LOCAL GOVERNMENT®
SUPERANNUATION SCHEME

ANNUAL REPORT 2010

Long term returns for your super and the environment

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Note from the Chair

What a difference a year makes

Last year as we were emerging from the global financial crisis we made a number of changes to our investment options to improve the long-term investment returns for our members.

I am very pleased to say that all our hard work has paid off with all but one of the Accumulation Scheme investment strategies topping the 2009/10 performance tables for Australia's largest super funds*. This is a great result and it confirms that we can achieve very good returns for our members with a sustainable and socially responsible investment policy.

Our commitment to sustainability has not gone unnoticed. In March, The Climate Institute named Local Government Super the top super fund in Australia for climate change best practice, and in July, we received an Australian Business Award for environmental sustainability.

Our main focus is to provide our members with sustainable long-term super returns and this year we will be working just as hard to maintain our investment performance and improve our service to members.

To reduce printing costs and save paper we have once again put our annual report online which means that all the essential financial information is now only a click away.

The annual report is a financial snapshot of the fund so if you are interested in our financial operations I encourage you to take the time to browse the report and understand more about your super fund.

Yours sincerely

Leo Kelly
Chair

*SuperRatings survey of the 50 largest superannuation products in each category.

Highlights

Highlights of the last financial year

The 2009/10 financial year has been a very challenging one with continuing economic uncertainty and a high degree of market volatility but there have been a number of highlights for Local Government Super.

Investment returns

We significantly improved our investment returns over the 2009/10 financial year with four out of five of our Accumulation Scheme investment options topping the SuperRatings performance table for the largest 50 super funds in Australia.

	Return for 2009/10*	SuperRatings Rank
High Growth	13.1%	#2
Balanced Growth	12.8%	#1
Balanced	12.2%	#1
Conservative	11.7%	#1
Cash	4.9%	#1

* Net of fees and charges

Go to 'Your Investment' for more details on investment returns.

Rankings

Super funds are regularly rated for their performance and the product and services they offer their members and Local Government Super has been highly ranked by two of our leading agencies.

SuperRatings Gold ranking and Rising Star finalist

Australia's leading ratings agency for Super Funds, SuperRatings awarded our Accumulation Scheme a Gold ranking. We were particularly commended for the range and cost of its automatic and voluntary insurance products.

Local Government Super was also a finalist in the SuperRatings Rising Star award reflecting our continual improvement in service delivery, insurance benefits, fees and fund governance.

SelectingSuper AAA rating

SelectingSuper is Australia's leading financial services information company and has awarded Local Government Super with a AAA rating (Exceptional quality super fund).

This rating gives you the comfort of knowing that your superannuation provider is a leader in the market.

To be awarded its AAA rating, SelectingSuper assessed Local Government Super against a range of benchmarks in the industry. This means the fund rated exceptionally well on an overall assessment of organisational strength, administration, communications, investment performance, insurance, and other extra services.

This rating means we are recognised as being among Australia's leading superannuation providers.

Awards and recognition

In past years we have been recognised for our sustainable investment policies and last financial year we were recognised again for our commitment to environmental sustainability.

Australian Business Award

The Australian Business Awards honour organisations that demonstrate the core values of business excellence, sustainability and commercial success and this year they received 1,849 entries from 962 different organisations.

Local Government Super was given the award for Environmental Sustainability recognising our leadership and commitment to the enhancement, preservation and protection of the environment.

The Climate Institute Survey

In March this year Local Government Super was ranked first for its climate change initiatives by The Climate Institute.

The rankings were based on a survey completed by 32 Australian super funds, each with more than $300m under management.

We were ranked first overall but also placed in top spot in six out of the 12 categories:

- Asset allocation and asset consultants
- Identification of climate change risks at the asset/manager/fund levels
- Reporting of climate change issues and assets
- Portfolio level climate change management
- Information systems development
- Member engagement

Local Government Super was in the top ten for the remaining categories.

Green Building Fund Grant

In May Local Government Super was awarded a $2.1 million Green Building Fund Grant by the Department of Innovation, Industry, Science and Research.

Our fund was the only applicant to be awarded a grant on an exemplar basis, recognising our Sustainable Portfolio Program as an industry leading, world class project by the grant committee.

The grant will contribute to upgrade works at 76 Berry St, North Sydney, a commercial property in our direct property portfolio.

Review of the markets

The 2009/10 financial year was a year of two halves. After a fantastic first six months where the Australian share market was up over 25%, the next six months saw it retreat back 10% to finish the year with a positive return just over 13%. Coming off the back of one of the worst financial years in history, at first glance a 13% return would appear to be reassuring, but there are underlying problems that need to be resolved if markets are going to advance from here.

Australia emerged from the global financial crisis (GFC) better than any developed nation. The Reserve Bank of Australia started to raise interest rates from as early as last October (bearing in mind that the US, UK and Europe still haven't begun). Consecutive rate rises followed with the overnight cash rate reaching 4.5% by June 2010. Further to this, unemployment continued to fall; going from a level of 5.8% in July 2009 to 5.2% in June 2010. Add to this an annual inflation rate of 2.9% and annual GDP growth at 2.7% and it is easy to see why Australia has been the envy of the world in an economic sense.

The Australian Dollar (AUD) was closely watched by traders throughout the year and displayed its capacity for volatility by peaking at around 94 US cents and falling to 81 US cents within the space of two months as investors lost confidence and became concerned about the supposedly risky nature of the AUD preferring the seemingly 'safer' US Dollar.

The US economy still looks shaky and didn't really achieve any real stability throughout the year. US unemployment rose in the first half of the year, peaking at a rate of 10.1% before dropping down to 9.7% by June 2010. This left the Federal Reserve (the US central bank) with very little choice but to leave cash rates at close to zero for the entire year, and it indicated that this is likely to be the case for an extended period of time. Despite this stimulus, there was little in the way of inflation indicating that consumers are just not willing to spend while unemployment remains a real threat.

Like Australia, it was a financial year of two halves for world markets. The first half started where the last one left off with significant positive monthly returns for five of the first six months. Investors responded to the sell-down of the previous 18 months during the GFC, which saw shares trading at valuations that were too cheap to ignore. From January onwards, though, it was a different story as broader economic factors, such as unemployment, inflation and growth forecasts, drove markets down.

As the recovery began to falter, concerns emerged that some European nations would be unable to repay their debt obligations and might require bail-outs from the European Central Bank and the International Monetary Fund. This sparked a lot of fear in financial markets as investors were concerned about the effects that this would have on the European banking system and corporate access to credit. These fears dampened returns in the last quarter of the financial year and until they are addressed may continue to weigh on investor confidence.

Your investment

This section of the Annual Report lists the strategies for each of the investment options, along with more detailed information on past performance, asset allocations and definitions.

Net earnings rates (investment return on the assets after payment of transaction costs, taxes and other expenses) disclosed in the following tables may not be the same as the rate credited to a member's benefit because of the effect of cash flow timings.

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

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

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

TOP 10 HOLDINGS as at 30 June 2010

Rank	International equity top 10 holdings	% portfolio holding	% of index[1]
1	Nestle Sa-Reg	1.24%	0.89%
2	Proctor & Gamble Co	1.09%	0.92%
3	Cisco Systems Inc	1.02%	0.65%
4	Exxon Mobil	1.00%	1.54%
5	Oracle Corp	0.93%	0.46%
6	Linde Ag	0.86%	0.09%
7	Walt Disney Co	0.86%	0.31%
8	Heineken Holding NV	0.85%	0.02%
9	Reckitt Benckiser Group	0.77%	0.15%
10	LVMH Moet Hennessy Louis Vuitton	0.76%	0.14%

Rank	Australian equity top 10 holdings	% portfolio holding	% of index[1]
1	BHP Billiton	11.92%	12.37%
2	Commonwealth Bank of Australia	6.35%	7.67%
3	Westpac	5.56%	6.59%
4	National Australia Bank	4.67%	5.03%
5	Australia and New Zealand Bank	4.55%	5.45%
6	Rio Tinto	3.47%	2.82%
7	Woolworths	3.13%	3.18%
8	Telstra	2.82%	3.15%
9	Wesfarmers	2.12%	3.25%
10	Westfield	1.83%	2.60%

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

High Growth

For high investment growth above the 'cash'[1] rate over the longer term.

Definition - The High Growth strategy generally invests a very high proportion of its funds in growth assets, such as Australian and international equities and property. This combination aims to earn high real investment growth above the cash rate over a 9 year period. Because the emphasis is on growth, you should keep in mind that there may be what financial professionals call "short-term volatility" in this strategy. In other words, the value of the investment may fluctuate over the short term.

Objective - 3.5% net investment return per annum above the "cash"[1] rate, measured over a rolling 9 year period.

Risks - There is a significant chance that the investment value may decrease in the short term. The chance of a negative return in any year is 1 in 3.

Risk profile - High

Asset classes	Asset allocation ranges	Actual 2010[2]	Actual 2009[2]
Australian equities (or shares)	30 - 40%	34.2%	36.5%
International equities (or shares)	27 - 37%	31.8%	31.6%
Australian listed property	0-5%	0%	0.6%
International listed property	0 - 6%	3.3%	3.4%
Australian fixed income	0 - 5%	0.2%	0.8%
Australian inflation linked bond	0 - 5%	1.1%	0.9%
International fixed income	0 - 5%	0.2%	0.8%
Absolute return fund	1 - 11%	6.4%	6.9%
Cash	0 - 10%	4.8%	1.6%
Australian direct property[3]	0 - 10%	5.2%	4.0%
Semi liquids[3]	0 - 10%	3.2%	0%
Private equity[3]	5 - 15%	9.6%	12.9%

Investment returns over 5 years for Pool A as at 30 June[4]

	2006	2007	2008	2009	2010
Accumulation and Executive Schemes (Divisions A and E)	18.7%	15.5%	-10.7%	-21.5%	13.1%
Rollover Plan (Division F)	18.1%	15.3%	-10.9%	-20.4%	12.0%
Account-Based Pension Plan (Division F)	18.9%	17.2%	-12.1%	-23.8%	14.6%

1. Note that each objective aims to return in excess of the cash rate. The benchmark for the cash rate is the UBS bank bill index.
2. As at 30 June.
3. Note that the combined investments of Australian Direct Property, Semi Liquid and Private Equity classes will not exceed 30%.
4. All investment returns are represented to one decimal place.

Balanced Growth[1]

For real investment growth above the 'cash'[2] rate over the medium to longer term.

Definition - The Balanced Growth strategy generally invests a high proportion of its funds in growth assets, such as Australian and international equities and property. The balance is invested in income-producing assets. This combination aims to earn real investment growth above the cash rate over a 7 year period. Because the emphasis is on growth, you should keep in mind that there may be what financial professionals call "short-term volatility" in this strategy. In other words, the value of the investment may fluctuate over the short term. This volatility is not as great as it is in the High Growth strategy.

Objective - 2.5% net investment return per annum above the "cash"[2] rate, measured over a rolling 7 year period.

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

Risk profile - High/Medium

Asset classes	Asset allocation ranges	Actual 2010[3]	Actual 2009[3]
Australian equities (or shares)	21 - 31%	25.3%	27.6%
International equities (or shares)	20 - 30%	24.5%	24.8%
Australian listed property	0 - 5%	0%	0.6%
International listed property	0 - 6%	3.3%	3.3%
Australian fixed income	1 - 11%	5.3%	6.0%
Australian inflation linked bond	2 - 12%	7.1%	5.3%
International fixed income	1 - 11%	5.1%	5.9%
Absolute return fund	5 - 15%	10.4%	11.1%
Cash	0 - 10%	3.1%	1.3%
Australian direct property[4]	0 - 10%	5.2%	4.1%
Semi liquids[4]	0 - 10%	4.1%	0%
Private equity[4]	1% - 11%	6.6%	10.0%

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

	2006	2007	2008	2009	2010
Accumulation and Executive Schemes (Divisions A and E)	14.7%	13.4%	-7.3%	-17.8%	12.8%
Rollover Plan (Division F)	14.0%	11.9%	-7.6%	-18.0%	12.3%
Account-Based Pension Plan (Division F)	15.3%	14.6%	-8.0%	-19.5%	14.2%

1. As at 30 September 2009 this investment strategy name changed from Diversified to Balanced Growth.
2. Note that each objective aims to return in excess of the cash rate. The benchmark for the cash rate is the UBS bank bill index.
3. As at 30 June.
4. Note that the combined investments of Australian Direct Property, Semi Liquid and Private Equity classes will not exceed 30%.
5. All figures are represented to one decimal place.

Balanced

For real investment growth above the "cash"[1] rate over the medium term.

Definition - The Balanced strategy generally invests a proportion of its funds in growth assets such as Australian and international equities and property, semi liquids and private equity and the balance in income-producing assets, such as interest bearing securities. This combination aims to earn real investment growth above the cash rate over a 5 year period. There are more assets that produce income, which makes the strategy more stable than the High Growth and Balanced Growth strategies.

Objective - 1.5% net investment return per annum above the "cash"[1] rate, measured over a rolling 5 year period.

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

Risk profile - Medium

Asset classes	Asset allocation ranges	Actual 2010[2]	Actual 2009[2]
Australian equities (or shares)	11 - 21%	15.5%	17.3%
International equities (or shares)	10 - 20%	14.6%	14.8%
Australian listed property	0 - 5%	0%	0.6%
International listed property	0 - 6%	3.6%	3.8%
Australian fixed income	7 - 17%	11.3%	12.1%
Australian inflation linked bond	8 - 18%	13.3%	13.2%
International fixed income	7 - 17%	11.0%	10.1%
Absolute return fund	7 - 17%	11.7%	12.1%
Cash	0 - 10%	3.7%	1.8%
Australian direct property[3]	0 - 10%	5.1%	4.2%
Semi liquids[3]	1 - 11%	4.8%	0%
Private equity[3]	0 - 10%	5.4%	10.0%

Investment returns over 5 years for Pool A as at 30 June[4]

	2006	2007	2008	2009	2010
Accumulation and Executive Schemes (Divisions A and E)	11.0%	10.3%	-3.7%	-14.8%	12.2%
Rollover Plan (Division F)	10.3%	9.0%	-4.0%	-15.0%	12.2%
Account-Based Pension Plan (Division F)	11.4%	11.0%	-4.6%	-16.6%	13.7%

1. Note that each objective aims to return in excess of the cash rate. The benchmark for the cash rate is the UBS bank bill index.
2. As at 30 June.
3. Note that the combined investments of Australian Direct Property, Semi Liquid and Private Equity classes will not exceed 30%.
4. All investment returns are represented to one decimal place.

Conservative[1]

For shorter term investing with good security and some potential for growth.

Definition - The Conservative strategy generally invests a small proportion in growth assets and the balance in income-producing assets such as interest-bearing securities. This combination aims to real investment growth above the cash rate over a 3 year period. Although it is relatively more stable than the High Growth, Balanced Growth and Balanced strategies, the returns and the value of the investment can still fluctuate.

Objective - 1% net investment return per annum above the "cash"[2] rate, measured over a rolling 3 year period.

Risks - Although the emphasis is more on security, returns and the value of the investment can still fluctuate. The chance of a negative return in any year is 1 in 8.

Risk profile - Medium/Low

Asset classes[3]	Asset allocation ranges	Actual 2010[3]	Actual 2009[3]
Australian equities (or shares)	1 - 11%	5.8%	6.2%
International equities (or shares)	1 - 11%	5.8%	7.8%
Australian listed property	0 - 5%	0%	0.5%
International listed property	0 - 6%	3.0%	3.0%
Australian fixed income	10 - 20%	14.2%	14.9%
Australian inflation linked bond (previously called indexed-linked securities)	10 - 20%	15.2%	16.4%
International fixed income	10 - 20%	14.2%	14.8%
Absolute return fund (previously called hedge funds)	10 - 20%	14.2%	14.1%
Cash	5 - 15%	13.5%	6.6%
Australian direct property[4]	0 - 8%	3.8%	3.3%
Semi liquids[4]	5 - 15%	8.8%	0%
Private equity[4]	0 - 6%	1.5%	12.4%

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

	2006	2007	2008	2009	2010
Accumulation and Executive Schemes (Divisions A and E)	7.5%	7.2%	0.1%	-11.7%	11.7%
Rollover Plan (Division F)	7.0%	6.1%	-0.2%	-12.1%	11.8%
Account-Based Pension Plan (Division F)	7.6%	7.5%	-0.2%	-13.6%	13.2%

1. As at 30 September 2009 this investment strategy name changed from Capital Guarded to Conservative.
2. Note that each objective aims to return in excess of the cash rate. The benchmark for the cash rate is the UBS bank bill index.
3. As at 30 June.
4. Note that the combined investments of Australian Direct Property, Semi Liquid and Private Equity classes will not exceed 30%.
5. All figures are represented to one decimal place.

Cash[1]

For investors who want exposure to investments in money market securities with a very low risk of capital loss.

Definition - The Cash strategy invests predominantly in short-term Australian money market assets. In addition, a small proportion of the assets (up to 15%) is invested in global interest type assets having a longer maximum term. This gives this strategy greater exposure to higher returns than by just investing in short-term domestic assets with only a small increase in the overall volatility of the returns. This strategy offers investments for short-term investors or those seeking less volatile returns.

Objective - 0.25% net investment return per annum above the "cash"[2] rate, measured over a rolling 2 year period.

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

Risk profile - Low

Indicative asset allocation - 100% Cash and income-producing assets.

Asset allocation as at 30 June[3]	Indicative 2010	Actual 2010	Actual 2009
Cash and incoming-producing assets	100%	100%	100%

Investment returns over 5 years for Pool A as at 30 June[4]

	2006	2007	2008	2009	2010
Accumulation and Executive Schemes (Divisions A and E)	4.6%	6.7%	4.8%	4.7%	5.2%
Rollover Plan (Division F)	3.9%	5.7%	5.0%	4.4%	4.8%
Account-Based Pension Plan (Division F)	4.5%	6.8%	5.1%	5.0%	5.2%

1. As at 30 September 2009 this investment strategy name changed from Cash Plus to Cash.
2. Note that each objective aims to return in excess of the cash rate. The benchmark for the cash rate is the UBS bank bill index.
3. Please note the asset allocation prior to 1 July 2006 was cash only.
4. All figures are represented to one decimal place.

Growth[1] – Retirement and Defined Benefit Schemes (Pool B)

For real investment growth above the cash[2] rate over the medium to long term.

Definition - The Growth strategy generally invests a very high proportion of its funds in growth assets such as Australian and international equities and property. The balance is invested in income-producing assets. This combination aims to earn real investment growth above the "cash"[2] rate over a 7 year period. Because the emphasis is on growth, you should keep in mind that there may be what financial professionals call 'short-term volatility' in this strategy. In other words, the value of the investment may fluctuate over the short term. This volatility is not as great as it is in the High Growth strategy.

Objective - 3% net investment return per annum above the "cash"[2] rate, measured over a 7 year period.

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

Risk profile - High/Medium

Asset classes	Asset allocation ranges	Actual 2010[3]	Actual 2009[3]
Australian equities (or shares)	26 - 31%	27.4%	28.5%
International equities (or shares)	26 - 31%	27.2%	25.6%
International listed property	5 - 15%	3.2%	2.6%
Australian fixed income	0 - 10%	2.3%	1.5%
Australian inflation linked bond (previously called indexed-linked securities)	0 - 10%	3.1%	3.5%
International fixed income	0 - 10%	2.1%	2.2%
Absolute return fund (previously called hedge funds)	5 - 25%	10.4%	10.2%
Cash	0 - 10%	2.3%	1.1%
Australian direct property[4]	5 - 15%	13.3%	16.3%
Semi liquids[4]	0 - 15%	2.3%	0%
Private equity[4]	3 - 20%	6.4%	8.5%

Investment returns over 5 years as at 30 June[5]

	2006	2007	2008	2009	2010
Retirement and Defined Benefit Scheme (Pool B) Contributory	17.3%	14.3%	-7.9%	-19.7%	10.4%
Retirement and Defined Benefit Scheme (Pool B) Deferred	16.7%	13.5%	-8.8%	-20.7%	10.2%
Retirement and Defined Benefit Basic Benefit Accumulation Account	17.1%[6]	14.1%	-8.2%	-20.0%	10.0%

1. As at 30 September 2009 this investment strategy name changed from Trustee Selection to Growth.
2. Note that each objective aims to return in excess of the cash rate. The benchmark for the cash rate is the UBS bank bill index.
3. As at 30 June.
4. Note that the combined investments of Australian Direct, Semi Liquids and Private Equity classes will not exceed 30%.
5. All figures are represented to one decimal place.

Member Investment Choice

Retirement Scheme members only (Division B)

Retirement Scheme members have access to member investment choice in addition to Growth by choosing one of the five (5) investment strategies shown below. Member investment choice is the facility by which you can elect which investment strategy is to apply to your following benefit components:

For Contributory members

- Your Contributor Financed Benefit; and
- Basic Benefit Accumulation account

For Deferred members

- Your total account balance

These investment strategies commenced 1 October 2005. The tables below show the investment returns for the financial years ending in 2007, 2008, 2009 and 2010.

Investment returns as at 30 June 2007, 2008, 2009 and 2010[1]

At 30 June 2007			
Strategies	Contributor Financed Benefit	Basic Benefit Accumulation Account	Deferred Members
High Growth	15.6%	15.2%	14.6%
Balanced Growth[2]	12.8%	12.5%	11.9%
Balanced	9.9%	9.6%	9.1%
Conservative[2]	7.0%	6.7%	6.2%
Cash[2]	6.9%	6.6%	6.1%

At 30 June 2008			
Strategies	Contributor Financed Benefit	Basic Benefit Accumulation Account	Deferred Members
High Growth	-11.6%	-11.9%	-12.4%
Balanced Growth[2]	-8.0%	-8.3%	-8.7%
Balanced	-4.5%	-4.8%	-5.3%
Conservative[2]	-1.2%	-1.5%	-1.9%
Cash[2]	4.3%	4.0%	3.6%

At 30 June 2009			
Strategies	Contributor Financed Benefit	Basic Benefit Accumulation Account	Deferred Members
High Growth	-21.5%	-21.4%	-22.1%
Balanced Growth[2]	-17.0%	-17.1%	-17.8%
Balanced	-13.3%	-13.6%	-13.9%
Conservative[2]	-9.7%	-9.8%	-10.4%
Cash[2]	5.1%	4.8%	4.7%

At 30 June 2010			
Strategies	Contributor Financed Benefit	Basic Benefit Accumulation Account	Deferred Members
High Growth	13.6%	13.2%	13.2%
Balanced Growth[2]	13.0%	13.2%	12.8%
Balanced	12.4%	12.6%	12.2%
Conservative[2]	11.8%	12.5%	12.5%
Cash[2]	5.0%	4.4%	4.8%

1. All figures are represented to one decimal place. There are no annualised 5 year returns for these strategies as they only commenced 1 October 2005.
2. These are the new investment strategy names as at 30 September 2009.

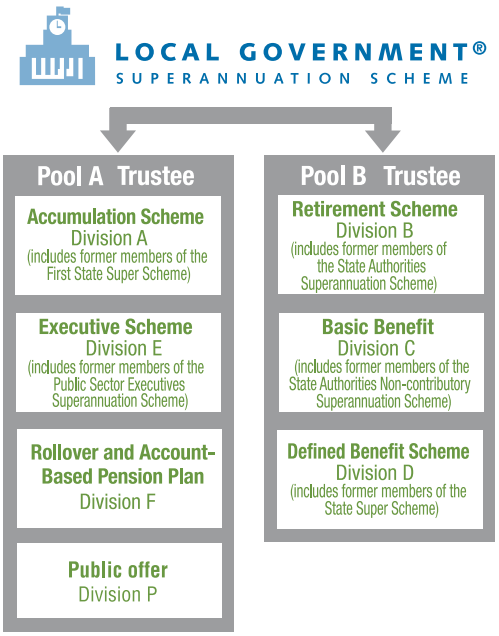
The team behind your super

About the Trustee

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

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

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



Governance

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

Role of the Board

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

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

The Board has in place an Investment Committee and an Audit, Compliance and Risk Committee to allow it to oversee the operations in greater detail.

The Investment Committee (made up of Ian Robertson – Chair, Sam Byrne, Beverly Giegerl and Martin O'Connell) generally meets twice a quarter. The main function of the Committee is to monitor the performance of the investment managers and oversee the work of the Investment Advisor.

The role of the Audit, Compliance and Risk Management Committee (made up of Col Sullivan – Chair, John Beacroft, Monica Clavijo and Leo Kelly) is to review the internal controls and risk management of Local Government Super and its service providers. Committee meetings are also attended by the Scheme's Internal Auditor. The Committee generally meets quarterly.

Industry Regulator

The operations of Local Government Super are supervised by the Australian Prudential Regulation Authority (APRA).

Representatives of the Board meet APRA regularly, so as to keep the regulator informed about the activities of Local Government Super. These meetings also provide an opportunity for the Board to hear APRA's views about the superannuation industry generally.

Indemnity insurance

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

Your board

Leo Kelly OAM (Chair)

Appointed by the Local Government Association of NSW

Councillor and former Mayor - Blacktown City Council

Former Vice President – Local Government Association of NSW (Currently an Executive Member)

Ian Robertson (Deputy Chair)

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

Secretary - depa

Chair - Investment Committee

Chair - Determinations Committee

John Beacroft

Appointed by the United Services Union

Former Local Government employee in Finance Departments of various city and regional councils for over 40 years

Sam Byrne

Appointed by the Local Government Association of NSW

Former Councillor - Marrickville Council

Former Executive Member - Local Government Association of NSW

Member - The Greens

Monica Clavijo

Appointed by the United Services Union

Currently employed as a manager within the USU; involved in the community sector for over ten years, with extensive experience in financial management

Beverley Giegerl

Appointed by the Local Government Association of NSW

Councillor - Hurstville City Council

Former Treasurer - Local Government Association of NSW

Martin O'Connell

Appointed by the Local Government Engineers' Association

Director - Local Government Engineers' Association and Association of Professional Engineers, Scientists and Managers, Australia (NSW Branch)

Col Sullivan OAM

Appointed by the Shires Association of NSW

Mayor – Richmond Valley Council

Vice President General - Shires Association of NSW

Chair – Local Government Financial Services

Chair – Audit, Compliance & Risk Management Committee

About the service providers

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

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

Actuary

Mercer Human Resource Consulting

Administrator

FuturePlus Financial Services Pty Limited[1]

Asset Consultant

Mercer (Australia) Pty Ltd (in August 2009 Mercer replaced Intech Investment Consultants)

Auditor

Deloitte Touche Tohmatsu

Custodian

JPMorgan Chase Bank

Investment managers at 30 June 2010

AMP Capital Investors

Attunga Capital Pty Ltd

Arnhem Investment Management Pty Ltd

BlackRock Investment Management (Australia) Limited

BT Investment Management Ltd

Colonial First State Investments Limited

H3 Global Advisors Pty Ltd

Hawkesbridge Limited

Independent Asset Management Pty Ltd

Impax Asset Management Group plc

Lazard Asset Management Pacific Co

LSV Asset Management

Macquarie Investment Management Limited

MFS Institutional Advisors, Inc

PIMCO Australia Pty Ltd

QIC

Quentin Ayers Pty Limited

Schroders p/c

State Street Global Advisors Australia Limited

Vanguard Investments Australia Ltd

Wellington Management Company, LLP

Wilshire Australia Pty Limited

Winton Global Alpha Fund

Legal advisor

DLA Phillips Fox

1 FuturePlus Financial Services Pty Limited (ABN 90 080 972 630) is an Australian Financial Services Licensee (AFSL: 238445).

Taxes, fees and charges

General tax information

Local Government Super is required to pay tax of up to 15% on all employer contributions[1] received (including contributions made by way of salary sacrifice). Any tax payable in respect of these contributions is deducted from your account. Personal contributions made on an after-tax basis are not subject to tax.

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

Fees and other costs

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

Investment costs and expense recovery fee

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

Administration fee

The Trustee sets the administration fee at the level needed to recover the cost of administering a member's account. Where applicable, this fee is charged on a weekly basis. A separate administration fee is not charged on the Rollover Plan, Account-Based Pension Plan, the Defined Benefit Scheme (Division D) or deferred accounts. Pages 17-18 list all fees charged to members' accounts. For further details refer to the Product Disclosure Statement, contact Member Services on 1300 369 901 or visit the website www.lgsuper.com.au

Member protection

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

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

Administration, other fees and insurance premiums charged in Pool A

For the year ended 30 June 2010	Accumulation Scheme	Executive Scheme	Rollover and Account-Based Pension
Administration Fee-Non contributing member	$4.33 per month	$4.33 per month	N/A
Administration fee-Contributing member	$4.33 per month	$6.33 per month	N/A
Basic Death or Invalidity cover	$15 per month	$25 per month[1]	N/A
Benefit payment fee	$20	$30	No charge
Optional investment switch in any financial year	$20 per switch[2]	$30 per switch[2]	No charge
Voluntary insurance	The cost will vary depending on the amount insured and other factors.	N/A	

Management costs charged in Pool A

Management costs charged to Division A[3] and E[3] members for the year ended 30 June 2010

Months	High Growth	Balanced Growth[4]	Balanced	Conservative[4]	Cash[4]
July - June	1.00%	0.97%	0.92%	0.88%	0.72%

Management costs charged to Division F[5] members for the year ended 30 June 2010

Months	High Growth	Balanced Growth[4]	Balanced	Conservative[4]	Cash[4]
July - June	1.00%	0.97%	0.92%	0.88%	0.72%

1 Only available to new members from 1 July 2005.
2 The first switch is free in any financial year. Any subsequent switches in that financial year are charged at the stated amount.
3 Maximum 1% fee applies for all investment options.
4 These are new investment strategy names as at 30 September 2009.
5 The management costs include investment management, financial planning and account administration.

Administration fees charged in Pool B

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

Management fees charged in Pool B (Accumulation accounts only)

Management costs charged in Division B to contributory members excluding any Basic Benefit Accumulation Account for the year ended 30 June 2010[1]

Month	High Growth	Trustee selection	Balanced Growth[2]	Balanced	Conservative[2]	Cash[2]
July – June	0.31%	0.33%	0.29%	0.26%	0.25%	0.05%

Management costs charged in Division B to contributory members for the Basic Benefit Accumulation Account for the year ended 30 June 2010[3]

Month	High Growth	Trustee selection	Balanced Growth[2]	Balanced	Conservative[2]	Cash[2]
July – June	0.83%	0.80%	0.81%	0.78%	0.77%	0.57%

Management costs charged in Division B to deferred members for the year ended 30 June 2010[4]

Month	High Growth	Trustee selection	Balanced Growth[2]	Balanced	Conservative[2]	Cash[2]
July – June	0.83%	0.80%	0.81%	0.78%	0.77%	0.57%

Family law fees

As at the 30 June 2010, the following fees were payable for the provision of Family Law information and for the actual "splitting of the benefit".

Accumulation Scheme, Executive Scheme and Rollover and Account-Based Pension (includes GST)	
Request for information[5]	$110
Benefit split fee[6]	$88
Retirement, Basic Benefit and Defined Benefit Schemes (includes GST)	
Request for information[5]	
Current members	$275
Deferred members	$110
Pensioners	$110
Benefit split fee[6]	$88

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

1 A maximum 0.55% fee applies for the Contributor Financed Benefit.
2 These are new investment strategy names as at 30 September 2009.
3 A maximum 0.85% fee applies for the Basic Benefit Accumulation Account.
4 A maximum 1.5% fee applies.
5 This fee is payable by the person requesting the information.
6 This fee is generally payable by the member and non-member spouse in equal parts ($44 each). However, if the non-member spouse is entitled to the whole amount of a splittable payment, the entire amount is payable by the non-member spouse. The member's share of the fee is deducted from the member's account and the non-member spouse's share is deducted from the non-member spouse's splittable payment prior to the transfer of the payment out of the Scheme.

Financial statements

Pool A

Operating statement for the year ended 30 June 2010

	30-Jun-10 ($ '000)	30-Jun-09 ($ '000)
Revenue		
Net investment revenue	307,368	(391,528)
Employer contributions	217,577	225,606
Member contributions	18,521	16,990
Transfers in	213,334	199,791
Other revenue	4,381	92
Total revenue	**761,181**	**50,951**
Less outgoings		
Administrative expenses	27,017	18,594
Contributions surcharge	(23)	(2)
Income tax expense / (benefit)	56,236	(13,588)
Total outgoings	**83,230**	**5,004**
Benefits accrued as a result of operations	677,951	45,947

Statement of financial position for the year ended 30 June 2010

	30-Jun-10 ($ '000)	30-Jun-09 ($ '000)
Investments		
Short-term investment	-	-
Unit trusts	2,756,178	2,207,913
Pooled Superannuation Trusts	-	-
Total investments	**2,756,178**	**2,207,913**
Other assets		
Cash	43,373	42,443
Receivables	383	1,099
Deferred tax asset	47,427	54,823
Total assets	**2,847,361**	**2,306,278**
Less liabilities		
Payables	8,799	3,689
Current tax liability	34,338	2,389
Total liabilities	**43,137**	**6,078**
Net assets available to pay benefits	2,804,224	2,300,200

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

Large investments

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

Pool B
Statement of changes in net assets for the year ended 30 June 2010

	30-Jun-10 ($ '000)	30-Jun-09 ($ '000)
Net investment revenue	288,985	**(648,549)**
Employer contributions	190,587	118,109
Member contributions	14,638	16,244
Transfers in	3,741	6,117
Total revenue	**497,951**	**(508,079)**
Less outgoings		
Benefits paid	186,078	208,724
Administrative expenses	15,952	13,616
Contributions surcharge	19	(19)
Income tax expense / (benefit)	66,398	(68,618)
Total outgoings	**268,447**	**153,703**
Net profit	229,504	(661,782)

Statement of net assets for the year ended 30 June 2010

	30-Jun-10 ($ '000)	30-Jun-09 ($ '000)
Investments		
Unlisted equities and trusts	2,678,812	2,388,993
Deferred tax asset	75,855	92,669
Cash	21,483	13,264
Receivables	131	26
Current tax asset	-	10,981
Total assets	**2,776,281**	**2,505,933**
Less liabilities		
Payables	4,114	4,218
Current tax liability	40,948	-
Total liabilities	**45,062**	**4,218**
Net assets available to pay benefits	2,731,219	2,501,715

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

Large investments

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

More information

Complaints

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

Complaints Resolution Officer
Local Government Super
PO Box N835
Grosvenor Place NSW 1220

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

Superannuation Complaints Tribunal
Locked Bag 3060
GPO Melbourne VIC 3001
Ph: 1300 780 808

Pool A reserves

In previous years Local Government Super operated the following reserves in Pool A:

Death or Invalidity Reserve (DORI)

DORI was operated to allow for the payment of certain death and disability benefits provided to members. This reserve received monies that were deducted from members' accounts from time to time. The Actuary regularly reviewed this reserve to ensure that the premium charged to members was adequate to support likely future payments based on actuarial assumptions. After an amount was allocated to the new Operational Risk Reserve the balance of this reserve was distributed to members and the reserve was closed.

Unit Pricing Equalisation Reserve (UPER)

UPER was operated for the purpose of allowing reimbursement to members who had been disadvantaged by an error or anomaly to the unit price which they have been allocated, where that amount could not be recovered from external sources. The maximum amount that could be maintained in this reserve for this purpose was 0.3% of assets. If the reserve exceeded this figure for any reason, that excess amount could be credited to the earnings and distributed to members. In October 2008, the Trustee resolved to merge the DORI and UPER reserves into one reserve named the **Operational Risk reserve (ORR)**.

The ORR was set up using funding from the DORI and UPER. The balance of the DORI & UPER was then distributed to members. The ORR operates principally to meet any remaining self insured death/invalidity claims within Pool A and generally to protect Local Government Super from other contingent events or the need for capital expenditure. A specific amount of $100,000 is also maintained in the ORR at all times to satisfy one of the requirements of the Trustee's public offer licence.

Administration and tax reserves

Deductions are made from members' accounts and investment earnings to pay for Local Government Super's income tax liabilities and operational expenses. The administration and tax reserves are invested in cash and apply towards the expenses they relate to as and when they become payable. Changes to the balance held in each of the abovementioned reserve accounts as at 30 June for the last three years are as follows:

Year	DORI ($'000)	UPER ($'000)	Admin($'000)	Tax($'000)	ORR($'000)
2008	1,362	1,974	(135)	1,340	-
2009	(12,197)	(7,413)	99	4,590	5,278
2010	-	-	73	(5286)	(121)

Reserves

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

Derivatives

Derivatives are used to adjust the weightings of the various portfolios in line with the overall investment strategy. Various derivatives may be applied, such as futures and options. Strict investment guidelines detail all limits approved on the use of derivatives that are in place. Currency hedging activities are also carried out in relation to the international equities portfolio, within strictly defined parameters. Derivatives can also be used to protect against possible adverse moves in the markets, to implement tactical asset allocations, or to enter or exit the market at a defined price level. Under no circumstances can they be used to gear the investment portfolio or be used for speculative trading. Various managers in LIF have, at times, made use of derivatives as part of their portfolio management activities during 2009/2010. The Trustees require that all derivatives positions (a) are fully cash covered; (b) are offset to existing assets; or (c) are used to alter the exposures in underlying asset classes.

Eligible Rollover Fund

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

Contact details are as follows:
AUSfund Administration
PO Box 2468
Kent Town SA 5071
Ph: 1300 361 798
Fax: 1300 366 233

The Trustee will transfer a benefit to the nominated ERF in circumstances where a benefit is split under family law. A benefit may also be transferred to that ERF for inactive accounts (where no superannuation contributions are being made) with less than $400.

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

Important changes

Changes to the investment strategies

These changes affect members of the Accumulation, Executive, Public Offer, Rollover and Account-Based Pension Plan, Retirement and Defined Benefit Schemes.

The Trustee made changes to the asset allocation ranges of the investment strategies and the time horizons used to estimate when the investment objectives will be met. These asset allocation changes were made to reflect the opportunities available in the investment markets.

The Trustee also changed the names of some of the investment strategies so they provide a more accurate description of the characteristics of each strategy.

Old name	New name	Objective
High Growth	High Growth	Cash rate[1] plus 3.5% pa over a rolling 9-year period
Trustee Selection	Growth[2]	Cash rate[1] plus 3.0% pa over a rolling 7-year period
Diversified	Balanced Growth	Cash rate[1] plus 2.5% pa over a rolling 7-year period
Balanced	Balanced	Cash rate[1] plus 1.5% pa over a rolling 5-year period
Capital Guarded	Conservative	Cash rate[1] plus 1.0% pa over a rolling 3-year period
Cash Plus	Cash	Cash rate[1] plus 0.25% pa over a rolling 2-year period

For more detailed information about the different investment options, refer to the Supplementary Product Disclosure Statement (SPDS) dated 20 July 2009.

Multiple Investment Options

This change only affects members of the Accumulation, Executive and Public Offer Schemes.

Previously these members could only invest their account balance and future contributions into one investment strategy at a time.

From 1 September 2009, members could elect to invest their account balance and/or their future contributions (including roll-ins, Superannuation Guarantee contributions and personal contributions) in a combination of one or more of the five investment strategies provided by the Scheme.

You also have the flexibility to invest your future transactions in a different combination of investment strategies than you use to invest your current account.

The five investment strategies available are High Growth, Balanced Growth, Balanced, Conservative and Cash.

For more details refer to the Supplementary Product Disclosure Statement (SPDS) dated 20 July 2009.

Automatic switch to Cash Strategy on the notification of a member's death

This change affects members of the Accumulation, Executive, Public Offer, Rollover and Account-Based Pension Plan, Retirement and Defined Benefit Schemes.

Starting from 1 September 2009, upon notification of the death of a member we will switch any of the deceased's "accumulation" or non-defined benefits to the Cash strategy where they will remain until the death benefit is paid out.

This will make the deceased's benefit more stable during the death benefit assessment and payment process and will provide greater certainty for beneficiaries during that time.

All potential beneficiaries we are aware of will be notified in writing of the investment strategy switch when it occurs.

For more information refer to the Supplementary Product Disclosure Statement (SPDS) dated 20 July 2009.

Sustainable investing

Local Government Super like other super funds, invests in a range of assets including shares, private equity and direct property, but unlike most funds LGS actively invests these assets based on a sustainable and socially responsible investment policy.

This policy specifically takes into consideration environmental, social and corporate governance issues.

1 Benchmark for the cash rate is the UBS bank bill index.
2 Growth strategy is only available to members of the Retirement or Defined Benefit Schemes.

We developed this policy because we recognise that the long-term prosperity of the economy and the well being of members depends on a healthy environment, social cohesion and good governance of the companies in which we invest.

The Trustee believes that it is not only important to maximise investment returns, but also to invest in a way that favours companies and projects which show a commitment to our community and the environment.

For more information refer to the Accumulation Scheme Product Disclosure Statement (PDS) dated 1 July 2010.

Legislative changes

Caps on concessional super contributions

The cap on concessional or pre-tax super contributions is $25,000 in each financial year.

The transitional concessional cap for people over 50 years of age remains at $50,000 and is available until 30 June 2012.

The Government announced in the 2010 Budget that the concessional cap for people over 50 years of age will become permanent in 2012 but it will only apply to people with super balances of less than $500,000.

The caps on non-concessional or after-tax contributions remained unchanged at $150,000 per annum.

Government Co-contribution and tax rebate

Last year the maximum Government Co-contribution was reduced from $1,500 to $1,000 matching 100% of non-concessional super contributions made by lower income earners.

In the 2010 Budget, the Government announced that this reduction will now be permanent and the income thresholds used to determine the amount of the Co-contribution, which are normally indexed each year, will now also remain unchanged.

This means that workers earning up to $31,920 per annum are eligible for the full amount of the Co-contribution and it gradually reduces to zero for workers earning up to $61,920 per annum.

The Government also announced that in 2012 workers earning less than $37,000 will be able to claim a maximum $500 tax rebate per annum on their super contributions and this rebate will be paid into their super account.

Pension drawdown relief

The minimum drawdown amount for account-based pensions was halved for the 2009/10 financial year and this has been extended for the 2010/11 financial year.

This report looks great online

Our annual report looks great online and that saves a lot of paper too.

We encourage you to read all about Local Government Super online at www.lgsuper.com.au

You will help us keep our costs down and that means better long-term returns for you and your environment.

ISO 14001

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1139-LGS-11/10-Octo