Rogge Global Partners PLC



- > Solaris Investment Management Limited
- > State Street Global Advisors Limited
- > Stone Harbor Investment Partners LP
- > Vanguard Investment Australia Limited
- > Wellington International Management Company Pte Limited

Cash Investment Option manager

- > Macquarie Investment Management Limited



CSS investment option performance

Default Fund

Investment objectives

The Default Fund's key investment objective is to maximise the long-term real return within certain risk constraints. Whilst the future investment climate cannot be predicted, ARIA is constantly monitoring its asset allocation and the global economic environment in which your money is invested.

Currently, a little over half of the fund's assets are invested in equities, the majority of which are traded on listed exchanges. The fund also has a substantial program of alternative investments, including private equity and market-neutral strategies. To a degree, these are expected to behave differently to listed equity and bond markets, reducing the overall risk of the fund through the benefits of diversification.

Other investments include a portfolio of direct and indirect property holdings, actively diversified funds, government and corporate bonds, Australian residential mortgage backed securities (RMBS), and cash.

Default Fund asset allocation

Asset allocation	As 30 June 2010	As 30 June 2011
Australian equity	27.1%	26.5%
International equity	27.4%	28.5%
Long/short equity funds	2.3%	1.9%
Real assets	14.3%	12.7%
Alternatives	11.8%	13.9%
Fixed income	11.9%	11.6%
Cash	5.2%	4.9%

Default Fund

Funds under management		Fund performance		
30/6/10 \$m	30/6/11 \$m	1 year % p.a.	3 year % p.a.	5 year % p.a.
4,484.7	4,330.9	7.5%	0.3%	2.4%

All performance information is after tax and fees.



ARIA determines an earning rate for the Default Fund every business day, and earnings are allocated to members' accounts monthly. The daily rates are used to calculate entitlements for members exiting the CSS.

For more information about our investment performance, see the **Investments** section of our CSS website at www.css.gov.au.

Default Fund earning rates

Over the five years ending 30 June 2011, the compound average rate of earnings (after tax and fees) for the Default Fund is 2.4% per annum.

Year	Earning rate (after tax and fees)	Inflation rate
2006/07	13.7%	2.1%
2007/08	-1.6%	4.5%
2008/09	-14.3%	1.5%
2009/10	9.3%	3.1%
2010/11	7.5%	3.6%



Cash Investment Option

Investment objectives

The Cash Investment Option's key investment objective is to preserve its capital and earn a return close to that of the UBSA Bank Bill Index.

The Cash Investment Option invests in:

- > cash (deposits with a bank)
- > Australian-dollar-denominated money market securities that are issued or guaranteed by a government, bank or corporate entity with a minimum credit rating of AA (or its floating rate equivalent), as determined by Standard & Poor's (or the equivalent from Moody's or Fitch if no Standard & Poor's rating is available)
- > interest rate futures and options traded on the Sydney Securities Exchange.

Cash Investment Option asset allocation

Asset allocation	As 30 June 2010	As 30 June 2011
Cash	100%	100%

Cash Investment Option

Funds under management		Fund performance		
30/6/10 \$m	30/6/11 \$m	1 year % p.a.	3 year % p.a.	5 year % p.a.
254.0	245.7	4.2%	4.0%	4.7%

All performance information is after tax and fees.

ARIA determines an earning rate for the Cash Investment Option every business day, and earnings are allocated to members' accounts monthly. The daily rates are used to calculate entitlements for members exiting the CSS.

For more information about our investment performance, see the **Investments** section of our CSS website at www.css.gov.au.

Cash Investment Option earning rates

Over the five years ending 30 June 2011, the compound average rate of earnings (after tax and fees) for the Cash Investment Option is 4.7% per annum.

Year	Earning rate (after tax and fees)	Inflation rate
2006/07	5.4%	2.1%
2007/08	6.1%	4.5%
2008/09	4.6%	1.5%
2009/10	3.2%	3.1%
2010/11	4.2%	3.6%



Who's who: Your trustees in 2010/11



Tony Hyams
Chairman
(independent)
Appointed
21 December 2009
to 25 November
2012



Peter Feltham
Trustee
(ACTU nominated)
Appointed 1 July
2005, reappointed
to 17 July 2012



**Margaret
Gillespie**
Trustee
(ACTU nominated)
Appointed
1 October 2007,
resigned
13 May 2011



Winsome Hall
Trustee
(ACTU nominated)
Appointed 1 July
1996, reappointed
to 30 September
2013



Dennis Trewin AO
Trustee
(employer
nominated)
Appointed
20 December 2007,
reappointed, and
term completed on
30 June 2011



Brian Daley
Trustee
(employer
nominated)
Appointed
19 March 2009,
term completed on
30 June 2011



Tony Cole AO
Trustee
(employer
nominated)
Appointed
16 December 2010
to 5 December
2013

Full biographies for each of the trustees can be found at www.aria.gov.au.

For details of the procedure for trustee appointments and terminations, please visit online **The ARIA Team** in the **About us** section at www.aria.gov.au.

David Irons acted as a trustee in accordance with the PSS Trust Deed and the Instrument of Appointment dated 25 July 2006.

The trustees manage the CSS and invest the funds in accordance with the law and relevant regulatory requirements. All trustees are appointed in writing by the Minister for Finance and Deregulation.

ARIA and individual trustees are covered by indemnity insurance to protect themselves and the CSS from losses arising from certain claims against them. To date, there has never been a claim against ARIA or a trustee that has resulted in the loss of members' monies, nor have any regulatory penalties been imposed.



Financial statements

Commonwealth Superannuation Scheme unaudited financial statements for 2010/11.

Operating Statement for the year ended 30 June 2011	\$ million
Value of Fund as at 1 July 2010	4,767.7
Inflows	
Changes in market value of investments	325.7
Other income	2.1
Employee contributions	96.0
Employer contributions	34.6
Government co-contributions	0.9
Appropriation from CRF	3,378.2
Outflows¹	
Benefits paid	(4,002.1)
Income tax expense	(4.7)
Value of the Fund as at 30 June 2011	4,598.4
Assets and liabilities as at 30 June 2011	
Investments ²	4,578.5
Cash at bank	40.8
Amounts to be appropriated from Consolidated Revenue Fund	0.4
Other receivables	0.2
Benefits payable	(16.2)
Other payables	(0.0)
Provision for tax	(5.3)
Net assets as at 30 June 2011	4,598.4

1. The expenses of the CSS are met in the ARIA Investments Trust, and accordingly, no administration or investment expenses appear here.
2. The value of investments shown above reconciles with the Total Fund values shown on pages 13 and 15 as follows:

	\$ million
Default Fund	4,330.9
Cash Investment Option	245.7
Total Fund	4,576.6
Add/(less)	
Valuation difference due to timing	1.9
Total	4,578.5

Notes:

The assets of the CSS are invested in the ARIA Investments Trusts (AIT), where they are pooled with the investments of the other Commonwealth public sector superannuation funds – the Public Sector Superannuation (PSS) and the Public Sector Superannuation accumulation plan (PSSap) – in order to deliver a cost-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 sales, and incurs administration and management expenses, including expenses that would otherwise be incurred by the CSS.

The operating surplus or deficit generated by the AIT is reflected in daily unit prices provided by the AIT for its unitholders, including the 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 the CSS audited financial statements for this year and the reports from the auditor, please refer to our Annual Report to Parliament (which is published and tabled in the Parliament in October) at www.aria.gov.au, send an email to members@css.gov.au, call us on 1300 000 277 or write to CSS, PO Box 22 Belconnen ACT 2616.



Contact CSS

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

On our website you'll find:

- > our **product disclosure statement**
- > a handy glossary of terms
- > forms and publications to change your investments or learn more about your options
- > news and information
- > dates and locations for ARIA'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
 - update your address and contact details
 - sign up to receive your full **Member Statement** online
 - view and download your **Member Statement**
 - pay surcharge and leave-without-pay contributions via BPAY.

To access **Member Services Online**, you will need a secure 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.

-  www.css.gov.au
-  members@css.gov.au
-  1300 000 277
- TTY: 02 6272 9827
-  02 6272 9612
-  CSS Member Services
PO Box 22
Belconnen ACT 2616

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

-  www.aria.gov.au
-  secretary@aria.gov.au
-  02 6263 6999
-  02 6263 6900
-  ARIA
GPO Box 1907
Canberra ACT 2601