



Annual Report 2015



LOCAL  
GOVERNMENT  
SUPER

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# Note from the Chair and the CEO

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Peter Lambert, Chief Executive Officer

Craig Peate, Chair

*To provide financial wellbeing for  
Local Government employees and  
their families in retirement.*

## Looking after the long-term financial wellbeing of our members

After a period of significant change in superannuation, the last financial year has been an opportunity for us at Local Government Super to consolidate and build on our capabilities.

The aim of the team at Local Government Super is:

*To provide financial wellbeing for Local Government employees and their families in retirement.*

This aim can be achieved by:

- focusing on strong long-term returns through sustainable and responsible investments
- providing outstanding value through genuinely great service and competitive costs.

## Sustainable and responsible investments

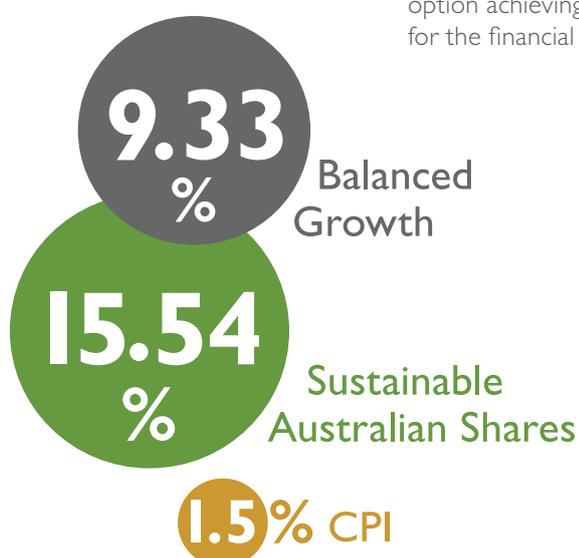
Local Government Super leads the way when it comes to sustainable and responsible investment. It was very pleasing this year to regain the number one global ranking in the Asset Owners Disclosure Project for managing the risks of climate change across our portfolio.

We followed this up by taking out the SuperRatings Infinity award for Sustainable and Responsible Investment, consolidating on our previous success in 2011, 2012 and 2014.

It is testament to the commitment of the Board, management and the entire team at Local Government Super that we continue to provide our members with strong long-term sustainable returns on their retirement savings.

Overall, we achieved a solid investment performance across our investment options this financial year. Despite a market correction in May and June, our Accumulation Scheme Balanced Growth option has posted a 9.33% annual return.

Sustainable Australian Shares were the standout with the Accumulation Scheme option achieving a 15.54% annual return for the financial year.





## Providing outstanding value

Members expect outstanding value from the moment they commence in local government through to retirement and beyond.

Our focus is to improve the services we provide to our local government members while ensuring our fees and charges are very competitive within the market.

The service we provide has always given us an advantage over our competition.

The key to great service is to provide members with the flexibility to contact us by telephone, attend seminars, manage their super online or meet face-to-face at their workplace to discuss and learn more about their super.

Our local client relationship managers and financial planners are meeting with record numbers of members each year. This has provided us with an insight into what our members are thinking and what they expect from their super fund.

Through greater efficiency and economies of scale, we have reduced our management fees over the last few years which will greatly assist in boosting our members' retirement savings over the long term.

During the year CANSTAR awarded our Accumulation Scheme and our Account-Based Pension Plan their highest rating for outstanding value, which gives great independent endorsement that we're on the right track.

## Looking ahead

The local government sector in New South Wales is set to experience significant reform over the next few years and we believe that Local Government Super is well placed to provide the support and advice our members will require during this period of change.

Although markets have performed well in recent years, the recent volatility and a subdued outlook for global economic growth means the team will continue working harder than ever to deliver outstanding value for our members.

That's our challenge and we are all looking forward to it.

Regards

A handwritten signature in black ink, appearing to read 'Craig Peate'.

**Craig Peate**  
Chair

A handwritten signature in black ink, appearing to read 'Peter Lambert'.

**Peter Lambert**  
Chief Executive Officer

# Our strategy

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## Our current environment

The past few years have seen some significant changes in the superannuation landscape.

Local Government Super, like many other super funds, has had to adapt to the introduction of a great deal of new legislation and increased competition in the industry.

Local government in New South Wales is also undergoing reform as part of the State Government's Fit for the Future program and we expect these changes will affect many of our members in one way or another.

And more recently, increased volatility in global markets has had an impact on investment portfolios right across the industry.

Currently there is a vigorous public discussion around the long-term sustainability of the super system in Australia.

There are many proposals up for debate and they include a winding back of the tax concessions on super contributions, a cap on the amount of lifetime super contributions, or the introduction of a tax on investment earnings in retirement.

While it's doubtful that the Federal Government would implement all of these proposals, Local Government Super welcomes any changes which genuinely support the long-term viability of our super system.

Meeting these challenges will certainly help us to further sharpen our skills and expand our capabilities.

But no matter what the changes, the focus of our business strategy is the long-term financial wellbeing of our members.

Our aim is to continue to grow our fund by providing our members with great products and services, by helping them to grow their super investment, and making sure their retirement savings are safe and secure.



## Great products and service for our members

Providing good quality products and services is key to keeping our existing members and attracting new members to our super fund.

We have already done a lot of work refining our range of investment options and we're now turning our attention to our post-retirement products. We're exploring the suitability of a product which provides our retired members with the option of a guaranteed income for the rest of their lives.

Local Government Super has long been committed to providing affordable insurance within our members' superannuation, however costs in the insurance industry have risen dramatically over the last few years.

So we're reviewing the range of insurance we offer to make sure it remains practical, affordable and most importantly, meets the needs of our members.

We're also continually looking for ways to further improve our service and we're now exploring how we can better use technology and training to expand our capabilities.

Our new digital strategy is in development and will aim to provide the flexibility and the responsiveness which members need in order to make informed decisions about their super investment.

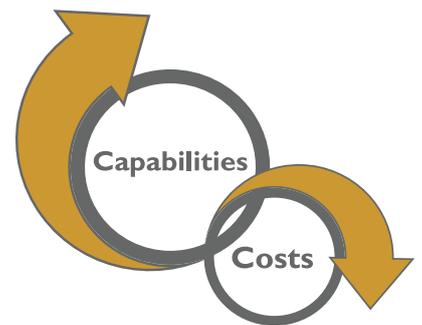
We aim to resolve issues quickly and efficiently, and to readily identify and respond to our members' needs whether it be, information, education or personal financial planning advice.

Our Board's Member Services Committee, together with our internal teams, ensure that our focus is always on providing genuine value to members through our benefits, products and services.

## Helping to grow our members' super investment

Local Government Super is committed to earning long-term sustainable returns. We believe that's the best way for us to provide our members with financial wellbeing in their retirement.

We have already done a lot of work to expand our own capabilities and reduce our investment costs which, of course, means better investment returns for our members in the long run.



The appointment of two new members to our Investment Committee, Bev Durston and Robert Swift, in January 2015 has allowed us to tap into their expertise and experience.

Their insights into global markets, risk monitoring and dynamic asset allocation are proving to be invaluable for managing our investment portfolio in the current environment.

We lead the super industry in sustainable and responsible investment and we'll continue to seek out opportunities to invest in the long-term future of our community and our environment.





*“Putting members first is the best way to grow our super fund and to build lifelong relationships with our members.”*

Peter Lambert, Chief Executive Officer

## Making sure our members' retirement savings are safe and secure

Ensuring that our members' retirement savings are safe and secure is, of course, one of our top priorities.

Our Board's Risk Committee and Audit and Compliance Committee are complemented by our in-house Governance team to ensure our policies and practices comply with all superannuation legislation and regulations.

Financial Planning is one area where members expect the highest standards of integrity, and with a number of our members facing significant change over the next twelve months, they will need advice from someone they can trust.

We've appointed a Financial Planning Quality Assurance Manager to ensure we exceed our members' expectations and maintain our reputation for high quality financial planning advice.

We believe that putting members first is the best way to grow our super fund and to build lifelong relationships with our members.

## Our awards and ratings

Over the last twelve months Local Government Super has won a number of awards and also achieved some great ratings from independent industry bodies.

### SuperRatings Rising Star award 2015

In October 2015, we took out the SuperRatings Rising Star award for the super fund which improved its ratings score the most over the previous twelve months.



### Money magazine Best of the Best Award for the Best Green Super Fund for 2015

In December 2014, Money magazine named us the Best Green Super Fund in recognition of our management of environmental, social and governance investment risk and opportunities across our investment portfolio.





### SuperRatings Infinity award 2015

In June 2015, we took out the SuperRatings Infinity award for the fourth time in five years confirming our position as the industry leader in sustainable and responsible investment.



### Number one global ranking in the Asset Owners Disclosure Project (AODP) 2015

In April 2015, we regained the number one global ranking in the AODP survey for the second time since 2012 recognising our management of the investment risks and opportunities of climate change.



### CANSTAR rating for outstanding value for our Accumulation Scheme

In September 2015, CANSTAR awarded our Accumulations Scheme their highest rating for outstanding value for the third year in a row, and we were one of only five super funds to receive the five-star rating across all member profiles.



### CANSTAR rating for outstanding value for our Account-Based Pension Plan

In May 2015, CANSTAR awarded our Account-Based Pension Plan their highest rating for outstanding value recognising our competitive costs, investment options and member benefits.

# How we look after our members



## Providing outstanding value for money

Super is all about investing for retirement which means for many people, this may be a 30, 40 or even a 50 year investment.

**30**years   **40**years   **50**years



We believe that giving our members value for money over the long term can make a real difference to their super and their financial wellbeing in retirement.

And value for money isn't about being the cheapest on the market.



Superannuation



Account Based Pensions

It's all about providing members with a range of quality products and services they need at an affordable and competitive cost.

## More flexible investment options

In September 2014, we introduced our DIY investment option to replace a number of our single sector options.

The new option is designed to provide more flexibility and choice of investments. It allows members to invest directly in shares listed on the ASX 300 as well as a selection of exchange-traded funds which offer an exposure to a diverse range of markets including Australian and global shares, listed property, bonds and gold.



Members can also invest directly in term deposits offered by a number of providers including ME Bank, ANZ, NAB and Macquarie Bank.

Our DIY investment option provides an affordable way for more confident investors to take greater control over the way they invest their super.



*“Great service and outstanding value for money is what makes a real difference in the long term.”*

Michelle Hopwood, Chief Marketing Officer

## Speaking face to face

To make the most of your super, we believe it pays to understand how super works and how to make sure your super is helping you to achieve your long-term financial goals.

That's why we have a team of client relationship managers across New South Wales who regularly visit councils to give group information sessions and also meet individually with local government employees.

During the 2014/15 financial year, over 3,000 local government employees attended our group information sessions, an increase of more than 40% on the previous financial year, and more than 4,000 members had a personal interview with one of our client relationship managers.

Planning for your retirement is one of the most important things people can do to maximise their long-term financial wellbeing.

That's why we conduct Pre-retirement seminars throughout the year. We speak with hundreds of members in cities and towns right across the state who are looking to learn more about maximising their retirement savings.

And we certainly don't forget our members once they retire from local government.

Each year we run a series of Retired Members Forums across the state so our retired members can together, learn more about what's happening in the markets and the impact on their super investment. It's also a chance to catch up with old colleagues.

This year, over 800 retired members and their partners attended the forums, an increase of more than 30% compared to the previous year's forums.



**3,159**  
members attended  
group sessions

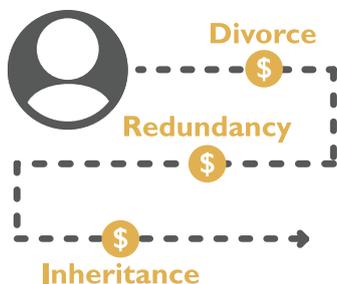


**4,347**  
members had a personal interview  
with a client relationship manager

# Financial planning advice

Super is all about achieving our long-term financial goals and good financial planning advice can play a key role in this process.

Financial advice can also be very valuable if you're facing a significant change in your life such as divorce, redundancy, receiving an inheritance, or when you're planning for your retirement.



Our financial planners had more than 4,000 meetings with members last financial year providing expert and affordable advice on a wide variety of issues such as transition to retirement, investment strategies, tax, Centrelink entitlements, and personal insurance.



Scaled Statements of Advice



Comprehensive Statements of Advice

Over the last twelve months, we have taken a number of steps to further improve the quality and the efficiency of our financial planning service.

The quality of our financial planning service is something we take very seriously.

Our planners have long enjoyed a reputation for the highest integrity and professionalism but the reputation of the wider financial planning industry has been tarnished by various incidents in recent years.

We believe it's absolutely essential that our members remain confident that Local Government Super planners are always acting in their best interests.

So to make sure we keep exceeding the expectations of our members, we have appointed a Financial Planning Quality Assurance Manager and further improved our internal processes.

We also began using the top ranking financial planning software in the industry, specifically customised for Local Government Super, and we use it to manage all our financial planning information.

The software has helped us to improve the accuracy of our data and to be more efficient and responsive to our members' needs.

## Our online services

Each year more and more of our members choose to manage their super at their desktop, tablet or on their mobile.

In fact, over 120,000 people visited our website during the 2014/15 financial year, an increase of over 13% compared to the previous financial year.



Every day over 500 members use our Member Online service to manage their super by undertaking a wide variety of transactions such as checking their balance, making contributions, updating their personal details, switching their investment options and much more.

 **Total number of visitors** **22,265**

 **Members logging on to manage their super account each day** **576**

There's no doubt that the digital trend is set to continue so we are looking to significantly improve our online services over the next few years.

Our new digital strategy is all about continually meeting our members' needs and expectations. The aim is to increase our online capacity to provide a wider range of services while keeping our costs very competitive.

## Responding to our members

One hallmark of great service is how well you respond to your members' needs, answer their questions, and solve their problems.

We have a dedicated telephone-based Member Services team in Sydney as well as two local regional offices in Newcastle and Wollongong and their job is simply to be there to help our members.

And members can drop in, call us or send us an email if they need any assistance.

We also have serviced offices in Lismore, Orange, Wagga Wagga, Parramatta and Tamworth. These offices are by appointment only.

During the 2014/15 financial year, our Member Services team communicated with more than 5,000 of our members each month.

per month

 **30 letters**

 **53 interviews**

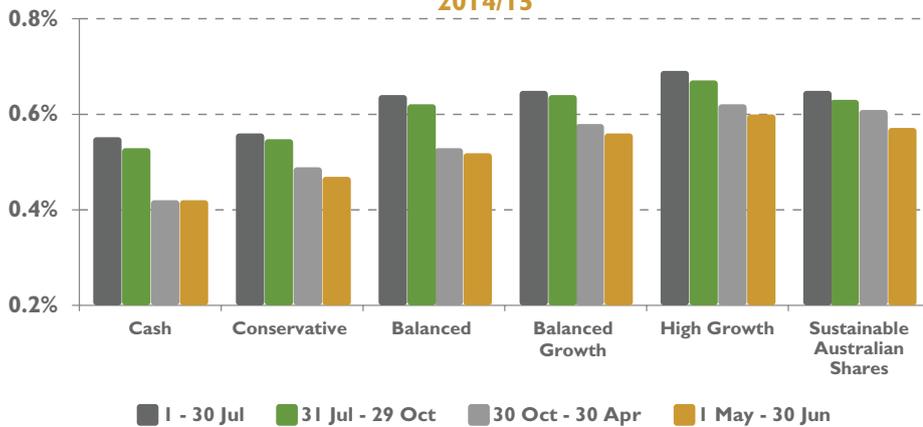
 **327 emails**

 **4,911 calls**

While many other organisations may be reducing or outsourcing their contact centre services, we have recently expanded our Member Services team so we can focus on building even stronger relationships with our members.



**Management fees for the Accumulation Scheme  
2014/15**



## Competitive costs

A couple of years ago we reduced our administration and direct transaction costs which include our switching and exit fees, and these costs remain some of the most competitive on the market.

Other management costs include investment fees we pay to external fund managers and any other indirect costs which we deduct from our net investment earnings.

By improving our efficiencies and taking advantage of our economies of scale we have been able to continually reduce these costs for each one of our investment options over the last financial year.

We now have some of the most competitive management costs on the market and our aim is to continue to reduce these costs over the coming years.

# How we invest our members' money



## Our beliefs

### Purchasing power of our members

We believe that one of the key indicators of our members' financial wellbeing in retirement is their relative purchasing power; a retirement income which keeps pace with the ever rising cost of living.

That's why inflation is so important and why we continually measure our investment performance against the rate of inflation or the Consumer Price Index (CPI).

While investment returns may experience some short-term volatility from time to time, our long-term aim is to always exceed the CPI and to continually grow our members' retirement savings in real terms.

### Our long-term time horizon

We understand that on average our members will not access their retirement savings for more than ten years, and for younger members this horizon may stretch to 20, 30 or even 40 years.



The longer time horizon allows us to adopt long-term strategies and capture the strong returns offered by investments in more illiquid assets.

It also means that we pay a lot of attention to managing the long-term environmental, social and governance risks right across our investment portfolio.

### Managing the relationship between risk and return

Our experience tells us that the relationship between risk and return is not constant over time.

Markets are not perfect and our investment asset allocations may not always reflect the market but they are always designed to provide long-term sustainable returns for our members.

### Benefits of diversification

We are well aware of the need to offset the risks inherent in some investments by combining them with a diverse range of other investments.

Our investment portfolio includes a wide range of assets including Australian and international shares, property, private equity, fixed interest and cash investments.



We believe that a diversified and lowly-correlated investment portfolio is the best way to deliver stable and reliable returns needed to maximise the financial wellbeing of our members.



*“Our long-term aim is to always exceed the CPI and to continually grow our members’ retirement savings in real terms.”*

Craig Turnbull, Chief Investment Officer

## Sustainable and responsible investment

Local Government Super has around \$5 billion in sustainable and responsible investments which is more than any other super fund in Australia.

Over the last financial year, Local Government Super continued to lead the way with a number of first-time achievements as well as global recognition for our management of climate change risks across our investment portfolio.

### Introduction of a new carbon investment restriction

In October 2014, Local Government Super introduced a new ‘negative screen’ or investment restriction on high carbon intensive activities as part of our ongoing strategy to manage the long-term investment risks of climate change.

The new screen means that we no longer invest in companies which generate more than a third of their revenue from coal mining, coal-fired electricity generation or oil tar sands mining. This involved divesting from a total of 26 listed companies.

As a result, we reduced the carbon footprint of our Australian and international share portfolios by up to 30% relative to their investment benchmarks.

### Launch of the first shareholder voting disclosure website in Australia

As long-term investors, we believe that voting at shareholder meetings on behalf of our members forms a key element of our ownership rights.

In May 2015, we launched our new shareholder voting website and became the first super fund in Australia to disclose our proxy voting intentions in advance of investee company shareholder meetings.

The website discloses ASX and international company resolutions to be considered by shareholders as well as our voting intentions in real time. If we intend to vote against a resolution, we also provide the reasons for our decision on the website.



The new website reflects our strong commitment to continually improving the transparency and disclosure of how we invest our members’ retirement savings.

### Investment in community infrastructure

In January 2015, Local Government Super invested \$30 million in the AMP Capital Community Infrastructure Fund which provides funds for the operation of social and community related services.

The fund currently supports infrastructure projects in schools, hospitals, water treatment plants and correctional facilities.



## Leading super fund in Australia for sustainable and responsible investment

In 2014/15, Local Government Super was recognised by the Responsible Investment Association Australasia (RIAA) for the eighth year in a row as the Australian super fund with the largest amount of funds in sustainable and responsible investments.

For the fourth time in the last five years, we were awarded Best Green Super Fund by Money magazine in addition to the Infinity award from SuperRatings for outstanding sustainability performance.

And finally, in recognition of our comprehensive work on managing climate risks and opportunities across our investment portfolio, we were ranked number one in the global Climate 500 index by the Asset Owners Disclosure Project.

## Direct property investments

Local Government Super manages and controls the Local Government Property Fund (LGPf), an unlisted property fund which directly owns nine property assets

across New South Wales including five office buildings, three retail centres and one industrial estate.

The property fund achieved a return of 12.79% for the 2014/15 financial year, outperforming the industry benchmark by 2.2% mainly due to strong capital growth and solid rental income.

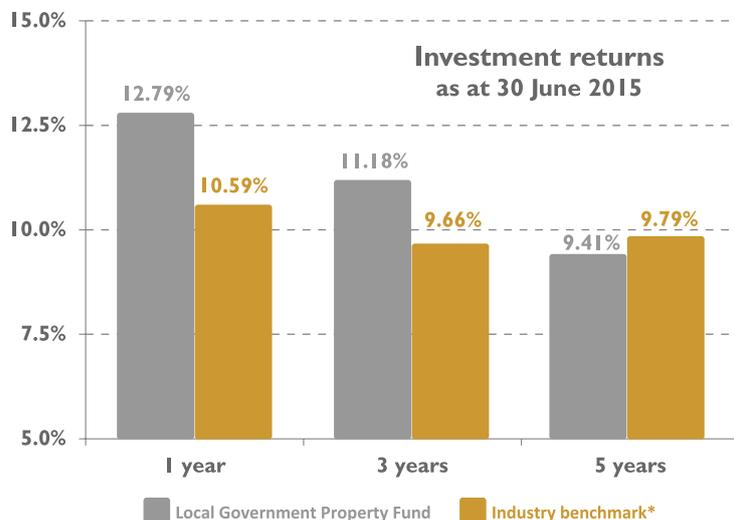
## Rising market value of our property portfolio

The total value of our direct property portfolio stood at \$501 million at 30 June 2015 which was an increase of 7.03% in market value over the last financial year.

Volatility in the commercial property market has eased over the last financial year and a number of our properties recorded double digit rises in value.

## Strong leasing activity

During the 2014/15 financial year, our property fund finalised 48 lease transactions, up 14% on the previous financial year.



\*Mercer/IPD Australian Property Pooled Fund Index



Allambie Grove Business Park,  
Frenchs Forest, Sydney



76 Berry Street,  
North Sydney



28 Margaret Street,  
Sydney

These transactions included 19 new leases and 29 lease renewals, representing over 20,000 square metres of floor space and an annual net rental income of more than \$8.5 million.

We actively manage our portfolio to ensure that our buildings remain attractive for current and future tenants.

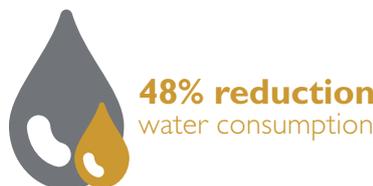
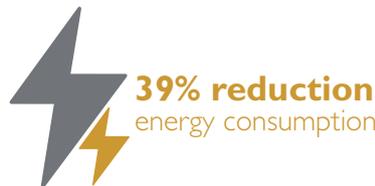
In recognition of our commitment to sustainability, we scored in the top quadrant (Green Star) in the 2015 Global Real Estate Sustainability Benchmark (GRESB) for the management of our direct property portfolio.

Visit our website for more information on the environmental performance of our direct property portfolio.

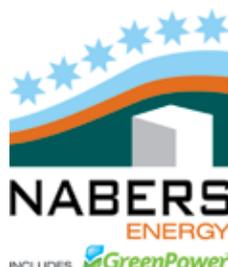
### Our sustainable and responsible principles

Local Government Super aims to have one of the most sustainable and responsible direct property portfolios in Australia. Sustainable and responsible investment principles underpin the way we manage all our properties.

Over the past six years our aim has been to continually improve the environmental performance right across our portfolio and over that period we have reduced our energy consumption by 39% and our water consumption by 48%.



NABERS is a national rating system that measures the environmental performance of Australian buildings, and the average NABERS energy rating of our portfolio is 6 stars with 100% GreenPower (4.5 stars without GreenPower).



GreenPower enables businesses to displace their electricity usage with certified renewable energy and 92% of our tenants have now signed up to use GreenPower.



## Our investment portfolio

The net earnings allocated to a member's account during this period are calculated daily, based upon the applicable unit prices of the underlying investment options the member is 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.

Any direct fees, contributions tax or expenses, such as insurance premiums, are deducted directly from the member's account and are not taken into account when deriving applicable unit prices.

Please also 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.

### 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 all international assets in the 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.

Except where the Investment Manager specifically confirms in writing that it does not and will not use derivatives, each Investment Manager and Trustee of a collective investment vehicle must supply adequate policies, procedures and controls outlining the role and management of derivative products (such as futures and options) utilised by the Investment Manager or Trustee. For the operation of LGS, derivatives can only be used as hedging instruments against existing positions, or as a way to install investment positions efficiently, and for asset allocation purposes

The Trustee requires that all derivative positions are fully cash covered; offset to existing assets; or used to alter the exposures in underlying asset classes.

### Top 10 Australian share holdings as at 30 June 2015

Rank	Australian shares top 10 holdings	% of portfolio holding	% of index <sup>1</sup>
1	Commonwealth Bank of Australia	8.95%	9.80%
2	Westpac	6.93%	7.09%
3	Australia and New Zealand Bank	6.28%	6.29%
4	National Australia Bank	6.03%	6.16%
5	Telstra	5.81%	5.31%
6	BHP Billiton	5.24%	6.14%
7	Macquarie Group	3.06%	1.92%
8	CSL Limited	2.67%	2.85%
9	Wesfarmers	2.23%	3.10%
10	Suncorp Group	1.93%	1.22%

### Top 10 international share holdings as at 30 June 2015

Rank	International shares top 10 holdings	% of portfolio holding	% of index <sup>2</sup>
1	Accenture	1.24%	0.17%
2	Time Warner	1.15%	0.20%
3	Walt Disney	1.08%	0.50%
4	Oracle Corp	1.04%	0.38%
5	Apple	0.91%	1.99%
6	Pfizer	0.89%	0.56%
7	Visa	0.82%	0.36%
8	Nestle	0.81%	0.63%
9	Wells Fargo	0.79%	0.75%
10	Reckitt Benckiser Group	0.76%	0.15%

1. This measure shows how much of that share is held by the overall market. For Australia the index used is the ASX 300. 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.

2. This measure shows how much of that share is held by the overall market. For international shares the index is the MSCI which consists 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.

## Our investment options

The following descriptions reflect the objectives and the asset allocations as at 30 June 2015. You should refer to the relevant Product Disclosure Statement (PDS) for the current details of our investment options.

For more detailed and up-to-date performance figures for all our investment options, visit our website at [lgsuper.com.au/performance/returns](http://lgsuper.com.au/performance/returns)

### High Growth

**Definition** - The High Growth option generally invests a very high proportion of funds in growth assets, such as Australian and international shares, and property.

This combination of assets aims to earn high real investment growth above CPI over a seven-year period. As there is an emphasis 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 seven-year period.

**Risk profile** - Risk Band 5 (Medium to High). Estimate of 3.5 negative annual returns in any 20-year period.

Asset classes	Asset allocation ranges	Actual 2015 <sup>1</sup>	Actual 2014 <sup>1</sup>
Australian Shares	25%–42%	29.5%	30.3%
International Shares	25%–42%	39.7%	39.1%
International Listed Property	0%–6%	2.1%	2.3%
Australian Direct Property <sup>2</sup>	0%–10%	4.9%	5.5%
Semi-Liquids <sup>2</sup> and Private Equity <sup>2</sup>	5%–25%	12.7%	10.5%
Commodities	0%–3%	0.7%	1.0%
Australian Fixed Interest	0%–8%	0.0%	0.0%
Australian Inflation-Linked Bonds	0%–3%	0.0%	0.0%
International Fixed Interest	0%–5%	0.0%	0.0%
Absolute Return Funds	0%–13%	5.9%	7.4%
Defensive Illiquids <sup>2</sup>	0%–8%	2.6%	1.2%
Cash	0%–10%	1.9%	2.8%

### Investment returns for Pool A as at 30 June 2015

	1 year	3 years	5 years
Accumulation Scheme (Division A)	11.55%	14.31%	9.49%
Account-Based Pension Plan (Division F)	12.43%	16.02%	10.73%

1. As at 30 June.

2. Combined investments in these asset classes do 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.

This option aims to earn real investment growth above the CPI over the medium to long term. For investors who want a high exposure to Australian and international shares and property and are prepared to accept more risk. 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 five-year period.

**Risk profile** - Risk Band 5 (Medium to High). Estimate of three negative annual returns in any 20-year period.

Asset classes	Asset allocation ranges	Actual 2015 <sup>1</sup>	Actual 2014 <sup>1</sup>
Australian Shares	18%–31%	22.3%	22.8%
International Shares	18%–30%	28.6%	27.7%
International Listed Property	0%–6%	2.1%	2.1%
Australian Direct Property <sup>2</sup>	0%–10%	4.9%	5.2%
Semi-Liquids <sup>2</sup> and Private Equity <sup>2</sup>	1%–21%	10.8%	9.4%
Commodities	0%–3%	0.8%	0.9%
Australian Fixed Interest	0%–15%	5.5%	3.7%
Australian Inflation-Linked Bonds	0%–8%	2.0%	3.8%
International Fixed Interest	0%–10%	4.6%	4.8%
Absolute Return Funds	0%–16%	11.5%	10.7%
Defensive Illiquids <sup>2</sup>	0%–8%	3.5%	2.5%
Cash	0%–10%	3.4%	6.5%

### Investment returns for Pool A as at 30 June 2015

	1 year	3 years	5 years
Accumulation Scheme (Division A)	9.33%	11.95%	8.56%
Account-Based Pension Plan (Division F)	9.94%	13.08%	9.63%

1. As at 30 June.

2. Combined investments in these asset classes do 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, property, semi-liquids and private equity, and the balance in income-producing assets, such as interest-bearing securities.

This option aims for real investment growth above CPI over a three-year period. A higher percentage of assets produce income which 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 three-year period.

**Risk profile** - Risk Band 4 (Medium). Estimate of 2.3 negative annual returns in any 20-year period.

Asset classes	Asset allocation ranges	Actual 2015 <sup>1</sup>	Actual 2014 <sup>1</sup>
Australian Shares	9%–21%	13.6%	13.9%
International Shares	9%–20%	17.7%	16.7%
International Listed Property	0%–6%	2.1%	2.2%
Australian Direct Property <sup>2</sup>	0%–10%	4.9%	5.2%
Semi-Liquids <sup>2</sup> and Private Equity <sup>2</sup>	1%–21%	10.6%	9.6%
Commodities	0%–3%	0.8%	0.9%
Australian Fixed Interest	11%–22%	14.7%	9.4%
Australian Inflation-Linked Bonds	0%–12%	4.6%	9.6%
International Fixed Interest	6%–16%	10.6%	10.7%
Absolute Return Funds	0%–17%	13.5%	12.7%
Defensive Illiquids <sup>2</sup>	0%–8%	3.8%	3.5%
Cash	0%–10%	3.2%	5.6%

### Investment returns for Pool A as at 30 June 2015

	1 year	3 years	5 years
Accumulation Scheme (Division A)	7.03%	8.63%	7.17%
Account-Based Pension Plan (Division F)	7.60%	9.91%	8.34%

1. As at 30 June.

2. Combined investments in these asset classes do 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.

This option aims to earn real investment growth above CPI over a two-year period. 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 two-year period.

**Risk profile** - Risk Band 2 (Low). Estimate of 0.8 negative annual returns in any 20-year period.

Asset classes	Asset allocation ranges	Actual 2015 <sup>1</sup>	Actual 2014 <sup>1</sup>
Australian Shares	1%–11%	6.1%	6.1%
International Shares	1%–11%	7.7%	7.0%
International Listed Property	0%–6%	1.8%	2.2%
Australian Direct Property <sup>2</sup>	0%–8%	3.9%	4.2%
Semi-Liquids <sup>2</sup> and Private Equity <sup>2</sup>	5% –21%	9.5%	8.8%
Commodities	0%–3%	0.7%	0.8%
Australian Fixed Interest	14%–25%	18.7%	11.4%
Australian Inflation-Linked Bonds	1%–12%	5.8%	11.6%
International Fixed Interest	8%–18%	11.5%	11.6%
Absolute Return Funds	0%–21%	17.6%	16.1%
Defensive Illiquids <sup>2</sup>	0% –8%	3.1%	4.1%
Cash	5% –20%	13.6%	16.1%

### Investment returns for Pool A as at 30 June 2015

	1 year	3 years	5 years
Accumulation Scheme (Division A)	4.51%	6.08%	5.97%
Account-Based Pension Plan (Division F)	4.82%	6.90%	6.90%

1. As at 30 June.

2. Combined investments in these asset classes do not exceed 25% of the portfolio.

## Cash

**Definition** - The Cash option offers investments for short-term investors or those seeking less volatile returns. The 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.

**Objective** - 0.25% net investment return per annum above the 'cash'<sup>1</sup> rate, measured over a rolling two-year period.

**Risk profile** - Risk Band 1 (Very Low). Based on an estimate of there being no negative returns in any 20-year period.

Asset allocation at 30 June 2015	Actual
Cash	100%

### Investment returns for Pool A as at 30 June 2015

	1 year	3 years	5 years
Accumulation Scheme (Division A)	2.10%	2.50%	3.27%
Account-Based Pension Plan (Division F)	2.56%	2.97%	3.84%

## Sustainable Australian Shares

**Definition** - The Sustainable Australian Shares option 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 seven-year period.

**Risk profile** - Risk Band 6 (High). Estimate of five negative annual returns in any 20-year period.

Asset allocation at 30 June 2015	Actual
Sustainable Australian Shares	100%

1. The benchmark for the cash rate is the UBS Bank Bill Index.

### Investment returns for Pool A as at 30 June 2015

	1 year	3 years	5 years
Accumulation Scheme (Division A)	15.54%	16.74%	N/A
Account-Based Pension Plan (Division F)	17.13%	14.82%	N/A

### Closed single sector investment options

On 10 June 2015, the following single sector investment options were closed in our Accumulation Scheme and our Account-Based Pension Plan. Similar exchange traded funds are now available within our DIY investment option.

The following asset allocations and details of investment returns are as at 31 May 2015.

#### Australian Shares

**Definition** - The Australian Shares option aimed to provide for high investment growth above the CPI over the long term, however because the emphasis was on growth, it was likely that this option from time to time produced a negative return.

The performance of Australian Shares was 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 seven-year period.

**Risk profile** - Risk Band 6 (High). Estimate of 4.9 negative annual returns in any 20-year period.

Asset allocation at 31 May 2015	Actual
Australian Shares	100%

### Investment returns over three financial years for Pool A as at 31 May 2015

	2013	2014	2015
Accumulation Scheme (Division A)	19.5%	16.1%	12.4%
Account-Based Pension Plan (Division F)	N/A	18.5%	13.9%

## International Shares

**Definition** - The International Shares option aimed to provide for high investment growth above the CPI over the long term, however because the emphasis was on growth, it was likely that this option from time to time produced a negative return.

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

**Objective** - 4.5% net investment return per annum above the CPI, measured over a rolling seven-year period.

**Risk profile** - Risk Band 6 (High). Estimate of 4.8 negative annual returns in any 20-year period.

<b>Asset allocation at 31 May 2015</b>	<b>Actual</b>
International Shares	100%

## Investment returns over three financial years for Pool A as at 31 May 2015

	<b>2013</b>	<b>2014</b>	<b>2015</b>
Accumulation Scheme (Division A)	25.1%	18.6%	20.2%
Account-Based Pension Plan (Division F)	N/A	20.5%	22.5%

## Australian Listed Property

**Definition** - The Australian Listed Property option aimed to provide for investment growth above the CPI over the medium term, however because the emphasis was on growth, it was likely that this option from time to time produced a negative return.

The performance of Australian Listed Property was 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 five-year period.

**Risk profile** - Risk Band 6 (High). Estimate of 5.7 negative annual returns in any 20-year period.

<b>Asset allocation at 31 May 2015</b>	<b>Actual</b>
Australian Listed Property	100%

## Investment returns over three financial years for Pool A as at 31 May 2015

	<b>2013</b>	<b>2014</b>	<b>2015</b>
Accumulation Scheme (Division A)	19.9%	8.7%	22.3%
Account-Based Pension Plan (Division F)	N/A	10.2%	24.4%

## Australian Fixed Interest

**Definition** - The Australian Fixed Interest option aimed to provide for investment growth above the CPI, over the medium term, however there were occasions over short time periods where returns may have been low or negative.

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

**Objective** - 2% net investment return per annum above the CPI, measured over a rolling two-year period.

**Risk profile** - Risk Band 4 (Medium). Estimate of 2.6 negative annual returns in any 20-year period.

Asset allocation at 31 May 2015	Actual
Australian Fixed Interest	100%

## Investment returns over three financial years for Pool A as at 31 May 2015

	2013	2014	2015
Accumulation Scheme (Division A)	1.7%	3.0%	2.7%
Account-Based Pension Plan (Division F)	N/A	3.3%	3.5%

## International Fixed Interest

**Definition** - The International Fixed Interest option aimed to provide for high long term investment growth above the CPI, however because the emphasis was on growth, it was likely that this option from time to time produced a negative return.

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

**Objective** - 2.5% net investment return per annum above the CPI, measured over a rolling three-year period.

**Risk profile** - Risk Band 3 (Low to Medium). Estimate of 1.8 negative annual returns in any 20-year period.

Asset allocation at 31 May 2015	Actual
International Fixed Interest	100%

## Investment returns over three financial years for Pool A as at 31 May 2015

	2013	2014	2015
Accumulation Scheme (Division A)	3.0%	5.6%	4.6%
Account-Based Pension Plan (Division F)	N/A	6.1%	5.4%

## Fixed Term

This investment option was only available to members of the Account-Based Pension Plan and the Fixed-Term tranche, which matured in October 2014, and was the last tranche to be offered under this option.

Term deposits are now available within our DIY investment option.

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

This option invested 100% in cash investments and had 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 was remote and would have only occurred in exceptional circumstances such as if the term deposit provider became insolvent.

### Investment returns for the Fixed Term option as at 30 June 2015

	Matured 30/11/12	Matured 2/10/13	Matured 31/03/14	Matured 8/10/14
Account-Based Pension Plan (Division F)	5.00%	4.35%	4.35%	3.65%

## Growth - Retirement Scheme (Pool B)

**Definition** - The Growth option generally invests a relatively 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 five-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 option.

In other words, the value of the investment may fluctuate over the short term. This volatility is not expected to be as great as it is in the High Growth option.

**Objective** - 3.5% net investment return per annum above the CPI, measured over a five-year period.

**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 one in four.

<b>Asset classes</b>	<b>Asset allocation ranges</b>	<b>Actual 2015<sup>1</sup></b>	<b>Actual 2014<sup>1</sup></b>
Australian Shares	18% - 31%	22.4%	23.0%
International Shares	18% - 30%	28.7%	27.7%
International Listed Property	0% - 6%	2.1%	2.1%
Australian Direct Property <sup>2</sup>	0% - 10%	5.1%	5.4%
Semi-Liquids <sup>2</sup> and Private Equity <sup>2</sup>	1% - 21%	13.4%	12.5%
Commodities	0% - 3%	0.7%	0.8%
Australian Fixed Interest	0% - 15%	5.2%	3.8%
Australian Inflation-Linked Bonds	0% - 8%	1.6%	3.8%
International Fixed Interest	0% - 10%	4.5%	4.9%
Absolute Return Funds	0% - 16%	11.3%	11.8%
Defensive Illiquids <sup>2</sup>	0% - 8%	3.8%	3.0%
Cash	0% - 10%	1.3%	1.1%

#### Investment returns as at 30 June 2015

	<b>1 year</b>	<b>3 years</b>	<b>5 years</b>
Retirement Scheme (Pool B) Contributory	9.61%	12.08%	8.67%
Retirement Scheme (Pool B) Other Contributions	9.28%	11.98%	8.47%
Retirement Scheme (Pool B) Deferred	9.25%	11.70%	8.24%

1. As at 30 June.

2. Combined investments in these asset classes do 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 have access to member investment choice.

Members can choose one of five 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

The following tables show the returns for 1, 3 and 5 years for each of the investment options as at 30 June 2015.

**Retirement Scheme (Pool B) - Contributory members**  
**Returns as at 30 June 2015**

	<b>1 year</b>	<b>3 years</b>	<b>5 years</b>
High Growth	11.91%	14.53%	9.94%
Balanced Growth	9.68%	12.04%	8.92%
Balanced	7.41%	9.21%	7.83%
Conservative	4.94%	6.58%	6.66%
Cash	2.54%	2.98%	3.83%

**Retirement Scheme (Pool B) - Other contributions**  
**Returns as at 30 June 2015**

	<b>1 year</b>	<b>3 years</b>	<b>5 years</b>
High Growth	11.36%	14.78%	9.77%
Balanced Growth	9.35%	11.78%	8.18%
Balanced	7.10%	8.79%	7.41%
Conservative	4.53%	5.08%	6.37%
Cash	2.10%	1.56%	3.72%

**Retirement Scheme (Pool B) – Deferred members**  
**Returns as at 30 June 2015**

	<b>1 year</b>	<b>3 years</b>	<b>5 years</b>
High Growth	11.58%	14.17%	9.58%
Balanced Growth	9.43%	11.85%	8.69%
Balanced	6.91%	8.81%	7.32%
Conservative	4.49%	6.08%	5.87%
Cash	2.07%	2.51%	3.21%

## 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. This combination aims to achieve a 7% nominal return per annum.

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 a rolling eight-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 2015 <sup>1</sup>	Actual 2014 <sup>1</sup>
Australian Shares	16%–30%	20.9%	21.4%
International Shares	16%–30%	27.9%	27.2%
International Listed Property	0%–6%	1.3%	1.5%
Australian Direct Property <sup>2</sup>	0%–15%	9.8%	11.0%
Semi-Liquids and Private Equity <sup>2</sup>	1%–16%	6.8%	9.5%
Commodities	0%–3%	0.7%	0.9%
Australian Fixed Interest	0%–10%	2.3%	2.0%
Australian Inflation-Linked Bonds	0%–5%	0.5%	1.0%
International Fixed Interest	0%–10%	2.8%	3.0%
Absolute Return Funds	0%–18%	14.6%	14.6%
Defensive Illiquids <sup>2</sup>	0%–8%	1.1%	0.9%
Cash	0% -15%	11.4%	7.0%

### Investment returns as at 30 June 2015

	1 year	3 years	5 years
Defined Benefit Strategy (Pool B) Contributory	8.83%	11.29%	7.93%

1. As at 30 June.

2. Combined investments in these asset classes do not exceed 25% of the portfolio.



Donna Heffernan, Chief Governance Officer

*“Expertise, integrity and transparency are the keys to looking after the retirement savings of our members.”*

# How we protect our members' retirement savings

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Our members need to be confident that their super investment is secure and that our main priority is to maximise their financial wellbeing in retirement.

That's why it's so important for us to ensure that Local Government Super is operating effectively, efficiently, and adhering to the rules and regulations of the super industry.

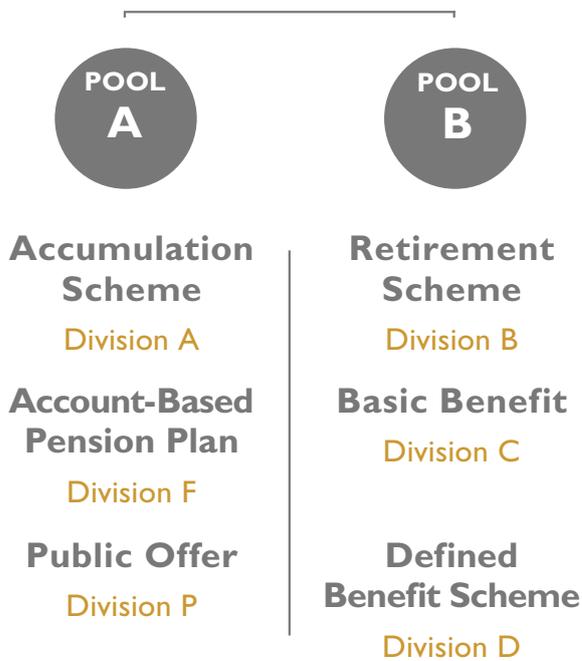
The Board of Directors is ultimately responsible for strategy and the operations of the fund, and the Board has also created a number of committees to provide specific direction and resources to core aspects of the business.

These committees focus on investments, risk, audit and compliance, member services as well as governance and remuneration.

Currently, the Investment Committee also includes some additional committee members, independent experts who bring specific knowledge and expertise to assist with our overall investment strategy.

Superannuation is constantly evolving with increasing competition and legislative changes so the Board is supported by an in-house Governance team which provides expert legal and compliance advice on a day-to-day basis.

Our role is to ensure our super fund is safe, secure and is always meeting the expectations and the long-term financial needs of our members.



## 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 entities.

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 (the Board) 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 Board 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 (Cth), the Superannuation Industry (Supervision) Act 1993 (Cth) (SIS) and other relevant superannuation legislation, regulations and prudential standards (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 Superannuation 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 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. When necessary, the Board calls upon advice from specialists such as solicitors, accountants and actuaries.

## Board Committees

The Board has in place the following committees:

- Investment Committee
- Audit and Compliance Committee
- Governance and Remuneration Committee
- Risk Committee
- Member Services Committee.

These committees allow the Board to oversee the operations in greater detail. All committees are reflective of the equal representation requirements of SIS.

The Investment Committee is made up of Martin O'Connell (Chair), Katherine O'Regan, Bruce Miller and Craig Peate and generally meets twice a quarter.

Also, two Additional Committee members have been appointed to the Investment Committee as independent experts who bring specific knowledge and expertise to assist with our overall investment strategy

The main function of the Investment Committee is to monitor the performance of the investment managers, 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 and Compliance Committee, which is made up of Sam Byrne (Chair), Jim Montague, Jeffrey Morris and Michelle Blicavs, is to monitor the Trustee's compliance with its various licences and the effectiveness of the Trustee's financial reporting and compliance framework.

The Audit and Compliance Committee meetings are also attended by Local Government Super's external auditor. The Committee generally meets quarterly.

The Risk Committee is made up of Michelle Blicavs (Chair), Jim Montague, Jeffrey Morris and Sam Byrne. The Committee's responsibilities are to assist the Board by providing an objective non-executive review of the effectiveness of the Trustee's risk management framework.

The Risk Committee meetings may also be attended by the Trustee's internal auditor. The Committee generally meets twice a quarter.

The role of the Member Services Committee, which is made up of Michelle Blicavs (Chair), Jim Montague, Jeffrey Morris and Sam Byrne, is to monitor the delivery of member services to ensure that it meets agreed standards and is consistent with the Board's expectations and aligned to its strategic objectives and consider disputed claims for invalidity and

death benefits. The Committee meets quarterly or as required.

The role of the Governance and Remuneration Committee, which is made up of Bruce Miller (Chair), Craig Peate, Katherine O'Regan and Martin O'Connell, is to assist the Board to fulfil its responsibilities in relation to APRA prudential standard SPS 510 as it relates to governance and remuneration.

The Committee's functions include reviewing the performance of the Chief Executive Officer and the Chief Investment Officer, the remuneration of senior management, and the budgeted increase for the remaining employees. The Committee meets as required.

## Industry regulators

Local Government Super 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.

Local Government Super 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.



**Michelle Blicavs GAICD**

Appointed by Local Government NSW (formerly through the Local Government Association of NSW)

Councillor - Wollongong City Council (since September 2011)

Chief Executive Officer - International Association for Public Participation (IAP2) Australasia (since January 2012)

Director - Australian Christian Superannuation (Industry Fund) (since July 2010)

Chairperson - Top Blokes Foundation (since January 2012)

Qualifications: GAICD, Diploma of Theology, Master of Management, Foundations in Trustee Governance - AIST.

Chair of the Risk Committee and Member Services Committee

Appointed to the Board on 3 April 2013



**Bruce Miller MAICD (Deputy Chair)**

Appointed by Local Government NSW (formerly through the Shires Association of NSW)

Councillor and former Mayor - Cowra Shire Council (since September 1991)

Vice President - Local Government NSW (since October 2013)

Director - Australian Local Government Association (since 2008)

Director - StateCover Mutual since 2004 (including Board Chair from 2009 to 2011)

Member of Australian Institute of Company Directors (AICD) (8 years)

Qualifications: MAICD, Licensed Builder. Numerous short courses undertaken through the AICD, AIST and ASFA relating to director responsibilities.

Appointed to the Board on 1 July 2011

**Your Board**



**Joanna Davison MAICD**

Appointed by the Development and Environmental Professionals' Association (depa)

Chief Executive of Fund Executives Association Ltd (FEAL) (since October 2013)

Qualifications: MAICD, Senior Fellow of FINSIA, Cambridge MA Hons, SIA Graduate Diploma, Australian Institute of Company Directors - Company Directors course

Appointed to the Board effective 30 October 2013 and ceased to be a Director on 10 October 2014.



**Katherine O'Regan**

Appointed by Local Government NSW

Councillor and former Deputy Mayor - Woollahra Municipal Council (since 2012)

Director - KTO Pty Ltd, Sydney Institute, Holdsworth Communities, Future Cities Collaborative, Kennedy Foundation and Sport NSW

Qualifications: Masters of US Studies, Masters of Business Administration (AGSM), Bachelor of Applied Science, Investor Relations Diploma

Appointed to the Board effective 1 April 2015



**Leo Kelly OAM**

Appointed by Local Government NSW (formerly through the Local Government Association of NSW)

Councillor and former Mayor - Blacktown City Council (since 1980)

Former Vice President - Local Government Association of NSW, currently an Executive member of Local Government NSW (since October 2013)

Qualifications: Numerous short courses undertaken through the AICD, AIST and ASFA relating to director responsibilities

Appointed to the Board on 8 September 1999 and resigned on 31 March 2015



**Martin O'Connell FAICD**

Appointed by the Local Government Engineers' Association (LGEA)

Former Director of the LGEA (NSW Branch) (from 1992 to 2013)

National Manager, Students and Young Professionals Program - Professionals Australia (since July 2013)

Former Director - Association of Professional Engineers, Scientists and Managers, Australia (APESMA) (from 1990 to 2013)

Former Executive Member (APESMA representative) - Unions NSW (from 1994 to 2013)

Qualifications: FAICD, numerous short courses undertaken through the AICD, AIST and ASFA relating to director responsibilities

Chair of the Investment Committee

Appointed to the Board on 18 October 1999

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**Keith Rhoades AFSM**

Appointed by Local Government NSW (formerly through the Local Government Association of NSW)

Councillor and former Mayor - Coffs Harbour City Council (since 1991)

President of Local Government NSW (since October 2013)

National Vice President - Australian Local Government Association (since 2010)

Director - StateCover Mutual (since 2012)

Director - Local Government Procurement (since 2011 to date)

Qualifications: AICD Company Director course, AIST trustee induction course, numerous short courses involving financial budgeting, management and reporting

Appointed to the Board effective 3 April 2013, and resigned on 31 March 2015

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**Sam Byrne**

Appointed by the Development and Environmental Professionals' Association (depa) on 5 November 2014

Former Councillor and Mayor - Marrickville Council

Member - The Greens

Qualifications: Company Directors Course Diploma - Australian Institute of Company Directors, Certificates of Trustee Governance and Practice - Australian Institute of Superannuation Trustees, Masters of Management - University of Technology, Sydney

Chair of the Audit and Compliance Committee

Appointed to the Board effective 5 November 2014

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**Craig Peate GAICD, GAIST (Adv.) (Chair)**

Appointed by the United Services Union

Local Government employee with Tweed Shire Council since 1978

Currently holds the position of Co-ordinator of Revenue & Recovery

Qualifications: GAICD, GAIST (Adv.), Associate Diploma in Local Government, Certificate 3 and 4 in Financial Services, Certificate in Management and Leadership

Chair of the Governance and Remuneration Committee

Appointed to the Board on 25 October 2012

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**James (Jim) Montague PSM**

Appointed by the United Services Union

General Manager - City of Canterbury Council (since 1982)

Awarded the Public Service Medal in 2006

Qualifications: AIST Director training

Appointed to the Board on 9 October 2013

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**Jeff Morris**

Appointed by Local Government NSW

Councillor - North Sydney Council (since 2012)

Committee Member / Deputy Chair / Chair - Waverton Precinct (since 1988)

Qualifications: Bachelor of Economics and Law, Advanced Diploma of Financial Services, Certified Financial Planner

Appointed to the Board effective 1 April 2015

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## 2014/15 meeting attendance by Directors

The attendance by Directors at meetings of the Board and its Committees from 1 July 2014 to 30 June 2015 was as follows:

### Board

Director	Meetings held during tenure	Number of meetings attended
Blicavs, Michelle	12	12
Davison, Joanna	4	3
Kelly, Leo	9	9
Miller, Bruce	12	12
Montague, James	12	10
O'Connell, Martin	12	12
Peate, Craig	12	12
Rhoades, Keith	9	9
Byrne, Sam	7	7
O'Regan, Katherine	3	2
Morris, Jeff	3	3

### Audit and Compliance Committee (previously known as Audit, Compliance and Risk Management Committee)

Director	Meetings held during tenure	Number of meetings attended
Blicavs, Michelle	4	4
Kelly, Leo	3	3
Montague, James	4	4
Byrne, Sam	2	1
Morris, Jeff	1	0

### Investment Committee

Director	Meetings held during tenure	Number of meetings attended
Davison, Joanna	1	1
Miller, Bruce	7	7
O'Connell, Martin	7	7
Rhoades, Keith	5	5
Peate, Craig	5	5
O'Regan, Katherine	2	2

## Governance and Remuneration Committee

Director	Meetings held during tenure	Number of meetings attended
Miller, Bruce	6	6
O'Connell, Martin	6	6
Peate, Craig	6	6
Rhoades, Keith	5	4
O'Regan, Katherine	1	1

## Member Services Committee

Director	Meetings held during tenure	Number of meetings attended
Blicavs, Michelle	5	5
Kelly, Leo	3	3
Montague, James	5	3
Byrne, Sam	5	4
Morris, Jeff	2	0

## Risk Committee

Director	Meetings held during tenure	Number of meetings attended
Blicavs, Michelle	5	5
Kelly, Leo	3	3
Montague, James	5	4
Byrne, Sam	5	4
Morris, Jeff	2	0

## Directors' Remuneration

Total annual fees paid (\$000)	No. of Directors
0–20	0
20–40	0
40–60	3
60–80	4
80–100	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
200–300	2
300–400	1
400–500	2

### **Our service providers**

The Trustee engages external experts such as investment advisers and investment managers, administrators, custodians, an actuary, 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**

Australian Administration Services Pty Limited, a company owned by Link Market Services.

#### **Actuary**

Mercer Human Resource Consulting

#### **Asset Consultant**

JANA Investment Advisers Pty Ltd

#### **External Auditor**

Ernst & Young Australia

#### **Internal Auditor**

Price Waterhouse Coopers Australia

#### **Custodian**

JPMorgan Nominees Australia Ltd

Pacific Custodians Pty Ltd

#### **Group Life Insurer**

TAL Life Limited  
(formerly called TOWER Australia)

#### **Professional Indemnity Insurer**

Zurich Financial Services Australia

#### **Investment managers at 30 June 2015**

AMP Capital Investors

AQR Capital Management

Attunga Capital Pty Ltd

Bain Capital

Brandywine

BT Investment Management  
(Institutional) Ltd

Colonial First State Investments Limited

Delaware Investments

GAM International Management Limited

GPT Wholesale Shopping Centres Fund

H3 Global Advisors Pty Ltd

Hawkesbridge Limited

Healthcare Royalty Partners

Hermes Investment Management Limited

Incapture Alpha Capture Fund

Intrinsic Investment Management Pty Ltd

Industry Funds Management Pty Ltd

Impax Asset Management Limited

Kapstream Capital Pty Ltd

Longview

LSV Asset Management

Macquarie Investment  
Management Limited

MFS Institutional Advisors, Inc

Mutual Limited

Omega Global Investors Pty Ltd

PAG

PIMCO Australia Pty Ltd

QIC Limited

Quadrant Private Equity

Resolution Capital

Southpeak Investment Management  
Pty Ltd

State Street Global Advisors  
Australia Limited

Stafford Sustainable Capital Fund

Ubique Asset Management Pty Ltd

Vanguard Investments Australia Ltd

Wellington Management Company, LLP

Wilshire Australia Pty Limited

Winton Global Alpha Fund

#### **Legal advisor**

DLA Piper

# Financial statements

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The financial statements on the following pages are abridged, for more detail please see the full Pool A and Pool B Statutory information at [lgsuper.com.au/documents/annualReports](http://lgsuper.com.au/documents/annualReports)

**Local Government Superannuation Scheme Pool A**  
**Operating statement for the financial year ended 30 June 2015**

	<b>2015</b> <b>\$'000</b>	<b>2014</b> <b>\$'000</b>
<b>Investment Revenue</b>		
Interest Revenue	1,384	1,252
Trust Distributions	167,815	158,177
Other Investment Revenue	41	-
Changes in Net Market Value of Investments	243,456	318,727
<b>Total Investment Revenue</b>	<b>412,696</b>	<b>478,156</b>
<b>Contributions Revenue</b>		
Employer Contributions	312,915	274,865
Member Contributions	92,148	68,770
Transfers From Other Funds	321,461	264,227
<b>Total Contributions Revenue</b>	<b>726,524</b>	<b>607,862</b>
<b>Other Revenue</b>		
Proceeds of Insurance Claims	15,966	13,364
Other Revenue	39	-
<b>Total Other Revenue</b>	<b>16,005</b>	<b>13,364</b>
<b>Total Revenue</b>	<b>1,155,225</b>	<b>1,099,382</b>
<b>Expenses</b>		
Group Life Insurance Premiums	(17,568)	(14,027)
Fund Administration Expenses	(19,992)	(23,638)
<b>Total Expenses</b>	<b>(37,560)</b>	<b>(37,665)</b>
<b>Benefits Accrued as a Result of Operations before Income Tax</b>	<b>1,117,665</b>	<b>1,061,717</b>
Income Tax Expense	(60,804)	(40,367)
<b>Benefits Accrued as a Result of Operations after Income Tax</b>	<b>1,056,861</b>	<b>1,021,350</b>

## Local Government Superannuation Scheme Pool A

### Statement of financial position as at 30 June 2015

	2015 \$'000	2014 \$'000
<b>Investments</b>		
Unlisted Australian Unit Trusts	5,557,792	4,868,949
DIY Investment Option (Macquarie DIO)	7,448	-
<b>Total Investments</b>	5,565,240	4,868,949
<b>Other Assets</b>		
Cash and Cash Equivalents	51,191	58,369
Receivables	13,555	452
Deferred Tax Asset	-	14,150
<b>Total Other Assets</b>	64,746	72,971
<b>Total Assets</b>	5,629,986	4,941,920
<b>Less: Liabilities</b>		
Benefits Payable	2,125	164
Payables	5,507	5,315
Current Tax Liability	12,047	15,038
Deferred Tax Liability	12,921	-
<b>Total Liabilities</b>	32,600	20,516
<b>Net Assets Available to Pay Benefits</b>	5,597,386	4,921,404
Represented by:		
<b>Liability for Accrued Benefits</b>		
Funds Allocated to Members' Accounts	5,572,589	4,899,141
Funds Not Yet Allocated to Members' Accounts	6,807	10,969
Administration Reserve	223	407
Insurance Reserve	1,771	1,956
Operational Risk Financial Requirement (ORFR) Reserve	15,996	8,931
<b>Total Liability for Accrued Benefits</b>	5,597,386	4,921,404

**Local Government Superannuation Scheme Pool B**  
**Statement of changes in net assets for the financial year**  
**ended 30 June 2015**

	<b>2015</b> <b>\$'000</b>	<b>2014</b> <b>\$'000</b>
<b>Investment Revenue</b>		
Interest Revenue	1,058	1,814
Trust Distributions	99,951	99,475
Dividend Income	12,009	-
Changes in Net Market Value of Investments	183,174	267,833
<b>Total Investment Revenue</b>	<b>296,192</b>	<b>369,122</b>
<b>Contributions Revenue</b>		
Employer Contributions	159,648	153,341
Member Contributions	15,510	15,318
Transfers From Other Funds	6,396	6,489
<b>Total Contributions Revenue</b>	<b>181,554</b>	<b>175,148</b>
Other Revenue	6	200
<b>Total Revenue</b>	<b>477,752</b>	<b>544,470</b>
<b>Benefits Paid and Expenses</b>		
Benefits Paid	(325,001)	(264,780)
Administration Expenses	(11,005)	(14,768)
<b>Total Benefits Paid and Expenses</b>	<b>(336,006)</b>	<b>(279,548)</b>
<b>Increase in Net Assets for the Year Before Income Tax</b>	<b>141,746</b>	<b>264,922</b>
Income Tax Expense	(37,269)	(31,116)
<b>Increase in Net Assets for the Year</b>	<b>104,477</b>	<b>233,806</b>
<b>Net Assets Available to Pay Benefits at the Beginning of the Financial Year</b>	<b>3,230,174</b>	<b>2,996,368</b>
<b>Net Assets Available to Pay Benefits at the End of the Financial Year</b>	<b>3,334,651</b>	<b>3,230,174</b>

## Local Government Superannuation Scheme Pool B

### Statement of net assets as at 30 June 2015

	2015 \$'000	2014 \$'000
<b>Investments</b>		
Unlisted Securities and Unit Trusts	3,282,871	3,168,455
<b>Total Investments</b>	3,282,871	3,168,455
<b>Other Assets</b>		
Cash and Cash Equivalents	36,898	39,452
Receivables	9,268	834
Deferred Tax Asset	11,743	32,801
<b>Total Other Assets</b>	57,909	73,087
<b>Total Assets</b>	3,340,780	3,241,542
<b>Less Liabilities</b>		
Payables	303	329
Current Tax Liability	5,826	11,039
<b>Total Liabilities</b>	6,129	11,368
<b>Net Assets Available to Pay Benefits</b>	3,334,651	3,230,174

# Important changes and more information

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## Taxes, fees and charges

### General tax information

Local Government Super is required to pay tax of up to 15% on all employer contributions<sup>1</sup> received (including contributions made via salary sacrifice). Any tax payable in respect of these contributions is deducted from the member's account at the time the contributions are made. Personal contributions made on an after-tax basis are not subject to tax.

### Low Income Superannuation Contribution (LISC)

Under the LISC rules, members with annual income of less than \$37,000 per annum, receive a tax refund of up to \$500 to their superannuation accounts. In effect, this rebate refunds the 15% contributions tax paid by the member on their contributions.

However, the LISC was dependent on revenue generated from the *Minerals Resource Rent Tax (MRRT)*. The repeal of the MRRT means that the LISC will only be paid up to and including the 2016/17 financial year.

## Superannuation surcharge

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 a member's account. The Australian Taxation Office (ATO) determines the amount of surcharge (if any) which relates to super contributions.

All surcharge amounts are deducted from the member's account and paid to the ATO on the member's behalf. The exceptions are the Retirement and Defined Benefit Schemes, where the surcharge amounts are paid to the ATO and held as a debt until the time the benefit is paid.

## Concessional contributions

Concessional contributions are before tax contributions and include the compulsory employer Superannuation Guarantee plus any salary sacrifice arrangements.

Starting from the 2014/15 financial year, the concessional cap of \$35,000 was increased for individuals who are 49 years and over, and the standard concessional cap for all other individuals was increased to \$30,000 per annum.

If someone breaches the concessional contributions limits, they now have the option of receiving a refund of any excess contributions and including it in their annual tax return to be taxed at their marginal rate. Alternatively they can retain it within their superannuation account where it will be counted towards the non-concessional cap and taxed at their marginal rate.

If someone chooses to retain these contributions within their superannuation

account, these funds will become non-concessional contributions and they will need to take note of any other non-concessional contributions they make in the relevant financial year.

From 1 July 2012, any person earning more than \$300,000 per annum has had some or all of their contributions taxed at 30%. When a person exceeds the income level due to the inclusion of their concessional contributions, the 30% contributions tax is then levied on the income in excess of \$300,000.

## Non-concessional contributions

Non-concessional contributions were capped at \$180,000 in 2014/15, subject to satisfying the work test. Individuals under 65 years of age during any part of the financial year can bring forward up to three years' worth of non-concessional contributions and contribute a total of \$540,000 in one financial year.

Individuals making this amount of contributions need to be aware that they then cannot make any additional non-concessional contributions for the next two financial years without breaching the non-concessional contributions cap.

### Anti-detriment payments

An anti-detriment payment is a lump sum amount which is paid in addition to the account balance of a deceased member. It is payable 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 represents a refund of the 15% contributions tax levied against the deceased member's superannuation entitlements during their lifetime. It is only payable when the benefit is paid as a lump sum.

### Tax on investment earnings

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. The earnings tax is deducted from the investment return prior to crediting to a member's account.

However, for individuals aged 60 and over, any payments from super are tax-free.

For members of the Account-Based Pension Plan, there is no tax levied on investment earnings generated within the pension plan.

### Medicare levy

From 1 July 2014, the Medicare levy increased from 1.5% to 2.0%. This also impacts on certain benefit payments where tax is payable such as excess non-concessional contributions tax, and on lump sum payments to members who have not quoted their tax file number (TFN).

### Fees and other costs

During the 2014/15 financial year Local Government Super charged a number of fees and these included:

### Other Management Costs

These are the fees and costs associated with investing the assets and managing Local Government Super.

Other Management Costs are not charged directly to the member's account. These fees are applied daily on the market value of the assets in each particular investment option and are deducted prior to the declaration of the relevant unit price.

Further information about Other Management Costs can be found in the relevant Product Disclosure Statement (PDS), available at [lgsuper.com.au](http://lgsuper.com.au) or from Member Services.

## Administration fee

The Trustee sets the administration fee at the level needed to recover the cost of administering a member's account.

All fees charged to members' accounts during the 2014/15 financial year are detailed in the following tables.

### Administration fees, other fees and insurance premiums charged in Pool A

For the year ended 30 June 2015	Accumulation Scheme	Account-Based Pension Plan
Direct Administration fee	\$67.60 per annum (\$1.30 per week)	\$67.60 per annum (\$1.30 per week)
Basic Death and TPD cover	\$7.09 per unit per month <sup>1</sup>	N/A
Exit fee	\$25.00	\$25.00
Product Switching fee	\$25.00	\$25.00
Investment Switching fee	\$25.00 per switch	\$25.00 per switch
Voluntary insurance	The cost will vary depending on the sum insured and other factors	N/A

### Other Management Costs charged in Pool A

#### Management costs charged for the Accumulation Scheme for the year ended 30 June 2015

Months	High Growth	Balanced Growth	Balanced	Conservative	Cash
1–30 Jul	0.69%	0.65%	0.64%	0.56%	0.55%
31 Jul–29 Oct	0.67%	0.64%	0.62%	0.55%	0.53%
30 Oct–30 Apr	0.62%	0.58%	0.53%	0.49%	0.42%
1 May–30 Jun	0.60%	0.56%	0.52%	0.47%	0.42%

Months	Australian Shares <sup>2</sup>	Sustainable Australian Shares	International Shares <sup>2</sup>	Australian Listed Property <sup>2</sup>	Australian Fixed Interest <sup>2</sup>	International Fixed Interest <sup>2</sup>
1–30 Jul	0.67%	0.65%	0.80%	0.54%	0.50%	0.52%
31 Jul–29 Oct	0.64%	0.63%	0.77%	0.50%	0.47%	0.49%
30 Oct–30 Apr	0.57%	0.61%	0.73%	0.47%	0.45%	0.47%
1 May–30 Jun	0.52%	0.57%	0.76%	0.31%	0.42%	0.52%

#### Management costs charged for the Account-Based Pension Plan for the year ended 30 June 2015

Months	High Growth	Balanced Growth	Balanced	Conservative	Cash
1–30 Jul	0.73%	0.69%	0.68%	0.60%	0.59%
31 July–29 Oct	0.69%	0.66%	0.64%	0.57%	0.55%
30 Oct–30 Apr	0.62%	0.58%	0.53%	0.49%	0.42%
1 May–30 Jun	0.60%	0.56%	0.52%	0.47%	0.42%

1. Effective 1 October 2014, the cost of Basic Death & TPD cover increased from \$5.00 to \$7.09 per unit per month. Members were also provided with the option of converting units of Basic Death and TPD cover to units of Basic Death Only cover at a reduced cost of \$4.35 per unit per month

2. These investment options were closed on 10 June 2015

Months	Australian Shares <sup>1</sup>	Sustainable Australian Shares	International Shares <sup>1</sup>	Australian Listed Property <sup>1</sup>	Australian Fixed Interest <sup>1</sup>	International Fixed Interest <sup>1</sup>
1-30 Jul	0.71%	0.69%	0.84%	0.58%	0.54%	0.56%
31 Jul - 29 Oct	0.66%	0.65%	0.79%	0.52%	0.49%	0.51%
30 Oct - 30 Apr	0.57%	0.61%	0.73%	0.47%	0.45%	0.47%
1 May - 30 Jun	0.52%	0.57%	0.76%	0.31%	0.42%	0.52%

### Administration fees charged in Pool B

For the year ended 30 June 2015	Retirement Scheme	Defined Benefit Scheme
Direct Administration fee	\$67.60 per annum (\$1.30 per week)	N/A
Exit fee	\$25.00	N/A
Investment Switching fee	\$25.00 per switch	N/A

### 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 2015<sup>2</sup>

Months	High Growth	Growth	Balanced Growth	Balanced	Conservative	Cash
1-30 Jul	0.30%	0.25%	0.26%	0.25%	0.17%	0.16%
31 July-29 Oct	0.30%	0.26%	0.27%	0.25%	0.18%	0.16%
30 Oct-30 Apr	0.27%	0.22%	0.23%	0.18%	0.14%	0.07%
1 May-30 Jun	0.29%	0.24%	0.25%	0.21%	0.16%	0.11%

Management costs charged in the Retirement Scheme to contributory members for the Other Contributions account for the year ended 30 June 2015<sup>3</sup>

Months	High Growth	Growth	Balanced Growth	Balanced	Conservative	Cash
1-30 Jul	0.67%	0.62%	0.63%	0.62%	0.54%	0.53%
31 Jul-29 Oct	0.65%	0.61%	0.62%	0.60%	0.53%	0.51%
30 Oct-30 Apr	0.59%	0.54%	0.55%	0.50%	0.46%	0.39%
1 May-30 Jun	0.59%	0.54%	0.55%	0.51%	0.46%	0.41%

Management costs charged in the Retirement Scheme to deferred members for the year ended 30 June 2015<sup>3</sup>

Months	High Growth	Growth	Balanced Growth	Balanced	Conservative	Cash
1-30 Jul	0.80%	0.75%	0.76%	0.75%	0.67%	0.66%
31 July-29 Oct	0.70%	0.66%	0.67%	0.65%	0.58%	0.56%
30 Oct-30 Apr	0.59%	0.54%	0.55%	0.50%	0.46%	0.39%
1 May-30 Jun	0.59%	0.54%	0.55%	0.51%	0.46%	0.41%

1. These investment options were closed on 10 June 2015.

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

3. A maximum 1.0% fee applies.

## Financial Planning fee

LGS charges members a direct fee for some financial planning services. Not all financial advice will incur a fee and in many cases there will be no charge. Whether or not a fee applies will depend upon the scope of the financial advice required by the member.

Our financial planners will discuss any fee payable when meeting with members and if a fee is to apply, we will advise of the cost before the member decides to proceed with obtaining the advice.

## Family Law fees

As at 30 June 2014, the following fees were payable for the provision of Family Law information and for the actual 'splitting of the benefit':

### Accumulation Scheme and Account-Based Pension Plan (includes GST)

Request for information <sup>1</sup>	\$110
Benefit split fee <sup>2</sup>	\$88

### Retirement Scheme and Defined Benefit Scheme (includes GST)

Request for information <sup>1</sup>	
● Current members	\$275
● Deferred members	\$110
● Pensioners	\$110
Benefit split fee <sup>2</sup>	\$88

Further details of fees and charges are provided in our member statements and also in the applicable PDS, available at [lgsuper.com.au](http://lgsuper.com.au) or from Member Services.

<sup>1</sup> This fee is payable by the person requesting the information.

<sup>2</sup> 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.

# Important changes

## Changes for the 2014/15 financial year

Below is a summary of the most important changes in the 2014/2015 financial year, affecting Local Government Super and its members.

### DIY investment option

On 8 September 2014, we launched our DIY investment option. The DIY investment option gives members the ability to invest, via real time online trading access, in a variety of investments including shares on the S&P/ASX 300, exchange-traded funds (ETFs), and a range of term deposits from four different providers.

### Changes to our insurance offerings

In recent years, a rise in the number of claims has forced up insurance premiums across the industry.

From 1 October 2014, our insurance premiums increased for the first time in over 17 years to reflect these higher costs.

Basic Death and Total and Permanent Disablement (TPD) cover increased from \$5.00 per unit per month to \$7.09 per unit per month.

To mitigate the impact of this increase and provide members with greater flexibility in managing the cost and nature of the insurance, we now offer Basic Death Only cover.

Death Only cover costs \$4.35 per unit per month and gives members the option to convert some or all of their Basic Death and TPD cover units to Death Only cover for the same sum insured, dependent on their age.

Voluntary insurance cover premiums can vary significantly between members as they depend on individual circumstances, but on the whole the premiums for Voluntary Death Only and Death and TPD cover increased by 43.5%.

The cost of voluntary Salary Continuance Insurance (SCI) was also increased by 17.8%.

### Twice-monthly pension payments

From 6 May 2015, Account-Based Pension Plan members were able to elect to receive pension payments on a twice-monthly basis.

### Closure of five single sector investment options

From 10 June 2015, the following single sector investment options were closed in the LGS Accumulation Scheme and LGS Account-Based Pension Plan:

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

Members still invested in these options at the time of closure were automatically switched into a pre-determined replacement investment option, effective 10 June 2015.

The investment switching fee was waived for members who switched out of the investment options before 10 June 2015 and for members who were automatically switched into a replacement investment option.

## Trust Deed changes

During the financial year a number of amendments were made to the Fund's Trust Deed and Rules. Below is a summary of these amendments and the date they were approved by the Trustee.

**2 July 2014** - The Trustees' remuneration provisions were updated.

**6 August 2014** - The Trustee is now permitted to make a payment of the death benefit, without grant of probate, up to \$20,000.

**1 October 2014** - The Trustee can now create new asset portfolios and close those assets, create new rules or change existing rules as to the eligibility in a particular Asset Portfolio, for the Account Based Pension, within Division F.

**11 March 2015** - Members of the Retirement Scheme (Division B) who have reached the Retirement Scheme's early retirement age are now allowed to utilise the continuity of membership provision if they change LGS employers.

## Legislative changes

### Superannuation government co-contributions

For 2014/15 financial year, the maximum entitlement was \$500, with the lower income threshold at \$34,488 and the higher income threshold at \$49,488.

The Australian Taxation Office has announced that new thresholds will apply for the 2015/16 financial year; the lower and higher income thresholds will increase to \$35,454 and \$50,454 respectively.

### Increase of the Superannuation Guarantee rate

The the Superannuation Guarantee (SG) rate increased to 9.5% from 1 July 2014

However, the Federal Parliament has amended the schedule of further increases to the SG rate so that there will be a freeze on the SG rate (charge percentage) at 9.5% until 30 June 2021. The SG rate will then increase by 0.5 percentage points each year until it reaches 12% from 1 July 2025.

### Increase of contributions caps

In recent years there have been a number of changes to the annual cap on concessional or pre-tax super contributions.

From 1 July 2014, for members who are under 49 years of age, the standard cap on concessional super contributions was increased to \$30,000 per annum, and this includes super guarantee contributions.

For members aged 49 years or over, the annual cap on concessional contributions was increased to \$35,000. This higher cap is beneficial for members who are actively planning their retirement.

The cap on non-concessional contributions is set at six times the standard concessional cap. From 1 July 2014, the non-concessional cap increased to \$180,000 per annum. Alternatively you can make a one-off contribution of \$540,000 in a three-year period.

### Increase in the top marginal tax rate and the Medicare Levy

From 1 July 2014, the Medicare levy increased to 2% from 1.5%.

In addition, a new Temporary Budget Repair levy was introduced from 1 July 2014 for a period of three years, expiring at 30 June 2017. A levy of 2% applies to taxable income in excess of \$180,000 per annum, and with the Medicare levy included, the top marginal rate is 49%.

### Increase in the threshold for inactive accounts

Currently, inactive super accounts with balances of less than \$2,000 are transferred to the ATO. From December 2015, the threshold will increase to \$2,500, and this threshold will further increase to \$3,000 in 2016.

## Proposed legislative changes

There are some additional changes which the Government proposed in the 2015/16 Federal Budget, but these changes must first be passed by parliament and receive Royal Assent before becoming law.

### Terminal Illness

From July 2015, people with a terminal medical condition can access their super based on a diagnosis that they have 24 months or less to live. Previously it was based on a diagnosis that a member had 12 months or less to live.

### Removal of the Low Income Super Contribution (LISC)

Currently, the Australian Government contributes up to \$500 into the super accounts of Australian workers earning less than \$37,000 a year under the LISC scheme. The Government has passed legislation to remove the LISC from 2017.

### Changes to the assets test for the Age Pension

Starting 1 January 2017, the Government has changed the thresholds for the Age Pension asset test.

Currently a home-owning couple with assets totalling approximately \$1.15 million, (not including the family home), can still qualify for a part Age Pension. This threshold will reduce to \$823,000 and will continue to include amounts within an Account Based Pension.

For singles, the threshold will reduce from \$775,000 to \$550,000.

The taper rate, which is the rate at which the Age Pension decreases for every \$1000 of assets over the threshold (\$250,000 for singles, and \$375,000 for couples), will increase from \$1.50 to \$3.00.

To offset the loss of pension income, these retirees will now qualify for the Commonwealth Seniors Health Card which provides holders with access to cheaper medicine, health services and subsidised electricity bills.

At the other end of the scale, less wealthy retirees will now qualify for the full Age Pension or an increase in the part Age Pension.

A single person who owns their own home will be able to have \$250,000 in other assets, a rise of \$48,000, while a home-owning couple the new threshold will be \$375,000 in other assets, up from current level of \$286,000.

### Other changes to the Age Pension

The Government has also abandoned plans announced in last year's Budget to index the Age Pension to the Consumer Price Index (CPI) and will now retain the current method of indexing the Age Pension twice-yearly using the greater of the CPI, Pensioner and Beneficiary Living Cost Index or the Male Average Weekly Total Earnings.

Another proposal is to reduce the period some recipients of the Age Pension, wife pension, widow B pension and disability support pension, can be paid the full basic means-tested rate while absent from Australia. The proposal is to reduce this period from 26 to 6 weeks.

### Treatment of defined benefit income for the social security income test

The Government is proposing to reduce the proportion of a retiree's defined benefit income which can be excluded when applying the social security income test.

## More information

### Complaints

The Trustee aims to maintain a consistently high level of service and transparency by ensuring that any enquiries or complaints are handled courteously and promptly.

Nevertheless, if a member is dissatisfied with the service they are receiving, they may lodge a formal complaint. All complaints are to be made to the complaints resolution manager by:

- calling 1300 LGSUPER (1300 547 873) and making the complaint to a member services officer; or
- mailing the written complaint with 'Notice of Complaint' marked on the envelope.

The Trustee prefers complaints in writing marked as such, as it helps the Trustee to deal with the complaint in an efficient manner.

Send written complaints to:

Complaints Resolution Manager  
Local Government Super  
PO Box H290  
Australia Square NSW 1215

The complaints resolution manager considers every complaint on behalf of the Trustee and provides a response within 90 days of receiving the complaint. If a member is not satisfied with the response or their complaint has not been resolved within 90 days, they do have the option of referring their complaint to the Superannuation Complaints Tribunal (SCT).

The SCT is an independent body established by the Commonwealth Government to review and settle certain disputes between members and their superannuation funds. The SCT can only be involved after the Trustee's efforts to reach a solution have failed (i.e. a

member must first use the Trustee's dispute procedures). The SCT does not charge members for its service and can be contacted as follows:

Superannuation Complaints Tribunal  
Locked Bag 3060  
Melbourne Vic 3001  
**Ph:** 1300 884 114  
**W:** sct.gov.au

### Trustee's reserves

By law, the Trustee is responsible for the overall management of its reserves. The Trustee maintains separate reserves for Pool A and Pool B.

### Pool A reserves

#### Operational Risk Financial Requirement (ORFR)

From 1 July 2013, the Superannuation legislation and Prudential Standards have required the Trustee to maintain adequate financial resources to address losses arising from operational risks that may affect LGS within its business operations.

The ORFR is the target amount of financial resources that the Trustee determines is necessary to respond to these losses, should they arise. The Trustee determined that the ORFR reserve will hold at least 0.25% of LGS's assets.

The Trustee reached 0.25% of LGS's Pool A Funds Under Management (net assets available to pay members' benefits) within the ORFR reserve on 6 February 2015 with the target being funded from a component of the Indirect Administration Fee which is charged to members' account. This funding ceased on 10 August 2015.

The Trustee is required to maintain the reserve in conjunction with the ORFR policy.

### **Administration Reserve**

This reserve comprises deductions which are made from members' accounts to cover the cost of all administration related expenses of the Fund.

In addition, a specific amount of \$100,000 is maintained in the Administration Reserve at all times to satisfy one of the requirements of the Trustee's public offer licence.

Effective 1 October 2015, APRA confirmed that the Trustee did not have to adhere to this licence requirement as a result of meeting the Pool A and Pool B ORFR target levels.

### **Tax Reserves**

As with the Administration Reserve, a provision is made from the Fund's investment earnings for the estimated income tax payable. In addition, the Tax Reserve contains monies deducted from members' accounts for any contributions tax due. These monies (in total) are held until such time as they are required to be remitted to the Australian Taxation Office.

### **Self Insurance Reserve**

In April 2013, a separate Self Insurance Reserve was established to meet death/invalidity claims within Pool A that were related to the period prior to 1 March 2009 and the commencement of the external insurance arrangements.

### **Pool B reserves**

#### **ORFR**

As discussed, the ORFR has been established to ensure that the Trustee has adequate financial resources to address losses arising from operational risks that may affect LGS within its business

operations. The Trustee achieved 0.25% of LGS's Pool B funds under management (net assets available to pay members' benefits) in April 2013.

The Trustee is required to maintain the reserve in conjunction with the ORFR policy.

### **Defined Benefits Reserve**

The Defined Benefits Reserve represents the value of assets that are assessed by the actuary on an annual basis to ensure that employers have sufficient assets to cover future liabilities.

### **Administration Reserve**

The Administration Reserve comprises deductions from members' accounts. These deductions cover the cost of all administration related expenses of the Fund. This account is quarantined from the Fund's investment earnings.

### **Tax Reserve**

The Tax Reserve contains monies deducted from members' accounts and the Employer Reserve for any contributions tax due. These monies (in total) are held until such time as they are required to be remitted to the Australian Taxation Office.

### **Additional Benefit Reserve**

The Additional Benefit Reserve represents an amount held to meet any insurance payments required to be made by the Fund. One quarter of this reserve is financed from members' contributor accounts.

## Reserve Data

Below are the closing balances of these reserves as at 30 June for the last four years for Pool A and Pool B:

<b>Pool A Year</b>	<b>Admin (\$'000)</b>	<b>Tax (\$'000)</b>	<b>ORFR (\$'000)</b>	<b>Self Insurance (\$'000)</b>
2012	660	37	4,980	-
2013	306	-	3,918	2,000
2014	407	15,333	8,931	1,953
2015	223	18,799	15,996	1,771

<b>Pool B Year</b>	<b>Defined Benefit (\$'000)</b>	<b>ORFR (\$'000)</b>	<b>Additional Benefit (\$'000)</b>	<b>Admin (\$'000)</b>	<b>Tax (\$'000)</b>
2012	1,383,174	-	8,040	-	-
2013	1,533,168	7,790	7,796	-	-
2014	1,648,825	8,406	7,273	-	14,187
2015	1,721,531	9,240	6,895	-	12,246

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

<b>Pool A Year</b>	<b>Admin (\$'000)</b>	<b>Tax (\$'000)</b>	<b>ORFR (\$'000)</b>	<b>Self Insurance (\$'000)</b>
2012	160	(331)	(352)	-
2013	(354)	(37)	(1,062)	2,000
2014	101	15,333	5,013	(44)
2015	(184)	3,466	7,065	(182)

<b>Pool B Year</b>	<b>Defined Benefit (\$'000)</b>	<b>ORFR (\$'000)</b>	<b>Additional Benefit (\$'000)</b>	<b>Admin (\$'000)</b>	<b>Tax (\$'000)</b>
2012	(92,406)	-	369	-	-
2013	149,994	7,790	244	-	-
2014	115,658	616	(523)	-	14,187
2015	72,706	834	(378)	-	(1,941)

### **How are the Reserves invested?**

With the exception of the Defined Benefits Reserve that is invested in a Growth style investment strategy, the assets which support these reserves are held effectively in cash, either in a bank account, or in a short term notice account.

### **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 the 'lost' members of other 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)<sup>1</sup> 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 when 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.

# For more information

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**Phone** 1300 LGSUPER  
(1300 547 873)

**Web** [lgsuper.com.au](http://lgsuper.com.au)

**Mail** PO Box N835  
Grosvenor Place  
NSW 1220

## Offices

**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 LGSUPER (1300 547 873) to  
make an appointment.

 **@socialLGS**

 **Local Government Super**