

1998 Annual Report

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Chairman's Report

I am very pleased to be able to report to Members, in this our 40th year of operation, the achievement of record growth and strong performance.

The Fund has grown in the past year by more than 30%, with **Fund assets now approaching \$124 million.**

The Directors have declared a return of **11.45%** for the year ending 31st December 1998 which includes an abnormal gain arising from the allocation of shares in AMP Limited following its demutualisation.

With inflation at about 1.6% for the period, the real rate of return approaching 10% ensures that the ultimate purchasing power of Members' benefits is not only maintained but enhanced.

We were delighted to welcome Haileybury College and Flinders College to the Fund, as participating employers, during the year. I think that we should confidently expect that other schools and colleges will almost certainly follow this lead over the period ahead as the complexities and responsibilities driven by legislation are creating a difficult environment for independent employer sponsored funds to survive, to some extent irrespective of size.

Strong performance has been sustained with Members' (or Schools') balances being credited with a return of 11% after taking into account all taxes and charges.

With inflation being held at very low levels (1.6% for the year) the real return to Members after inflation is more than acceptable given the excess of return over

inflation of 6.5% over the past five years. Yields have been in double digit figures now for 18 of the past 24 years and whilst the Directors are keen to dampen any expectation of Members that this can continue indefinitely, the local economy remains strong and positive.

The results are even more pleasing in view of the extreme economic difficulties present in certain global regions including Japan, Russia, Brazil, Indonesia and other Asian countries all of which Australia seems to have been able to survive.

During the year, following a comprehensive review, a decision was made by the Directors to move from a regime of Balanced Fund Managers to Sector Specialist Managers which occurred at 1 July 1998. We are confident that this will capture additional earnings for Members over the years ahead. Specific mandates given to Sector Specialist Managers are detailed elsewhere in this Report.

The move to Sector Specialist Managers meant that systems were in place that could accommodate Member Investment Choice and, again after a thorough review, this was offered to Members with effect from 1 January 1999. Representatives from the Secretariat Office visited most Common Rooms and explained the investment option process which essentially involves giving Members, over the long term, more responsibility in selecting from a variety of options, should they wish to do so.

As was the expectation, the initial take-up rate has been fairly low with only 2-3% of Members becoming involved from the outset, but many have expressed the view that they would prefer to observe the performance of these options for a time with a view to making their own decisions after they have become comfortable with the system and its operation.

Investment Strategy

Long standing Members will recall that the investment strategy for Division C has been of a conservative nature with a high degree of importance being placed on the underlying security of capital.

Whilst this has served Members well in the past, the philosophy appropriate to a sacrifice in salary increase to fund basic superannuation benefits and the consequential need to invest very conservatively has been superseded by the creation of a mature fund and the need to move to a strategy that reflects the normal mix of assets usually found in Balanced Funds.

I would like to thank all my fellow Directors for the time and expertise which they have devoted to the Fund's activities over the year and, of course, the Secretariat personnel who talk to Members at the 'chalk face' providing that personal service which, whilst routine and everyday, is vitally important.

There is no doubt that your Fund is very well placed to meet the changing face of the market place and the effects of the legislative process and we should all look forward with confidence and enthusiasm to the task ahead.

J R Evans

Chairman.

Investment Results

The first six months of the year saw reasonable growth, but much of this was lost in the 3rd Quarter, when markets around the world fell dramatically. The U.S. market was down 18%, the U.K. market down 24%, Singapore down 28%, and the Australian market down 12%. The last quarter of 1998, however, saw a dramatic recovery locally, as the market offered opportunities for entry at attractive prices.

The Directors have declared the following rates for the year:

| Division A & B | |
|------------------------------|-------|
| Balance/Market linked | 11.0% |
| Capital Stable | 9.5% |

With inflation for the period running at 1.6% these returns continue to provide Members with exceptional real rates of return, on a consistent, long-term basis.

Reserves For Divisions A & B

The Trustee maintains an Investment Fluctuation Reserve (IFR) in order to smooth results for Division A/B Members in the Balanced Fund, over time.

In 1998, an amount of \$378,636 was drawn from the I.F.R. and used to supplement the declared rate, as it was felt that:

- The costs incurred in converting from Balanced Investment Managers to Sector Specialist Managers should be borne by the Fund and not the Members
- With the move to Member Investment Choice, a move toward a lower percentage holding in the I.F.R. was warranted.

The 3.5% I.F.R. holding as at 31st December 1997 has been reduced to 2.1% as at 31st December 1998, to reflect this. Movements over the past three years, have been as follows:

| Year | Movement | Balanced |
|-------------|-----------------|-----------------|
| 1996 | \$463,646 | \$3,331,523 |
| 1997 | (\$682,573) | \$2,648,950 |
| 1998 | (\$378,636) | \$2,270,314 |

Investment Managers

Our 1997 Report foreshadowed a move to Sector Specialist Managers, and this was put in place as at 1st July 1998.

At that time our Balanced Fund Managers were:

| | | |
|--------------------------|-----------|-------------|
| Rothschilds | (approx.) | 50.0% |
| HSBC | (approx.) | 33.3% |
| J.P. Morgan | (approx.) | 8.4% |
| Mercantile Mutual | (approx.) | 8.3% |
| | | 100% |

Following a very thorough review process the Balanced Mandates of the above Managers were terminated and the following Managers were given specific Sector Mandates:

| | % of Fund | % of Sector |
|---|------------------|--------------------|
| Australian Equities | 37.4 | |
| Colonial First State | | 50% |
| Maple Brown Abbot | | 50% |
| Diversifies Fixed Trust Interest | 24.0 | |
| Macquarie | | 50% |
| UBS Brinson | | 50% |
| Property | 10.8 | |
| HSBC | | 100% |
| International Equities | 18.8 | |
| Bank of Ireland | | 100% |
| Cash | 9.0 | |
| Macquarie | | 100% |

Asset Allocation

The allocation of assets through the range of investment sectors can have an important effect on yields achieved in the Balanced options. An overweight (or underweight) holding in shares, for example, can have a dramatic impact on potential returns, depending on whether one has "timed" the market correctly, or not.

After much consideration, the Trustee came to the conclusion that following the move to Sector Specialist Managers a "risk neutral" stance in this area would be in the best interest of Members, and decided that the asset allocation, ie. the percentage of assets which are allocated to each specific sector, should reflect the average of all of the Managers, as listed in leading Performance Surveys.

By removing this area of risk, the Trustee feels that Members are more likely to reap the rewards arising from the expertise of the selected Sector Specialist Managers, and reduce the potential "downside" that might otherwise exist.

Division A & B Investment Returns

| Year ending 31 December | Balanced % | Capital Stable % | CPI % |
|------------------------------------|-------------------|-------------------------|--------------|
| 1994 | -3.0 | 0.0 | 2.6 |
| 1995 | 14.0 | 12.0 | 5.1 |
| 1996 | 10.0 | 8.0 | 1.6 |
| 1997 | 12.0 | 9.4 | -0.2 |
| 1998 | 11.0 | 9.5 | 1.6 |
| Compound Average Returns | | | |
| 3 years | 11.0 | 9.0 | 2.1 |
| 5 years | 8.6 | 7.7 | 2.1 |

Investment Strategy & Objectives

The Directors are of the view that, over time, Members will wish to have greater input into the investment of the monies which form part of their retirement savings. To this end, a number of Member Investment Choice options have been put in place, effective from 1st January 1999.

The various options are listed below:

- ▶ Australian Shares
- ▶ International Shares
- ▶ Diversified Fixed Interest
- ▶ Property
- ▶ Balanced
- ▶ Capital Stable
- ▶ Ethical
- ▶ Cash

If no specific choice is made by a Member, the Balanced Option will be the Default Option, and the objectives of that Option are as follows:

1. The assets of the Fund are to be invested with a high level of security.
2. Investment returns should average 4-5% per annum in excess of the Consumer Price Index rate of inflation over rolling 5 year periods.
3. Rates of return should place the Fund in the upper half of results recorded in a recognised survey of Pooled Superannuation Funds over rolling 3 year periods.
4. There should only be a minimal chance of a negative return in any one year.

With those investment objectives in mind the Trustee will implement the following policy to achieve those objectives.

- a. The assets should be diversified amongst the major asset classes to reduce the risk of an excessive dependence on the performance of any single asset class.
- b. The assets should be invested by several leading portfolio Managers to reduce the risk of the Fund or any one Manager under performing its peers for an extended period.
- c. Appropriate ranges for asset classes have been set and will be reviewed at least annually.
- d. The benchmark portfolio derived from the setting of the asset class ranges is expected to achieve investment returns of 4-5% in excess of inflation measured against the Consumer Price Index over rolling 5 year periods with less than a 15% chance of a negative return in any single year.
- e. The Investment Fluctuation Reserve of the Fund has been maintained to assist in smoothing out returns for members so that these can be enhanced in years when investment returns are low and the reserve can be replenished when investment returns are high.

The following chart shows the % range, and Benchmarks, which now apply.

| Asset Class | Asset Range % | Benchmark % | Actual % | |
|-----------------------------------|----------------------|--------------------|-----------------|-------------|
| | | | 1998 | 1997 |
| Australian Equities | 32-34 | 37.4 | 37.9 | 33.8 |
| International Equities | 14-24 | 18.8 | 17.4 | 13.0 |
| Property | 11 | 10.8 | 12.2 | 10.8 |
| Diversified Fixed Interest | 23 | 23.0 | 22.2 | 12.4 |
| Indexed Bonds | 1 | 1.0 | 1.0 | 0.2 |
| Cash | 4-14 | 9.0 | 9.3 | 29.8 |
| | | 100.0 | 100.00 | 100.0 |

The Fund's Finances

The audited Financial accounts of the Fund for year ended 31 December 1998 show the following movement in the Fund's net assets.

| Division A & B | 1997 | 1998 |
|---|-------------------|--------------------|
| Net assets at beginning of year | 75,792,519 | 87,783,214 |
| Plus | | |
| Employer contributions | 6,084,959 | 7,441,702 |
| Increase in market value of investments | 5,437,021 | 7,623,229 |
| Interest & other investment income | 4,194,759 | 3,554,701 |
| Insurance claims | 196,872 | 98,985 |
| Member contributions | 1,545,889 | 1,852,181 |
| Transfers from other funds | 5,109,222 | 21,909,811 |
| | 22,568,722 | 42,480,609 |
| Less | | |
| Actuarial costs | 31,049 | 13,380 |
| Administration costs | 362,323 | 332,661 |
| Advertising & promotion | 1,430 | - |
| Audit costs | 25,116 | 32,478 |
| Benefits paid/payable | 7,407,207 | 8,653,612 |
| Direct investment costs | 460,270 | 312,915 |
| Exit fees | 19,000 | 24,000 |
| Income tax expenses | 1,556,025 | 2,041,568 |
| Insurance premiums paid | 499,365 | 518,369 |
| ISC fees | 12,800 | 12,800 |
| ISC review | 3,745 | - |
| Legal costs | 12,992 | 31,791 |
| Other administration costs | 4,481 | 3,388 |
| Printing & stationery costs | 21,794 | 35,248 |
| Professional & consulting costs | 23,541 | 107,620 |
| Trustee indemnity insurance | - | 14,576 |
| Secretarial costs | 136,890 | 111,108 |
| | 10,578,028 | 12,245,514 |
| Net assets at end of year | 87,783,214 | 118,018,309 |

| Division A & B (continued) | 1997 | 1998 |
|---|-------------------|--------------------|
| The fund's net assets at the end of year were made up of the following assets and liabilities | | |
| Current assets | | |
| Cash | 498,758 | 1,684,089 |
| Accounts receivable | 134,037 | 147,564 |
| Contributions owing by schools | 343,133 | 558,319 |
| Income receivable | - | 378,231 |
| | 975,928 | 2,768,203 |
| Investments | 91,214,335 | 119,806,882 |
| Total assets | 92,190,263 | 122,575,085 |
| Less | | |
| Current liabilities | | |
| Accrued liabilities | 208,592 | 235,248 |
| Unpaid withdrawal benefits | 2,624,691 | 1,882,882 |
| Provision for income tax | 574,257 | 1,914,771 |
| Provision for deferred income tax | 999,509 | 523,875 |
| Total liabilities | 4,407,049 | 4,556,776 |
| Net Assets | 87,783,214 | 118,018,309 |

| Division C | 1997 | 1998 |
|---|------------------|------------------|
| Net assets at beginning of year | 7,676,383 | 4,984,671 |
| Plus | | |
| Employer contributions | 986,754 | 1,137,648 |
| Increase in market value of investments | 421,990 | 576,242 |
| Interest & other investment income | 5,981 | 57,000 |
| Member contributions | 560 | 3,400 |
| Transfers from other funds | 124,187 | 100,499 |
| | 1,539,472 | 1,874,789 |
| Less | | |
| Administration costs | 37,997 | 51,392 |
| Audit costs | 2,000 | 2,000 |
| Benefits paid/payable | 4,021,504 | 1,008,415 |
| Direct investment costs | 1,370 | 3,240 |
| Exit fees | 18,550 | 14,200 |
| Income tax expenses | 138,189 | 189,257 |
| ISC fees | 1,200 | 1,200 |
| Legal costs | 3,685 | 1,500 |
| Other administration costs | 135 | - |
| Printing & stationery costs | 6,554 | 8,334 |
| Secretarial costs | - | 42,827 |
| | 4,231,184 | 1,322,365 |
| Net assets at end of year | 4,984,671 | 5,537,095 |

| Division C (continued) | 1997 | 1998 |
|---|------------------|------------------|
| The fund's net assets at the end of year were made up of the following assets and liabilities | | |
| Current assets | | |
| Cash | 17,364 | 93,974 |
| Accounts receivable | 20,112 | 6,708 |
| Contributions owing by schools | 21,653 | 37,880 |
| Income receivable | - | 21,975 |
| | 59,129 | 160,537 |
| Investments | 5,304,616 | 5,911,051 |
| Total assets | 5,363,745 | 6,071,588 |
| Less | | |
| Current liabilities | | |
| Accrued liabilities | 328 | 90,080 |
| Unpaid withdrawal benefits | 225,338 | 252,748 |
| Provision for income tax | 150,160 | 152,741 |
| Provision for deferred income tax | 3,248 | 38,924 |
| Total liabilities | 379,074 | 534,493 |
| Net Assets | 4,984,671 | 5,537,095 |

Further Information

Elections for Directors of Trustee Company

Mrs S. Willoughby retired as Director on 5th October 1999. Mr F. Johnson was appointed Independent Director for a period of one year from 1st January 2000.

On the 31st December 1999, the following Directors retired and were re-elected.

Member Representative Employer Representative Mr H. McGrath Mr C. Bonner Mr R. Sait Mr E. K Doery.

The Trustee has published rules for the appointment of Directors. Members may obtain a copy from the Inquiries Officer (see Contact Details).

All Schools and Colleges and their employees who are members of the Fund, may nominate a representative to their respective Representative College.

Directors are elected for three years and may be considered for re-election when their term of office has expired.

Eligible Rollover Fund (ERF)

When your employment is terminated and you are entitled to receive a benefit, you may choose to roll over your preserved benefit to the Personal Benefit Account (PBA) or another superannuation entity.

The Trustee will ask you to nominate the entity to which you wish to have the benefit paid. If you do not give a direction to the Trustee or if the entity nominated by you refuses to accept the payment, the Trustee will then transfer it to the PBA or the Eligible Rollover Fund (ERF) that it has chosen for this purpose, usually after 30 days.

If your benefit is transferred to the ERF, your membership of the Fund will cease. You can withdraw your benefit from the ERF at any time, subject to the preservation requirements. (See Contact Details for details of the Fund's ERF).

In the interest of *your better investment choices* we recommend you read the information detailed in the "Important things you need to know" page on our website (in "About CSSF").

Participating Schools

Divisions A & B

Aitken College
Ascension College
Bacchus Marsh Grammar School
Ballarat and Clarendon College
Ballarat and Queens Anglican Grammar School
Beaconhills Christian Community College
Belgrave Heights Christian School
Billanook College
Braemar College
Canberra Grammar School
Caulfield Grammar School
Christ Church Grammar School
Christian College Highton
Flinders College
Free Kindergarten Association of Australia
Gippsland Grammar
Goulburn Valley Grammar School
Haileybury College
Heathdale Christian College
The Knox School
Launceston Church Grammar School
Leibler Yavneh College
Macedon Grammar School
MLC School, Burwood - NSW
Mountain District Christian School
Mowbray College
Newhaven College
Overnewton Anglican Community College
Rossbourne School
Sophia Mundi Rudolf Steiner School
St Andrews Christian College
Sunshine Christian College
Taylors Schools Ltd
The Geelong College
The Village School
Trinity Anglican School - Cairns
Trinity Grammar School - Summerhill, NSW
Victorian Municipal Pre-School Association
Westernport Christian College
Yarra Valley Grammar School

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