Officers' Superannuation **Fund**

Your Fund. **Your future.** **June 2004**

Welcome to new members who have joined the OSF since our last *Your Fund. Your future* newsletter (February 2004).

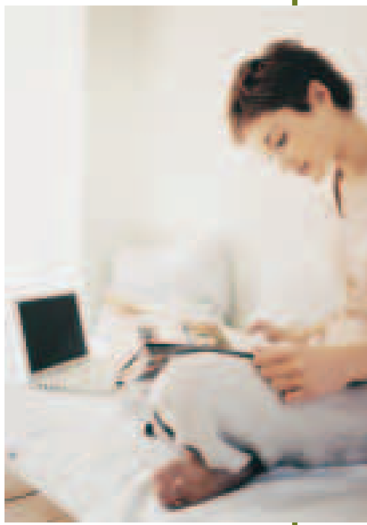
In this newsletter we remind eligible Members of Division F what they need to do should they wish to vary their current level of Death and Total and Permanent Disablement (TPD) insurance. Any variation request must be received by the 30 June 2004.

We also provide an outline of the Government's new co-contribution scheme which is now in place. Eligible contributions from eligible members must be received by the Trustee prior to 1 July 2004 to participate in a co-contribution from the Government for the 2003-04 financial year.

In addition to our regular investment market update, we have included information on the current management structure employed for the international equities asset class. We also profile one of the managers investing in this asset class, Marathon Asset Management.

We hope you find the information contained in the newsletter useful and informative. Any feedback you would like to give us regarding our member education/communication programme would be welcomed. Please provide feedback to:

Natasha Lung
Staff Superannuation Fund Services
Level 11, 175 Pitt Street
Sydney NSW 1155
(CBA 2044 056)
Email: natasha.lung@cba.com.au



30 June cut-off to vary your level of insurance cover

(In-service Division F Category 1 Members)

With the calendar rolling around to June, it is now time to consider whether or not you wish to change your level of Death and TPD cover.

Under the current terms of the OSF Trust Deed, all Division F Ordinary Members (Category 1) qualify for Death and TPD cover, which provides valuable protection for you and your family. Ordinary Members (Category 1) are generally current permanent full-time or part-time employees of an Employer. You can check your membership status from the information supplied to you when you joined the Employer or your last Annual Benefit Statement.

If you are an eligible member of Division F with insurance cover, you have the opportunity once a year to change your level of cover (i.e. increase or decrease). Just follow the checklist on the enclosed Insurance Bulletin (provided to Division F Category 1 Members only) to change your level of cover. The window of opportunity to change your level of cover for the 2004-05 financial year ends on Wednesday 30 June 2004.

Please contact OSF Member Services if you require any assistance (refer to the Service directory at the end of this newsletter for contact details).

Contents **Page**

- Welcome 1
- 30 June cut-off to vary your level of insurance cover (In-service Division F Category 1 Members) 1
- Investment markets update – March 2004 quarter 2
- OSF returns
  – OSF returns by asset class 2
  – Investment mix returns 3
- How does the OSF invest in international equities? 3
- Fund manager profile: Marathon Asset Management 4
- How do investment fees in the OSF work? 5
- Government Co-contributions 5
- Service directory 6

Important note

Investment markets update – March 2004 quarter

Investment market performance during the March quarter was good with positive returns achieved for both the return seeking (growth) asset classes (Australian equities, International equities, Direct Property and Alternatives) and the risk controlling (income) asset classes (Fixed interest and Cash).

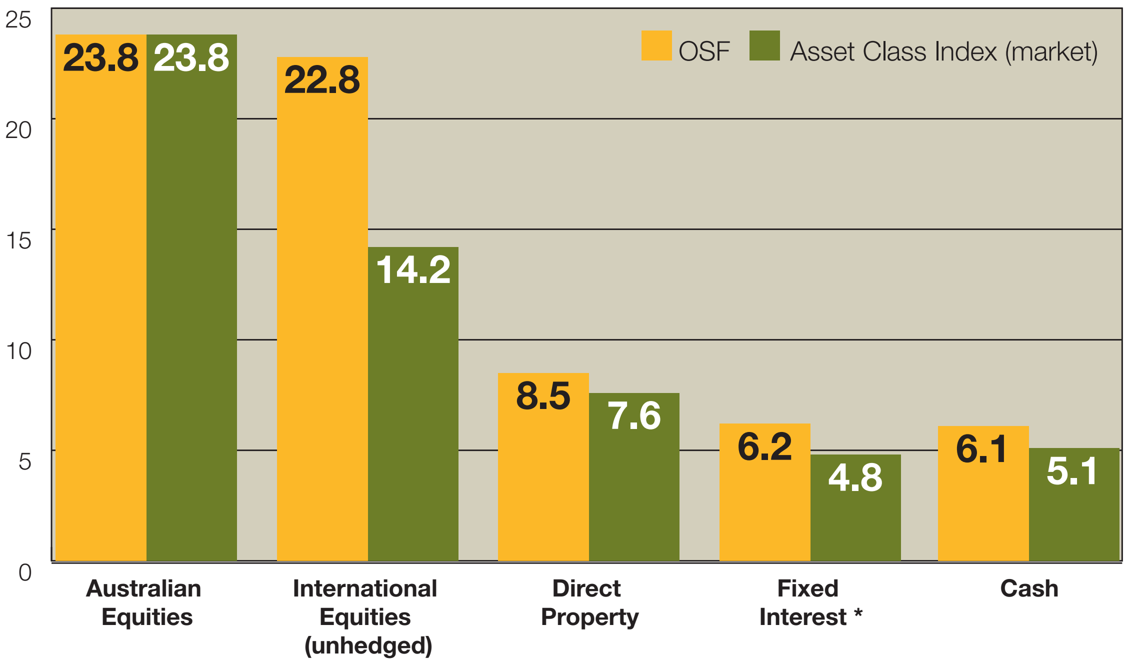
The best performing asset class for the quarter and the last 12 months has been Australian equities, as measured by the movement in the S&P/ASX 200 Index, returning 4.7% and 23.8% respectively.

International equities have also performed strongly with the movement in the MSCI World (ex Australia) $A Index, returning 1.3% for the quarter and 14.2% for the 12 months on an unhedged basis.

Fixed interest markets in comparison have generally achieved lower returns over the 12 month period due to increases in Australian interest rates over the period.

Overall, these changes in the financial markets reflected favourably in the performance of the MIC options, especially in the options with the higher exposure to the equity markets (i.e. Mix 90 and Mix 70).

OSF investment returns by asset class for the year ended 31 March 2004 (%)



OSF returns

OSF returns by asset class

In all asset classes, the OSF has performed at or over the benchmark for the annual asset class returns to 31 March 2004.

These pleasing results for the fund, particularly for International equities, are shown in the *Table of OSF returns by asset class to 31 March 2004.*

Table of OSF returns by asset class to 31 March 2004

Asset class	March 2004 Quarter %		Annual returns %		Three year returns % p.a.		Five year returns % p.a.	
	OSF	Benchmark	OSF	Benchmark	OSF	Benchmark	OSF	Benchmark
Australian equities	3.3	4.7	23.8	23.8	7.6	7.0	7.7	6.8
International equities	2.9	1.3	22.8	14.2	–9.6	–12.5	1.4	–4.5
Direct property	1.1	2.0	8.5	7.6	9.4	8.8	10.3	9.5
Fixed interest*	2.8	2.5	6.2	4.8	6.6	6.0	6.9	6.5
Alternatives#	0.9	1.4	–	–	–	–	–	–
Cash	1.4	1.4	6.1	5.1	5.3	4.9	5.5	5.3

* A composite benchmark reflecting that the portfolio is invested in both Australian and International fixed interest securities.

Alternatives was introduced as a separate asset class from 28 November 2003. Hence, there are no annual, three-year or five-year returns.

Investment mix returns

The investment earnings calculated are based on the change in unit prices for each investment option during the relevant period. The actual investment earnings credited to your OSF account will depend on the investment options you have chosen and the timing of any transactions (eg switches and contributions) into and out of these options.

These returns are only applicable to those members with Member Investment Choice (MIC). For more details about the investment options, please refer to Part 2 of the OSF Product Disclosure Statement (PDS) – *Investments and Fees* (issue date 11 March 2004). If you would like a copy of the PDS, please visit the Staff Super Intranet site or contact OSF Member Services for a copy.

In terms of investment options, the mixes returned the following:

OSF Division F returns to 31 March 2004

Investment option	Quarter %	Annual %	2 year % p.a.	3 year % p.a.
Mix Cash *	1.2	5.9	5.2	4.5
Mix 30	2.6	8.9	5.2	4.7
Mix 50	2.8	11.0	4.4	4.4
Mix 70	2.8	12.8	3.0	3.6
Mix 90	2.8	15.0	1.2	2.5

* returns reflecting that the Mix Cash portfolio was Mix 10 prior to 3 October 2003.

Note:

- Asset allocations for the remaining options were changed effective 28 November 2003.
- These returns are applicable to taxable unit prices based on release dates.

How does the OSF invest in international equities?

In considering where to invest the OSF assets there are six main asset classes used by the OSF Trustee – Australian equities, International equities, Property, Fixed interest, Alternative assets and Cash. In this newsletter we take a look at the International equities asset class.

The International equities asset class contains share investments in companies that are listed on a stock exchange other than Australian Stock Exchange (ASX), thereby providing ownership exposure to overseas companies. This enables the assets to be invested broadly and provides an opportunity to own shares in world class companies and to invest in industries that are not represented on the ASX. An allocation to international equities is made in each Member Investment Choice (MIC) option with the exception of Mix Cash. Generally, the higher the allocation to growth assets for the MIC option the higher the allocation of international equities.

How are returns generated?

Returns from international equities come from the capital gains and/or losses in the market prices of the equities and income through the receipt of company dividends. This is similar to the way that returns are generated from investments in Australian equities although the tax treatment applying to investments in Australia may be different to those applying to overseas investments.

One notable difference, however, between investing in Australian based assets and international assets is the impact that the movement in the Australian dollar has on the returns. (This is explained further in *How does a change in the value of the Australian dollar affect returns?*)

Who manages the International equity investments for the Fund?

Currently, the international equity investments are managed as follows:

Investment Manager	Strategic Proportion managed %
Capital International, Inc	50%
Marathon Asset Management	50%

Both investment managers have a benchmark of the Morgan Stanley Capital International World Index (MSCI) excluding Australia (unhedged).

Capital International has been an International equities manager for the OSF for around 14 years (since June 1990). Marathon Asset Management has been investing monies on behalf of the OSF for around 6 years (since May 1998).

The table below shows the performance record of both managers for the period ending 31 March 2004.

Performance record

Period ending 31 March 2004	Capital International Performance % p.a.	Marathon Asset Management Performance % p.a.	Benchmark Return % p.a.
1 year	18.9	27.1	14.2
3 years	-11.5	-2.4	-12.5
5 years	0.8	6.6	-4.5

How does a change in the value of the Australian dollar affect returns?

In calculating returns, the OSF's assets held in currencies other than the Australian dollar must be converted to their equivalent Australian dollar value. The Australian dollar value is calculated using the exchange rate of the Australian dollar relative to the currency(ies) the assets are held in, at the date the return is calculated.

When the Australian dollar rises the value of the foreign currency falls and vice versa. Thus, in the absence of any movement in the actual value of the foreign held asset, a rising Australian dollar will result in negative returns and a falling Australian dollar will result in positive returns.

For example: US$1,000 of shares are bought at an exchange rate of 70 US cents, costing A$1,428.57. If the Australian dollar falls to 65 US cents and the share price in US$ has not changed, the value of the share rises to A$1,538.46. This results in a 7.69% return for the investor, even though the share price in $US has not altered.

Conversely, if the Australian dollar rises from 70 US cents to 75 US cents and the share price in $US has not changed, then the value of the share falls to A$1,333.33. This results in a –6.67% return.

One strategy available to remove the impact of currency movements is to hedge the foreign currency exposure. The Trustee's strategy, prepared in consultation with its external investment consultant, is not to hedge the foreign currency exposures generated by holding international equities.

This strategy has been developed in the belief that:

- currency has little impact on returns over the longer term;
- it is difficult to correctly forecast movements in currency markets; and
- at the current asset allocation level to international equities, the diversification benefits of unhedged currency are greater than the additional short-term risk.

FUND MANAGER PROFILE:

Marathon Asset Management (Marathon)

Marathon is an independent investment management company based in London. The company was formed in 1986 by its three founding Directors and (as at 31 December 2003) had approximately $30 billion of assets under management.

The company is 100% owner managed and this ownership structure has provided stability and consistency to the company in what is usually a highly volatile industry.

Marathon believes that successful investment, as defined by adding value to client portfolios in excess of the benchmark market return, is best achieved by a methodology that focuses on investment risk (the risk of paying more for an asset than it is worth) rather than closely trying to replicate the market benchmark.

To achieve the value add in excess of the benchmark, Marathon aims to generate consistent long term performance by disciplined stock picking supported by focused internal research and analysis. The investment strategy is generally more "qualitative" than "quantitative", is thematic and looks for leading indicators of and catalysts for, change at country, individual stock or industry levels.

Portfolios are characterised by longer than average holding periods for individual securities and, by implication, low turnover costs for clients.

Marathon is highly rated by the Trustee's investment consultant, Watson Wyatt, and within the broader investment community. The company is well regarded for its

- independence;
- high quality proprietary research;
- intellectual capital; and
- integrity.

Today the company manages money for large clients around the globe, including pension funds, corporations, insurance companies and endowments.

To protect the integrity of the investment process and the potential to generate the value add for existing clients, Marathon is currently closed and is not accepting new clients.

How do investment fees in the OSF work?

We are aware from recent enquiries that some members would like further information on the investment related fees charged within the OSF. The fees charged can be broadly divided into two categories, transaction based and ongoing. The transaction based fees (e.g. share brokerage) are captured as part of the net cost or purchase price of the asset. The ongoing costs (e.g. investment management and custody fees) are charged through a deduction from the investment earning rates before unit prices are calculated.

The actual amount of the ongoing fee deducted (expressed as a percentage) depends on the Member Investment Choice (MIC) option(s) you have chosen to invest in. The current fees for each option are shown in the table below.

The before tax amounts apply to allocated pensions whilst the after tax amounts apply to in service, spouse, family law and post employment accounts. Under current legislation, earnings on allocated pension investments are not subject to income tax. As a result, no tax deductions can be claimed for expenses (such as fees) relating to these investments, so the before tax fee is higher in dollar terms than the after tax fee.

The management fees payable are deducted from the investment earning rate before unit prices are calculated. For example, if the unit price at the beginning of the year is $1.00, the net investment return after tax for the year is 3.5% p.a. and the management fee after tax is 0.249% p.a. (Mix 50) the unit price at the end of the year will be $1.03251. The after tax management fee is calculated by taking the before tax fee and multiplying it by 0.85 (i.e. 1 – 0.15, the current tax rate for superannuation funds).

To assist you understand the dollar impact per annum of the ongoing (management) fee charged we have included an example in the table, assuming an account balance for the whole year of $10,000.

The example does not take into account any flexibility fees charged for amounts rolled into the fund, any applicable investment switching fees, administration fees or other fees and charges.

Under the OSF Rules, the Trustee has the discretion to change the level of current fees and charges and to introduce new fees and charges. If there are any changes you will be notified in writing, at least 30 days in advance.

	Current Management Fee pa (%)	Example Dollar Fee p.a. for $10,000 Invested (before tax)	Example Dollar Fee p.a. for $10,000 Invested (after tax)
Mix Cash	0.097	$9.70	$8.25
Mix 30	0.236	$23.60	$20.06
Mix 50	0.293	$29.30	$24.90
Mix 70	0.338	$33.80	$28.73
Mix 90	0.387	$38.70	$32.90

Government Co-contributions

In the last newsletter, information was provided about the introduction of the Government Co-contribution for low income earners. Since then, there have been some regulatory as well as Trustee policy developments on the issue. An outline of the recent developments and how they may impact on your OSF benefits is provided below. At the time of this article going to print, the Government had announced in its May 2004 Federal Budget, further changes to the co-contribution scheme. A brief summary of the proposals is also provided.

Do I have to apply for a co-contribution payment?

No, you will not need to take any steps to apply for the payment. The OSF will advise the Australian Taxation Office (ATO) the amount of any personal contributions you have made to the Fund. Following lodgement of your income tax return for the year, the ATO will assess your eligibility for the co-contribution and calculate the amount of co-contribution if payable. The ATO will write to you direct advising the amount of any co-contribution you are entitled to and where the co-contribution has been paid.

How much will the Government co-contribute towards my super benefit?

The amount of any Government co-contribution you may receive will depend on your total income (assessable income plus reportable fringe benefits) and the amount of personal undeducted contributions you have made during the financial year.

For example:

Incomes up to $27,500

The Government will co-contribute $1 for every $1 of personal contributions made to your super up to a maximum of $1,000.

Incomes between $27,500 and $40,000

The maximum co-contribution that may be payable is reduced by 8 cents for every dollar of income earned over $27,500, and completely phases out at $40,000.

If your total income is between $27,500 and $40,000, you can use the co-contribution calculator on the ATO's website (http//www.ato.gov.au/super and click on Calculators) to work out the co-contribution payment you may receive from the Government. The minimum co-contribution payment that may be paid is $20.

Incomes over $40,000

You are not entitled to receive a Government co-contribution, even if you have made personal undeducted contributions during the year.

How do I make personal contributions in the OSF in order to be eligible for the co-contribution?

Defined Benefit Members

In general, Defined Benefit Members of the OSF who are current employees already contribute a percentage of their salary to the OSF on a fortnightly basis. However, members may wish to review their contribution rate where possible, to maximise their eligibility for the co-contribution.

(Continued on page 6)

(Continued from page 5)

More information on making personal contributions in your Division can be found on the Staff Super Intranet site, or you can contact OSF Member Services.

Accumulation (Division F) Members

Members of Division F who are current employees may also at present personally contribute a percentage of their salary on a fortnightly basis.

Under recent changes, Division F Members may now also make non-regular lump sum contributions to the OSF.

Non-regular lump sum contributions can be made:

- by payroll deduction
- by direct debit from a CBA bank account on a fortnightly paydate; and
- by cheque at any time (note that for this method of payment, the flexibility fee which is currently $20, will be charged to your account).

A *Division F – Contributions Form* can be obtained from the Staff Super Intranet site or from OSF Member Services.

Note that your personal contributions must be made into the OSF **by 30 June 2004** in order to be eligible for the co-contribution in the 2003/04 financial year.

Can the Government co-contribution be paid into my bank account?

No. The co-contribution payment will generally be paid into a regulated superannuation fund or Retirement Savings Account (RSA) to add towards your current superannuation savings.

If you only have one super fund account, the co-contribution will be paid into that account.

If you have two or more super fund accounts, you are able to nominate with the ATO which fund the co-contribution is to be paid to. The ATO has a nomination form available on its website. If you do not nominate a fund to receive your co-contribution, the ATO will work out where to pay the amount using the payment destination rules set out in the legislation.

Not all super funds may be able to accept Government co-contribution payments. If, at the time of payment, a person does not have a super fund account that can accept the Government's co-contribution payment, the ATO will pay the amount to an account in the Superannuation Holding Accounts Reserve (SHAR).

The Government co-contribution payment may be paid to you if, at the time of payment, you have retired and have been paid your superannuation benefits.

Can the OSF accept a Government's co-contribution Payment?

The OSF will generally accept a Government co-contribution payment, subject to the 'rules' set out below:

Defined Benefit Members

Where a Defined Benefit Member who is a current employee is eligible for a contribution payment from the Government, the payment can be credited to a Division F account established on their behalf (if one does not already exist). If the Division F account is used solely for the purpose of receiving the Government's co-contribution payment (eg it is not used for salary sacrifice contributions), the fortnightly administration fee which is currently $3.10 will not be charged.

Division F Members

For Division F members who are current employees and are eligible to receive a Government's co-contribution, the co-contribution payment will be credited to the member's existing Division F account.

Post Employment Members (Defined Benefit and Division F Members)

Post Employment Members of Division F will have any co-contribution payment credited to their post employment account.

Co-contribution payments made on behalf of post employment defined benefit members cannot be accepted into the OSF unless the member has an existing Post Employment Division F account.

On receipt of a co-contribution from the Government, the Trustee will write to you to confirm receipt of the payment.

Proposed Changes to the Co-contribution Scheme

The Government has recently announced its intention to expand eligibility for the Co-contribution scheme to provide greater incentives for people to save for their retirement.

It has been proposed that from 1 July 2004, the Government will increase the maximum co-contribution from $1,000 to $1,500 for a $1,000 personal contribution. The maximum co-contribution will apply to persons on income levels up to $28,000 (previously $27,500). The maximum co-contribution will reduce by 5 cents for each dollar of income above $28,000, and will phase out completely at an income of $58,000 (currently $40,000).

It has also been announced that the eligibility criteria for the co-contribution will be broadened to include all persons who make personal undeducted contributions and not just those receiving employer superannuation support. These changes are proposed to apply from 1 July 2004.

More information...

For more information on the Government co-contribution scheme, you can obtain a Fact sheet from the Staff Super Intranet Site, or from OSF Member Services.

Service directory

	OSF members in Divisions B, C, D, E and F (including former CGSSS accumulation members of Divisions I, J, L and P)	**OSF members who are former CGSSS defined benefit members**
Phone:	1800 023 928 (national freecall unless made from a mobile phone)	1300 363 016 (national freecall unless made from a mobile phone)
Fax:	02 9841 6455	03 9222 4350
E-mail:	osfms@cba.com.au	osf@mellon.com.au
Write to:	OSF Member Services Level 12 150 George Street Parramatta NSW 2150 (CBA 2052 153)	OSF Member Services C/- Mellon Human Resources & Investor Solutions GPO Box 9946 Melbourne VIC 3001