

Annual Report 2012



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Note from the Chair

Living with volatility and market uncertainty

The 2011/12 financial year was a mixed bag with our conservative investment options performing very well particularly given the inflation rate over the last twelve months has remained very low.

On the other hand, members in the more aggressive investment options, High Growth and Balanced Growth, received lower returns due to their higher exposure to the share market.

If there's one word which accurately describes investment markets in recent times, it's 'volatile', and the first quarter of the 2012/13 financial year has been no exception with markets recovering most of the losses from the previous financial year in just three months.

In volatile times there's always a temptation to chop and change investment options in response to short-term market movements but in this environment it's absolutely crucial that you have the right long-term investment strategy in place and you have sought independent financial advice.

A good long-term strategy will balance risk and return making sure you can achieve your long-term financial goals without taking on an uncomfortable level of risk.

And when it comes to super, you need to have confidence in your super fund; you need to be sure that we're making responsible investments on your behalf, investments which will earn you long-term sustainable returns on your super.

The aim of this report is to give you a snapshot of your super fund; you'll find information about how we invest your money, about our fees and charges, as well as details of all our different investment options.

So please take the time to read the report and find out more about how we're looking after your retirement savings and if you have any questions or suggestions on how we can improve on this aspect, please feel free to contact us on 1300 369 901.

Yours sincerely

John Beacroft
Chair

"If there's one word which accurately describes investment markets in recent times, it's 'volatile'"



CEO's highlights

We have been working very hard to make Local Government Super a truly great super fund for all our members and here are what I think are just some of the highlights from the last financial year.

New range of investment options

One of our main aims is to give our members more choice and more control over the way they can invest their super, so in February we expanded our range of investment options.

We introduced a number of new single-sector options for our Accumulation Scheme and Account-Based Pension Plan members:

-  Australian shares
-  Sustainable Australian shares
-  International shares
-  Australian listed property
-  Australian fixed interest
-  International fixed interest.

We also introduced a new fixed-term investment option for Account-Based Pension Plan and Rollover Plan members as well.

Transition to retirement pension

In April, we launched our transition to retirement pension for members of the Retirement Scheme which allows older workers to draw on their super while they're still working.

These members now have the option to reduce their working hours while maintaining their level of income, or to use some of the tax savings to build their wealth.

Improving our service

Over the past few years, we have been improving our service in a variety of ways.

Members can now use our website to access a lot more information about their super. They can check their balances and switch their investment options online as well as update their details and book seminars.

Of course, meeting and talking with our members is absolutely essential and last financial year we ran a number of Retired Member Forums across the state, and we conducted seminars and group sessions as well as face-to-face meetings with our members.

"One of our main aims is to give our members more choice and more control"

In fact, over 5,000 members attended our group sessions over the financial year and we spoke to over 1,200 new employees at local government induction seminars.

Financial planning is also a big part of our service with the Client Relationship Team and over the last financial year, we issued over 7,000 financial advice documents to members including over 1,000 comprehensive statements of advice.

We also opened up a new serviced office in Tamworth to enable us to provide better service to our members in the New England region. Appointments can now be made to meet with a Financial Planner in the new Tamworth office or at a number of Local Government Council venues across the region.

Bringing down our costs

Our fees and charges have always been very competitive and as a profit-to-members fund, every dollar we save means better returns for our members.

Over the past financial year, we have reduced costs by replacing a number of 'active' fund managers with 'index' fund managers as well as bringing some of our key investment portfolios in-house.

This focus on costs has enabled us to further reduce the management fees for our members:





Maintaining our high ratings

Each year, like many other super funds across Australia, independent rating agencies assess our investment performance, the quality of our products and services as well as our governance.

So it's pleasing to say that last financial year we maintained our high ratings from two of the three leading agencies.

SelectingSuper AAA rating

Financial services information company, SelectingSuper, has renewed our triple-A rating and this was based on the quality of our corporate management, our investment mix and the extra benefits and services we offer such as insurance and financial planning.

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SuperRatings

Research company, SuperRatings, confirmed our 'Gold' rating which means that Local Government Super represents 'good value for money', and is strong across nearly all assessment areas including investments, fees and charges, administration, advice, governance and insurance.

And some more awards

Over the past few years we have received a number of awards for our commitment to sustainability and we added some more awards to that tally over the last financial year.

Money magazine's Best of the Best award for the Best Green Super fund

This award recognised that we are leading the way in sustainable investment and that our commitment to a fully-developed responsible investment strategy was way ahead of any other super fund in Australia.

SuperRatings Infinity Award

For the second year running, we received the SuperRatings Infinity Award in recognition of our pursuit of genuine responsible investment principles and the fact that we have more than \$3 billion in responsible investment strategies, far more than any other super fund in Australia.



"At the end of June 2012, we had over \$3.3 billion invested in responsible investment strategies"

Sustainability

We have long held a strong commitment to sustainability. Our sustainable and responsible investment policy recognises the fact that the long-term prosperity of the economy and the wellbeing of our members both depend on a healthy environment, social cohesion and the good governance of the companies in our investment portfolio.

There is increasing awareness from the institutional investors that sustainability risks, often called environmental, social and governance risks, can have a material impact on portfolio values and our members' long-term investment returns.

Our responsible investment and risk management practices aim to integrate, monitor and manage these risks in order to protect the super investments of our members.

At the end of June 2012, we had over \$3.3 billion invested in responsible investment strategies across Australian shares, international shares, property, absolute return and private equity asset classes and now sovereign bonds; by far the largest commitment of any Australian super fund.

Our new sustainable global government bond strategy

In March 2012, we launched a new and unique strategy to manage our global government bonds, an asset class which features in a number of our investment options.

In partnership with Omega Global Investors, we have constructed a quality, highly-diversified \$170 million portfolio by investing in nations with strong regulatory, governance and environmental standards.

This approach explicitly incorporates an assessment of environmental, social and governance (ESG) risks into the investment selection process.

Another innovation was a specific allocation to invest up to 15% of the portfolio in 'green' or 'climate bonds' issued by agencies such as the World Bank, European Investment Bank or Asian Development Bank.

These bonds have the same credit rating (usually AAA) and still yield returns just as other bonds issued by these agencies do, however, these bonds are used to explicitly fund certified green projects such as wind farms in China, Turkey, Egypt and Austria. Other projects included Thailand's first major solar power project and Colombia's sustainable urban transport system.



The main aim of this strategy is to minimise our investment risks and achieve better long-term returns for our members.

New Sustainable Australian Shares Option

In February 2012, we introduced Sustainable Australian Shares as one of our new single sector investment options.

While our Australian and International Share investment options already exclude companies who generate more than 10% of revenue from tobacco, gambling, armaments, uranium mining and nuclear activities, our new Sustainable Australian Shares option goes one step further and excludes all companies generating any revenue from these activities.

We believe that many of our members are concerned about the long-term impact of high carbon energy forms on our climate and our environment.

That's why our Sustainable Australian Shares option is one of the first super investment options to exclude any investment in coal mining, one activity which is contributing to the long-term effects of climate change.

ASX Proxy Voting

We actively employ our shareholder rights as an owner of companies by undertaking proxy voting at the shareholder meetings of all ASX200 companies and 500 of the largest listed international companies.

This allows us to directly influence the governance practices of listed companies with a particular focus on monitoring and curbing excessive executive remuneration and establishing strong independent boards to protect shareholder value.

Local Government Super is a Foundation Member and client of the Australian Council of Superannuation Investors (ACSI), an external expert group who provide voting recommendations in respect to company resolutions. As a broad rule we vote in accordance with ACSI recommendations which set out to achieve best practice corporate governance.

However, from time to time we will consider voting against other ACSI recommendations where we believe there is a significant environmental, social or governance risk which has or could lead to a loss of shareholder value.



Over the last financial year, we voted against 56 Remuneration Reports of various ASX companies, and in 15 of these instances, we also voted against the re-election of the Chair of the Remuneration Committee.

We voted against the Chairs and the Directors in seven companies where their performance on environmental, social and governance issues had already or was likely to have an impact on shareholder value.

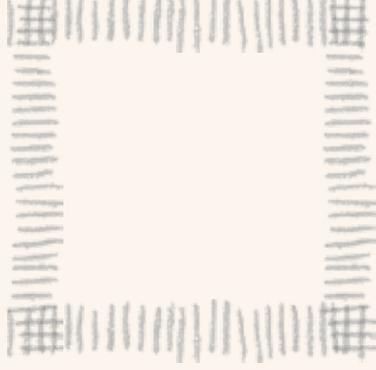
These companies included BlueScope Steel (climate change), Orica (dangerous chemical leaks leading to plant shut downs), Woodside Petroleum (climate change and local community management), QBE Insurance (climate change), Ivanhoe Australia (climate change), Qantas Airways (industrial relations), and Leighton Holdings Ltd (governance).

This table is a summary of our proxy voting for the 2011/12 financial year:

LGS Proxy Voting Record for year ending 30 June 2012

No. of meetings	No. of Resolutions	"For" votes		"Against" votes		"Abstain" votes		Unvoted	
		No	%	No.	%	No.	%	No.	%
227	1,946	1,621	83.3%	306	15.7%	12	0.6%	7	0.4%

For more detailed information on our approach to sustainable and responsible investing, just visit our website at www.lgsuper.com.au



Property

Local Government Super manages a \$531 million direct property portfolio under the name, Local Government Property Fund.

The fund is an unlisted property fund which is managed and controlled by Local Government Super.

Established in 2003, the fund comprises 11 assets throughout New South Wales including six office buildings, four retail centres and one industrial estate.

MarketPlace, Leichhardt, Sydney	Retail
Symantec House, North Sydney	Office
Village Centre, Batemans Bay	Retail
76 Berry Street, North Sydney	Office
Sturt Mall, Wagga Wagga	Retail
SKM House, St Leonards, Sydney	Office
2-4 Lyons Park Road, Macquarie Park, Sydney	Office
Allambie Grove Business Park, Frenchs Forest, Sydney	Industrial
120 Sussex Street, Sydney CBD	Office
Local Government House, Sydney CBD	Office
Bridge Plaza, Batemans Bay	Retail

Investment performance

Over the last 12 months, economic uncertainty crept back into business and consumer sentiment and while most property indicators did not point to any volatility, sales and leasing volumes dropped considerably.

The Local Government Property Fund achieved an overall return of 5.7% for the 2011/12 financial year, following 7.9% in the previous financial year.

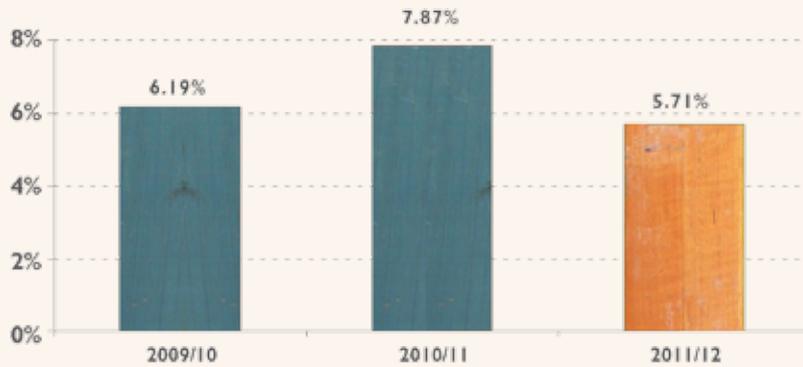
Revaluations of all our properties have seen the value of our portfolio rise to \$531 million which is a net gain of over \$5 million over the financial year to June.

Despite weaker economic conditions affecting the demand for retail and office space, our active management and strong relationships with tenants has resulted in an overall occupancy level of 96%.



"our energy consumption across our office property portfolio has been steadily falling over the last three years"

Investment Returns for the Local Government Property Fund

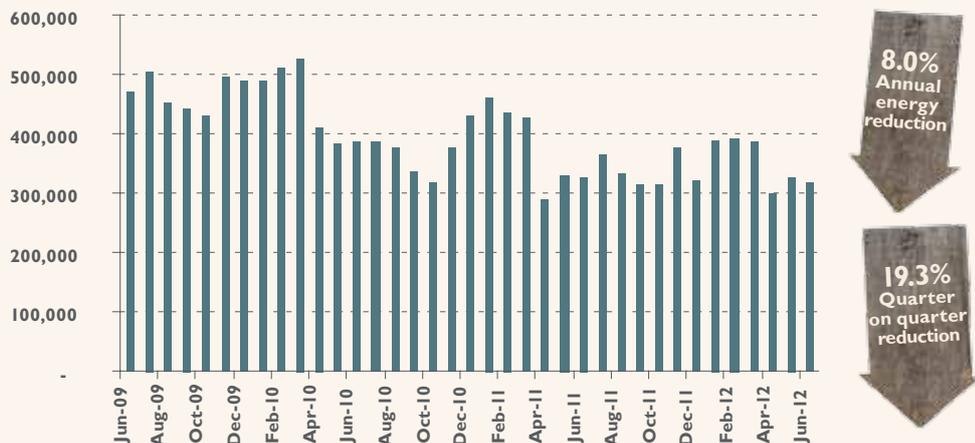


Sustainability projects

Over the last financial year, we completed a number of sustainability projects with a total gross cost of \$3.27 million. The cost of these projects were partly offset by credits issued by the Federal Government's Green Building Fund worth \$1.87 million.

One of the main aims of these sustainability projects is to reduce our energy consumption across the portfolio, therefore reducing our operating costs and maximising the investment returns for our members.

For instance, our energy consumption across our office property portfolio has been steadily falling over the last three years.





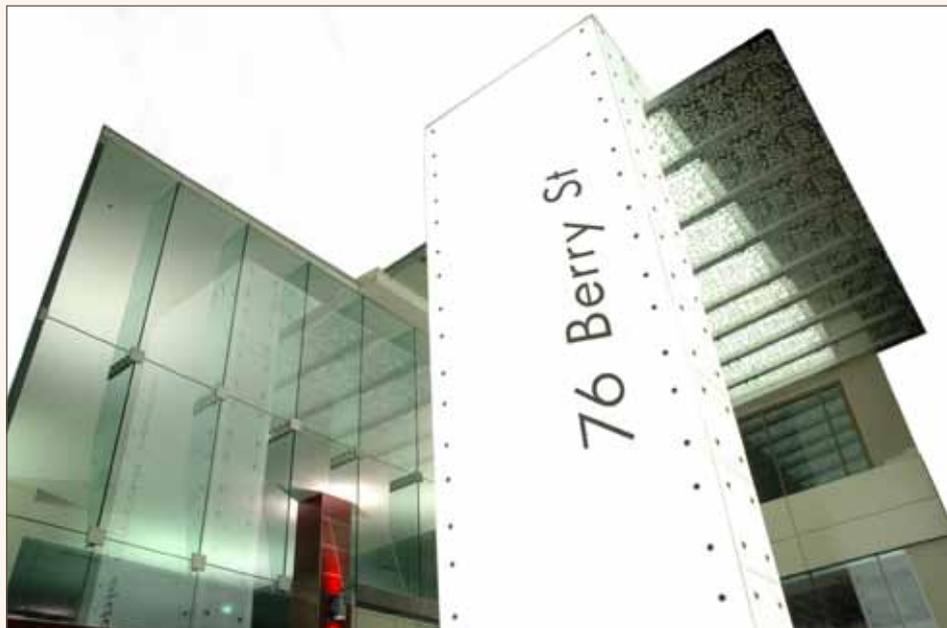
Exemplar project at 76 Berry Street

The largest project was the Exemplar Project undertaken at our office building at 76 Berry Street, North Sydney.

Using innovative Australian power-generating, lighting and chiller technology, we upgraded this 25 year old building with a commitment to achieve a 6 star NABERS rating without Green Power, one of only two projects in Australia to do so.

This means that the building will eventually operate 100% independently of the electricity grid, reducing the building's emissions by approximately 85%, making it the lowest greenhouse gas emitting office building in Australia.

In recognition of these achievements at 76 Berry Street we were awarded the NSW Government's Green Globe Energy Award.





Industry leading upgrade at 120 Sussex Street, Sydney

In 2010, we completed the upgrade of our 20 year old office building at 120 Sussex Street in the Sydney CBD which reduced the building's energy use by 58% making it one of the most energy efficient CBD office buildings in Australia.

As a result, the building received a 5½ star NABERS rating in March 2012 and won two prestigious awards:

-  Property Council of Australia's national award for best sustainable development of an existing building
-  Australian Property Institute (API)'s environmental award.

To find out more about our direct property portfolio, just go to our website and click on 'Property'.



Review of the investment markets

Generally speaking, investors received mixed returns over the 2011/12 financial year mainly due to fixed-interest investments offsetting the poor performance of the Australian share market which fell 6.8% during the financial year, with small listed companies being the hardest hit.

International share markets ended the financial year slightly down, despite being helped along by a declining Australian dollar, with developed markets outperforming the emerging economies.

Fixed-interest markets were by far the best performers with Australian Government bonds achieving returns of 13.2% while inflation-linked bonds returned 20.6%.

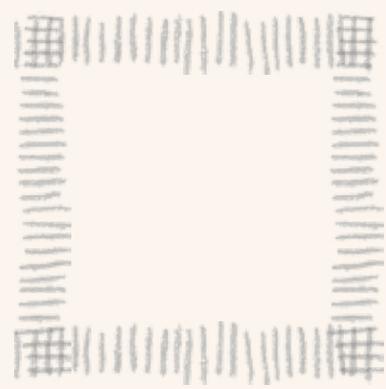
2012 financial year performance



Australian economic growth was sound despite Europe remaining an area of concern as governments in the European Union implemented austerity budgets to try and rein in their level of debt.

The United States showed some tentative signs of recovery and Asia continued to grow moderately during the financial year.

"investors received mixed returns over the 2011/12 financial year"



The Reserve Bank of Australia (RBA) cut official interest rates four times during the financial year, as they became more relaxed about inflation and more concerned about the global economic outlook.

Overall the returns for our Growth and Balanced Growth investment options were negative due to the weak share market performance but our Balanced and Conservative options achieved a positive return for the year mainly due to the strong performance of our fixed-interest investments.

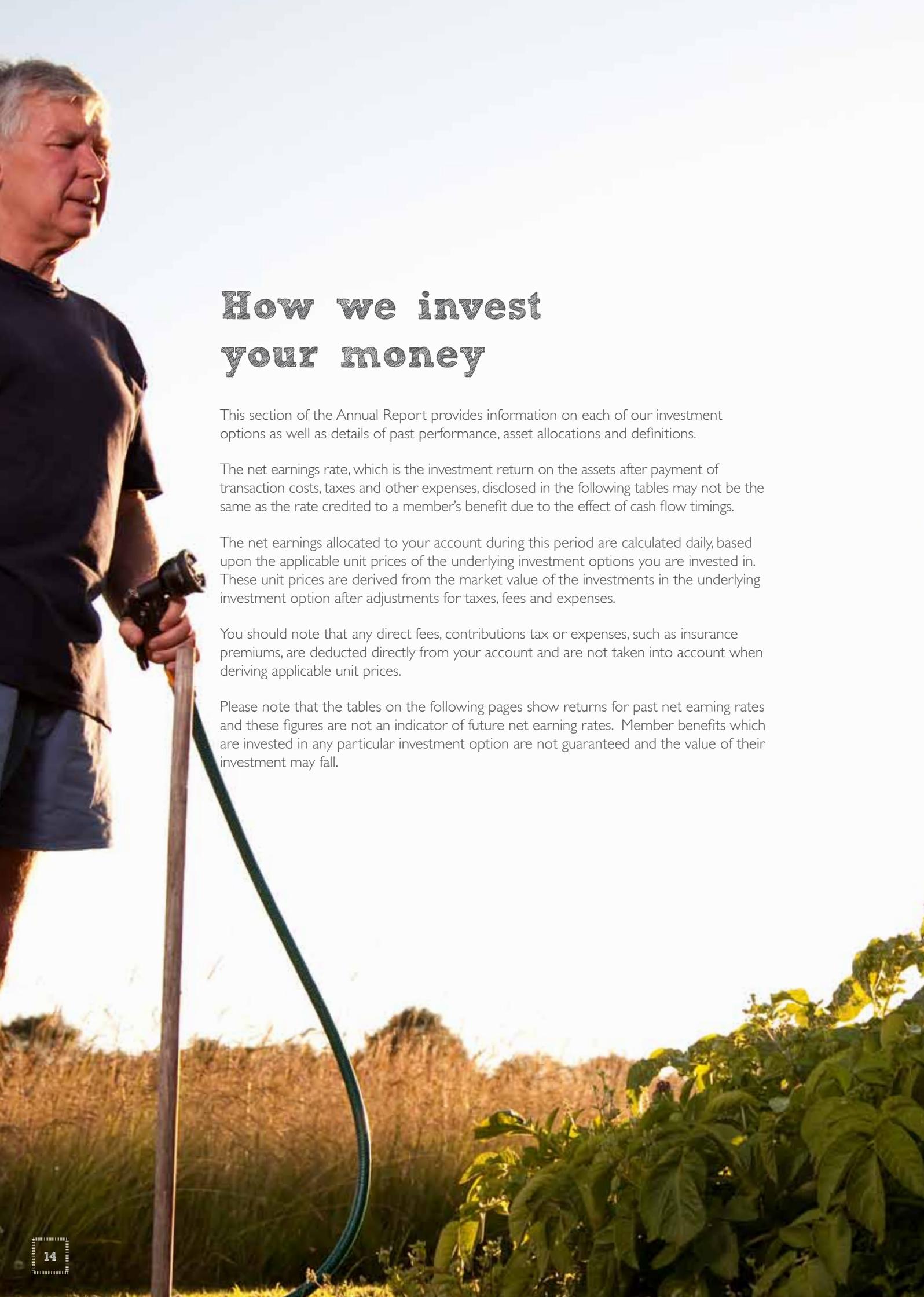
So far this financial year

The Australian share market has had a very strong start to the current financial year rising by over 8% in the September quarter while international shares gained a little over 6% over the same period.



The announcements of stimulus measures in Europe, Japan and the US provided some degree of confidence in the global economy and gave markets a boost over the September quarter.

Another reason for the recent rises on the local share market is the expectation that the RBA will continue to reduce the cash rate in response to the weakening global economy and lower commodity prices.



How we invest your money

This section of the Annual Report provides information on each of our investment options as well as details of past performance, asset allocations and definitions.

The net earnings rate, which is the investment return on the assets after payment of transaction costs, taxes and other expenses, disclosed in the following tables may not be the same as the rate credited to a member's benefit due to the effect of cash flow timings.

The net earnings allocated to your account during this period are calculated daily, based upon the applicable unit prices of the underlying investment options you are invested in. These unit prices are derived from the market value of the investments in the underlying investment option after adjustments for taxes, fees and expenses.

You should note that any direct fees, contributions tax or expenses, such as insurance premiums, are deducted directly from your account and are not taken into account when deriving applicable unit prices.

Please note that the tables on the following pages show returns for past net earning rates and these figures are not an indicator of future net earning rates. Member benefits which are invested in any particular investment option are not guaranteed and the value of their investment may fall.

Top 10 share holdings as at 30 June 2012

Rank	Australian shares top 10 holdings	% portfolio holding	% of index*
1	BHP Billiton	10.16%	10.28%
2	Commonwealth Bank of Australia	7.19%	8.61%
3	Westpac	5.68%	6.57%
4	National Australia Bank	5.54%	5.37%
5	Australia and New Zealand Bank	5.39%	6.01%
6	Telstra	4.13%	4.68%
7	Rio Tinto	3.26%	2.51%
8	Wesfarmers	3.20%	3.53%
9	Woolworths	2.75%	3.35%
10	CSL Limited	2.50%	2.05%

Rank	International shares top 10 holdings	% portfolio holding	% of index*
1	Apple	1.48%	2.39%
2	Nestle	1.45%	0.87%
3	United Parcel Services (UPS)	1.16%	0.25%
4	Walt Disney	1.15%	0.36%
5	Oracle	1.14%	0.52%
6	Exxon Mobil	1.04%	1.77%
7	Linde	0.97%	0.12%
8	Accenture	0.97%	0.17%
9	Visa	0.86%	0.28%
10	Heineken	0.83%	0.05%

*This measure shows how much of that share is held by the overall market. For Australia the index used is the ASX 300. For international shares the index is called the MSCI which is made up of all the world indices, such as the Dow Jones, Nikkei etc. So even though we may hold enough of a share for it to be in our top ten, we may still hold less than its share of the overall market.

Descriptions of each of our investment options

These following descriptions reflect the objectives and the asset allocations as at 30 June 2012 and you should refer to the relevant Product Disclosure Statement (PDS) for all the current details of our investment options.

High Growth

Definition – The High Growth option invests a very high proportion of its funds in growth assets, such as Australian and International Shares, and Property.

As the emphasis is on growth, you should keep in mind that there may be, what financial professionals call 'short-term volatility', in this option. In other words, the value of the investment may fluctuate over the short term.

Objective – 4.5% net investment return per annum above CPI, measured over a rolling 7 year period¹.

Risk profile – High. There is a significant chance that the investment value may decrease in the short term. The chance of a negative return in any year is 1 in 3.

Asset classes	Asset allocation ranges	Actual 2012 ²	Actual 2011 ²
Australian Shares	30% – 40%	34.6%	36.0%
International Shares	27% – 37%	32.2%	33.2%
Australian Direct Property ³	0% – 10%	6.7%	6.2%
International Listed Property	0% – 6%	2.4%	3.9%
Commodities	0% – 3%	1.0%	0.0%
Semi-Liquids ³	0% – 10%	4.1%	2.5%
Private Equity ³	5% – 15%	10.7%	7.5%
Absolute Return Funds	3% – 13%	6.5%	6.2%
Australian Fixed Interest	0% – 5%	0.0%	0.0%
Australian Inflation-Linked Bonds	0% – 5%	0.0%	0.3%
International Fixed Interest	0% – 5%	0.0%	0.0%
Cash	0% – 10%	1.8%	4.1%
Defensive Illiquids ³	0% – 5%	0.0%	0.0%

Investment returns over 5 years for Pool A as at 30 June

	2008	2009	2010	2011	2012
Accumulation and Executive Schemes (Divisions A and E)	-10.7%	-21.5%	13.1%	9.1%	-3.4%
Rollover Plan (Division F)	-10.9%	-20.4%	12.0%	9.7%	-3.0%
Account-Based Pension Plan (Division F)	-12.1%	-23.8%	14.6%	10.6%	-3.6%

1. Objective net investment returns are net of fees but not net of taxes.

2. As at 30 June.

3. Note that the combined investments in these asset classes will not exceed 25% of the portfolio.

Balanced Growth

Definition – The Balanced Growth option invests a relatively high proportion of funds in growth assets such as Australian and International shares, and Property. There is a relatively low exposure to income-producing assets such as Fixed Income and Cash.

The emphasis is on growth so investors should be prepared for some potential short-term volatility. In other words, the value of the investment may fluctuate over the short term.

Objective – 3.5% net investment return per annum above the CPI, measured over a rolling 5 year period.¹

Risk profile – High/Medium. There is potential for the value of the investment to decrease in the short term. The chance of a negative return in any year is 1 in 4.

Asset classes	Asset allocation ranges	Actual 2012 ²	Actual 2011 ²
Australian Shares	21% – 31%	26.3%	26.7%
International Shares	20% – 30%	25.2%	25.7%
Australian Direct Property ³	0% – 10%	6.4%	6.1%
International Listed Property	0% – 6%	2.6%	4.0%
Commodities	0% – 3%	0.9%	0.0%
Semi-Liquids ³	0% – 10%	4.3%	3.3%
Private Equity ³	1% – 11%	6.0%	4.9%
Absolute Return Funds	6% – 16%	11.4%	10.8%
Australian Fixed Interest	0% – 10%	4.6%	5.0%
Australian Inflation-Linked Bonds	0% – 10%	4.0%	5.3%
International Fixed Interest	0% – 10%	5.3%	5.0%
Cash	0% – 10%	3.0%	3.2%
Defensive Illiquids ³	0% – 6%	0.0%	0.0%

Investment returns over 5 years for Pool A as at 30 June

	2008	2009	2010	2011	2012
Accumulation and Executive Schemes (Divisions A and E)	-7.3%	-17.8%	12.8%	8.5%	-0.9%
Rollover Plan (Division F)	-7.6%	-18.0%	12.3%	8.5%	-0.6%
Account-Based Pension Plan (Division F)	-8.0%	-19.5%	14.2%	9.9%	-0.4%

1. Objective net investment returns are net of fees but not net of taxes.

2. As at 30 June.

3. Note that the combined investments in these asset classes will not exceed 25% of the portfolio.



Balanced

Definition – The Balanced option generally invests a proportion of its funds in growth assets such as Australian and International Shares and Property, Semi-Liquids and Private Equity and the balance in income-producing assets, such as interest-bearing securities.

A higher percentage of assets which produce income makes this option less volatile than the High Growth and Balanced Growth options.

Objective – 2.5% net investment return per annum above the CPI, measured over a rolling 3 year period.¹

Risk profile – Medium. Although the emphasis is on spreading your investment over various asset classes, there is a possibility that the value of the investment will decrease in the short term. The chance of a negative return in any year is 1 in 5.

Asset classes	Asset allocation ranges	Actual 2012 ²	Actual 2011 ²
Australian Shares	11% – 21%	16.8%	16.6%
International Shares	10% – 20%	15.2%	15.7%
Australian Direct Property ³	0% – 10%	6.3%	6.0%
International Listed Property	0% – 6%	2.7%	4.0%
Commodities	0% – 3%	0.9%	0.0%
Semi-Liquids ³	1% – 11%	5.1%	3.8%
Private Equity ³	0% – 10%	4.3%	3.6%
Absolute Return Funds	7% – 17%	12.6%	12.1%
Australian Fixed Interest	6% – 16%	10.9%	11.0%
Australian Inflation-Linked Bonds	6% – 16%	10.1%	11.5%
International Fixed Interest	6% – 16%	11.1%	11.0%
Cash	0% – 10%	4.0%	4.8%
Defensive Illiquids ³	0% – 8%	0.0%	0.0%

Investment returns over 5 years for Pool A as at 30 June

	2008	2009	2010	2011	2012
Accumulation and Executive Schemes (Divisions A and E)	-3.7%	-14.8%	12.2%	7.7%	2.4%
Rollover Plan (Division F)	-4.0%	-15.0%	12.2%	7.8%	2.5%
Account-Based Pension Plan (Division F)	-4.6%	-16.6%	13.7%	9.0%	3.2%

1. Objective net investment returns are net of fees but not net of taxes.

2. As at 30 June.

3. Note that the combined investments in these asset classes will not exceed 25% of the portfolio.

Conservative

Definition – The Conservative option generally invests a small proportion in growth assets and the balance in income-producing assets such as interest-bearing securities.

Although this option is relatively less volatile than the High Growth, Balanced Growth and Balanced options, the returns and the value of the investment can still fluctuate.

Objective – 2% net investment return per annum above the CPI, measured over a rolling 2 year period.¹

Risk profile – Medium/Low. Although the emphasis is more on security, returns and the value of the investment can still fluctuate. The chance of a negative return in any year is 1 in 8.

Asset classes	Asset allocation ranges	Actual 2012²	Actual 2011²
Australian Shares	1% – 11%	7.7%	7.0%
International Shares	1% – 11%	7.1%	7.1%
Australian Direct Property ³	0% – 8%	5.1%	4.8%
International Listed Property	0% – 6%	2.6%	3.9%
Commodities	0% – 3%	0.8%	0.0%
Semi-Liquids ³	5% – 15%	6.9%	6.0%
Private Equity ³	0% – 6%	0.5%	0.4%
Absolute Return Funds	11% – 21%	16.7%	16.1%
Australian Fixed Interest	8% – 18%	12.7%	13.3%
Australian Inflation-Linked Bonds	8% – 18%	12.1%	13.4%
International Fixed Interest	8% – 18%	13.2%	13.1%
Cash	5% – 15%	14.6%	14.9%
Defensive Illiquids ³	0% – 10%	0.0%	0.0%

Investment returns over 5 years for Pool A as at 30 June

	2008	2009	2010	2011	2012
Accumulation and Executive Schemes (Divisions A and E)	0.1%	-11.7%	11.7%	6.9%	4.7%
Rollover Plan (Division F)	-0.2%	-12.1%	11.8%	7.0%	4.7%
Account-Based Pension Plan (Division F)	-0.2%	-13.6%	13.2%	8.0%	5.8%

1. Objective net investment returns are net of fees but not net of taxes.

2. As at 30 June.

3. Note that the combined investments in these asset classes will not exceed 25% of the portfolio.

Australian Shares

Definition – Australian Shares aims to provide for high investment growth above the CPI over the long term, however because the emphasis is on growth, it is likely that this option will from time to time produce a negative return.

The performance of Australian Shares is measured against the S&P/ASX 200 Accumulation Index benchmark.

Objective – 4.5% net investment return per annum above the CPI, measured over a rolling 7 year period.¹

Risk Profile – High. There is a significant chance that the investment value may decrease in the short term.

Indicative asset allocation – 100% Australian Shares

Asset allocation as at 30 June	Indicative 2012	Actual 2012
Australian Shares	100%	100%

Investment returns over 5 years for Pool A as at 30 June²

	2008	2009	2010	2011	2012
Accumulation Scheme (Division A)	N/A	N/A	N/A	N/A	-4.3%
Account-Based Pension Plan (Division F)	N/A	N/A	N/A	N/A	-3.8%

1. Objective net investment returns are net of fees but not net of taxes.

2. Returns for the period between the inception of the investment option and the end of the financial year, 6 February to 30 June 2012.

Sustainable Australian Shares

Definition – Sustainable Australian Shares aims to provide for high long term investment growth above the CPI by investing in Australian Shares according to the Sustainability Criteria. However because the emphasis is on growth, it is likely that this option will from time to time produce a negative return.

The performance of Sustainable Australian Shares is measured against the S&P/ASX 200 Accumulation Index benchmark.

Objective – 4.5% net investment return per annum above the CPI, measured over a rolling 7 year period.¹

Risk Profile – High. There is a significant chance that the investment value may decrease in the short term.

Indicative asset allocation – 100% Sustainable Australian Shares

Asset allocation as at 30 June	Indicative 2012	Actual 2012
Sustainable Australian Shares	100%	100%

Investment returns over 5 years for Pool A as at 30 June²

	2008	2009	2010	2011	2012
Accumulation Scheme (Division A)	N/A	N/A	N/A	N/A	1.1%
Account-Based Pension Plan (Division F)	N/A	N/A	N/A	N/A	N/F ³

1. Objective net investment returns are net of fees but not net of taxes.

2. Returns for the period between the inception of the investment option and the end of the financial year, 6 February to 30 June 2012.

3. No return recorded as the investment option had no funds as at 30 June.

International Shares

Definition – International Shares aims to provide for high investment growth above the CPI over the long term, however because the emphasis is on growth, it is likely that this option will from time to time produce a negative return.

The performance of International Shares is measured against the MSCI World Index (ex Australia) benchmark.

Objective – 4.5% net investment return per annum above the CPI, measured over a rolling 7 year period.¹

Risk Profile – High. There is a significant chance that the investment value may decrease in the short term.

Indicative asset allocation – 100% International Shares

Asset allocation as at 30 June	Indicative 2012	Actual 2012
International Shares	100%	100%

Investment returns over 5 years for Pool A as at 30 June²

	2008	2009	2010	2011	2012
Accumulation Scheme (Division A)	N/A	N/A	N/A	N/A	-1.4%
Account-Based Pension Plan (Division F)	N/A	N/A	N/A	N/A	-5.1%

1. Objective net investment returns are net of fees but not net of taxes.

2. Returns for the period between the inception of the investment option and the end of the financial year, 6 February to 30 June 2012.

Australian Listed Property

Definition – Australian Listed Property aims to provide for investment growth above the CPI over the medium term, however because the emphasis is on growth, it is likely that this option will from time to time produce a negative return.

The performance of Australian Listed Property is measured against the S&P/ASX 200 Property Accumulation Index benchmark.

Objective – 3.5% net investment return per annum above the CPI, measured over a rolling 5 year period.¹

Risk Profile – Medium to High. There is a moderate chance that the investment value may decrease in the short term.

Indicative asset allocation – 100% Australian Listed Property

Asset allocation as at 30 June	Indicative 2012	Actual 2012
Australian Listed Property	100%	100%

Investment returns over 5 years for Pool A as at 30 June²

	2008	2009	2010	2011	2012
Accumulation Scheme (Division A)	N/A	N/A	N/A	N/A	6.8%
Account-Based Pension Plan (Division F)	N/A	N/A	N/A	N/A	N/F ³

1. Objective net investment returns are net of fees but not net of taxes.

2. Returns for the period between the inception of the investment option and the end of the financial year, 6 February to 30 June 2012.

3. No return recorded as the investment option had no funds as at 30 June.

Australian Fixed Interest

Definition – Australian Fixed Interest aims to provide for investment growth above the CPI, over the medium term, however there may be occasions over short time periods where returns may be low or negative due to interest rate rises.

The performance of Australian Fixed Interest is measured against the UBSA Government Index.

Objective – 2% net investment return per annum above the CPI, measured over a rolling 2 year period.¹

Risk Profile – Medium. There is potential that the investment value may decrease in the short term.

Indicative asset allocation – 100% Australian Fixed Interest

Asset allocation as at 30 June	Indicative 2012	Actual 2012
Australian Fixed Interest	100%	100%

Investment returns over 5 years for Pool A as at 30 June²

	2008	2009	2010	2011	2012
Accumulation Scheme (Division A)	N/A	N/A	N/A	N/A	4.0%
Account-Based Pension Plan (Division F)	N/A	N/A	N/A	N/A	4.4%

1. Objective net investment returns are net of fees but not net of taxes.

2. Returns for the period between the inception of the investment option and the end of the financial year, 6 February to 30 June 2012.

International Fixed Interest

Definition – International Fixed Interest aims to provide for high long term investment growth above the CPI, however because the emphasis is on growth, it is likely that this option will from time to time produce a negative return.

The performance of International Fixed Interest is measured against the Barclays Global Aggregate Index (hedged).

Objective – 2.5% net investment return per annum above the CPI, measured over a rolling 3 year period.¹

Risk Profile – Medium. There is potential that the investment value may decrease in the short term.

Indicative asset allocation - 100% International Fixed Interest

Asset allocation as at 30 June	Indicative 2012	Actual 2012
International Fixed Interest	100%	100%

Investment returns over 5 years for Pool A as at 30 June²

	2008	2009	2010	2011	2012
Accumulation Scheme (Division A)	N/A	N/A	N/A	N/A	1.7%
Account-Based Pension Plan (Division F)	N/A	N/A	N/A	N/A	N/F ³

1. Objective net investment returns are net of fees but not net of taxes.

2. Returns for the period between the inception of the investment option and the end of the financial year, 6 February to 30 June 2012.

3. No return recorded as the investment option had no funds as at 30 June.

Fixed Term

For the financial year ended 30 June 2012, this option was only available to members of the Account-Based Pension and the Rollover Plan. However, the Fixed Term investment which commenced on 4 December 2012 was not available to members of the Rollover Plan.

Definition – The Fixed Term option aims to provide a predetermined fixed interest rate on investments held for an agreed term.

This option invests 100% in cash investments and has a short-term focus.

Objective - A fixed rate of return over the term of the investment.

Risk Profile – Low. The chance of a negative return is remote and would only occur in exceptional circumstances such as if the term deposit provider became insolvent.

Indicative asset allocation – 100% Cash

Asset allocation as at 30 June	Indicative 2012	Actual 2012
Cash	100%	100%

Investment returns over 5 years for Pool A as at 30 June

	2008	2009	2010	2011	2012
Rollover Plan (Division F)	N/A	N/A	N/A	N/A	N/F ²
Account-Based Pension Plan (Division F)	N/A	N/A	N/A	N/A	N/F ²



1. Objective net investment returns are net of fees but not net of taxes.
2. No return recorded as none of the Fixed Term investments had matured as at 30 June 2012.

Cash

Definition – The Cash option invests predominantly in short-term Australian money market assets. In addition, a small proportion of the assets (up to 15%) are invested in global interest type assets having a longer maximum term. This gives this option greater exposure to higher returns than by just investing in short-term domestic assets with only a small increase in the overall volatility of the returns.

This option offers investments for short-term investors or those seeking less volatile returns.

Objective – 0.25% net investment return per annum above the “cash” rate, measured over a rolling 2 year period.²

Risk profile – Low. Depending on market volatility, there is a chance that this investment may experience a negative return but this is expected to only be for periods of no more than a month. Over longer time frames, the chance of a negative return would be remote.

Indicative asset allocation – 100% Cash and income producing assets

Asset allocation as at 30 June	Indicative 2012	Actual 2012	Actual 2011
Cash and income-producing assets	100%	100%	100%

Investment returns over 5 years for Pool A as at 30 June

	2008	2009	2010	2011	2012
Accumulation and Executive Schemes (Divisions A and E)	4.8%	4.7%	4.9%	4.9%	4.0%
Rollover Plan (Division F)	5.0%	4.4%	4.8%	4.9%	4.3%
Account-Based Pension Plan (Division F)	5.1%	5.0%	5.2%	5.7%	4.6%

1. Note that each objective aims to return in excess of the cash rate. The benchmark for the cash rate is the UBS bank bill index.

2. Objective net investment returns are net of fees but not net of taxes.

Growth – Retirement Scheme (Pool B)

Definition – The Growth strategy generally invests a very high proportion of its funds in growth assets, such as Australian and international shares and property. The balance is invested in income producing assets.

This combination aims to earn real investment growth above the CPI over a 5 year period. Because the emphasis is on growth, you should keep in mind that there may be what financial professionals call 'short-term volatility' in this strategy. In other words, the value of the investment may fluctuate over the short term. This volatility is not as great as it is in the High Growth strategy.

Objective – 3.5% net investment return per annum above the CPI, measured over a 5 year period.¹

Risks – There is potential for the value of the investment to decrease in the short term. The chance of a negative return in any year is 1 in 4.

Risk profile – High/Medium.

Asset classes	Asset allocation ranges	Actual 2012 ²	Actual 2011 ²
Australian Shares	21% – 31%	25.5%	28.7%
International Shares	20% – 30%	24.8%	27.1%
Australian Direct Property ³	0% – 10%	9.7%	9.6%
International Listed Property	0% – 6%	2.3%	3.8%
Commodities	0% – 3%	1.0%	0.0%
Semi-Liquids ³	0% – 10%	3.4%	2.1%
Private Equity ³	1% – 11%	7.8%	10.7%
Absolute Return Funds	6% – 16%	11.6%	6.1%
Australian Fixed Interest	0% – 10%	4.6%	2.3%
Australian Inflation-Linked Bonds	0% – 10%	4.1%	4.6%
International Fixed Interest	0% – 10%	5.0%	2.3%
Cash	0% – 10%	0.2%	2.7%
Defensive Illiquids ³	0% – 6%	0.0%	0.0%

Investment returns over 5 years as at 30 June

	2008	2009	2010	2011	2012
Retirement Scheme (Pool B) Contributory	-8.0%	-19.7%	10.4%	9.0%	-1.3%
Retirement Scheme (Pool B) Deferred	-8.8%	-20.7%	10.2%	7.9%	-1.2%
Retirement Basic Benefit Accumulation Account	-8.2%	-20.0%	10.0%	10.8%	-3.5%

1. Objective net investment returns are net of fees but not net of taxes.

2. As at 30 June.

3. Note that the combined investments in these asset classes will not exceed 25% of the portfolio.

Member Investment Choice

Retirement Scheme members only (Division B)

In addition to the 'Growth' investment option, Retirement Scheme members also have access to member investment choice. Members can choose one of the five (5) investment options: High Growth, Balanced Growth, Balanced, Conservative or Cash.

Members can elect an investment option for the following benefit components:

For Contributory members

-  Your Contributor Financed Benefit, and
-  Other Contributions account

For Deferred members

-  Your total account balance

These investment options were introduced in 2005 and the tables below show investment returns for the last five financial years.

Investment returns as at 30 June 2008, 2009, 2010, 2011 and 2012

As at 30 June 2008

Investment Options	Contributor Financed Benefit	Other Contributions Account	Deferred Members
High Growth	-11.6%	-11.9%	-12.4%
Balanced Growth	-8.0%	-8.3%	-8.7%
Balanced	-4.5%	-4.8%	-5.3%
Conservative	-1.2%	-1.5%	-1.9%
Cash	4.3%	4.0%	3.6%

As at 30 June 2009

Investment Options	Contributor Financed Benefit	Other Contributions Account	Deferred Members
High Growth	-21.5%	-21.4%	-22.1%
Balanced Growth	-17.0%	-17.1%	-17.8%
Balanced	-13.3%	-13.6%	-13.9%
Conservative	-9.7%	-9.8%	-10.4%
Cash	5.1%	4.8%	4.7%



As at 30 June 2010

Investment Options	Contributor Financed Benefit	Other Contributions Account	Deferred Members
High Growth	13.6%	13.2%	13.2%
Balanced Growth	13.0%	13.2%	12.8%
Balanced	12.4%	12.6%	12.2%
Conservative	11.8%	12.5%	12.5%
Cash	5.0%	4.4%	4.8%

As at 30 June 2011

Investment Options	Contributor Financed Benefit	Other Contributions Account	Deferred Members
High Growth	10.7%	11.4%	8.5%
Balanced Growth	10.4%	12.5%	9.0%
Balanced	9.0%	10.4%	7.8%
Conservative	8.2%	10.2%	6.6%
Cash	5.8%	7.9%	4.8%

As at 30 June 2012

Investment Options	Contributor Financed Benefit	Other Contributions Account	Deferred Members
High Growth	-3.4%	-5.4%	-2.2%
Balanced Growth	-1.3%	-5.7%	-0.6%
Balanced	2.7%	0.6%	2.5%
Conservative	5.4%	6.5%	4.6%
Cash	4.4%	6.2%	3.7%

Defined Benefit Strategy (Pool B)

Definition – The Defined Benefit strategy generally invests a high proportion of its funds in growth assets, such as Australian and international shares and property. The balance is invested in income producing assets.

Because the emphasis is on growth, you should keep in mind that there may be what financial professionals call 'short-term volatility' in this strategy. In other words, the value of the investment may fluctuate over the short term.

Objective – 7% net investment return per annum over an 8 year period.

Risk profile – As this is a defined benefit scheme any downside risk is effectively underwritten by the Employers.

Asset classes	Asset allocation ranges	Actual 2012¹	Actual 2011¹
Australian Shares	20% – 30%	24.7%	28.3%
International Shares	20% – 30%	25.4%	27.7%
Australian Direct Property ²	6% – 16%	13.3%	12.7%
International Listed Property	0% – 5%	1.3%	2.5%
Commodities	0% – 5%	0.9%	0.0%
Semi-Liquids ²	0% – 5%	1.9%	1.9%
Private Equity ²	1% – 11%	7.3%	6.5%
Absolute Return Funds	9% – 19%	10.7%	9.1%
Australian Fixed Interest	0% – 7%	2.5%	2.1%
Australian Inflation-Linked Bonds	0% – 7%	2.2%	3.1%
International Fixed Interest	0% – 7%	3.1%	2.2%
Cash	3% – 13%	6.7%	3.9%
Defensive Illiquids ²	0% – 5%	0.0%	0.0%

Investment returns over 5 years as at 30 June

	2008	2009	2010	2011	2012
Defined Benefit Strategy (Pool B) Contributory	-7.9%	-19.7%	10.8%	8.4%	-2.0%

1. As at 30 June.

2. Note that the combined investments in these asset classes will not exceed 25% of the portfolio.

Who are we?

We look after the retirement savings of current and former local government employees right across New South Wales.

We currently have over \$6.5 billion in funds under management and around 90,000 members.

Our aim is to provide our members with strong, long-term sustainable returns on their super investment.



The team behind your super

About the Trustee

The Local Government Superannuation Scheme was established on 1 July 1997 specifically for employees of NSW Local Government employers.

Now referred to as Local Government Super, it is divided into two pools (Pool A and Pool B). LGSS Pty Limited (ABN 68 078 003 497) is the Trustee of Pool A (ABN 74 925 979 278) and Pool B (ABN 28 901 371 321). Both pools are complying superannuation funds and are subject to concessional taxation treatment.

The Trustee is a non-profit company solely engaged in the management and control of Local Government Super's assets for the benefit of its members. This means that all profits go back to members.

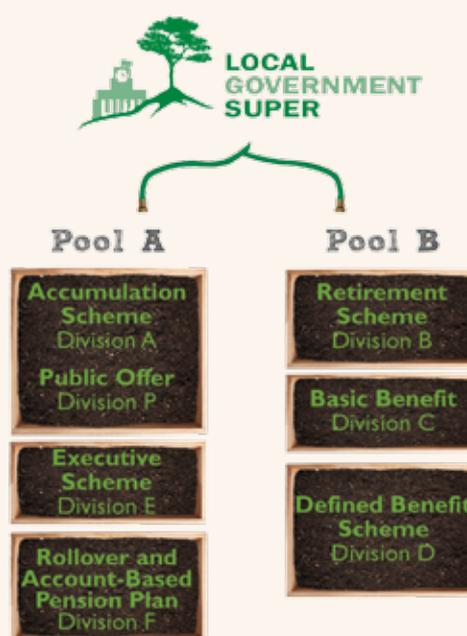
Governance

The Trustee is responsible for managing Local Government Super which includes the safekeeping of assets and ensuring it operates in accordance with the Trust Deed, the Corporations Act 2001, the Superannuation Industry (Supervision) Act 1993 (SIS) and other relevant superannuation legislation (Superannuation Laws).

Role of the Board

The Board is responsible for setting the overall strategy and ensuring Local Government Super is operating in accordance with the Trust Deed and all applicable laws.

There are eight Directors on the Board of the Trustee Company. To comply with the equal representation requirements of SIS, four of the Directors are appointed by employer associations and four are appointed by the unions. We also have an aspirational goal for our Board to have a 40% representation of female directors.



The Board meets regularly and receives and reviews reports from management and its service providers. Where necessary, the Board calls upon specialist advice from advisors such as solicitors, accountants and the actuary.

The Board has in place an Investment Committee, an Audit, Compliance and Risk Management Committee and a Determinations Committee to allow it to oversee the operations in greater detail. All committees are reflective of the equal representation requirements of SIS.

The Investment Committee (currently made up of Ian Robertson – Chair, Sam Byrne, Bruce Miller and Martin O’Connell) generally meets twice a quarter. The main function of the Committee is to monitor the performance of the investment managers and oversee the work of the internal investment team and the external Asset Consultant and to provide updates to the Board.

The role of the Audit, Compliance and Risk Management Committee (currently made up of Leo Kelly – Chair, John Beacroft, Craig Peate and Beverly Giegerl) is to monitor the Trustee’s compliance with its various licences and the effectiveness of its risk management processes; to review the internal controls of its service providers and ensure that they comply with their delegated authorities and agreed service standards.

Audit, Compliance and Risk Management Committee meetings are also attended by Local Government Super’s External Auditor. The Committee generally meets quarterly.

The role of the Determinations Committee (made up of Ian Robertson – Chair, John Beacroft, Sam Byrne and Leo Kelly) is to consider where required, on behalf of the Board, claims for invalidity and death benefits. The Committee meets as required.

Industry Regulators

The Trustee holds a Registrable Superannuation Entity (RSE) licence which is regulated by APRA. Pool A and Pool B are both Registered Superannuation Entities under the SIS legislation.

The Trustee also holds an Australian Financial Services Licence (AFSL) to cover the services provided by its financial planners and customer relationship managers. This licence is regulated by ASIC.

Indemnity insurance

The Trustee is indemnified by a policy of insurance which helps protect Local Government Super in the event of a claim against its assets.

Your Board



**John Beacroft
(Chair)**

Appointed by the United Services Union
Former Local Government employee in finance departments of various city and regional councils for over 40 years
Appointed to the Board on 26 March 2008.



Sam Byrne

Appointed by the Local Government Association of NSW
Former Councillor—Marrickville Council
Former Executive Member—Local Government Association of NSW
Member—The Greens
Appointed to the Board on 26 September 2007.



Beverley Giegerl

Appointed by the Local Government Association of NSW
Former Councillor—Hurstville City Council
Former Treasurer—Local Government Association of NSW
Appointed to the Board on 1 September 2003.



Graeme Kelly¹

Appointed by the United Services Union
Has over 20 years' experience with the United Services Union and currently holds the position of General Secretary.
Appointed to the Board on 31 March 2011.
Resigned on 24 October 2012.



**Leo Kelly OAM
(Deputy Chair)**

Appointed by the Local Government Association of NSW
Councillor and former Mayor—Blacktown City Council
Former Vice President—Local Government Association of NSW
Chair—Audit, Compliance and Risk Management Committee
Appointed to the Board on 8 September 1999.



Bruce Miller

Appointed by the Shires Association of NSW
Councillor 1991 to present—Cowra Shire Council
Former Mayor 1994—2008—Cowra Shire Council
Immediate Past President—Shires Association of NSW
Chair—StateCover Mutual
Appointed to the Board on 1 July 2011



Martin O'Connell

Appointed by the Local Government Engineers' Association
Director—Local Government Engineers' Association and Association of Professional Engineers, Scientists and Managers, Australia (NSW Branch)
Appointed to the Board on 18 October 1999.



Craig Peate¹

Appointed by the United Services Union
Has over 30 years experience at the Tweed Shire Council and is currently their Co-ordinator of Revenue & Recovery
Appointed to the Board on 25 October 2012.



Ian Robertson

Appointed by the Development and Environmental Professionals' Association (depa)
Secretary—depa
Chair—Investment Committee
Chair—Determinations Committee
Appointed to the Board on 26 March 1997.



¹ Craig Peate was appointed on 25 October 2012 to replace Graeme Kelly who resigned on 24 October 2012.

2011/12 meeting attendance by Directors

The attendance by directors at meetings of the Board and its Committees from 1 July 2011 to 30 June 2012 was as follows:

Board

Director	Meetings held during tenure	Number of meetings attended
Beacroft, John	10	10
Byrne, Sam	10	9
Giegerl, Beverley	10	9
Kelly, Graeme	10	6
Kelly, Leo	10	10
Miller, Bruce	10	10
O'Connell, Martin	10	9
Peate, Craig	-	-
Robertson, Ian	10	10

Audit, Compliance & Risk Management Committee

Director	Meetings held during tenure	Number of meetings attended
Beacroft, John	5	5
Kelly, Graeme	5	2
Kelly, Leo	5	5
Miller, Bruce	5	5
Giegerl, Beverley	-	-
Peate, Craig	-	-

Investment Committee

Director	Meetings held during tenure	Number of meetings attended
Byrne, Sam	6	4
Giegerl, Beverley	6	4
Miller, Bruce	-	-
O'Connell, Martin	6	6
Robertson, Ian	6	6

Directors' Remuneration

Total annual fees paid (\$000)	No. of directors
40 – 60	7
60 – 80	1

The annual directors' fees are payable either to the individual director or to their appointing shareholder.

Executives' Responsible Officers Remuneration

Total remuneration paid (\$000)	No. of executives
100 – 200	1
300 – 400	1
400 – 500	1





About the service providers

The Trustee engages external experts such as investment advisers and investment managers, administrators, a custodian, accountants, solicitors and auditors to assist with its obligations.

The Trustee reviews its service providers regularly and may from time to time make changes.

Administrator

The administrator of Local Government Super is FuturePlus Financial Services Pty Limited. The administrator attends to the day-to-day operations under a written service agreement.

Actuary

Mercer Human Resource Consulting

Asset Consultant

Mercer (Australia) Pty Limited

Auditor

Deloitte Touche Tohmatsu

Custodian

JPMorgan Chase Bank

Group Life Insurer

TAL (formerly called Tower Life)

Professional Indemnity Insurer

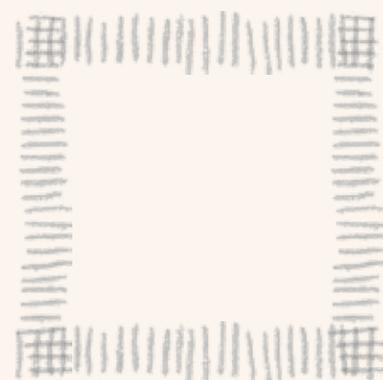
Zurich

Investment managers at 30 June 2012

AMP Capital Investors
ANZ Banking Group Limited
AQR Capital Management
Attunga Capital Pty Ltd
BT Investment Management Ltd
Colonial First State Investments Limited
Five Oceans Asset Management
H3 Global Advisors Pty Ltd
Hawkesbridge Capital
Independent Asset Management Pty Ltd
Intrinsic Investment Management Pty Ltd
Impax Asset Management Group p/c
Kapstream Capital Pty Ltd
LSV Asset Management
Macquarie Investment Management Limited
MFS Institutional Advisors, Inc
Omega Global Investors Pty Ltd
Pareto Partners
PIMCO Australia Pty Ltd
QIC
Quentin Ayers Pty Limited
Schroders p/c
State Street Global Advisors Australia Limited
Vanguard Investments Australia Ltd
Wellington Management Company, LLP
Wilshire Australia Pty Limited
Winton Global Alpha Fund

Legal advisor

DLA Piper



How do we see things?

We believe that you need a healthy environment, a strong community and good governance to achieve long-term sustainable investment returns.

We see climate change as a long-term environmental risk to our financial security and our standard of living.

Our view is that we need to have a say in business and investment decisions if we're to have a long-term positive impact on our environment and our community.



Taxes, fees and charges

General tax information

Local Government Super is required to pay tax of up to 15% on all employer contributions¹ received (including contributions made by way of salary sacrifice). Any tax payable in respect of these contributions is deducted from your account. Personal contributions made on an after-tax basis are not subject to tax.

From 1 July 2012, workers with an annual income of less than \$37,000 will receive a refund up to \$500 to their superannuation savings. In effect, the rebate refunds the 15% contributions tax paid by the fund on low income earners' contributions to ensure they pay no tax on contributions.

From 1 July 2005, the Federal Government abolished the surcharge payable on certain superannuation contributions. However, any debt accrued prior to this date is still payable and will be deducted from your account. The Australian Tax Office (ATO) determines the amount of surcharge (if any) which relates to your contributions. All surcharge amounts are deducted from your account and paid to the ATO on your behalf (except for the Retirement and Defined Benefit Schemes, where it is held as a debt until the time your benefit is paid).

For 2012/13 and 2013/14 the standard \$25,000 concessional contribution limit will apply to all taxpayers, regardless of their age. Concessional contributions are 'before tax' contributions and include the compulsory employer Superannuation Guarantee and salary sacrifice arrangements.

Non-concessional contributions remain capped at \$150,000 per year. Individuals under 65 years of age during any part of the financial year are able bring forward up to three years worth of non-concessional contributions and contribute a total of \$450,000 in one financial year. Please note that if you do this, you will be unable to make any additional non-concessional contributions for the next two financial years without breaching the non-concessional cap.

An anti-detriment payment is a lump sum amount that is paid in addition to the account balance of a deceased member to the trustee of the deceased estate (for the benefit of the spouse, ex-spouse or child) or to a spouse, former spouse or child of the deceased member. The anti-detriment payment is only made where the benefit is paid as a lump sum and represents a refund of the 15% contributions tax levied against the deceased member's superannuation entitlements during their lifetime.

Earnings on investments are generally taxed at a maximum of 15%. The effective rate may be reduced below 15% due to the effect of various tax credits and rebates.

Payments from super are tax free after the age of 60.

Fees and other costs

There are a number of fees levied by Local Government Super. These include:

1. Net of allowable deductions e.g. Administration and insurance fees

Investment costs and expense recovery fee

These are the fees and costs for investing the assets and for payment of certain other costs associated with operating Local Government Super (full details of these types of fees can be found on our website or in your Product Disclosure Statement). Note that investment management fees are not charged directly to your account. These fees are applied daily on the market value of the assets in each particular investment strategy and are deducted prior to the declaration of the relevant unit price.

Administration fee

The Trustee sets the administration fee at the level needed to recover part of the cost of administering a member's account. Where applicable, this fee is charged on a weekly basis. A separate administration fee was not applied to the Rollover Plan, Account-Based Pension Plan, the Defined Benefit Scheme (Division D) or deferred accounts. Pages 37, 38 and 39 list all fees charged to members' accounts. For further details refer to the Product Disclosure Statement, contact Member Services on 1300 369 901 or visit the website www.lgsuper.com.au

Member protection

If you are a protected member, any administration fee deducted from your account cannot exceed the earnings on your account balance in that financial year. This means that your account balance will not fall because of administration fees (excluding insurance and taxes). During the last financial year, account balances with less than \$1,000 were protected. It is important to note that during times of poor or negative investment returns member protection will not apply. Superannuation Law provides that in such times the Trustee can charge a protected member a nominal administration fee of no more than the investment return, plus \$10.

Administration, other fees and insurance premiums charged in Pool A

For the year ended 30 June 2012	Accumulation Scheme	Executive Scheme	Rollover and Account-Based Pension
Administration Fee—Non contributing member	\$4.33 per month	\$4.33 per month	N/A
Administration Fee – contributing member	\$4.33 per month	\$6.33 per month	N/A
Basic Death or Invalidity cover	\$15 per month	\$25 per month ¹	N/A
Benefit payment fee	\$20	\$30	No charge
Optional investment switch in any financial year	\$20 per switch ²	\$30 per switch ²	No charge
Voluntary insurance	The cost will vary depending on the amount insured and other factors.		N/A

¹ Only available to new members from 1 July 2005.

² The first switch is free in any financial year. Any subsequent switches in that financial year are charged at the stated amount.

Management costs charged in Pool A¹

Management costs charged to the Accumulation and Executive Scheme members for the year ended 30 June 2012

Months	High Growth	Balanced Growth	Balanced	Conservative	Cash
July – Feb	0.88%	0.86%	0.82%	0.79%	0.72%
Mar – June	0.80%	0.78%	0.74%	0.70%	0.64%

Management costs charged to the Rollover and Account-Based Pension Plan² members for the year ended 30 June 2012

Months	High Growth	Balanced Growth	Balanced	Conservative	Cash
July – Feb	0.82%	0.80%	0.77%	0.73%	0.66%
Mar – June	0.70%	0.68%	0.64%	0.61%	0.54%

In February 2012, LGS introduced six new single-sector investment options for the Accumulation Scheme and the Account Based Pension Plan.

Management costs charged to each of the single-sector options of the Accumulation Scheme for the year ended 30 June 2012

Australian Shares	Sustainable Australian Shares	International Shares	Australian Listed Property	Australian Fixed Interest	International Fixed Interest
0.79%	0.86%	0.98%	0.68%	0.62%	0.89%

Management costs charged to each of the single-sector options of the Account Based Pension Plan for the year ended 30 June 2012

Australian Shares	Sustainable Australian Shares	International Shares	Australian Listed Property	Australian Fixed Interest	International Fixed Interest
0.70%	0.77%	0.89%	0.59%	0.53%	0.80%

Administration fees charged in Pool B

	Retirement Scheme	Defined Benefit Scheme
Administration fee – contributory	\$4.33 per month	N/A
Administration fee – deferred	N/A	N/A
Administration fee – Accumulation account	N/A	N/A

¹ Maximum 1% fee applies for all investment options.

² The management costs include investment management, financial planning and account administration.

Management costs charged in the Retirement Scheme (Accumulation accounts only)

Management costs charged in the Retirement Scheme to contributory members excluding any Other Contributions Account for the year ended 30 June 2012¹

Month	High Growth	Growth	Balanced Growth	Balanced	Conservative	Cash
July – Feb	0.24%	0.27%	0.21%	0.18%	0.14%	0.07%
Mar–June	0.24%	0.22%	0.21%	0.18%	0.14%	0.07%

Management costs charged in the Retirement Scheme to contributory members for the Other Contributions Account for the year ended 30 June 2012²

Month	High Growth	Growth	Balanced Growth	Balanced	Conservative	Cash
July – Feb	0.80%	0.79%	0.78%	0.75%	0.71%	0.64%
Mar–June	0.78%	0.77%	0.76%	0.72%	0.69%	0.62%

Management costs charged in the Retirement Scheme to deferred members for the year ended 30 June 2012²

Month	High Growth	Growth	Balanced Growth	Balanced	Conservative	Cash
July – Feb	0.80%	0.79%	0.78%	0.75%	0.71%	0.64%
Mar–June	0.78%	0.77%	0.76%	0.72%	0.69%	0.62%

Family law fees

As at the 30 June 2012, the following fees were payable for the provision of Family Law information and for the actual “splitting of the benefit”.

Accumulation and Executive Schemes, Rollover and Account-Based Pension Plans (includes GST)

Request for information ³	\$110
Benefit split fee ⁴	\$88

Retirement, Basic Benefit and Defined Benefit Schemes (includes GST)

Request for information ³	
Current members	\$275
Deferred members	\$110
Pensioners	\$110
Benefit split fee ⁴	\$88

Further details of fees and charges are provided in your member statement and also in the Product Disclosure Statements which are available at www.lgsuper.com.au

¹ A maximum 0.55% fee applies for the Contributor Financed Benefit.

² A maximum 1.0% fee applies.

³ This fee is payable by the person requesting the information.

⁴ This fee is generally payable by the member and non-member spouse in equal parts (\$44 each). However, if the non-member spouse is entitled to the whole amount of a splittable payment, the entire amount is payable by the non-member spouse. The member's share of the fee is deducted from the member's account and the non-member spouse's share is deducted from the non-member spouse's splittable payment prior to the transfer of the payment out of the Scheme.

Financial statements

Pool A

Operating statement for the year ended 30 June 2012

Revenue	30 Jun 12 (\$ '000)	30 Jun 11 (\$ '000)
Net investment revenue	77,978	267,769
Employer contributions	250,051	233,870
Member contributions	17,845	20,182
Transfers in	289,070	264,490
Other revenue	10,050	8,319
Total revenue	644,994	794,630
Less outgoings		
Administrative expenses	31,200	30,741
Income tax expense	37,603	50,656
Total outgoings	68,803	81,397
Benefits accrued as a result of operations	576,191	713,233

Statement of financial position for the year ended 30 June 2012

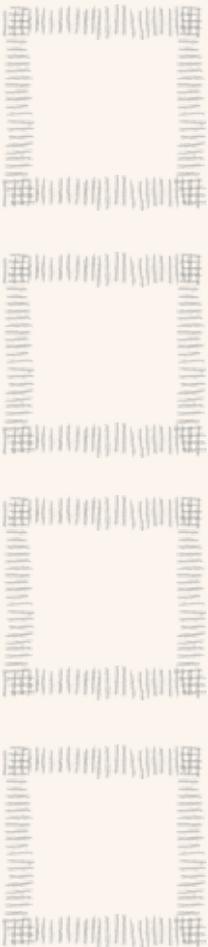
Investments	30 Jun 12 (\$ '000)	30 Jun 11 (\$ '000)
Unit trusts	3,536,288	3,249,652
Other assets		
Cash	52,086	56,542
Receivables	1,157	199
Deferred tax asset	48,992	50,043
Total assets	3,638,523	3,356,436
Less liabilities		
Payables	4,299	6,734
Current tax liability	17,664	39,669
Total liabilities	21,963	46,403
Net assets available to pay benefits	3,616,560	3,310,033

The complete Financial Statements, including the Auditor's Report, are available on our website at www.lgsuper.com.au or you can request a copy by calling Member Services on 1300 369 901.



Large investments

Local Investment Fund (LIF) is a wholesale investment trust and the majority of the assets of Local Government Super are invested through LIF. The investment pool of LIF is allocated to a range of investment managers. Investment managers (and/or their weightings) are changed at appropriate times. Other than investments made through LIF, during the year there were no individual investments that exceeded 5% of Pool A assets, or 5% in a single enterprise.



Pool B

Statement of changes in net assets for the year ended 30 June 2012

Revenue	30 Jun 12 (\$ '000)	30 Jun 11 (\$ '000)
Net investment revenue	(36,495)	265,165
Employer contributions	162,038	191,065
Member contributions	10,914	12,529
Transfers in	9,112	6,674
Total revenue	145,569	475,433
Less outgoings		
Benefits paid	273,085	246,268
Administrative expenses	13,142	18,190
Income tax expense	14,948	48,820
Total outgoings	301,175	313,278
Net profit	(155,606)	162,155

Statement of net assets for the year ended 30 June 2012

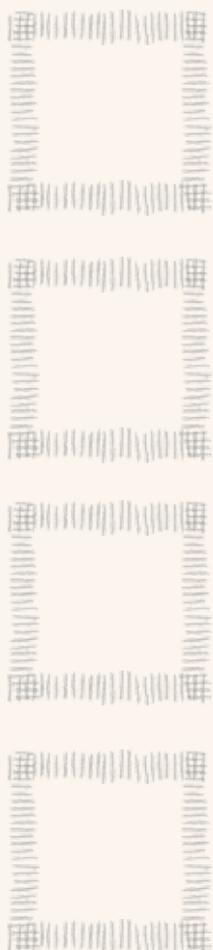
Investments	30 Jun 12 (\$ '000)	30 Jun 11 (\$ '000)
Unlisted equities and trusts	2,648,315	2,846,329
Other assets		
Cash	14,364	18,795
Receivables	990	149
Deferred tax asset	83,262	75,741
Total assets	2,746,931	2,941,014
Less liabilities		
Payables	258	4,681
Current tax liability	8,905	42,959
Total liabilities	9,163	47,640
Net assets available to pay benefits	2,737,768	2,893,374

The complete Financial Statements, including the Auditor's Report, are available on our website at www.lgsuper.com.au or you can request a copy by calling Member Services on 1300 369 901.



Large investments

Local Investment Fund (LIF) is a wholesale investment trust and the majority of the assets of Local Government Super are invested through LIF. The investment pool of LIF is allocated to a range of investment managers. Investment managers (and/or their weightings) are changed at appropriate times. Only one other investment other than investments made through LIF exceeded 5% of Pool B assets, or 5% in a single enterprise. This was Local Government Property Fund.



How do we do things?

We strictly limit our investments in organisations which have high environmental, social and governance risks.

We use our shareholder proxy voting to influence the activities of companies which may have an adverse impact on the environment.

Our strategy is to invest in a wide range of sustainable activities including organisations which are developing green technology for the future.



More information

Complaints

With our focus on quality service and transparency, the Trustee wishes to ensure that any enquiries or complaints are handled courteously and promptly. We hope that you will always receive satisfactory service and that all your enquiries are promptly attended to. However, if you are dissatisfied with the service you are receiving, you may lodge a formal complaint. This should be made in writing to:

Complaints Resolution Manager

Local Government Super
PO Box N835
Grosvenor Place NSW 1220

The Complaints Resolution Manager will consider your complaint on behalf of the Trustee and provide you with a response as soon as possible. If you are not satisfied with the response, or your complaint has not been resolved within 90 days, you have the option of referring your complaint to the Superannuation Complaints Tribunal. The Tribunal is an independent body established by the Commonwealth Government to review certain types of decisions. The contact details are:

Superannuation Complaints Tribunal

Locked Bag 3060
Melbourne VIC 3001
Ph: 1300 884 114

Pool A reserves

Operational Risk Reserve (ORR)

The ORR operates principally to meet any remaining self insured death/invalidity claims within Pool A and generally to protect the Scheme from other contingent events or the need for capital expenditure. A specific amount of \$100,000 is also maintained in the ORR at all times to satisfy one of the requirements of the Trustee's public offer licence.

Administration and Tax Reserves

Deductions are made from members' accounts and investment earnings to pay for Local Government Super's income tax liabilities and operational expenses. The administration and tax reserves are invested in cash and contribute towards the expenses they relate to as and when they become due and payable.

Reserve Data

The closing balance of these reserves as at 30 June for the last four years are as follows:

Year	Admin (\$'000)	Tax (\$'000)	ORR (\$'000)
2009	195	6,178	5,278
2010	268	892	5,157
2011	500	368	5,332
2012	660	37	4,980

Movement during the financial year for each of the abovementioned reserve accounts as at 30 June for the last four years are as follows:

Year	Admin (\$'000)	Tax (\$'000)	ORR (\$'000)
2009	99	4,590	5,278
2010	73	(5,286)	(121)
2011	232	(524)	175
2012	160	(331)	(352)

How are the Reserves invested

The assets which support these reserves are held effectively in cash, either in a bank account, a cash management account or as a cash investment in a unit trust.

Derivatives

Derivatives are used to adjust the weightings of the various portfolios in line with the overall investment strategy. Various derivatives may be applied, such as futures and options. Strict investment guidelines detail all limits approved on the use of derivatives that are in place. Currency hedging activities are also carried out in relation to the international equities portfolio, within strictly defined parameters. Derivatives can also be used to protect against possible adverse moves in the markets, to implement tactical asset allocations, or to enter or exit the market at a defined price level. Under no circumstances can they be used to gear the investment portfolio or be used for speculative trading. Various managers in LIF have, at times, made use of derivatives as part of their portfolio management activities during 2011/2012. The Trustee requires that all derivative positions (a) are fully cash covered; (b) are offset to existing assets; or (c) are used to alter the exposures in underlying asset classes.

Eligible Rollover Fund

An Eligible Rollover Fund (ERF) is a fund which is established for the purpose of accepting and protecting benefits in respect of members of superannuation funds. If transferred to an ERF, a member ceases to have any rights which he or she previously had against the transferring fund. The Trustee has nominated 'Australia's Unclaimed Super Fund' (AUSfund)¹ as the ERF to which such members' benefits may be paid.

Contact details are as follows:

AUSfund Administration

PO Box 2468

Kent Town SA 5071

Ph: 1300 361 798

Fax: 1300 366 233

For members of Pool B, the Trustee will transfer a benefit to the nominated ERF in circumstances where a benefit is split under family law and alternate rollover instructions have not been provided. A benefit may also be transferred to that ERF for inactive accounts (where no superannuation contributions are being made) in accordance with the Superannuation Laws.

1. Industry Funds Investments Limited (IFI) – ABN 17 006 883 227, AFSL 229881 is the Responsible Entity of AUSfund, Australia's Unclaimed Super Fund – ABN 85 945 681 973

Important changes

Changes to investment options

The Trustee added six single sector investment options for members of the Accumulation Scheme and Account Based Pension Plan. These options are:

-  Australian Shares
-  Sustainable Australian Shares
-  International Shares
-  Australian Listed Property
-  Australian Fixed Interest
-  International Fixed Interest

A Fixed Term option was also made available to members who held accounts within the Rollover Plan or Account-Based Pension Plan.

Account-Based Pension Plan becomes a Public Offer product

In April 2012, Local Government Super expanded the Account-Based Pension Plan product so that it is now a Public Offer product, and this is in addition to the existing Accumulation Scheme Public Offer product. This now completes the suite of products which allows any person to join Local Government Super.

Transition to Retirement now available to Retirement Scheme members

From April 2012, eligible Retirement Scheme members have been able to establish a Transition to Retirement (TTR) pension, using some of the funds from their accumulation accounts. This aligns the Retirement Scheme entitlements with those of Accumulation Scheme members.

Amendments to the rules surrounding Binding Nominations

From 1 July 2011, the rules applicable to Binding Nominations and to whom you may leave your superannuation monies upon your death have been amended so that you may elect to nominate a dependant or your estate. The definition of dependant has been expanded and includes your spouse at the date of death, your child or children, any other dependant (for example, someone who is financially dependent on you) or any other person whom you had an interdependency relationship with at the time of your death.

Should you choose not to have a Binding Nomination, the Trustee must pay your super benefit to your dependants or estate, however, the proportion in which this is paid is at the discretion of the Trustee.

Therefore, we encourage all members to lodge a Binding Nomination with Local Government Super and the Binding Nomination form can be found on our website at www.lgsuper.com.au

Changes to the Timing of Investment Switches

Following the introduction of the six single sector investment options, the timing of investment switches has been changed to accommodate the weekly unit prices for Sustainable Australian Shares and Australian Listed Property (all other investment options have daily unit prices).

As a consequence, the following rules have been implemented when a member requests an investment switch:

- (a) where a member makes an investment switch to or from investment options which have daily unit prices, the existing rules apply and the same day's unit price will be used if the investment switch is lodged prior to 5pm on that day, otherwise, the unit price for the next business day will be used; or
- (b) where a member lodges an investment switch which includes a weekly priced investment option, then the entire investment switch will be made on the day the next weekly price is determined, ie Friday. Therefore, if an investment switch is lodged on a Monday, the entire investment switch, including those involving daily unit prices, will be made on the following Friday.

Changes to your Insurance terms

From 1 July 2012, the Insurer has included a further exclusion to the terms of the Basic death, terminal illness or total and permanent disablement cover so that a payment will not be made within the first 12 months of insurance coverage where it arises directly or indirectly from suicide.



Anti-detriment changes

As of 30 May 2012, the Trustee has expanded the anti-detriment provision so that all eligible members of Local Government Super may receive a lump sum payment, in addition to the member's balance, to refund the contributions tax paid when a payment is made to the deceased member's estate (for the benefit of the spouse, ex-spouse or child) or to a spouse, a former spouse or child of the deceased member.

Legislative changes

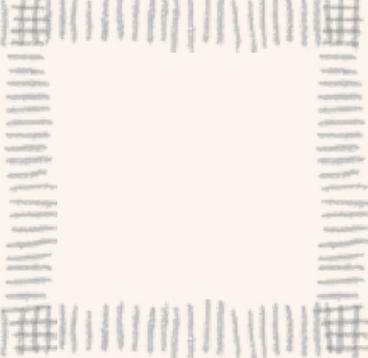
In the 2011/2012 financial year the superannuation industry commenced the implementation of the Federal Government's **Stronger Super** and **Future of Financial Advice** reforms.

Stronger Super

The **Stronger Super** legislation is aimed at improving Australia's superannuation system by removing unnecessary costs and better safeguarding the retirement savings of all funds' members. The introduction of **MySuper**, which is key element of **Stronger Super**, will simplify default superannuation products and improve their transparency and comparability.

MySuper is a simple, low cost default superannuation product with a single diversified or lifecycle investment strategy, together with a standard set of fees that is designed to provide a cost-effective alternative for members who have not made an investment choice.

SuperStream also forms part of **Stronger Super** and is designed to improve the productivity of the superannuation system. As a part of **SuperStream** measures, on 1 July 2012, the ATO released an online facility designed to help members of super funds track and manage their active accounts, their lost accounts and other superannuation monies held by the ATO.



Future of Financial Advice (FOFA)

The *Future of Financial Advice* reforms are designed to improve the standard of financial advice for consumers and to make financial advice affordable and accessible. This will be achieved through the banning of conflicted remuneration structures and commissions on investment products, including super, and the requirement for advisers to receive an 'opt in' authority should clients receive ongoing advice. The FOFA legislation also imposes a statutory duty for financial advisers to act in the best interests of the person receiving advice.

The FOFA legislation commenced on 1 July 2012 with a voluntary compliance period until 1 July 2013.

Some other legislative changes

Super Contributions tax rebate for low income earners

From 1 July 2012, workers with an annual income of less than \$37,000 will receive a refund up to \$500 to their superannuation savings. The rebate refunds the 15% contributions tax paid by the fund on low income earners' contributions. In effect, they will pay no tax on their contributions.

Superannuation Government Co-Contributions

For 2011/12, the maximum entitlement was \$1,000, with the lower income threshold at \$31,920 and the higher income threshold at \$61,920.

In the 2012–13 Federal Budget the Government announced further reductions of the higher income threshold against which the co-contribution is assessed to \$46,920 and reduction of the matching rate from \$1,000 to \$500. Legislation on this proposal is still pending.

Abolition of the age limit on payment of the Superannuation Guarantee

The *Superannuation Guarantee (Administration) Act* 1992 was amended to abolish the age limit for Superannuation Guarantee contributions. Consequently, from 1 July 2013 employer Superannuation Guarantee contributions will be payable for those above age 70.

Increase of the Superannuation Guarantee rate

The Superannuation Guarantee (SG) rate will increase from 9% to 12% incrementally from 1 July 2013 to 1 July 2019.

Year Commencing	Increase	Total SG rate (%)
1 July 2013	0.25%	9.25%
1 July 2014	0.25%	9.5%
1 July 2015	0.50%	10%
1 July 2016	0.50%	10.5%
1 July 2017	0.50%	11%
1 July 2018	0.50%	11.5%
1 July 2019	0.50%	12%

Concessional contributions cap

From 1 July 2012, the standard \$25,000 concessional contribution limit will apply to all taxpayers, regardless of their age. The Government has deferred its previous proposal to permanently increase the concessional contributions cap to \$50,000 for individuals who have total super balances below \$500,000 and are 50 years old or over. There are no changes to non-concessional contribution limits.

Refund of Excess Concessional Contributions

From 1 July 2011, members who breach the concessional contributions cap by not more than \$10,000 can request the excess contributions be withdrawn from a super fund and refunded to them. Those excess concessional contributions will be included in an individual's personal return and be taxed at their marginal tax rate, rather than incurring the excess contributions tax. This refund measure only applies for first time (one off) breaches of the concessional cap.

Changes to Tax Concessions Provided to Very High Income Earners

In the 2012–13 Federal Budget the Government proposed a doubling of super contributions tax to 30% for taxpayers whose income is more than \$300,000 per year, with effect from 1 July 2012. Legislation on this proposal is still pending.

Pension drawdown relief continues for 2012/13

The Government has extended drawdown relief for members of account-based pension plans by reducing the minimum payment amounts for their super pensions by 25%.

For more information

Local Government Super

Phone 1300 369 901

Fax (02) 9279 4131

Website www.lgsuper.com.au

PO Box N835

Grosvenor Place

Sydney NSW 1220

Sydney 28 Margaret St

Newcastle Suite 2/76 Park Ave, Kotara

Wollongong Shop 2/60 Burelli St

Office hours 8.30am – 5.00pm Monday – Friday

Offices in Lismore, Orange, Parramatta, Tamworth and Wagga Wagga are available on an appointment only basis.

Bookings are essential. Phone 1300 369 901 to make an appointment.