



The Super Money Eligible Rollover Fund

SMERF

Annual Report for the year
ending 30 June 2007

SMERF

SUPER MONEY ELIGIBLE ROLLOVER FUND
ABN: 94 334 023 289 SFN: 511 787 055 RSE: R1001372
Trustee: Trust Company Superannuation Services Limited
(ABN: 49 006 421 638, ASFL: 235153, APRA Licence No. L0000635)

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The Super Money Eligible Rollover Fund ("Fund" or "SMERF"), ABN: 94 334 023 289 SFN: 511 787 055 RN No: R1001372.

The registered office of the Trustee is:
Trust Company Superannuation Services Limited

ABN: 49 006 421 638
AFSL: 235153
RSEL No.: L0000635
Level 3, 530 Collins Street
Melbourne Vic 3000

Note: Neither the Trustee, nor any of its advisors or service providers guarantee the performance of the Fund. Any information contained in this document is general information only. We have not taken into account your individual investment objectives, financial position or needs. Before making a decision on the basis of the information contained in this document, you need to consider whether it is appropriate in light of your own circumstances and you should refer to the Product Disclosure Statement (PDS) for the Fund. You may wish to consult an appropriately licensed or authorised financial adviser for advice on your particular needs.

Whilst all due care has been taken in the preparation of this report, the Trustee reserves its right to correct any errors or omissions.

This Annual Report should be read in conjunction with your annual member statement, which shows your member entitlements in the Fund as at 30 June 2007.

CARING FOR YOUR MONEY

The SMERF was established on 1 July 2005. The Fund was established on the “accumulation” principle. Such funds operate similarly to a bank account, in that contributions are allocated to specific accounts established for each member. These accounts are credited with amounts transferred to the Fund and investment earnings (after taking into account fees, costs and taxes deducted from the assets of the Fund before determining the Fund’s crediting rate) and debited with withdrawals, amounts transferred from the Fund, any negative investment earnings and fees, costs and taxes deducted directly from a member’s account.

Insured benefits are not available through the Fund.

Who manages the Fund?

The Fund’s trustee is Trust Company Superannuation Services Limited (ABN 49 006 421 638, AFSL No. 235153, RSE L0000635); address: Level 3, 530 Collins Street, Melbourne Vic 3000. Ph (03) 9665 0200. The Trustee is responsible for the operation of the Fund and is legally obliged to operate the Fund in accordance with the Trust Deed and relevant law.

The directors of Trust Company Superannuation Services Limited for the period from 1 July 2006 to 30 June 2007 were; Jonathan Westaby Sweeney, Luigi Mario Rodriguez, Noel Albert Davis, Vicki Allen [Chairperson] (Appointed 28 March 2007) Nicholas Sette (Resigned 29 November 2006), John Michael Dinan (Resigned 31 May 2007), and Megan Elizabeth Bolton was appointed 26 July 2006. Mr Nicholas Sette was appointed Secretary to the Board 29 November 2006.

The Trustee uses a range of specialist service providers to help look after the Fund and its investments as follows as at 30 June 2007:

| | |
|------------------|---|
| Auditors | Virgoe Crispin |
| Administration | Pillar Administration |
| Asset Consultant | TAG Asset Consultants Pty Ltd trading as Atchison Consultants |

The Trust Deed sets out the rules that govern the management of the Fund including how benefits are calculated. For a copy of the Trust Deed, phone 1800 114 380. Should there be any inconsistency between this report and the Fund’s Trust Deed, the terms of the Fund’s Trust Deed will prevail.



As a result of the 'better super' reforms, a number of changes have been made to the Fund's Trust Deed during the year. These changes are to allow the Trustee of the Fund to:

- > Meet new taxation and other obligations introduced by the better super reforms; and
- > Give the trustee the ability to comply with the new member identification requirements as part of the anti money laundering / counter terrorism financing laws to be introduced later this year.

Trustee liability insurance

The superannuation law requires the Trustee to act in the best interests of the members at all times. The Trustee has liability insurance to protect it and the Fund against certain losses arising as a result of claims made against it (subject to the terms and conditions of the relevant insurance policy).

SMERF INVESTMENTS

Investments

The Trustee has formulated an investment policy that governs the way the assets of the Fund are invested which includes the Fund's investment objective (see below) and strategy for achieving this objective (see benchmark asset allocations below). In addition to the current objective and strategy for the Fund, this report outlines changes that will be made to the objectives and strategy in the future.

The Fund invests members' money in a single investment portfolio, with investments across

various asset classes. An investment portfolio with a spread of asset classes is designed to reduce the volatility (variability) of the returns of the portfolio.

Benchmark asset allocation

The benchmark asset allocation is the Fund's target allocation to the different asset classes. The actual asset allocation of the Fund will be close to this benchmark, but will vary from time to time, as a result of the asset allocation decisions of the underlying fund manager of the portfolio.

| Asset Class | Benchmark allocation | Actual Asset Allocation 30 June 2006 | Actual Asset Allocation 30 June 2007 |
|------------------------------|----------------------|---|---|
| Australian Shares | 12.35 | 11.0 | 13.1 |
| International Shares | 10.45 | 9.2 | 10.8 |
| Australia Property | 3.80 | 3.3 | 4.1 |
| International Property | 1.90 | 1.7 | 1.9 |
| Total Growth Assets | 28.50 | 25.2 | 29.9 |
| Australian Fixed Interest | 23.75 | 20.6 | 25 |
| International Fixed Interest | 23.75 | 20.7 | 24.6 |
| Cash | 24.00 | 33.5 | 20.5 |
| Total Income Assets | 71.50 | 74.8 | 70.1 |

The underlying fund manager of the primary investment fund in which the Fund invested as at 30 June 2007 is State Street Global Advisers. The underlying investment fund utilised at that date is the SSgA Indexed Conservative Trust. The actual asset allocation on 30 June 2006 and 2007 of the SSgA Indexed Conservative Trust is shown in the table above.

The Fund also held a small investment in the Trust Cash Management Fund, operated by Trust Company Limited. This cash management fund invests in highly liquid short term securities which have a maturity date of not more than two years.

Trust Company Limited is a related party of the Trustee. Investments in the Trust Cash Management Fund are made at arms length and any remuneration received by Trust Company Limited is on commercial terms.

Investment objective

The investment objective of the Fund is to achieve the following investment returns by a combination of income and capital growth over rolling three year periods;

- > Earn after tax returns of 4% per annum; and
- > Earn a negative return no more than one year in every ten.

The objective is not a promise or guarantee of any particular benefit or return. The objective is used by the Trustee to measure the performance of the Fund's investments.

Investment performance

Due to the Fund commencing on 1 July 2005, performance figures are only available for the period 1 July 2005 to 30 June 2007. The investment performance of the Fund is calculated after the deduction of some (but not all) fees, costs and taxes. For more information about fees and costs deducted from your account and/or deducted from your investment, see your annual Member Benefit Statement and the Fund's current Product Disclosure Statement.

The investment performance of the Fund is calculated daily and applied to member's accounts each year as at 30 June utilizing a declared crediting rate for the Fund which takes into account the performance of the Fund's underlying investments and the operation of reserves (see below). The declared crediting rate can be positive or negative and may be different from the net return from investments. Changes to the Fund's crediting rate policy will be made in the future (see further below for more information).

SMERF INVESTMENTS

The net returns (earned from the Fund's investments) and declared crediting rates since the inception of the Fund to 30 June 2007 is shown below:

| 1 July to 30 June Performance | Crediting Rate |
|--------------------------------------|-----------------------|
| 2006 | 3% |
| 2007 | 8% |

Interim crediting rates are determined at various times during the year. These are based on the investment experience of the Fund at the time of the determinations and estimated tax and indirect fees and costs. An interim crediting rate is applied to the accounts of Members that leave the Fund prior to 30 June in any year. The interim crediting rate can be positive or negative. Please note that past performance is not a reliable indicator of future performance.

Derivatives

The Trustee will not directly invest any of the assets of the Fund in derivative securities such as futures, options or swaps. The underlying investment managers utilised by the Fund may however, utilise derivatives to manage the risk and liquidity of their portfolios. Derivatives are not used by the investment managers to gear the investment portfolio of the Fund or as speculative investments. Derivatives are carefully monitored by the Trustee in accordance with the investment policy for the Fund.

Performance monitoring by the Asset Consultant

The Trustee utilises an independent Asset Consultant to provide advice regarding the investments of the Fund. The Asset Consultant to the Fund was Watson Wyatt Australia Pty Ltd who resigned with effect on 31 October 2006. Prior to this resignation tenders for the role of Asset Consultant were sought from a number of suitable Asset Consultants and as a result of this tender process Atchison Consultants were appointed Asset Consultant with effect from 1 November 2006.

The investments of the Fund are continuously monitored via regular investment reports which are reviewed by the Trustee. The underlying investment managers utilised by the Fund are appointed and removed by the Trustee in accordance with the Fund's investment policy. Any decision to appoint/remove a manager is based upon an assessment of the manager's style and performance.

Operation of Fund Reserve

The Fund operates two Reserve Accounts. Changes to the Fund's reserving policies are also being made in the future (see below for more information).

The Administration Reserve

Fees deducted from Member's accounts are paid into this Reserve and used to pay some of the costs associated with the operation of the Fund. Any surplus amount in this Reserve after the payment of costs or provisions for costs is applied to the benefit of members at the discretion of the Trustee via a distribution from the Investment Reserve. The reserve is invested in accordance with the investment policy of the Fund. The amount of the surplus Administration Reserve as at 30 June is zero.

The investment reserve

The Investment Reserve is credited with all investment income of the Fund derived from its underlying investments. The Reserve is maintained to smooth the investment returns through the declaration of interim crediting rates. Interim crediting rates are rounded up during times of poor performance and rounded down during times of abnormally high performance. The Trustee manages this Reserve to ensure excess monies are not accumulated in the reserve. The amount of the Investment Reserve as at 30 June 2006 and 2007 is shown at the top of the next column:

| 30 June | Reserve Value \$ |
|---------|------------------|
| 2006 | 43,867 |
| 2007 | 59,391 |

As far as is practical, the declared annual crediting rate applied to member accounts balances effective 30 June each year is the rate that will distribute in full the value of the Investment Reserve to members as at 30 June each year. Small amounts may remain unallocated as a result of rounding (if so, such amounts are maintained in the Investment Reserve).

For more information regarding your account balance, the allocation of investment returns, the operation of reserves and the fees and costs impacting your investment please refer to the Fund's PDS a copy of which is available by contacting the Administrator (see the final page of this report for contact details).

The Trustee does not guarantee that you will earn any specific rate of return on your investment or that your investment will gain or retain its value.

IMPORTANT CHANGE

Investment Objectives

Following a review conducted by the Asset Consultant of the Fund's Investment Policy, the Trustee has adopted new investment objectives and strategy for the Fund. These revised investment objectives and strategy will take effect from 15 December 2007. The revised specific objectives set by the Trustee for the assets of the Fund are to be as follows:

- > Achieve an after fee and tax earning rate of at least 3% per annum above increases in the Consumer Price Index (CPI) over a rolling five-year period,
- > Avoid the employment of member protection costs beyond one in every 10 years; represented by a minimum crediting rate of 3% (Member protection costs are costs that are ordinarily charged directly to member accounts but cannot,

in a given year, be deducted from the accounts to the extent they are in excess of the crediting rate allocated to member accounts. Costs that cannot be deducted from accounts will be met out of the assets of the Fund and, therefore, are borne by all members),

- > Establish capital reserves of up to 5% of assets to increase consistency of member crediting rates and help avoid member protection costs,
- > Maintain 5% of assets within a cash fund for cash flow management purposes.

The objectives are not a promise or guarantee of any particular benefit or return. The objectives are used by the Trustee to measure the performance of the Fund's investments.

Investment Strategy

The Fund's revised investment strategy to achieve these new objectives is that the Trustee will have regard to the overall circumstances of the Fund, and will comply with all applicable legislative requirements, when making decisions on investment strategy.

The Trustee believes the following long term strategic asset allocation for the Fund's assets is consistent with achieving the Fund's investment objectives:

| Asset Class | Benchmark | Ranges |
|---------------------------|-------------|--------|
| Australian Shares | 20% | 15-25% |
| Overseas Shares | 20% | 15-25% |
| Property | 10% | 5-15% |
| Australian Fixed Interest | 33% | 25-40% |
| Overseas Fixed Interest | 7% | 5-15% |
| Cash | 10% | 5-20% |
| | 100% | |

The Fund's investments will be managed with a view to ensuring that sufficient liquidity will be available to meet expected cash-flow requirements.

Assets will be invested in pooled funds managed by professional portfolio managers who will have responsibility for the investment of the assets within specific constraints.

In choosing prospective managers, the Trustee will have specific regard to their investment strategy, historical performance, effect on the diversification of the Fund's assets, and management structure.

Each underlying investment manager will be expected to report to the Trustee any major shifts in their investment strategy which they may implement, or significant changes in the management structure or other characteristics of their management style as soon as is practicable after their occurrence. Depending on the nature of any such change, the Trustee will consider whether the investment manager remains suitable for the investment strategy outlined above.

IMPORTANT CHANGE

Reserving Policy

The long term growth objectives of the Fund will be enhanced by the establishment of a new Capital Reserve which will assist in maintaining the short term volatility objective of avoiding employment of member protection costs beyond 1 in every 10 years. The new Capital Reserve will replace the existing Investment Reserve and will not effect the operation of the current Administration Reserve.

The Trustee has developed a formula based structure to funding and drawing on this new reserve which maintains transparency and minimises discretionary decisions about crediting member accounts with monies from the reserve. Both the effects of reserving and member protection costs on equity between members have been considered.

This new reserve will be established with effect from 15 December 2007.

Funding the Capital Reserve

The reserve will be funded by the allocation of 40% of the net returns above the long term objective of an earning rate of inflation + 3% after fees and taxes, to the reserve, each year.

Distributing the Capital Reserve

Member accounts will be allocated 20% of all available monies in the Capital Reserves as at 30 June each year (subject to the effects of any rounding that may be reasonably applied). In the event of an earning rate below the objective of a minimum crediting rate of 3%, the Capital Reserve will be used to fund the difference where sufficient reserves are available. The Capital Reserve will become the mechanism for smoothing crediting rates (both interim rates during the year and annual crediting rates over the longer term).

The Capital Reserve is capped at 5% of total Fund net assets and cannot be negative. The reserve will be invested in accordance with the investment policy of the Fund.

Crediting Rate Policy

With effect from 15 December 2007 the crediting rate policy of the Fund will change to take into account the creation of the Capital Reserve.

The rate of earnings that is allocated to member accounts is to be determined by the Trustee as at 30 June of each year via the declaration of a crediting rate based on investment returns after relevant fees, costs and taxes and any allocations to or distributions from the Fund's reserves.

For members who leave part way through a financial year, an interim crediting rate will be used to calculate their benefit. Interim crediting rates will be reviewed throughout the year based on what the Trustee believes is prudent to pay.

As a result of the changes to the Fund's objectives, strategy, reserving policy and crediting rate policy, the crediting rate declared by the Trustee for the 2007/2008 year and future years may differ to a greater degree from the actual net returns achieved from the Fund's investments.

New Investment Manager

In line with the revised investment objectives and investment strategy the Trustee has also accepted the Asset Consultant's recommendation to introduce a second underlying investment manager (the BT Wholesale Active Balanced Fund managed by BT Financial Group). As the allocation of Fund assets to this investment manager will be restricted to new (net) cash flow to the Fund the effect will be to gradually move from the Fund's existing asset allocation (detailed on page 4 gradually towards the new asset allocation detailed on page 9. Once the portfolio achieves the bench marks detailed on page 9 a recommendation will then be obtained on future investment of net cash flow as required.

Over the longer term it is anticipated that members will benefit from the diversification of managers which reduces the possibility of an investment portfolio suffering from poor performance reflecting a style bias or poor management. Further diversification between growth and defensive portfolios will achieve varying levels of performance at different stages of the market cycle in accordance with the underlying assets. If these are combined it may result in more stable returns to investors.

The new investment manager charges higher fees than the existing underlying manager which means that the management costs applicable to the Fund will increase for the year ending 30 June 2008 and future years. The amount of investment management fees depends on the asset allocation during a year. The Trustee is not currently in a position to reasonably estimate these fees.

LEGISLATIVE CHANGE

Taxation Changes

This section contains information about changes to superannuation rules which recently became law. Most (but not all) of the new rules apply from 1 July 2007. **This section only deals with changes relevant to you as a member of an eligible rollover fund. As the changes may have a significant impact on you depending on your personal circumstances, we recommend you seek appropriately qualified advice.**

Compulsory Cashing

Benefits can remain in a superannuation fund until death. Compulsory cashing rules applicable from age 65, in certain circumstances, have been abolished with effect from 10 May 2006.

Contributions Tax

If a fund does not hold your tax file number (TFN) by the end of each financial year, higher tax may apply to taxable contributions made to a superannuation fund (called no-TFN contributions) unless you were an existing member of the fund as at 30 June 2007 and contributions in the year do not exceed \$1,000. This may affect payments from the Superannuation Holding Accounts Special Account and Superannuation Guarantee shortfall components from the Tax Office paid into an eligible rollover fund.

The No-TFN tax can (but is not required to) be claimed back by a superannuation fund if the TFN is quoted in the subsequent 3 year period for the benefit of the relevant member.

Benefits Tax

Reasonable Benefit Limits (which previously restricted the amount of concessional tax superannuation a person can receive) have been abolished from 1 July 2007.

Benefits paid from a taxed source to a member who is aged 60 or more will generally be tax free, regardless of whether they are paid as a lump sum or income stream.

Benefits paid from a superannuation fund to a member who has reached their preservation age and is less than 60 years of age, will generally continue to be concessional tax but in a simplified manner. There will now be two components, a tax free component and a taxable component, taxed at a reduced rate.

Death benefits paid to dependants remain tax free (whether paid directly to the dependants or via the deceased member's estate). Death benefits paid to non-dependants must be paid as a lump sum by a superannuation fund and will be subject to tax (including when the benefit comes via the deceased member's estate). A non-dependant for this purpose includes a child aged 18 or more (unless the child is financially dependent or interdependent).

Portability of benefits

From 1 July 2007, funds have 30 days from the date of receiving all relevant information, to process a rollover request (except that a longer period may be allowed for illiquid investments in prescribed circumstances).

Unclaimed money

From 1 July 2007, unclaimed superannuation monies in respect of members who have reached their pension age (age 65) and cannot be contacted for 5 years must be paid to the Tax Office in all cases (these amounts are no longer payable to State Revenue offices). The definition of unclaimed monies has changed so there is no longer a requirement for a benefit to be 'immediately payable' in order for it to be treated as unclaimed.

Surcharge

Surcharge tax was abolished from 1 July 2005, however the ATO may issue surcharge assessments in respect of prior years. If the Fund received and paid a surcharge assessment in respect of a member during the reporting period, the surcharge tax will have been deducted from the member's account balance and paid to the ATO.

More Information

If you would like more information about these changes, contact the Administrator (see the final page of this report for contact details).

The changes recently made by the Federal Government also include other reforms that affect the amount of contributions that can be made to superannuation, the taxation of contributions, pension standards and tax file numbers. While these changes do not affect your membership of SMERF, further general information about the taxation changes is available from www.ato.gov.au.

As we cannot provide you with taxation advice or financial advice that takes into account your personal circumstances, for advice relevant to your personal circumstances, we recommend you seek appropriately qualified taxation or financial advice.

LEGISLATIVE CHANGE

Anti-Money Laundering & Counter-Terrorism Financing (AML/CTF)

From 12 December 2007, as a result of separate Government reforms designed to counteract money laundering and terrorism financing, you may be required to provide proof of identity prior to being able to access your benefits in cash (lump sum or pensions) and meet other requirements as determined by the Trustee from time to time in relation to the administration of your superannuation benefits (called "customer identification and verification" requirements). You will be notified of any requirements when applicable. If you do not comply with these requirements there may be a delay in the payment of your benefits.

As a result of these reforms the Trustee has become the subject of another regulatory body (called AUSTRAC) which has responsibility for the AML/CTF legislation. The Trustee is required to provide yearly compliance reports to AUSTRAC and notify AUSTRAC (from 12 December 2008) of suspicious transactions. This may involve the provision of personal information about you to AUSTRAC.

Note: confirmation of your identity is also required when transferring superannuation benefits between superannuation funds under standardized transfer request processes applicable from 1 July 2007. Failure to provide necessary information may result in a delay in the transfer of benefits.

SMERF's Statement of Financial Position at 30 June 2007

| ASSETS | 30 June 07 | 30 June 06 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Cash Assets | | |
| Cash at Bank | 14,068 | 1,048 |
| Investments | | |
| Cash & Short Term Deposits | 949,987 | 4,704,786 |
| Other Investments | 26,220,021 | 24,900,181 |
| Other Assets | | |
| Receivables | 3,020,175 | 691,374 |
| Tax Assets | | |
| Deferred Tax Assets | 233,070 | 67,899 |
| TOTAL ASSETS | 30,437,861 | 30,365,288 |
| LIABILITIES | | |
| Payables | | |
| Other liabilities | 108,512 | 80,266 |
| Tax Liabilities | | |
| Current Tax Liabilities | 384,629 | 62,143 |
| TOTAL LIABILITIES | 493,141 | 142,409 |
| NET ASSETS AVAILABLE TO PAY BENEFITS | 29,944,720 | 30,222,879 |

Represented by:

| LIABILITY FOR ACCRUED BENEFITS | | |
|---------------------------------------|-------------------|-------------------|
| Allocated to Members' Accounts | 29,879,121 | 22,493,338 |
| Not Yet Allocated | 6,202 | 7,685,674 |
| Reserve | 59,391 | 43,867 |
| | 29,944,720 | 30,222,879 |

SMERF'S FINANCIAL STATEMENTS

Operating Statement for the year ended 30 June 2007

| | 2007 | 2006 |
|--|------------------|-------------------|
| | \$ | \$ |
| Investment Revenue | | |
| Interest | 82,229 | 97,974 |
| Distributions from Unit Trust | 3,472,741 | 681,951 |
| Changes in Market Values | (973,556) | (457,294) |
| Direct Investment Expenses | - | - |
| Net Investment Revenue | 2,581,414 | 322,631 |
| Contribution Revenue | | |
| Rollovers | 3,019,680 | 30,892,369 |
| Taxable Contributions | 868 | - |
| Total Contribution Revenue | 3,020,548 | 30,892,369 |
| Other Revenue | | |
| Other | 5 | - |
| Total Other Revenue | 5 | - |
| Total Revenue from Ordinary Activities | 5,601,967 | 31,215,000 |
| Less: | | |
| General Administration Expenses | 327,324 | 142,153 |
| Total Expenses from Ordinary Activities | 327,324 | 142,153 |
| Benefits from Ordinary Activities before Income Tax | 5,274,643 | 31,072,847 |
| Less Income Tax Expense \ (Benefit) | 236,458 | (5,756) |
| Benefits Accrued as a Result of Operations After Income Tax | 5,038,185 | 31,078,603 |

Would you like further information?

An audited financial statement will be available by November 2006. To obtain a full copy of the audited accounts, write to:

Executive Officer SMERF
Level 3, 530 Collins Street,
Melbourne Vic 3000.

As a regulated fund, SMERF is audited each year and a return is lodged with the Australian Prudential Regulation Authority (APRA).

COMMUNICATING WITH US

The Fund will be happy to assist you with any questions you may have about the Fund or your account. If you want more information please contact the Fund at the contact details below.

SMERF

Administration Officer
Locked Bag 8840
Wollongong NSW 2500

Freecall: 1800 114 380

Freefax: 1800 118 307

Email: administration@smerf.com.au

Website: www.smerf.com.au

SMERT
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