

# 16

**ANNUAL REPORT**

# 17



**LOCAL  
GOVERNMENT  
SUPER**





**Over the last 20 years, LGS has grown into one of Australia's leading super funds for responsible and sustainable investment, great value for money, and outstanding personal and local service.**

# 1997



**LOCAL  
GOVERNMENT  
SUPER**





# celebrating **20** years

Local Government Super was established in 1997 and has traditionally been the industry super fund for current and former NSW local government employees. We currently manage more than \$10 billion in retirement savings for our members.

Today, we are open to the wider community meaning that anyone can join as long as you reside in Australia or you're employed by an eligible Australian employer. You can enjoy all the benefits of being a member of one of the most sustainable super funds in Australia.

We are committed to responsible and sustainable investment, and we are one of a very small number to be certified as a responsible super fund by the Responsible Investment Association of Australasia.

# 2017



**Our vision is to enhance  
the retirement income of  
our members.**





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# Note from the Chair and the Chief Executive Officer

## Celebrating our first twenty years

At Local Government Super, we're celebrating twenty years of looking after the retirement savings of current and former local government employees across New South Wales.

In that time, we have grown into one of Australia's leading super funds for responsible and sustainable investment, great value for money, and outstanding service. We currently manage more than \$10 billion of retirement savings for around 90,000 members.

And there have been many highlights over the years, including numerous industry awards.

However, the key to our success has been the focus on the needs of our members; the people who do such a great job serving our local communities.

## A strong year for global share markets

The last twelve months has seen share markets around the world hitting record highs despite modest economic growth, low inflation, and a degree of political uncertainty in the US, UK and parts of Europe.

This strong performance has been reflected in double-digit returns for our blended investment options which have a greater exposure to growth assets such as shares and property.

In contrast, record low interest rates have dampened returns for investment options with an exposure to cash and term deposits.

Good returns have also improved the financial position of our Defined Benefit Scheme.





Our aim is to help our members grow their super investment however, the combination of high levels of personal debt and low wage growth is squeezing household budgets and making it ever more challenging for all Australians to save for their retirement.

### Looking after our members

A number of important legislative changes came into effect on 1 July 2017. We have been hard at work helping our members understand what these changes mean for their super investment.

In fact, our financial planners and our client relationship managers have been meeting with a record number of members. They have been talking to members about the changes, helping them to review their investment and their contribution strategies, and making sure they're still on track to achieve their long-term financial goals.

This year we've also been out and about talking about the challenges women face when saving for their retirement. Our financial planners have been providing our female members with practical and strategic advice to help them boost their retirement income.

### Staying competitive

As Australians become more discerning about the choice of their super fund, it's absolutely crucial that we provide our members with the best possible products and service at a competitive price.

And this means we have to continually innovate.

The quality of life insurance cover has become an issue for many super funds. This year we redesigned and enhanced our range of insurance to make sure it was flexible, affordable and genuinely meeting the needs of our members.

We made it easier for our members to combine their super accounts and reduce all the fees they pay. We also introduced eCommunications and launched LiveChat on our website so members can more easily interact with us.

And over coming years we'll be looking to expand the financial advice services available to our members.

### Responsible and sustainable investment

Although responsible investment is now becoming increasingly mainstream, Local Government Super is recognised as an industry leader in Australia and internationally.

In May this year, we ranked number one globally in the Asset Owners Disclosure Project (AODP) for the way we manage the risks and opportunities of climate change. The United Nations Principles for Responsible Investment (UNPRI) ranked us in the top 12 super funds in the world for carbon footprint methodology.

Closer to home, we were named Money magazine's Best Green Super Fund in their Best of the Best Awards for the fifth time, and we received the SuperRatings Infinity Award, also for the fifth time.

### Looking ahead

The outlook for global growth has become more positive in recent times despite a number of lingering financial and political risks.

But no matter what the markets do over the next twelve months, our focus will be on innovation, service and providing our members with great value for money.

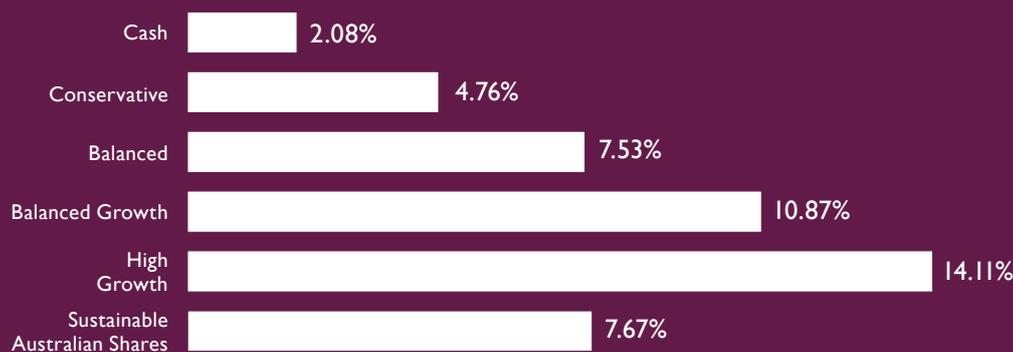
And looking ahead to the next 20 years, our mission remains the same; to enhance the retirement income of all our members.

Regards

**Bruce Miller**  
Chair

**David Smith**  
Chief Executive Officer

### Accumulation Scheme July 2016 to June 2017



# Our rankings, ratings and awards

**Over the past year, Local Government Super has again been recognised for our outstanding value, quality products, and our commitment to responsible and sustainable investment.**





Awarded Canstar's highest rating for outstanding value for our Account-Based Pension Plan, four times in a row.

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Ranked number one globally in the 2017 Asset Owners Disclosure Project for the way we manage the risks and opportunities of climate change.

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Named Best Green Super Fund in *Money Magazine's* 2017 Best of the Best Awards for the fifth time.

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Received the SuperRatings Infinity Award recognising our leadership in responsible and sustainable investment for the fifth time.

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Assigned the 2017 five-star quality rating by independent advisers, the Heron Partnership for our superannuation product and our MySuper investment option.

# How we invest our members' money

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

Please note that the net earnings allocated to a member's account during the 2016/17 financial year 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 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 movements 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 when the investment manager specifically confirms in writing that derivatives will not be used, each investment manager must supply adequate policies, procedures and controls, which outline the role and management of derivatives products (such as futures and options) used by the investment manager.

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.



## Our investment portfolio

### Top 10 Australian share holdings as at 30 June 2017

Rank	Australian shares top 10 holdings	% of portfolio holding	% of index <sup>1</sup>
1	Commonwealth Bank of Australia	8.58	9.25
2	ANZ Bank	6.45	6.62
3	Westpac	6.06	5.45
4	National Australia Bank	4.84	5.12
5	BHP	4.64	4.83
6	CSL Limited	3.70	4.05
7	Telstra	3.46	3.30
8	Rio Tinto	2.69	1.73
9	Macquarie Group	2.28	1.95
10	Wesfarmers	1.67	2.94

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.

### Top 10 International share holdings as at 30 June 2017

Rank	International shares top 10 holdings	% of portfolio holding	% of index <sup>2</sup>
1	Thermo Fisher Scientific	1.37	0.17
2	Zimmer Biomet	1.24	0.06
3	Accenture	1.23	0.19
4	State Street	1.17	0.08
5	Oracle Corp	0.95	0.38
6	Visa	0.95	0.43
7	Medtronic	0.90	0.30
8	Apple	0.86	1.87
9	Bayer Ag	0.83	0.26
10	Canadian National Railway	0.82	0.15

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 the vast majority of all the listed shares on major global markets. 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 2017. You should refer to the relevant Product Disclosure Statement (PDS) for the current details of our investment options.

## High Growth

### Definition

For high investment growth above the Consumer Price Index (CPI) over the longer term. The High Growth option generally invests a very high proportion of its funds in growth assets, such as Australian and international shares and property. This combination aims to earn high real investment growth above CPI over a seven-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.

### 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.

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

Asset classes	Asset allocation ranges	Actual 2017 <sup>1</sup>	Actual 2016 <sup>1</sup>
Australian Shares	25% – 42%	32.6%	32.7%
International Shares	25% – 42%	36.3%	35.5%
International Listed Property	0% – 6%	2.1%	2.3%
Australian Direct Property <sup>2</sup>	0% – 10%	4.9%	5.1%
Private Equity and Opportunistic Alternatives <sup>2</sup>	5% – 25%	13.6%	13.4%
Commodities	0% – 3%	1.6%	0.8%
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%	5.6%	6.2%
Defensive Alternatives <sup>2</sup>	0% – 8%	2.9%	3.0%
Cash	0% – 10%	0.4%	1.0%

1. As at 30 June.

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

Investment returns as at 30 June 2017	1 year	3 years	5 years
Accumulation Fund (Division A)	14.11%	9.09%	11.70%
Account-Based Pension Plan (Division F)	15.34%	10.04%	13.10%



## Balanced Growth

### Definition

For real investment growth above the CPI over the medium to longer 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 2017 <sup>1</sup>	Actual 2016 <sup>1</sup>
Australian Shares	18% – 31%	24.5%	24.6%
International Shares	18% – 30%	26.2%	25.2%
International Listed Property	0% – 6%	2.1%	2.2%
Australian Direct Property <sup>2</sup>	0% – 10%	4.8%	5.0%
Private Equity and Opportunistic Alternatives <sup>2</sup>	1% – 21%	11.7%	10.8%
Commodities	0% – 3%	1.7%	0.8%
Australian Fixed Interest	0% – 15%	5.8%	6.4%
Australian Inflation-Linked Bonds	0% – 8%	1.6%	1.8%
International Fixed Interest	0% – 10%	3.9%	4.6%
Absolute Return Funds	0% – 16%	9.6%	10.2%
Defensive Alternatives <sup>2</sup>	0% – 8%	3.7%	4.1%
Cash	0% – 10%	4.4%	4.4%

1. As at 30 June.

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

Investment returns as at 30 June 2017	1 year	3 years	5 years
Accumulation Scheme (Division A)	10.87%	7.83%	9.98%
Account-Based Pension Plan (Division F)	12.12%	8.67%	11.04%

## Our investment options continued

### Balanced

#### Definition

For real investment growth above CPI over the medium term. The Balanced option generally invests a proportion of its funds in growth assets such as Australian and international shares and property, semi liquids and private equity and the balance in income-producing assets, such as interest-bearing securities. This combination aims to earn real investment growth above CPI over a three-year period. There are more assets that produce income which makes the option more stable 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 2017 <sup>1</sup>	Actual 2016 <sup>1</sup>
Australian Shares	9% – 21%	15.0%	14.6%
International Shares	9% – 20%	16.6%	15.5%
International Listed Property	0% – 6%	2.2%	2.3%
Australian Direct Property <sup>2</sup>	0% – 10%	4.9%	5.0%
Private Equity and Opportunistic Alternatives <sup>2</sup>	1% – 21%	11.8%	10.5%
Commodities	0% – 3%	1.8%	0.8%
Australian Fixed Interest	11% – 22%	14.7%	15.4%
Australian Inflation-Linked Bonds	0% – 12%	4.5%	4.8%
International Fixed Interest	6% – 16%	9.8%	10.5%
Absolute Return Funds	0% – 17%	11.8%	12.5%
Defensive Alternatives <sup>2</sup>	0% – 8%	4.0%	4.1%
Cash	0% – 10%	2.9%	4.1%

1. As at 30 June.

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

Investment returns as at 30 June 2017	1 year	3 years	5 years
Accumulation Scheme (Division A)	7.53%	6.40%	7.61%
Account-Based Pension Plan (Division F)	8.94%	7.24%	8.76%



## Conservative

### Definition

For shorter term investing with good security and some potential for growth. The Conservative option generally invests a small proportion in growth assets and the balance in income-producing assets such as interest-bearing securities. This combination aims to earn real investment growth above CPI over a two-year period. Although it is relatively more stable 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 2017 <sup>1</sup>	Actual 2016 <sup>1</sup>
Australian Shares	1% – 11%	6.3%	5.9%
International Shares	1% – 11%	7.5%	6.8%
International Listed Property	0% – 6%	1.4%	1.6%
Australian Direct Property <sup>2</sup>	0% – 8%	3.9%	4.0%
Private Equity and Opportunistic Alternatives <sup>2</sup>	5% – 21%	11.9%	9.2%
Commodities	0% – 3%	1.8%	0.8%
Australian Fixed Interest	14% – 25%	16.6%	17.4%
Australian Inflation-Linked Bonds	1% – 12%	4.5%	4.9%
International Fixed Interest	8% – 18%	10.8%	11.4%
Absolute Return Funds	0% – 21%	16.5%	17.1%
Defensive Alternatives <sup>2</sup>	0% – 8%	4.9%	4.6%
Cash	5% – 20%	13.9%	16.5%

1. As at 30 June.

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

Investment returns as at 30 June 2017	1 year	3 years	5 years
Accumulation Scheme (Division A)	4.76%	4.66%	5.54%
Account-Based Pension Plan (Division F)	6.01%	5.36%	6.39%

## Our investment options continued

### Cash

#### Definition

For investors who want exposure to investments in money market securities with a very low risk of capital loss. The Cash investment option invests predominantly in short-term Australian money market assets. In addition, a proportion of the assets (up to 15%) is invested in longer term bank securities and fixed-term deposits. This gives this option greater exposure to higher returns than by just investing in short-term domestic assets, with only a small increase in the overall volatility of the returns. This option offers investments for short-term investors or those seeking less volatile returns.

#### Objective

0.25% net investment return per annum above the cash<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 2017

	Actual
Cash and income producing assets	100%

#### Investment returns as at 30 June 2017

	1 year	3 years	5 years
Accumulation Scheme (Division A)	2.08%	2.13%	2.36%
Account-Based Pension Plan (Division F)	2.25%	2.38%	2.70%

1. The benchmark for the cash rate is the Bloomberg Ausbond Bank Bill Rate Index.



## Sustainable Australian Shares

### Definition

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

The performance of Sustainable Australian Shares is measured against the ASX S&P 100 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 2017

	<b>Actual</b>
Sustainable Australian Shares	100%

### Investment returns as at 30 June 2017

	<b>1 year</b>	<b>3 years</b>	<b>5 years</b>
Accumulation Scheme (Division A)	7.67%	7.50%	11.33%
Account-Based Pension Plan (Division F)	9.18%	8.74%	N/A

## Our investment options continued

### Growth – Retirement Scheme

#### Definition

For 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.

The volatility for the Growth option should not 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.

Asset classes	Asset allocation ranges	Actual 2017 <sup>1</sup>	Actual 2016 <sup>1</sup>
Australian Shares	18% – 31%	25.1%	24.6%
International Shares	18% – 30%	26.4%	25.6%
International Listed Property	0% – 6%	2.2%	2.3%
Australian Direct Property <sup>2</sup>	0% – 10%	5.1%	4.8%
Private Equity and Opportunistic Alternatives <sup>2</sup>	1% – 21%	13.4%	13.5%
Commodities	0% – 3%	1.6%	0.8%
Australian Fixed Interest	0% – 15%	5.9%	6.2%
Australian Inflation-Linked Bonds	0% – 8%	1.7%	1.7%
International Fixed Interest	0% – 10%	4.3%	4.6%
Absolute Return Funds	0% – 16%	9.9%	10.4%
Defensive Alternatives <sup>2</sup>	0% – 8%	4.0%	4.1%
Cash	0% – 10%	0.4%	1.5%

1. As at 30 June.

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

Investment returns as at 30 June 2017	1 year	3 years	5 years
Retirement Scheme – Contributory	10.79%	8.06%	10.14%
Retirement Scheme – Other Contributions	10.79%	7.81%	9.99%
Retirement Scheme – Deferred	10.79%	7.84%	9.85%



## 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
- Other Contributions account.

### For deferred members

- Your total account balance.

The following tables show the returns for one, three and five years for each of the investment options as at 30 June 2017.

### Retirement Scheme – Contributory members

Returns as at 30 June 2017	1 year	3 years	5 years
High Growth	13.13%	9.03%	11.72%
Balanced Growth	10.42%	7.90%	10.01%
Balanced	7.56%	6.64%	8.02%
Conservative	4.97%	4.97%	5.94%
Cash	2.05%	2.39%	2.71%

### Retirement Scheme – Other contributions

Returns as at 30 June 2017	1 year	3 years	5 years
High Growth	13.13%	8.83%	11.85%
Balanced Growth	10.42%	7.77%	9.84%
Balanced	7.56%	6.50%	7.74%
Conservative	4.97%	4.80%	5.02%
Cash	2.05%	2.18%	1.82%

### Retirement Scheme – Deferred members

Returns as at 30 June 2017	1 year	3 years	5 years
High Growth	13.13%	8.92%	11.50%
Balanced Growth	10.42%	7.81%	9.88%
Balanced	7.56%	6.40%	7.74%
Conservative	4.97%	4.76%	5.61%
Cash	2.05%	2.13%	2.37%

## Our investment options continued

### Defined Benefit Strategy

In the Defined Benefit Scheme, the local government employer contributes on behalf of the member. The member's final benefit is directly related to their superable salary on retirement.

This scheme is closed to new members.

#### Definition

The Defined Benefit Strategy generally invests a high proportion of its funds in growth assets, such as Australian and international shares and property. The balance is invested in income producing assets. Because the emphasis is on growth, there may be 'short-term volatility' in this strategy. In other words, the value of the investment may fluctuate over the short-term.

#### Objective

6.5% net investment return per annum over a five-year period.

#### Risk profile

High/Medium. As this is a defined benefit scheme, any downside risk is effectively underwritten by the employers.

Asset classes	Asset allocation ranges	Actual 2017 <sup>1</sup>	Actual 2016 <sup>1</sup>
Australian Shares	16% –30%	23.2%	22.7%
International Shares	16% –30%	25.3%	24.5%
International Listed Property	0% –6%	1.3%	1.3%
Australian Direct Property <sup>2</sup>	0% –15%	10.1%	9.8%
Private Equity and Opportunistic Alternatives <sup>2</sup>	1% –21%	10.5%	7.3%
Commodities	0% –3%	1.8%	0.8%
Australian Fixed Interest	0% –10%	2.0%	2.3%
Australian Inflation-Linked Bonds	0% –5%	0.5%	0.5%
International Fixed Interest	0% –10%	2.4%	2.6%
Absolute Return Funds	0% –18%	13.7%	14.8%
Defensive Alternatives <sup>2</sup>	0% –8%	0.9%	1.1%
Cash	0% –15%	8.3%	12.4%

1. As at 30 June.

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

Investment returns as at 30 June 2017	1 year	3 years	5 years
Defined Benefit Strategy - Contributory	10.62%	7.68%	9.60%

# The team behind your super



## About the Trustee

Local Government Super was established on 30 June 1997 specifically for employees of NSW Local Government entities.

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 profits go back to members.

## Industry regulators

The Trustee holds a Registrable Superannuation Entity (RSE) licence (L0001243) which is regulated by the Australian Prudential Regulation Authority (APRA). Local Government Super operates as an RSE under the Superannuation Industry Supervision (SIS) legislation.

The Trustee also holds an Australian Financial Services Licence (AFSL) (383558) to cover the services provided by its financial planners and client relationship managers. This licence is regulated by the Australian Securities and Investments Commission (ASIC).

## Indemnity insurance

The Trustee and its directors and officers are covered by professional indemnity insurance which helps protect Local Government Super in the event of a claim against its assets.

## Governance

The Board is ultimately 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).

Superannuation is constantly evolving with increasing competition and legislative changes so the Board is supported by an in-house Governance team which provides expert risk, legal and compliance advice on a day-to-day basis. The Trustee's role is to ensure our super fund is safe, secure and is meeting the expectations and the long-term financial needs of our members.

## Role of the Board

The Board is responsible for setting the overall strategy and ensuring Local Government Super is operating in the best interest of members in accordance with the Trust Deed and the 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 lawyers, accountants and actuaries.

## Board committees

The Board has created five committees to provide specific direction and resources to the business that fall within their delegated responsibility:

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

## The team behind your super continued

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

As at 30 June 2017, the members of the committees and their duties were as follows:

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### Investment Committee

Jim Montague (Chair), Katherine O'Regan, Bruce Miller and Craig Peate as well as two additional members who are independent experts, Beverly Durston and Robert Swift. These additional members bring specific knowledge and expertise to assist with our overall investment strategy.

### Duties

Generally meets twice per quarter and assists with monitoring the performance of the investment managers, overseeing the work of the internal investment team and the external asset consultant, and provides updates to the Board.

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### Audit and Compliance Committee

Sam Byrne (Chair), Gordon Brock, Michelle Blicavs and Katherine O'Regan (interim) and is also attended by Local Government Super's external auditor.

### Duties

Meetings are generally held quarterly and assists with monitoring the Trustee's compliance with its various licences and the effectiveness of the Trustee's financial reporting and compliance framework.

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### Risk Committee

Michelle Blicavs (Chair), Gordon Brock, Sam Byrne and Katherine O'Regan (interim), and an additional committee member, Nicola Warwick-Mayo. May also be attended by the Trustee's internal auditor.

### Duties

Meetings are generally twice per quarter and assists the Board by providing an objective non-executive review of the effectiveness of the Trustee's risk management framework.

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### Member Services Committee

Michelle Blicavs (Chair), Gordon Brock, Sam Byrne and Katherine O'Regan (interim) and an additional committee member, Michele Adair.

### Duties

Generally meets twice per quarter and its responsibilities include monitoring the delivery of member services to ensure that it meets agreed standards, is consistent with the Board's expectations, and is aligned to strategic objectives.

This committee also considers disputed claims for invalidity and death benefits.

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### Governance, Remuneration and Nomination Committee

Bruce Miller (Chair), Craig Peate, Katherine O'Regan and Jim Montague.

### Duties

Meets as required and assists the Board to fulfil its responsibilities in relation to APRA's prudential standard SPS 510 as it relates to governance and remuneration, as well as acting as a dedicated nomination committee.

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## Your Board



### **Michelle Blicavs** **GAICD**

Appointed by Local Government NSW (formerly through the Local Government Association of NSW) on 3 April 2013, and re-appointed on 26 March 2017

Councillor – Wollongong City Council (2011 to 2017)

Chairperson – Top Blokes Foundation (since January 2012)

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

Director – Unique Leaders Network Pty Ltd

Chair of the Risk Committee and Member Services Committee and member of Audit and Compliance Committee



### **Bruce Miller** **MAICD (Deputy Chair)**

Held the position of Deputy Chair until 30/6/17. Currently Chair.

Appointed by Local Government NSW (formerly through the Shires Association of NSW) on 1 July 2011, and re-appointed on 26 March 2017

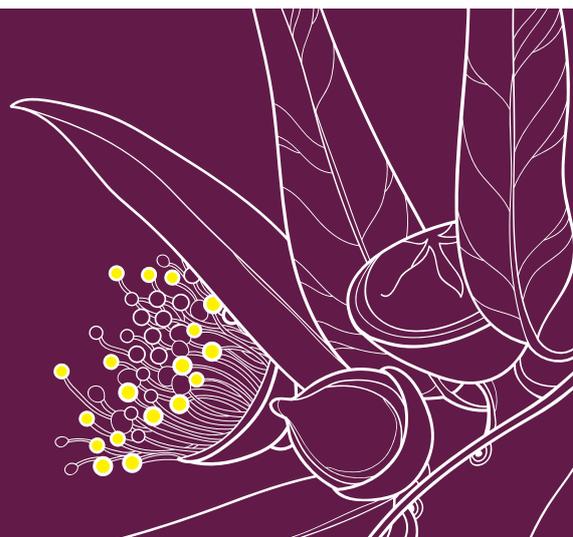
Councillor and former Mayor – Cowra Shire Council (since September 1991)

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

Chair of the Governance, Remuneration and Nomination Committee and member of Investment Committee



## The team behind your super continued



### James (Jim) Montague PSM

Appointed by the United Services Union on 9 October 2013

Former General Manager, Canterbury Council (1982 – 2016)

Awarded the Public Service Medal in 2006

Qualifications: AIST Director training  
Chair of the Investment Committee (from 8 September 2016) and member of the Governance, Remuneration and Nomination Committee



### Craig Peate GAID, GAIST (Adv.)

Held the position of Chair until 30/6/17, currently Deputy Chair.

Appointed by the United Services Union on 25 October 2012, and re-appointed on 24 October 2016

Local Government employee with Tweed Shire Council since 1978 and currently holds the position of Co-ordinator of Revenue & Recovery

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

Director – Dunnara Debt Services Pty Ltd

Member of the Governance, Remuneration and Nomination Committee, and Investment Committee



### Sam Byrne GAIST (Adv.)

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

Member – The Greens

Secretary/Director – Co-operative Federation of NSW

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, member of the Risk Committee and Member Services Committee



**Katherine O'Regan**  
**GAIST**

Appointed by Local Government NSW effective 1 April 2015

Councillor and former Deputy Mayor – Woollahra Municipal Council (2012 to 2017)

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

Former member of the Governance, Remuneration and Nomination Committee, and Investment Committee.

Ceased acting as a Director on 11 September 2017



**Jeff Morris**

Appointed by Local Government NSW effective 1 April 2015 and ceased acting as a director on 2 June 2017

Councillor – North Sydney Council (2012 to 2017)

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

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

Former member of the Audit and Compliance Committee, Risk Committee and Member Services Committee until ceasing acting as a director on 2 June 2017



## The team behind your super continued



**Gordon Brock**  
**BEcon, MLL**

Appointed by the Local Government Engineers Association (LGEA) on 1 September 2016

Director of the Local Government Engineers Association, and of Professionals Australia (NSW)

Qualifications: Bachelor of Economics; Masters in Labour Law

Member of the Audit and Compliance Committee, Risk Committee and Member Services Committee



**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 (up until 8 September 2016)

Appointed to the Board on 18 October 1999, and resigned on 31 August 2016



**Lindsay Brown**  
**GAICD**

Appointed by Local Government NSW on 5 September 2017

Councillor and former Mayor – Eurobodalla Shire Council (since 2008)

Director – Local Government NSW, StateCover Mutual, Katungui Aboriginal Medical Service, South East Arts

Qualifications: Graduate of the Australian Institute of Company Directors (GAICD)

Member of the Audit and Compliance Committee, Risk Committee and Member Services Committee



**In memorium**  
**Leo Kelly 1942 to 2017**

Leo Kelly was a member of the Board of Local Government Super from 1999 to 2015, and Chair for two years from 2009 to 2011.

Leo was a councillor on Blacktown Council for almost 40 years, serving as mayor on three occasions, as well as being a member of the Board of Local Government NSW.

He worked and lived in Blacktown for over 50 years and his service to the community and local government was recognised with an Order of Australia Medal in 2003.



## The team behind your super continued

### 2016/17 meetings attendance by Directors

The attendance by Directors at meetings of the Board and its Committees from 1 July 2016 to 30 June 2017 was as follows:

#### Board

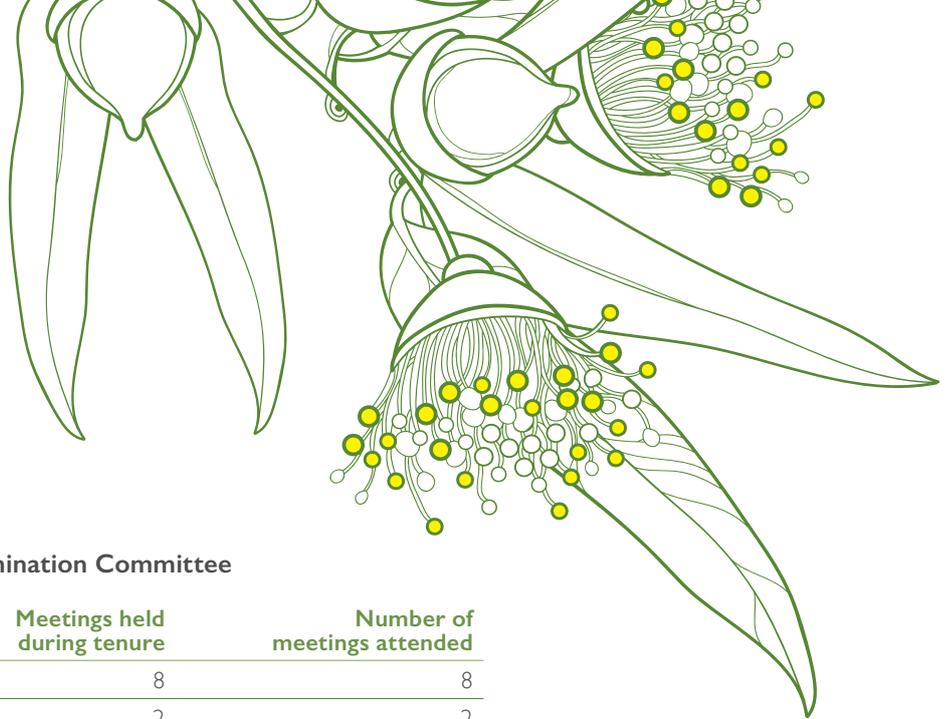
Director	Meetings held during tenure	Number of meetings attended
Blicavs, Michelle	17	17
Miller, Bruce	17	17
Montague, James	17	16
O'Connell, Martin	2	2
Peate, Craig	17	17
Byrne, Sam	17	16
O'Regan, Katherine	17	17
Morris, Jeff	16	11
Brock, Gordon	15	14

#### Audit and Compliance Committee

Director	Meetings held during tenure	Number of meetings attended
Blicavs, Michelle	5	5
Montague, James	1	1
Byrne, Sam	5	5
Morris, Jeff	5	3
Brock, Gordon	4	4

#### Investment Committee

Director	Meetings held during tenure	Number of meetings attended
Miller, Bruce	8	8
O'Connell, Martin	1	1
Peate, Craig	8	8
O'Regan, Katherine	8	8
Montague, James	7	7



### Governance, Remuneration and Nomination Committee

Director	Meetings held during tenure	Number of meetings attended
Miller, Bruce	8	8
O'Connell, Martin	2	2
Peate, Craig	8	8
O'Regan, Katherine	8	7
Montague, James	6	6

### Member Services Committee

Director	Meetings held during tenure	Number of meetings attended
Blicavs, Michelle	6	6
Montague, James	1	1
Byrne, Sam	6	6
Morris, Jeff	6	4
Brock, Gordon	5	4

### Risk Committee

Director	Meetings held during tenure	Number of meetings attended
Blicavs, Michelle	6	6
Montague, James	1	1
Byrne, Sam	6	6
Morris, Jeff	6	6
Brock, Gordon	5	4

### Directors and Executives' Remuneration

Directors are remunerated for their services to the Board and Committees. The fees are reviewed with effect from 1 July each year. The directors' fees are payable to the individual director or to their appointing shareholder.

The Executive Team, and all Trustee's employees, receive an annual total remuneration package (TRP) that includes base salary and superannuation guarantee contributions. LGS does not award or provide bonuses, performance based components of remuneration, equity or equity linked deferred remuneration to Directors, Executive Team or its employees.

For more details about the directors and executives' remuneration, please visit [lgsuper.com.au](http://lgsuper.com.au) and take a look at the Payments and Benefits Table in the Corporate Governance section.

## The team behind your super continued

### Executive Team

The Executive Team has been provided by the Board with a delegated authority to determine and execute the strategic objectives of Local Government Super.

Chief Executive Officer, Peter Lambert, resigned on 26 April 2017.

As at 30 June 2017, the Executive personnel included:

- Donna Heffernan, Acting Chief Executive Officer and Company Secretary
- Craig Turnbull, Chief Investment Officer
- Andrew Gledhill, Acting Chief Governance Officer
- Tony Griffin, Chief Operating Officer
- Michelle Hopwood, Chief Marketing Officer

In September 2017, the following appointments were made:

- David Smith, Chief Executive Officer
- Donna Heffernan, Deputy Chief Executive Officer
- Andrew Gledhill, Head of Risk and Quality Assurance

### Our service providers

The Trustee engages external experts such as investment advisers and investment managers, administrators, custodians, an actuary, accountants, lawyers and auditors to assist with its obligations towards Local Government Super members.

All external service providers have been appointed on the basis of quality and cost effectiveness. The Trustee reviews its service providers regularly and may from time to time make changes.

### Administrator

Australian Administration Services Pty Limited

### Actuary

Mercer Consulting (Australia) Pty Limited

### Asset Consultant

JANA Investment Advisers Pty Ltd  
Cambridge Associates Limited, LLC

### External Auditor

NSW Auditor General  
Ernst & Young Australia

### Internal Auditor

Price Waterhouse Coopers Australia

### Custodians

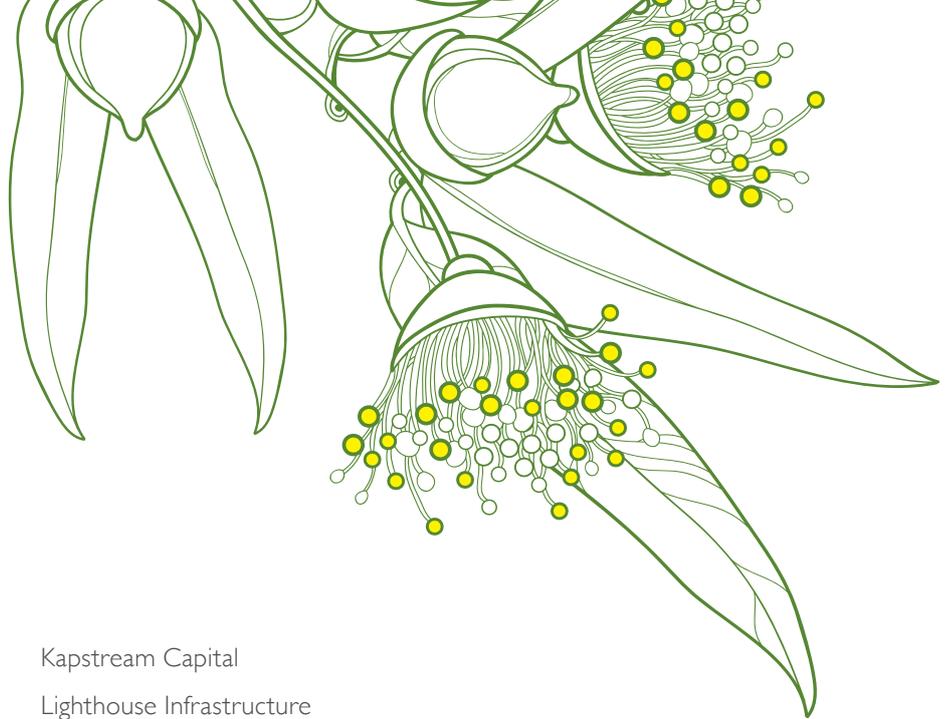
J.P. Morgan Nominees Australia Ltd  
Pacific Custodians Pty Ltd

### Group Life Insurer

TAL Life Limited

### Professional Indemnity Insurer

Berkshire Hathaway Speciality Insurance



### Investment managers at 30 June 2017

Actis  
AMP Capital Investors Ltd  
AQR Capital Management LLC  
Ardea Investment Manager  
Attunga Capital Pty Ltd  
BAIN Capital  
Brandywine Global Investment  
Management, LLC  
BT Investment Management Ltd  
Centaur Property Funds Management  
Cerberus Capital Management  
Cheyne Capital  
Colonial First State Investments Ltd  
CQS  
Delaware Investments  
ECP Asset management  
Farallon Capital Management  
GAM International Management Limited  
GPT Group  
Hastings Funds Management Limited  
Hawkesbridge Capital Pty Limited  
HealthCare Royalty Partners  
Henderson Global Investors  
Hermes Investment Management  
IFM Investors  
Impax Asset Management Ltd  
Intrinsic Investment Management Pty Ltd  
Investa  
JP Morgan Chase

Kapstream Capital  
Lighthouse Infrastructure  
Longview Partners (Guernsey) Limited  
LSV Asset Management  
Macquarie Investment Management  
MFS Institutional Advisors  
Mutual Limited  
National Australia Bank Limited  
Omega Global Investors  
PAG Investment Management  
PIMCO Australia Pty Ltd  
QIC Ltd  
Quadrant Private Equity  
Quentin Ayers Pty Limited  
Resolution Capital  
SouthPeak Investment Management  
Pty Limited  
Stafford Private Equity  
State Street Global Advisors,  
Australia Ltd  
The Growth Fund  
Ubique Asset Management Pty Ltd  
Vanguard Investment Management  
Wellington International Management  
Company Pty Ltd  
Wilshire Australia Pty Ltd  
Winton Capital Management

### Legal advisors

DLA Piper  
Norton Rose Fulbright  
MinterEllison

# Taxes, fees and charges

## General tax information

Local Government Super is required to pay tax of up to 15% on all employer contributions 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 generally not subject to tax, provided contributions do not exceed the non-concessional contributions cap.

## Low Income Superannuation Contribution (LISC)

Under the LISC rules, members with an annual income of less than \$37,000 per annum receive a payment of up to \$500 directly into their superannuation accounts.

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.

However, the LISC was replaced with a similar scheme, Low Income Superannuation Tax Offset (LISTO), effective 1 July 2017.



## Concessional contributions

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

For the 2016/17 financial year, a concessional cap of \$35,000 applies to individuals who are 49 years and over, and the standard concessional cap for all other individuals is \$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 become non-concessional contributions; they will need to take note of any other non-concessional contributions they make in the relevant financial year.

From 1 July 2017, the concessional contributions cap was reduced to \$25,000 per annum for all individuals. From 1 July 2017 the annual concessional contributions income threshold, where the 30% tax rate is applied, was lowered from \$300,000 to \$250,000.

From 1 July 2017, individuals under age 75 may be eligible to claim an income tax deduction for personal superannuation contributions.

## Non-concessional contributions

Non-concessional contributions were capped at \$180,000 in 2016/17, subject to satisfying the work test. Until Budget night 2016, individuals under 65 years of age during any part of the financial year could bring forward up to three years' worth of non-concessional contributions and contribute a total of \$540,000 in one financial year.

From 1 July 2017 onwards, an individual is only able to make non-concessional contributions if their total superannuation balance is less than \$1.6 million. From 1 July 2017 the non-concessional contribution cap was reduced to \$100,000 per year, with the three year bring forward limit also reduced to \$300,000.

## 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, former 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.

From 1 July 2017 the anti-detriment was abolished.

## 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

The Medicare levy is currently 2.0%.

## Taxes, fees and charges continued

### Fees and other costs

During the 2016/17 financial year, Local Government Super charged a number of fees and these included:

#### Indirect costs ratio

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

Charges for the indirect costs ratio are not debited directly to the member's account. These charges are paid from Local Government Super's assets prior to the calculation of the unit prices.

Further information about the indirect costs ratio can be found in the relevant Product Disclosure Statement (PDS), available at [lgsuper.com.au/PDS](http://lgsuper.com.au/PDS) 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 2016/17 financial year are detailed in the following tables:

### Administration fees, other fees and insurance premiums charged

For the year ended 30 June 2017	Accumulation Scheme	Account-Based Pension Plan
Administration fee	\$70.20 per annum (\$1.35 per week)	\$70.20 per annum (\$1.35 per week)
Basic Death cover (male)	\$0.854 per unit per month <sup>1</sup>	N/A
Basic TPD cover (male)	\$0.444 per unit per month <sup>1</sup>	
Basic Death cover (female)	\$0.658 per unit per month <sup>1</sup>	
Basic TPD cover (female)	\$0.553 per unit per month <sup>1</sup>	
Exit fee	\$26.00	\$26.00
Product Switching fee	\$26.00	\$26.00
Investment Switching fee	\$26.00 per switch	\$26.00 per switch
Voluntary insurance	The cost will vary depending on the sum insured and other factors	N/A

1. Effective 1 April 2017 Basic insurance cover was changed. Basic Insurance cover is now segmented by age and gender and the cost is based on the needs and risk profile for different age groups. The above unit cost includes an Insurance Administration fee of 1.5%. Refer to [lgsuper.com.au](http://lgsuper.com.au) for more information.



## Indirect costs ratio

### Indirect costs ratio charged for the Accumulation Scheme for the year ended 30 June 2017

Months	Sustainable Australian Shares	High Growth	Balanced Growth	Balanced	Conservative	Cash
1 Jul – 30 Sep	0.54%	0.73%	0.69%	0.65%	0.59%	0.37%
1 Oct – 30 Dec	0.54%	0.72%	0.69%	0.65%	0.59%	0.36%
1 Jan – 31 Mar	0.53%	0.75%	0.70%	0.65%	0.58%	0.38%
1 Apr – 30 Jun	0.52%	0.76%	0.71%	0.66%	0.59%	0.41%

### Indirect costs ratio charged for the Account-Based Pension Plan for the year ended 30 June 2017

Months	Sustainable Australian Shares	High Growth	Balanced Growth	Balanced	Conservative	Cash
1 Jul – 30 Sep	0.54%	0.73%	0.69%	0.65%	0.59%	0.37%
1 Oct – 30 Dec	0.54%	0.72%	0.69%	0.65%	0.59%	0.36%
1 Jan – 31 Mar	0.53%	0.75%	0.70%	0.65%	0.58%	0.38%
1 Apr – 30 Jun	0.52%	0.76%	0.71%	0.66%	0.59%	0.41%

## Administration fees charged

For the year ended 30 June 2017	Retirement Scheme	Defined Benefit Scheme
Administration fee	\$70.20 per annum (\$1.35 per week)	N/A
Exit fee	\$26.00	N/A
Investment Switching fee	\$26.00 per switch	N/A

## Taxes, fees and charges continued

### Indirect costs ratio charged in the Retirement Scheme (Accumulation accounts only)

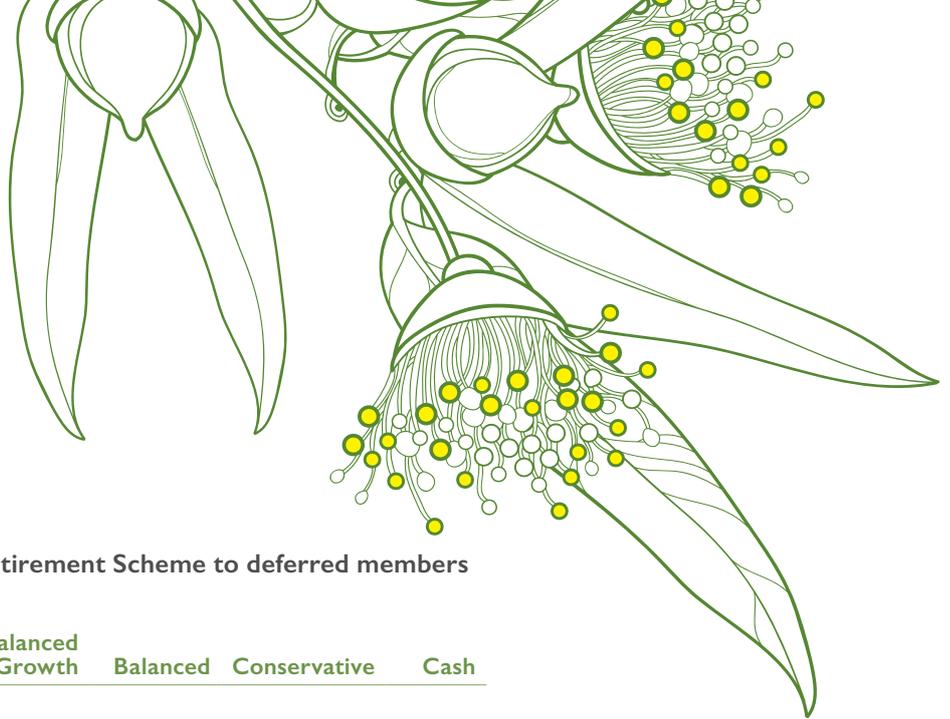
Indirect costs ratio charged in the Retirement Scheme to contributory members  
(excluding any Other Contributions account) for the year ended 30 June 2017

Please note that a maximum of 1.00% fee applies to all investment options.

Months	High Growth	Growth	Balanced Growth	Balanced	Conservative	Cash
1 Jul – 30 Sep	0.73%	0.66%	0.69%	0.65%	0.59%	0.37%
1 Oct – 30 Dec	0.72%	0.66%	0.69%	0.65%	0.59%	0.36%
1 Jan – 31 Mar	0.75%	0.70%	0.70%	0.65%	0.58%	0.38%
1 Apr – 30 Jun	0.76%	0.71%	0.71%	0.66%	0.59%	0.41%

### Indirect costs ratio charged in the Retirement Scheme to contributory members for the Other Contributions account for the year ended 30 June 2017

Months	High Growth	Growth	Balanced Growth	Balanced	Conservative	Cash
1 Jul – 30 Sep	0.73%	0.66%	0.69%	0.65%	0.59%	0.37%
1 Oct – 30 Dec	0.72%	0.66%	0.69%	0.65%	0.59%	0.36%
1 Jan – 31 Mar	0.75%	0.70%	0.70%	0.65%	0.58%	0.38%
1 Apr – 30 Jun	0.76%	0.71%	0.71%	0.66%	0.59%	0.41%



### Indirect costs ratio charged in the Retirement Scheme to deferred members for the year ended 30 June 2017

Months	High Growth	Growth	Balanced Growth	Balanced	Conservative	Cash
1 Jul – 30 Sep	0.73%	0.66%	0.69%	0.65%	0.59%	0.37%
1 Oct – 30 Dec	0.72%	0.66%	0.69%	0.65%	0.59%	0.36%
1 Jan – 1 Mar	0.75%	0.70%	0.70%	0.65%	0.58%	0.38%
1 Apr – 30 Jun	0.76%	0.71%	0.71%	0.66%	0.59%	0.41%

### Financial planning fee

Local Government Super charges a direct fee for some financial planning services. Not all financial advice incurs a fee and in many cases there is no charge. Whether or not a fee applies depends on the scope of the financial advice that is required.

Our financial planners discuss any fee payable when meeting with members and clients. If a fee is applicable, we advise of the cost before the member or the client decides whether or not to proceed with obtaining the advice.

### Family Law fees

From 1 July 2015, 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	\$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/PDS](http://lgsuper.com.au/PDS) or from Member Services.

1. This fee is payable by the person requesting the information.
2. 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 Fund.

# Financial Statements



To access a copy of the complete Financial Statements, including the Auditor's Report for Local Government Super, go to **Forms & Resources** or the **Annual Reports** section on our website at [lgsuper.com.au](http://lgsuper.com.au)

## Adoption of AASB 1056

AASB 1056 Superannuation Entities (AASB 1056) is applicable for annual reporting periods beginning on or after 1 July 2016.

The adoption of AASB 1056 has resulted in the following:

- Changes to the presentation format of the financial statements.
- Changes to the measurement of assets and liabilities from 'net market value' to 'fair value', excluding member liabilities, tax assets and liabilities and insurance assets and liabilities.
- Additional disclosure requirements for assets and liabilities held at fair value as required by AASB 13 Fair Value Measurement.
- Member benefits recognised as liabilities rather than equity.
- Contributions, rollovers and other inward transfers and benefits paid to members are not in the nature of income or expenses, and are presented in the statement of changes in member benefits.

In accordance with the transitional provisions of AASB 1056, the Fund has applied the new accounting Standard retrospectively from the start of the comparative period.

## Comparative information

Local Government Superannuation Scheme Pool A ("LGS Pool A") executed a Successor Fund Transfer Deed dated 16 June 2016, with LGSS Pty Limited as Trustee, to transfer all of LGS Pool A's members and investments to the Fund. Following the transfer the merged fund is known as Local Government Super ("the Fund", formerly known as LGS Pool B). As such comparative figures shown for 30 June 2016 should be considered accordingly.

LIF Pty Limited, a subsidiary of LGSS Pty Limited acts as Trustee of Local Government Property Fund ("LGPF"). LIF Pty Limited also acted as Trustee for Local Investment Fund ("LIF") until the entity vested on 31 March 2017. The assets and liabilities of LIF were transferred to the Fund, effective 30 November 2016. As such comparative figures shown for 30 June 2016 should be considered accordingly.

## Large investments

All investments are held directly by Local Government Super. The investments are allocated to a range of investment managers, either in a client specific mandate or through a pooled investment. Investment managers (and/or their weightings) are changed at appropriate times.

During the financial year there were no individual investments that exceeded 5% of Fund assets or 5% in a single enterprise.

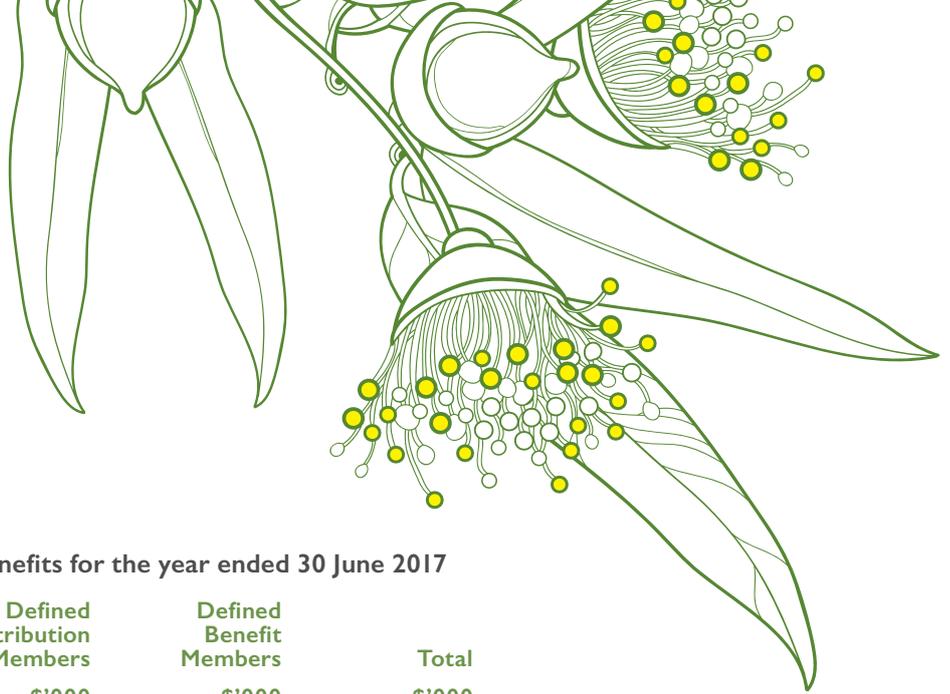
## Statement of Financial Position as at 30 June 2017

	2017 \$'000	2016 \$'000
<b>Assets</b>		
Cash and cash equivalents	92,420	101,824
Receivables	3,282	3,259
Investments		
Cash and short-term deposits	1,678,081	5,509
Other interest bearing securities	1,748,403	532
Australian equities	3,123,168	50,066
International equities	2,276,333	–
Australian unit trusts	1,177,471	9,043,668
International unit trusts	330,097	–
Australian property trust	–	222,696
Derivative assets	78,400	–
Deferred tax assets	204	15,829
<b>Total assets</b>	<b>10,507,859</b>	<b>9,443,383</b>
<b>Liabilities</b>		
Payables	(4,671)	(4,364)
Derivative liabilities	(16,868)	–
Income tax payable	(14,839)	(44,403)
Deferred tax liabilities	(41,600)	(4,700)
<b>Total liabilities excluding member benefits</b>	<b>(77,978)</b>	<b>(53,467)</b>
<b>Net assets available for member benefits</b>	<b>10,429,881</b>	<b>9,389,916</b>
<b>Member benefits</b>		
Defined contribution member liabilities	(6,924,978)	(6,065,461)
Defined benefit member liabilities	(3,423,390)	(3,357,144)
Unallocated to members	(10,652)	(16,771)
<b>Total member liabilities</b>	<b>(10,359,020)</b>	<b>(9,439,376)</b>
<b>Total net assets</b>	<b>70,861</b>	<b>(49,460)</b>
<b>Equity</b>		
Other reserves	1,792	2,062
Operational risk reserve	27,241	26,947
Defined benefits that are overfunded/ (underfunded)	41,828	(78,469)
<b>Total equity</b>	<b>70,861</b>	<b>(49,460)</b>

## Financial Statements continued

### Income Statement for the year ended 30 June 2017

	2017 \$'000	2016 \$'000
<b>Superannuation activities</b>		
Interest	42,263	720
Dividend revenue	54,065	5,165
Distributions from unit trusts	1,608,867	856,385
Changes in assets measured at fair value	(716,258)	(735,948)
Other investment income	2,104	–
Other income	99	6
<b>Total superannuation activities income</b>	<b>991,140</b>	<b>126,328</b>
Administration expenses	(7,970)	(1,142)
Investment expenses	(12,379)	–
Operating expenses	(27,236)	(8,084)
Anti-detriment expenses	(1,192)	–
<b>Total expenses</b>	<b>(48,777)</b>	<b>(9,226)</b>
<b>Net result from superannuation activities</b>	<b>942,363</b>	<b>117,102</b>
<b>Profit from operating activities</b>	<b>942,363</b>	<b>117,102</b>
Net change in defined benefit member liabilities	(221,336)	(174,135)
Net benefits allocated to defined contribution member accounts	(546,001)	–
Transfer in from Local Government Superannuation Scheme Pool A	–	19,144
<b>Profit/(Loss) before income tax</b>	<b>175,026</b>	<b>(37,889)</b>
<b>Income tax expense</b>	<b>54,705</b>	<b>863</b>
<b>Profit/(Loss) after income tax</b>	<b>120,321</b>	<b>(38,752)</b>



## Statement of Changes in Member Benefits for the year ended 30 June 2017

	Defined Contribution Members \$'000	Defined Benefit Members \$'000	Total \$'000
Opening balance as at 1 July 2016	6,065,461	3,373,915	9,439,376
Contributions:			
Employer	341,763	137,357	479,120
Member	168,717	17,712	186,429
Transfer from other superannuation plans	310,248	10,160	320,408
Government co-contributions	269	61	330
Income tax on contributions	(47,536)	(20,649)	(68,185)
<b>Net after tax contributions</b>	<b>773,461</b>	<b>144,641</b>	<b>918,102</b>
Benefits to members/beneficiaries	(458,233)	(305,850)	(764,083)
Insurance premiums charged to members' accounts	(18,019)	–	(18,019)
Death and disability insurance benefits credited to members' accounts	16,307	–	16,307
Benefits allocated to members' accounts, comprising:			
Net investment income	552,751	323,623	876,374
Administration fees	(6,750)	(1,182)	(7,932)
Refund from ORFR Reserve *	–	1,000	1,000
Actuarial surplus **	–	(102,085)	(102,085)
Net change in DB member benefits	–	(20)	(20)
<b>Closing balance as at 30 June 2017</b>	<b>6,924,978</b>	<b>3,434,042</b>	<b>10,359,020</b>

\* In line with the Fund's ORFR policy, which has been reviewed annually by the Fund's actuary, Mercer, a one-time transfer from the ORFR Reserve to the Employer Reserve occurred on 21 June 2017.

\*\* Actuarial surplus equates to the relative change in the value of the net assets and the related defined benefit accrued liability.

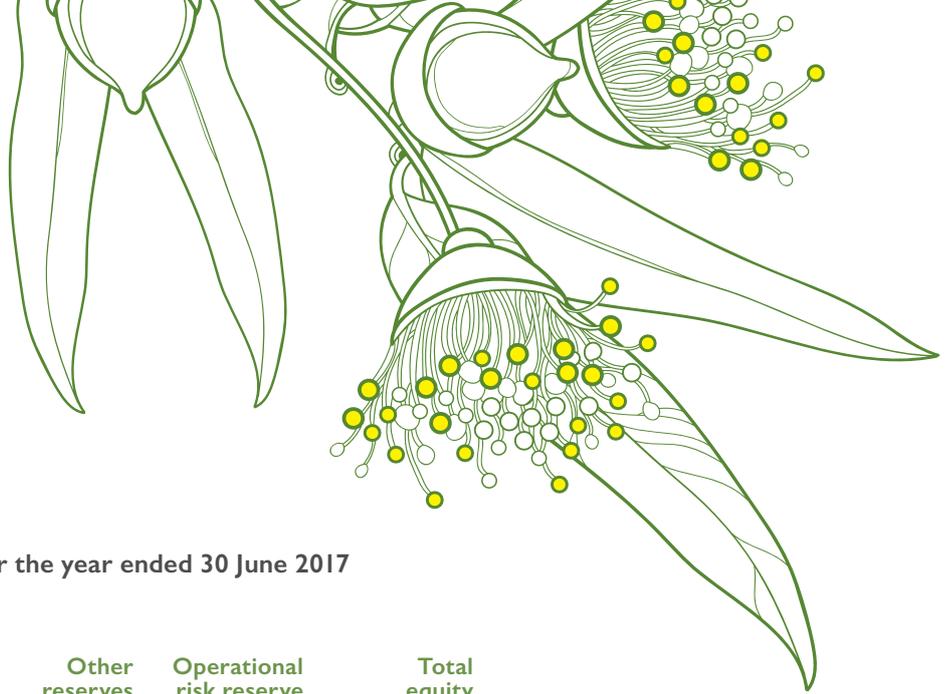
## Financial Statements continued

### Statement of Changes in Member Benefits for the year ended 30 June 2017 (continued)

\* This is a one time reduction adjustment to plan asset DB value on the member's system to equate to the balance held at custody (JP Morgan).

\*\* Actuarial deficiency equates to the relative change in the value of the net assets and the related defined benefit accrued liability

	Defined Contribution Members \$'000	Defined Benefit Members \$'000	Total \$'000
Opening balance as at 1 July 2015	–	3,345,361	3,345,361
Contributions:	–		
Employer	–	145,918	145,918
Member	–	14,143	14,143
Transfer from other superannuation plans	–	10,217	10,217
Government co-contributions	–	50	50
Income tax on contributions	–	(21,277)	(21,277)
<b>Net after tax contributions</b>	<b>–</b>	<b>149,051</b>	<b>149,051</b>
Benefits to members/beneficiaries	–	(294,632)	(294,632)
Transfers in from LGS Pool A – Member accounts	6,065,461	–	6,065,461
Benefits allocated to members' accounts, comprising:			
Net investment income	–	131,965	131,965
Administration fees	–	(1,136)	(1,136)
Plan Asset true up to value held at custodian *	–	(15,230)	(15,230)
Actuarial Deficiency **	–	58,519	58,519
Net change in DB member benefits	–	17	17
<b>Closing balance as at 30 June 2016</b>	<b>6,065,461</b>	<b>3,373,915</b>	<b>9,439,376</b>



## Statement of Changes in Reserves for the year ended 30 June 2017

	Defined Benefits that are overfunded / (underfunded) \$'000	Other reserves \$'000	Operational risk reserve \$'000	Total equity \$'000
Opening balance as at 1 July 2016	(78,469)	2,062	26,947	(49,460)
Increase in DB member accounts	(221,336)	–	–	(221,336)
Operating result	341,633	(270)	294	341,657
<b>Closing balance as at 30 June 2017</b>	<b>41,828</b>	<b>1,792</b>	<b>27,241</b>	<b>70,861</b>

	Defined Benefits that are overfunded / (underfunded) \$'000	Other reserves \$'000	Operational risk reserve \$'000	Total equity \$'000
Opening balance as at 1 July 2015	(19,948)	–	9,240	(10,708)
Increase in DB member accounts	(174,135)	–	–	(174,135)
Operating result	115,614	2,062	17,707	135,383
<b>Closing balance as at 30 June 2016</b>	<b>(78,469)</b>	<b>2,062</b>	<b>26,947</b>	<b>(49,460)</b>

## Financial Statements continued

### Statement of Cash Flows for the year ended 30 June 2017

	2017 \$'000	2016 \$'000
<b>Cash flows from operating activities</b>		
Interest from cash and cash equivalents	42,263	720
Administration expenses	(34,797)	(9,120)
Insurance proceeds	16,340	–
Insurance premiums	(18,153)	–
Other income	74	6
Anti-detriment expenses	(1,192)	–
Income tax (paid)/received	(31,745)	6,778
<b>Net cash outflows from operating activities</b>	<b>(27,210)</b>	<b>(1,616)</b>
<b>Cash flows from investing activities</b>		
Purchase of investments	(1,371,589)	(1,041,987)
Proceeds from sale of investments	1,247,755	1,183,572
Investment expenses	(12,379)	–
<b>Net cash (outflows)/inflows from investing activities</b>	<b>(136,213)</b>	<b>141,585</b>
<b>Cash flows from financing activities</b>		
Employer contributions	479,120	152,784
Member contributions	186,429	14,143
Transfers from other superannuation plans received	320,408	10,217
Government co-contributions received	330	50
Benefits paid to members	(764,083)	(294,844)
Income tax paid on contributions received	(68,185)	(21,277)
<b>Net cash inflows/(outflows) from financing activities</b>	<b>154,019</b>	<b>(138,927)</b>
<b>Net (decrease)/increase in cash</b>	<b>(9,404)</b>	<b>1,042</b>
<b>Cash at the beginning of the financial period</b>	<b>101,824</b>	<b>36,898</b>
Transfer in from Local Government Superannuation Scheme Pool A	–	63,884
<b>Cash at the end of the financial period</b>	<b>92,420</b>	<b>101,824</b>

# More information about the fund

## Complaints

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

If a member is dissatisfied with the service or a decision made by the Trustee, 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.

We prefer complaints in writing marked as such, as it helps us to deal with the complaint in an efficient manner.

If the Trustee has not made a decision within 90 days of receipt of the complaint, a member can write to the Trustee and request written reasons for the failure to make a decision within that period. Written reasons for not making a decision within 90 days of a complaint must be given within 28 days of receipt of the request.

The Trustee will promptly notify the member of the decision on the complaint once it is made. In the case of decisions on complaints concerning the payment of death benefits, the Trustee must give written reasons for the decisions.

In the case of decisions on other complaints, a member may request written reasons for the decisions. The Trustee must provide a member with the reasons within 28 days of receipt of the request.

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).

Send written complaints to:

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

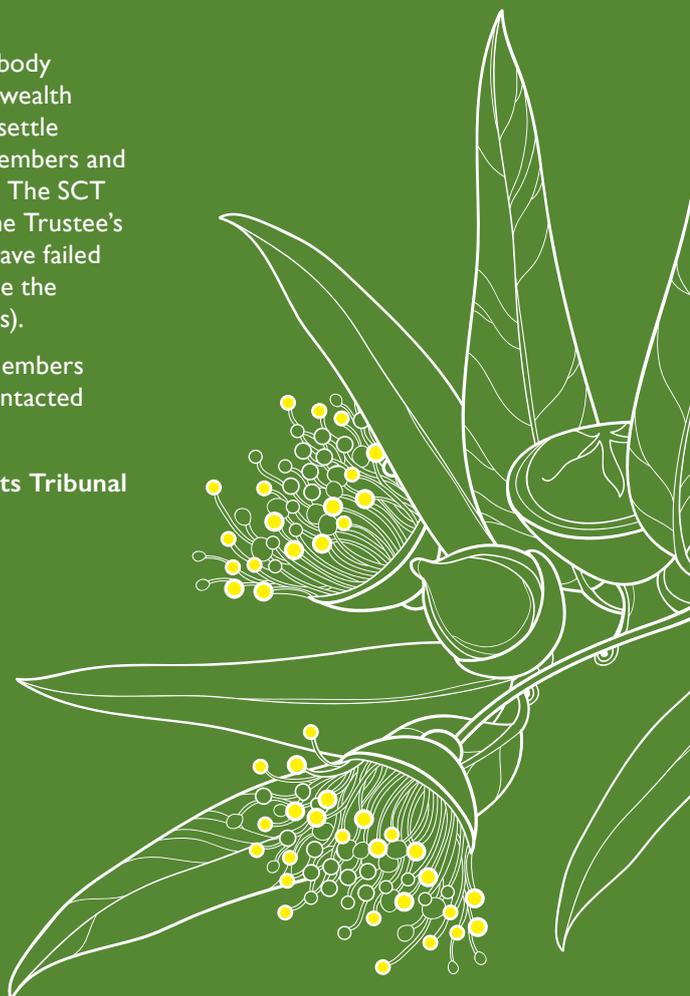
By law, the Trustee is required to have arrangements in place to properly consider and deal with complaints within 90 days of receipt. The Complaints Resolution Manager ensures a complaint is considered appropriately and provides a response as soon as possible.

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  
P: 1300 884 114  
W: [sct.gov.au](http://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 the Accumulation and Defined Benefit products, depending on its specific purpose.

### Accumulation reserves

#### Operational Risk Financial Requirement (ORFR)

The Superannuation legislation and Prudential Standards require 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 ORFR reserve holds at least 0.25% of LGS's accumulation assets.

The Trustee reached 0.25% of LGS's accumulation assets funds under management (net assets available to pay members' benefits) within the ORFR reserve on 6 February 2015. This was funded from a component of the Indirect Cost Ratio which is deducted from members' assets before the calculation of unit prices. This funding ceased on 10 August 2015.

As at 30 June 2017, the Accumulation ORFR was 0.26% of Accumulation products' assets.

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 administration related expenses of the Fund.

#### 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.

From 30 June 2016 onwards, the tax reserves for both the accumulation and defined benefit products were merged.

#### Self Insurance Reserve

The Self Insurance Reserve is to meet death/invalidity claims within the accumulation products that were related to the period prior to 1 March 2009 and the commencement of the external insurance arrangements.

## Defined Benefit reserves

### ORFR

The ORFR ensures that the Trustee has adequate financial resources to address losses arising from operational risks that may affect LGS within its business operations.

As at 30 June 2017, the Defined Benefit ORFR was 0.27% of the Defined Benefit product's assets.

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.

#### Additional Benefit Reserve

The Additional Benefit Reserve represents an amount held by the Fund to pay out any death and invalidity insurance claims.

## Reserve Data

Below are the closing balances of these reserves as at 30 June for the last six years for the Accumulation and Defined Benefit products:

### Accumulation Reserves

Year	Admin (\$'000)	Tax (\$'000)	ORFR (\$'000)	Self Insurance (\$'000)
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
2016	351	22,808	17,082	1,771
2017	286	36,227*	17,901	1,505

### Defined Benefit Reserves

Year	Defined Benefit (\$'000)	ORFR (\$'000)	Additional Benefit (\$'000)	Admin (\$'000)	Tax (\$'000)
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
2016	1,723,258	9,865	6,660	–	13,185
2017	1,815,943	9,340	6,248	–	–*

\* From 30 June 2016 onwards, the tax reserves for both the Accumulation and Defined Benefit products were merged.

## 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 an 'at call' bank account or in a short-term notice account. All Reserves are quarantined from the Fund's investments.



## More information about the fund continued

Movement during the financial year for each of the above mentioned reserve accounts as at 30 June for the last six years is as follows:

### Accumulation Reserves

Year	Admin (\$'000)	Tax (\$'000)	ORFR (\$'000)	Self Insurance (\$'000)
2012	160	(331)	(352)	–
2013	(354)	(37)	(1,062)	2,000
2014	101	15,333	5,013	(47)
2015	(184)	3,466	7,065	(182)
2016	128	4,009	1,086	–
2017	(65)	13,419*	819	(266)

### Defined Benefit Reserves

Year	Defined Benefit (\$'000)	ORFR (\$'000)	Additional Benefit (\$'000)	Admin (\$'000)	Tax (\$'000)
2012	(92,406)	–	369	–	–
2013	149,994	7,790	244	–	–
2014	115,657	616	(523)	–	14,187
2015	72,706	834	(378)	–	(1,941)
2016	1,727	625	(235)	–	939
2017	92,685	(525)	(412)	–	(13,185)*

\* From 30 June 2016 onwards, the tax reserves for both the Accumulation and Defined Benefit products were merged.

### Contact details are as follows:

AUSfund Administration  
PO Box 2468  
Kent Town SA 5071  
P: 1300 361 798  
F: 1300 366 233

### 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.

<sup>1</sup> 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 in the 2016/2017 financial year

Below is a summary of the most important changes in the 2016/17 financial year affecting Local Government Super (LGS) and its members.

### Entity restructure

During the 2015/16 financial year, LGS streamlined operations by merging Pool A and Pool B funds into one superannuation entity, Local Government Super.

The transfer of investment assets from the managed investment trust, Local Investment Fund (LIF), to LGS occurred on 30 November 2016. All assets are now directly held by LGS.

### eCommunications

From 1 March 2017 (Accumulation Scheme and Account-Based Pension Plan) and 1 April 2017 (Retirement Scheme), all members were opted in for eCommunications.

This allows members to view important documents and information, such as Product Disclosure Statements and Significant Event Notices, on the LGS website at [lgsuper.com.au](http://lgsuper.com.au) or by logging into LGS Member Online.

Members who have provided an email address receive an email letting them know each time a new document is available to view.

The benefits of eCommunications include:

- improved sustainable, environmental practices
- increased convenience and faster access to communications
- saving on print and mail costs

### Online partial withdrawals

From June 2017, Account-Based Pension Plan members are able to make partial lump sum withdrawals through Member Online.

### Changes to our insurance

From 1 April 2017, there were changes to the insurance cover for Accumulation Scheme members:

- Basic Insurance Cover is now segmented based on age and gender.
- Basic Insurance Cover has been decoupled so that members now receive a combination of Death and Total and Permanent Disablement (TPD) units based on age.
- There was a change in premiums for Basic Insurance Cover and Voluntary Death and TPD Insurance Cover.
- There was a reduction in premiums for Salary Continuance Insurance.
- Eligible members who held insurance prior to 1 April 2017 were provided with the opportunity to keep their higher amount of cover by applying for Additional Basic Insurance Cover.

### Centrelink Schedules available online

Members receiving a pension or a guaranteed income stream from LGS now have the ability to request their Centrelink Schedule by logging onto LGS Member Online.

The Schedule will usually be available in the LGS Member Online Inbox the day after the request.

### Trust Deed changes

During the 2016/17, financial year one amendment was made to the Fund's Trust Deed and Rules, as follows:

7 December 2016 – an amendment to require the consent of the Trustee in relation to the election of an employer wishing to terminate their participation as a scheduled employer of the Fund.

### Legislative changes

#### Superannuation government co-contributions

For the 2016/17 financial year, the maximum entitlement was \$500 with the lower income threshold at \$36,021 and the higher income threshold at \$51,021.

The new thresholds will apply for the 2017/18 financial year; the lower and higher income thresholds will increase to \$36,813 and \$51,813 respectively.

#### Superannuation benefit caps

The low rate cap for 2016/17 is \$195,000. The untaxed plan cap amount for 2016/2017 is \$1,415,000.

#### Employment termination payments (ETP)

The ETP cap amount for life benefit termination payments and death benefit termination payments for 2016/17 is \$195,000.

#### Superannuation guarantee

The maximum super contribution base for 2016/17 is \$51,620 per quarter.



## Contact us

### Phone

1300 LGSUPER (1300 547 873)

### Mail

PO Box N835  
Grosvenor Place  
NSW 1220

### Web

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

 [@socialLGS](https://twitter.com/socialLGS)

 [Local Government Super](https://www.linkedin.com/company/local-government-super)

## Offices

Sydney 28 Margaret St  
Newcastle Ground Floor, 12 Perkins St  
Wollongong Shop 2/60 Burelli St

## Office hours

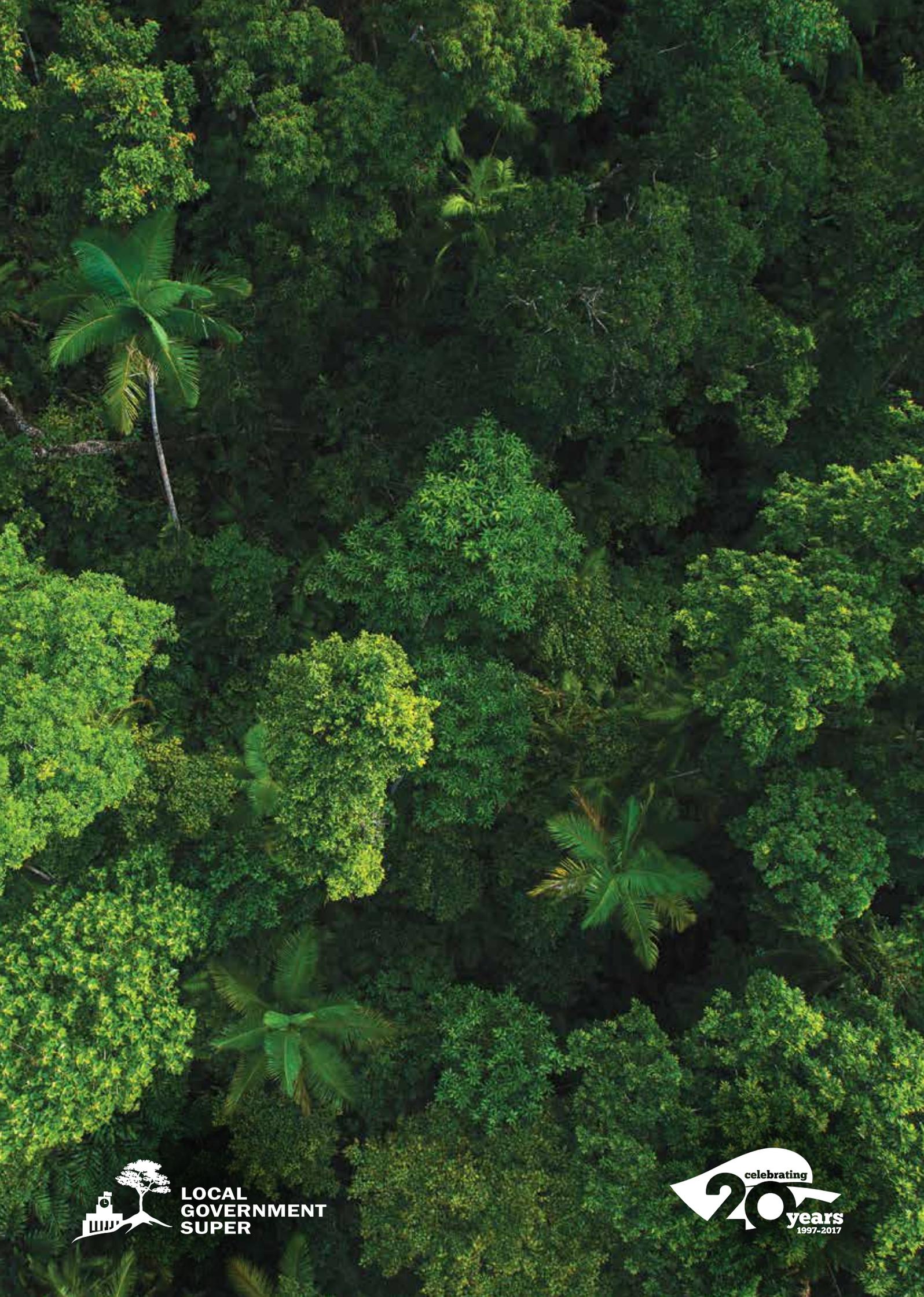
9.00am – 5.00pm, Monday – Friday

Offices in Orange, Parramatta,  
Tamworth and Wagga Wagga are  
available by appointment only.

Bookings are essential.

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





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