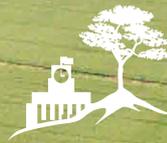


# 2017 2018

## ANNUAL REPORT

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LOCAL  
GOVERNMENT  
SUPER

# EARNING LONG-TERM SUSTAINABLE RETURNS FOR OUR MEMBERS



LOCAL  
GOVERNMENT  
SUPER



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# MESSAGE FROM THE CHAIR AND THE CHIEF EXECUTIVE OFFICER



“All our profits go back to our members so they can maximise their super investment and enhance their retirement income.”

### **Always putting our members first**

The Hayne Royal Commission into misconduct in the banking, superannuation and financial services industry has uncovered a number of disturbing practices across the sector including some sections of the superannuation industry.

If anything, the hearings have uncovered the inherent conflict of interest within many retail super funds which, unlike most industry and public sector funds, do not return all profits to their members.

At Local Government Super we have always put our members first; developing strong relationships with council employers and employees, providing local and personal service, and earning long-term sustainable investment returns for our members.

And of course, all our profits go back to our members so they can maximise their super investment and enhance their retirement income.

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**AT LOCAL  
GOVERNMENT SUPER  
WE HAVE ALWAYS PUT  
OUR MEMBERS FIRST**

# MESSAGE FROM THE CHAIR AND THE CHIEF EXECUTIVE OFFICER

continued

## A volatile year on global markets

Looking back, the last 12 months have been very eventful. Talk of trade wars, fears of rising global inflation, and a downturn in Australian residential property prices have all added to a general air of uncertainty.

However, the good news is that despite the higher level of volatility on global markets, our investment options with a greater exposure to shares have performed solidly.

Record low interest rates persisted throughout the financial year and this has continued to limit returns for investment options with a higher exposure to income assets such as cash and term deposits.

We have a strong belief in the benefits of active investment management and this has been an important factor in achieving consistently solid returns over recent years. In fact, these consistent investment returns have helped to improve the financial position of our Defined Benefit Scheme.

It is also an important factor in Local Government Super reaching the \$11 billion milestone in funds under management in early 2018.

## Providing our members with local and personal service

For many Australians their super investment is one of their biggest assets and that's why it's so crucial to provide our members with personal, local service.

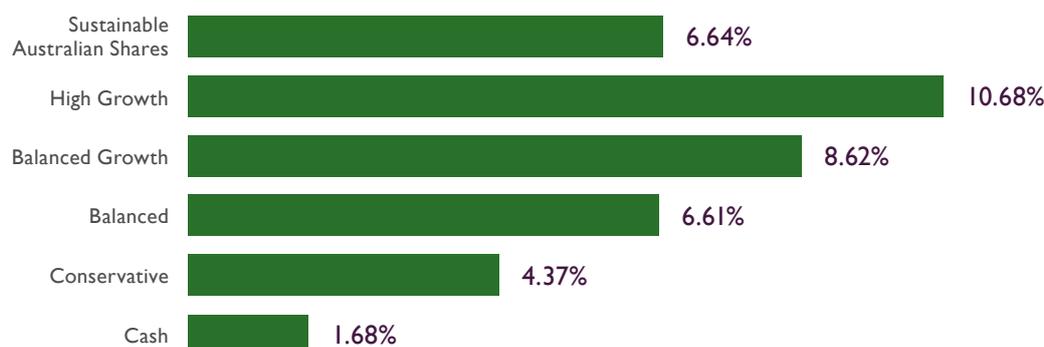
Over the years, we have developed a unique relationship and a deep understanding of the needs of our members and local government employers.

Our client relationship managers and our financial planners meet face-to-face with thousands of members each year while thousands of other members and council employees attend the seminars and group information sessions we conduct right across New South Wales.

It's also important for our members to get the information they want when they need it. Our Members Services team based in Sydney received more than 50,000 calls and replied to more than 5,000 emails from members over the last financial year.

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### Accumulation Scheme – July 2017 to June 2018



## Just a few of our recent achievements

Local Government Super continues to lead the way when it comes to responsible and sustainable investment and that was again recognised with some prestigious awards and industry ratings over the past financial year.

We were named *Money* magazine's Best Green Super Fund in their 2018 Best of the Best Awards for a record sixth time, and we received SuperRatings Infinity Award, also for a record sixth time.

In December last year, Local Government Super was awarded a 5-Star Green Star rating for our direct property portfolio; the first portfolio to achieve the rating in Australia. This rating is internationally recognised and represents 'Australian Excellence' in sustainability.

## Looking ahead

While the Australian economy and the outlook for global economic growth remains positive, there still remains a number of geopolitical, trade and inflationary risks.

We believe that Local Government Super is well placed to weather any short-term global shocks, and to keep earning good long-term sustainable returns for our members.

And as always, our focus will be on putting our members first and doing our best to make sure we enhance their retirement income.



A handwritten signature in black ink.

**Bruce Miller**  
Chair

A handwritten signature in black ink.

**David Smith**  
Chief Executive  
Officer

“We were named *Money* magazine's Best Green Super Fund in their 2018 Best of the Best Awards for a record sixth time, and we received SuperRatings Infinity Award, also for a record sixth time.”

# RESPONSIBLE INVESTMENT



## Our commitment to responsible investment

At Local Government Super (LGS), we have a long standing commitment to genuine responsible investment. This means taking a range of environmental, social and governance (ESG) considerations into account when we make any investment decision.

Our aim is to invest in companies that have a positive impact on the community and the environment, and to be an active owner of our investments. We also restrict investment in companies which undertake activities that are detrimental to our community or the environment.

## Positive investments

Part of our strategy is to seek out investment opportunities that have a tangible positive impact, and a proportion of our investments actively address long-term environmental and social risks. Examples include renewable energy generation such as solar and wind farms, sustainable agriculture, hospitals, schools and companies that clearly display sustainable business practices.

In 2018, LGS awarded a new fixed-income ESG mandate to investment manager, PIMCO for approximately AUD\$440 million across global credit and government bonds.

By restricting investments in some companies' bonds and preferring investments in higher rated ESG companies, PIMCO demonstrates strong integration of environmental, social and governance considerations in its investment practices.

PIMCO actively engages with company issuers to improve their ESG-related business practices. It also aims to invest up to 20% in 'green bonds' issued by these entities.

In 2018, we also made a new investment with private equity fund manager Actis to develop a 100MW wind farm in Kenya to help meet Africa's rapidly growing demand for clean energy.



Clare Solar Farm, an asset in the Lighthouse Solar Fund. Origin Energy has entered into a long term contract to purchase 100% of the electricity output generated by the project.



Victorian Comprehensive Cancer Centre, an asset in the AMP Capital Community Infrastructure Fund.

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**OUR AIM IS TO INVEST  
IN COMPANIES THAT  
HAVE A POSITIVE  
IMPACT ON THE  
COMMUNITY AND  
THE ENVIRONMENT**

# RESPONSIBLE INVESTMENT

continued



## LGPF RETURNS

2017/18  
FINANCIAL  
YEAR

19.94%

5 YEARS TO  
30 JUNE 2018

18.19%

### Green property portfolio

LGS manages one of the most sustainable direct property portfolios in Australia through the Local Government Property Fund (LGPF). Our aim is to earn long-term stable returns by minimising the environmental impact and continually improving the sustainability performance of our property portfolio.

The LGPF portfolio comprises a total of eight properties across New South Wales including commercial office buildings, retail centres and one industrial property.

Over the 2017/18 financial year, the LGPF achieved a return of 19.94%, which is more than 7% higher than the industry benchmark<sup>1</sup>.

In December 2017, LGPF was awarded a 5-Star Green Star Performance rating, the first property portfolio to achieve the rating in Australia. Green Star is an internationally-recognised sustainability rating system and our performance rating represents 'Australian Excellence' in sustainability.

### Active ownership

As a long-term investor, LGS not only selects investments based on their potential to generate consistent returns for our members, we also ensure that the companies in which we invest achieve certain environmental, social and governance standards.

We do this through 'active ownership' and this means engaging with companies by voting at annual general meetings (AGMs) and meeting directly with companies' senior management and board. On some occasions we lodge shareholder resolutions at company AGMs.

In 2018, we lodged two shareholder resolutions; one with mining giant Rio Tinto Ltd and the other with major insurer QBE Insurance Group.

LGS co-filed a resolution requesting Rio Tinto to provide greater transparency and improved governance over its membership of industry associations whose advocacy position on energy and climate change issues are at odds with Rio Tinto's formal public support for the Paris Agreement to keep global temperature increases below 2°C.

We also co-filed a resolution with QBE Insurance Group urging the QBE board to address and disclose how they are managing climate change risks.



Bridge Plaza Batemans Bay



Leichhardt MarketPlace

1. Mercer/IPD Australian Property Pooled Fund Index

## Proxy voting

LGS holds shares in the majority of the top listed companies in Australia and overseas. Our aim is to vote at 100% of our investee company meetings as we believe that it is important to fulfil our ownership obligations and rights that come with being a long-term shareholder.

LGS uses the recommendations of the Australian Council of Superannuation Investors and CGI Glass Lewis to guide our voting decisions, and as part of our commitment to transparency, we publicly disclose our voting decisions on our website before these meetings.

## Managing the risks and opportunities of climate change

LGS considers climate change to be one of the most significant risks to our members' long term retirement savings, however, it does also present some investment opportunities.

We remain very conscious of managing the risks and opportunities that come with new policies and regulations, technology changes, new markets, and reputation pressures. There are also the physical risks such as increased frequency and severity of major weather events as well as rising sea levels and changing temperatures.

LGS has almost \$1 billion invested in low carbon opportunities including renewable energy technology and generation, energy and water efficiency, waste and recycling, and sustainable agriculture.



## DURING THE 2017/18 FINANCIAL YEAR

LGS VOTED AT

**100%**

OF COMPANY AGMS,

**676**

MEETINGS IN TOTAL

VOTED ON

**7,985**

RESOLUTIONS, VOTED AGAINST COMPANY MANAGEMENT IN

**15%**

OF THESE RESOLUTIONS

# OUR RANKINGS, RATINGS AND AWARDS



Local Government Super has again been recognised for our commitment to responsible and sustainable investment as well as high quality super products.

Named Best Green Super Fund in Money Magazine's 2018 Best of the Best Awards for a record sixth time.



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



Awarded the 5-Star Green Star rating representing 'Australian Excellence' in sustainability according to the internationally – recognised rating system.



Assigned the 2018/19 five-star quality rating by independent advisers, the Heron Partnership for our superannuation products.

A photograph of a lush green vegetable field. In the foreground, there are rows of leafy greens, possibly lettuce or spinach, growing in neat rows. A dirt path or raised bed edge runs through the field. In the background, there are more rows of plants, including what looks like corn stalks. The overall scene is vibrant and healthy.

# 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 2017/18 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.

# HOW WE INVEST OUR MEMBERS' MONEY

continued

## Our investment portfolio

### Top 10 Australian share holdings as at 30 June 2018

Rank	Australian shares top 10 holdings	% of portfolio holding	% of index <sup>1</sup>
1	CBA	7.11	7.53
2	BHP	6.64	6.39
3	CSL	5.19	5.12
4	Westpac	5.13	5.89
5	ANZ	4.89	4.80
6	NAB	4.23	4.38
7	Macquarie Group	2.34	2.30
8	Origin Energy	2.34	1.04
9	Wesfarmers	2.30	3.29
10	Woodside Petroleum	2.20	1.95

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 2018

Rank	International shares top 10 holdings	% of portfolio holding	% of index <sup>2</sup>
1	Thermo Fisher Scientific	1.47	0.19
2	State Street	1.24	0.08
3	Medtronic	1.20	0.26
4	Zimmer Biomet	1.16	0.05
5	Visa	1.16	0.54
6	Accenture	1.10	0.23
7	Oracle Corp	1.01	0.31
8	Pfizer	0.94	0.49
9	Apple	0.87	2.12
10	Canadian National Railway	0.86	0.14

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 2018. You should refer to the relevant Product Disclosure Statement (PDS) for the current details of our investment options.

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

### High Growth

**Definition** – The High Growth strategy 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 the CPI 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.

**Objective** – 3.5% net investment return per annum above CPI, measured over a rolling seven-year period.

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

Asset classes	Asset allocation ranges	Actual 2018 <sup>1</sup>	Actual 2017 <sup>1</sup>
Australian Shares	25% – 42%	30.09%	32.6%
International Shares	30% – 45%	37.02%	36.3%
International Listed Property	0% – 6%	2.11%	2.1%
Australian Direct Property <sup>2</sup>	0% – 10%	5.46%	4.9%
Private Equity and Opportunistic Alternatives <sup>2</sup>	5% – 25%	13.22%	13.6%
Commodities	0% – 3%	1.82%	1.6%
Bonds	0% – 16%	0.0%	0.0%
Absolute Return Funds	0% – 10%	5.93%	5.6%
Defensive Alternatives <sup>2</sup>	0% – 8%	2.40%	2.9%
Cash	0% – 10%	1.96%	0.4%

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 2018	1 year	3 years	5 years
Accumulation Scheme (Division A)	10.68%	8.81%	10.54%
Account-Based Pension Plan (Division F)	11.82%	9.84%	11.61%

## HOW WE INVEST OUR MEMBERS' MONEY

continued

### 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** – 3.0% 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 2018 <sup>1</sup>	Actual 2017 <sup>1</sup>
Australian Shares	18% – 31%	23.05%	24.5%
International Shares	20% – 32%	26.16%	26.2%
International Listed Property	0% – 6%	2.13%	2.1%
Australian Direct Property <sup>2</sup>	0% – 10%	5.51%	4.8%
Private Equity and Opportunistic Alternatives <sup>2</sup>	1% – 21%	10.86%	11.7%
Commodities	0% – 3%	1.82%	1.7%
Bonds	0% – 33%	11.80%	11.3%
Absolute Return Funds	0% – 16%	10.85%	9.6%
Defensive Alternatives <sup>2</sup>	0% – 8%	3.28%	3.7%
Cash	0% – 10%	4.53%	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 2018	1 year	3 years	5 years
Accumulation Scheme (Division A)	8.62%	7.59%	8.95%
Account-Based Pension Plan (Division F)	9.59%	8.55%	9.79%

## 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** – 2.0% 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 2018 <sup>1</sup>	Actual 2017 <sup>1</sup>
Australian Shares	9% – 21%	13.98%	15.0%
International Shares	9% – 20%	15.38%	16.6%
International Listed Property	0% – 6%	2.25%	2.2%
Australian Direct Property <sup>2</sup>	0% – 10%	5.48%	4.9%
Private Equity and Opportunistic Alternatives <sup>2</sup>	1% – 21%	11.28%	11.8%
Commodities	0% – 3%	1.77%	1.8%
Bonds	3% – 50%	25.73%	29.0%
Absolute Return Funds	0% – 17%	14.91%	11.8%
Defensive Alternatives <sup>2</sup>	0% – 8%	4.13%	4.0%
Cash	0% – 10%	5.10%	2.9%

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 2018	1 year	3 years	5 years
Accumulation Scheme (Division A)	6.61%	6.26%	6.96%
Account-Based Pension Plan (Division F)	7.44%	7.19%	7.95%

## HOW WE INVEST OUR MEMBERS' MONEY

continued

### 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** – 1.5% 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 2018 <sup>1</sup>	Actual 2017 <sup>1</sup>
Australian Shares	1% – 11%	4.76%	6.3%
International Shares	1% – 11%	6.60%	7.5%
International Listed Property	0% – 6%	1.20%	1.4%
Australian Direct Property <sup>2</sup>	0% – 8%	4.45%	3.9%
Private Equity and Opportunistic Alternatives <sup>2</sup>	5% – 21%	10.91%	11.9%
Commodities	0% – 3%	1.76%	1.8%
Bonds	23% – 55%	32.66%	31.9%
Absolute Return Funds	0% – 21%	18.01%	16.5%
Defensive Alternatives <sup>2</sup>	0% – 8%	4.19%	4.9%
Cash	5% – 20%	15.46%	13.9%

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 2018	1 year	3 years	5 years
Accumulation Scheme (Division A)	4.37%	4.61%	5.01%
Account-Based Pension Plan (Division F)	4.99%	5.41%	5.76%

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

**Objective** – 0.25% net investment return per annum above the cash rate<sup>1</sup>, 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.

<b>Asset allocation at 30 June 2018</b>	<b>Actual</b>
Cash and income producing assets	100%

<b>Investment returns as at 30 June 2018</b>	<b>1 year</b>	<b>3 years</b>	<b>5 years</b>
Accumulation Scheme (Division A)	1.68%	1.99%	2.10%
Account-Based Pension Plan (Division F)	1.94%	2.18%	2.39%

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

## HOW WE INVEST OUR MEMBERS' MONEY

continued

### 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.

<b>Asset allocation at 30 June 2018</b>	<b>Actual</b>		
Sustainable Australian Shares	100%		
<b>Investment returns as at 30 June 2018</b>	<b>1 year</b>	<b>3 years</b>	<b>5 years</b>
Accumulation Scheme (Division A)	6.64%	4.66%	8.29%
Account-Based Pension Plan (Division F)	7.23%	5.58%	9.37%

## 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 2018 <sup>1</sup>	Actual 2017 <sup>1</sup>
Australian Shares	18% – 31%	23.17%	25.1%
International Shares	20% – 32%	26.26%	26.4%
International Listed Property	0% – 6%	2.23%	2.2%
Australian Direct Property <sup>2</sup>	0% – 10%	5.69%	5.1%
Private Equity and Opportunistic Alternatives <sup>2</sup>	1% – 21%	12.84%	13.4%
Commodities	0% – 3%	1.78%	1.6%
Bonds	0% – 33%	11.79%	11.9%
Absolute Return Funds	0% – 16%	10.90%	9.9%
Defensive Alternatives <sup>2</sup>	0% – 8%	3.36%	4.0%
Cash	0% – 10%	1.97%	0.4%

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 2018	1 year	3 years	5 years
Retirement Scheme – Contributory	8.74%	7.77%	9.16%
Retirement Scheme – Other Contributions	8.74%	7.63%	9.00%
Retirement Scheme – Deferred Benefit	8.74%	7.67%	8.93%

## 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 2018.

### Retirement Scheme – Contributor financed benefit

Returns as at 30 June 2018	1 year	3 years	5 years
High Growth	10.53%	8.58%	10.53%
Balanced Growth	8.40%	7.48%	8.93%
Balanced	6.52%	6.34%	7.26%
Conservative	4.31%	4.76%	5.32%
Cash	1.67%	2.10%	2.37%

### Retirement Scheme – Other contributions

Returns as at 30 June 2018	1 year	3 years	5 years
High Growth	10.53%	8.56%	10.33%
Balanced Growth	8.40%	7.46%	8.80%
Balanced	6.52%	6.30%	7.14%
Conservative	4.31%	4.72%	5.12%
Cash	1.67%	2.04%	2.15%

### Retirement Scheme – Deferred benefit

Returns as at 30 June 2018	1 year	3 years	5 years
High Growth	10.53%	8.58%	10.34%
Balanced Growth	8.40%	7.47%	8.78%
Balanced	6.52%	6.27%	7.04%
Conservative	4.31%	4.71%	5.08%
Cash	1.67%	2.00%	2.10%

## 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% 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 2018 <sup>1</sup>	Actual 2017 <sup>1</sup>
Australian Shares	16% – 30%	22.06%	23.2%
International Shares	16% – 30%	25.27%	25.3%
International Listed Property	0% – 6%	1.28%	1.3%
Australian Direct Property <sup>2</sup>	0% – 15%	9.87%	10.1%
Private Equity and Opportunistic Alternatives <sup>2</sup>	1% – 21%	9.98%	10.5%
Commodities	0% – 3%	1.74%	1.8%
Bonds	0% – 25%	5.25%	4.9%
Absolute Return Funds	0% – 18%	12.88%	13.7%
Defensive Alternatives <sup>2</sup>	0% – 8%	1.28%	0.9%
Cash	0% – 15%	10.39%	8.3%

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 2018	1 year	3 years	5 years
Defined Benefit Strategy	8.90%	7.71%	8.57%

# THE TEAM BEHIND YOUR SUPER



“The Board is responsible for setting the overall strategy and ensuring Local Government Super is operating in the best interest of members.”

### **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 is 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, and a sub-committee, 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
- Board Renewal Committee Charter, a sub-committee of the Governance, Remuneration and Nomination Committee
- Risk Committee
- Member Services Committee.

## THE TEAM BEHIND YOUR SUPER

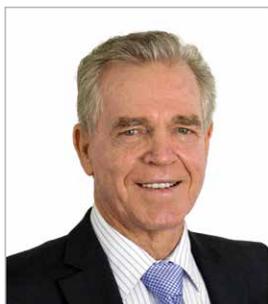
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These committees allow the Board to oversee operations in greater detail. All committees are reflective of the equal representation requirements of SIS.

As at 30 June 2018, the members of the committees and their duties were as follows:

<p><b>Investment Committee</b></p> <p>Craig Peate (Chair), Bruce Miller, Sam Byrne and Domenico Figliomeni 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.</p>	<p><b>Duties</b></p> <p>Generally meets twice a 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.</p>
<p><b>Audit and Compliance Committee</b></p> <p>Sam Byrne (Chair), Karen McKeown, Gordon Brock, Domenico Figliomeni, and is also attended by Local Government Super's external auditor.</p>	<p><b>Duties</b></p> <p>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.</p>
<p><b>Risk Committee</b></p> <p>Gordon Brock (Chair), Karen McKeown, Gregory McLean and Sam Byrne, and an additional committee member, Nicola Warwick-Mayo. May also be attended by the Trustee's internal auditor.</p>	<p><b>Duties</b></p> <p>Meetings are generally twice a quarter and assists the Board by providing an objective non-executive review of the effectiveness of the Trustee's risk management framework.</p>
<p><b>Member Services Committee</b></p> <p>Gordon Brock (Chair), Karen McKeown, Gregory McLean, Domenico Figliomeni and an additional committee member, Michele Adair.</p>	<p><b>Duties</b></p> <p>Generally meets twice a 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.</p> <p>This committee also considers disputed claims for invalidity and death benefits.</p>
<p><b>Governance, Remuneration and Nomination Committee</b></p> <p>Domenico Figliomeni (Chair), Bruce Miller, Craig Peate and Gregory McLean.</p>	<p><b>Duties</b></p> <p>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.</p>
<p><b>Sub-Committee:</b></p> <p>Board Renewal Committee Charter</p>	<p><b>Duties</b></p> <p>Meets as at least once per year and assists the Board in regard to renewal of the LGS Board trustee directors.</p>

## Your Board



**Bruce Miller**  
**MAICD (Chair)**

Appointed by Local Government NSW (formerly through the Shires Association of NSW) on 1 July 2011, and re-appointed on 26 March 2017. Appointed Chair of the Board on 11 September 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.

Member of the Governance, Remuneration and Nomination, and Investment Committees.



**Craig Peate**  
**GAIST (Adv.) (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 and IV in Financial Services, Certificate in Management and Leadership.

Director – Dunnara Debt Services Pty Ltd.

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

## 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.

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



**Domenico Figliomeni**  
GAICD

Appointed by Local Government NSW on 5 December 2017.

Councillor – Wollongong City Council (since September 2017).

Chief Executive Officer – NSW Ports Port Kembla (since June 2013).

Qualifications: Diploma in Public Administration, Bachelor of Business, Post Graduate Degree in Business Management, Graduate of the Australian Institute of Company Directors.

Chair of the Governance, Remuneration and Nomination Committee, member of the Audit & Compliance Committee, Investment Committee, Member Services Committee, and Risk Committee.



**Karen McKeown OAM**  
BCom

Appointed by Local Government NSW on 10 April 2018.

Councillor and former Mayor – Penrith City Council.

Director – Penrith Performing & Visual Arts Pty Ltd, and Mcbrekar Pty Ltd.

Qualifications: Bachelor of Commerce – Western Sydney University, Labour Law Certificate – Sydney University, Executive Certificate for Elected Members – University of Technology Sydney.

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



**Gregory (Greg) McLean OAM**  
GAIST

Appointed by the United Services Union on 6 June 2018.

Councillor – Sutherland Shire Council.

Qualifications: Graduate of the Trustee Director Course – Australian Institute of Superannuation Trustees, Postgraduate Labour Law Course – University of Technology, Sydney, Postgraduate Industrial Law Course – NSW Law Society.

Member of the Governance, Remuneration and Nomination Committee, Member Services Committee, and Risk Committee.



**Khaldoun (Khal) Asfour**  
GAICD

Appointed by Local Government NSW on 16 August 2018.

Councillor and Mayor – Canterbury Bankstown Council.

Director – Bankstown RSL and LGNSW, Principal EAL Consulting.

Qualifications: Graduate of the Australian Institute of Company Directors, MFAA Certificate in Mortgage Broking, Bachelor of Arts in Political Science and Industrial Relations – University of NSW.

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



**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 (September 2011 to September 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 until ceasing acting as a Director on 9 March 2018.

**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 until ceasing acting as a Director on 12 April 2018.



**Katherine O'Regan**  
GAIST

Appointed by Local Government NSW effective 1 April 2015. Resigned as Chair of the Board on 11 September 2017.

Former Councillor and former Deputy Mayor – Woollahra Municipal Council.

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.

Member of Governance, Remuneration and Nomination Committee, and Investment Committee until ceasing acting as a Director on 11 September 2017.



**Lindsay Brown**  
GAICD

Appointed by Local Government NSW on 5 September 2017.

Director – LGNSW, StateCover Mutual Ltd, Katungal Aboriginal Medical Service and South East Arts.

Qualifications: Graduate of the Australian Institute of Company Directors.

Member of the Audit and Compliance Committee, Member Services Committee and Risk Committee until ceasing acting as a Director on 22 January 2018.

## 2017/18 meetings attendance by Directors

The attendance by Directors at meetings of the Board and its Committees from 1 July 2017 to 30 June 2018 was as follows:

### Board

Director	Meetings held during tenure	Number of meetings attended
Blicavs, Michelle	9	6
Miller, Bruce	12	12
Montague, James	10	7
Peate, Craig	12	12
Byrne, Sam	12	12
O'Regan, Katherine	3	3
Figliomeni, Domenico	5	5
McKeown, Karen	3	3
Brown, Lindsay	4	3
McLean, Greg	1	1
Brock, Gordon	12	12

### Audit and Compliance Committee

Director	Meetings held during tenure	Number of meetings attended
Blicavs, Michelle	4	4
Brown, Lindsay	2	1
Byrne, Sam	5	5
Brock, Gordon	5	5
McKeown, Karen	1	1
Figliomeni, Domenico	2	2
O'Regan, Katherine	1	1

### Investment Committee

Director	Meetings held during tenure	Number of meetings attended
Miller, Bruce	6	6
Peate, Craig	6	6
O'Regan, Katherine	1	1
Montague, James	5	3
Figliomeni, Domenico	2	2

**THE TEAM BEHIND  
YOUR SUPER**  
continued

**Governance, Remuneration and Nomination Committee**

<b>Director</b>	<b>Meetings held during tenure</b>	<b>Number of meetings attended</b>
Miller, Bruce	8	8
Peate, Craig	8	8
O'Regan, Katherine	3	2
Montague, James	6	5
Figliomeni, Domenico	2	2

**Member Services Committee**

<b>Director</b>	<b>Meetings held during tenure</b>	<b>Number of meetings attended</b>
Blicavs, Michelle	4	4
Byrne, Sam	5	5
Brock, Gordon	6	6
McLean, Gregory	1	1
McKeown, Karen	2	2
Figliomeni, Domenico	3	3
Brown, Lindsay	2	2
O'Regan, Katherine	1	1

**Risk Committee**

<b>Director</b>	<b>Meetings held during tenure</b>	<b>Number of meetings attended</b>
Blicavs, Michelle	4	4
Byrne, Sam	5	5
Brock, Gordon	6	6
McLean, Gregory	1	1
McKeown, Karen	2	2
Figliomeni, Domenico	3	3
Brown, Lindsay	2	2
O'Regan, Katherine	1	1

## **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, the 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.

## **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.

Current Executive personnel include:

- David Smith, Chief Executive Officer (appointed 5 September 2017)
- Donna Heffernan, Deputy Chief Executive Officer and Company Secretary
- Craig Turnbull, Chief Investment Officer
- Andrew Gledhill, Head of Risk and Quality Assurance
- Tony Griffin, Chief Operating Officer (resigned on 8 June 2018)
- Michelle Hopwood, Chief Marketing Officer

## **THE TEAM BEHIND YOUR SUPER** continued

### **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 Consultants**

JANA Investment Advisers Pty Ltd

Cambridge Associates Limited, LLC

### **External Auditors**

NSW Auditor General

Ernst & Young Australia

### **Internal Auditor**

PriceWaterhouseCoopers 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 2018**

Actis GP LLP

Adamantem Capital

AMP Capital Investors Ltd

AQR Capital Management LLC

Ardea Investment Manager

Attunga Capital Pty Ltd

BlackRock Investment Management

BAIN Capital

Baring Private Equity Asia

Brandywine Global Investment  
Management, LLC

Canyon Partners, LLC

Centaur Property Funds Management

Cerberus Capital Management

Champ Private Equity

Cheyne Capital Management (UK) LLP

Colonial First State Investments Ltd

CQS Asset Management

Delaware Investments

ECP Asset Management Pty Ltd

EQT Partners UK Advisors LLP

Farallon Capital Management, LLC

GAM International Management Limited

GPT Group

Hastings Funds Management Limited

Hawkesbridge Capital Pty Limited

HealthCare Royalty Partners

Hermes Investment Management

ICE Canyon LLC

IFM Investors

Impax Asset Management Ltd

Intrinsic Investment Management Pty Ltd

Investa Property Group

Janus Henderson Investors

Kapstream Capital

Lighthouse Infrastructure

Longview Partners (Guernsey) Limited

LSV Asset Management

Macquarie Investment Management

Mesirow Financial

MFS Institutional Advisors

Mutual Limited

National Australia Bank Limited

Oaktree Capital Management, L.P

Omega Global Investors

Och-Ziff Capital Management

PAG Investment Management

Pendal Group

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

Wellington International Management  
Company Pty Ltd

Wilshire Australia Pty Ltd

Winton Capital Management

**Legal advisors**

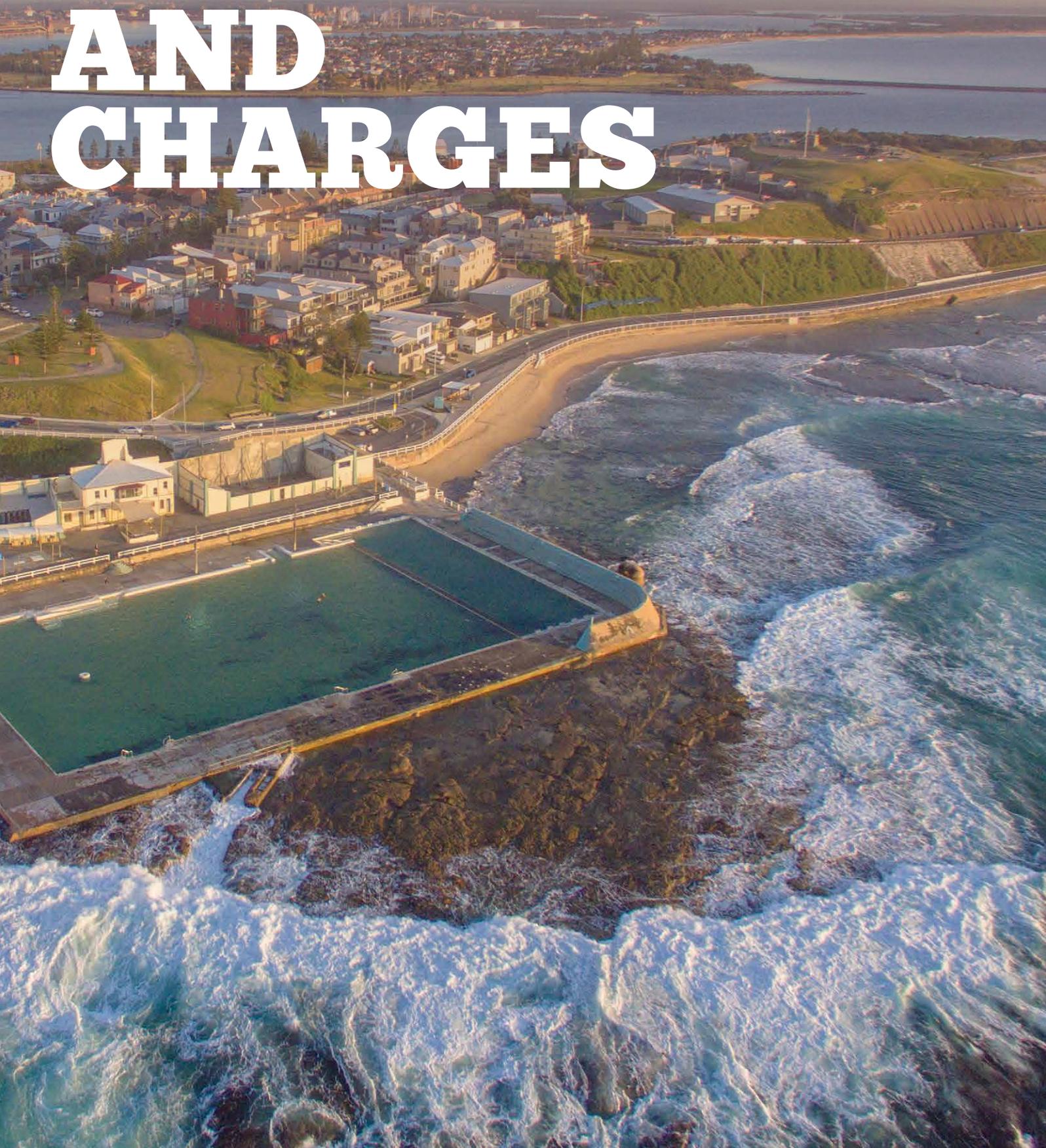
Sparke Helmore Lawyers

Norton Rose Fulbright

MinterEllison

Allens

# TAXES, FEES AND CHARGES



## General tax information

Local Government Super is required to pay tax of up to 15% on all employer contributions received, inclusive of contributions made via salary sacrifice (provided members don't exceed the concessional contributions cap of \$25,000).

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 of \$100,000 p.a.

## Low Income Superannuation Tax Offset (LISTO)

Members with an annual income of less than \$37,000 per annum may be eligible to receive a refund of the 15% contributions tax deducted from their employer concessional contributions, up to a maximum of \$500. The refund is paid directly into their super account.

## Concessional contributions

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

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

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.

## Non-concessional contributions

Non-concessional contributions were capped at \$100,000 in 2017/18, subject to satisfying the work test. 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 \$300,000 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. Contributions made to accounts with a higher balance than \$1.6 million are now taxed at 47%.

All non-concessional contributions (subject to the concessional cap of 25,000) can be claimed as a tax deduction.

## 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.

## Tax on super payments

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

### New fee and cost disclosure

On 30 September 2017, the way superannuation funds disclose fees and costs changed to include the costs of underlying investment managers. These fees and costs are not directly charged to the members. The costs are factored into returns prior to unit prices being published.

As a result, fees and costs disclosed are higher, as they now disclose in the fees and costs incurred when investing in underlying or wholesale investments.

This is a regulatory change to the way fees and costs are disclosed and does not financially impact the member.

### Investment fee

These are the fees incurred for the exercise of care and expertise in the investment of assets of LGS. These fees include, but are not limited to, management fees, transactional and operational costs, performance related fees, and custody fees.

These investment fees are paid from LGS's assets prior to unit prices being calculated.

### Indirect costs ratio

These are the fees and costs associated with investing in interposed vehicles such as underlying unit trusts or limited partnerships.

Indirect costs are paid from the Fund's assets or the assets of interposed vehicles prior to unit prices being calculated. This cost is an additional cost to investments and is not a fee charged by, or paid to, LGS.

### Administration fee

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

All fees charged to members' accounts during the 2017/18 financial year are detailed in the following tables:

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

For the year ended 30 June 2018	Accumulation Scheme	Account-Based Pension Plan
Administration fee	\$71.24 per annum (\$1.37 per week) and 0.27% p.a	\$71.24 per annum (\$1.37 per week) and 0.27% p.a
Basic Death cover (male)	\$0.854 per unit per month	N/A
Basic TPD cover (male)	\$0.444 per unit per month	
Basic Death cover (female)	\$0.658 per unit per month	
Basic TPD cover (female)	\$0.553 per unit per month	
Exit fee	\$27.00	\$27.00
Product Switching fee	\$27.00	\$27.00
Investment Switching fee	\$27.00 per switch	\$27.00 per switch
Voluntary insurance	The cost will vary depending on the sum insured and other factors	N/A

## Investment fee

Investment fee charged for the Accumulation Scheme for the year ended 30 June 2018

Sustainable Australian Shares	High Growth	Balanced Growth	Balanced	Conservative	Cash
1.19%	0.43%	0.37%	0.32%	0.23%	0.10%

Investment fee charged for the Account-Based Pension Plan for the year ended 30 June 2018

Sustainable Australian Shares	High Growth	Balanced Growth	Balanced	Conservative	Cash
1.19%	0.43%	0.37%	0.32%	0.23%	0.10%

## Indirect costs ratio

Indirect costs ratio charged for the Accumulation Scheme for the year ended 30 June 2018

Sustainable Australian Shares	High Growth	Balanced Growth	Balanced	Conservative	Cash
0.00%	0.79%	0.75%	0.76%	0.75%	0.13%

Indirect costs ratio charged for the Account-Based Pension Plan for the year ended 30 June 2018

Sustainable Australian Shares	High Growth	Balanced Growth	Balanced	Conservative	Cash
0.00%	0.79%	0.75%	0.76%	0.75%	0.13%

## Administration fees charged

For the year ended 30 June 2018	Retirement Scheme	Defined Benefit Scheme
Administration fee	\$71.24 per annum (\$1.37 per week) and 0.27% p.a.	N/A
Exit fee	\$27.00	N/A
Investment Switching fee	\$27.00 per switch	N/A

# TAXES, FEES AND CHARGES

continued

## Investment fee charged in the Retirement Scheme (Accumulation accounts only)

Investment fee charged in the Retirement Scheme to contributory members  
(excluding any Other Contributions account) for the year ended 30 June 2018

High Growth	Growth	Balanced Growth	Balanced	Conservative	Cash
0.43%	0.38%	0.37%	0.32%	0.23%	0.10%

Investment fee charged in the Retirement Scheme to contributory members  
for the Other Contributions account for the year ended 30 June 2018

High Growth	Growth	Balanced Growth	Balanced	Conservative	Cash
0.43%	0.38%	0.37%	0.32%	0.23%	0.10%

Investment fee charged in the Retirement Scheme to deferred members for  
the year ended 30 June 2018

High Growth	Growth	Balanced Growth	Balanced	Conservative	Cash
0.43%	0.38%	0.37%	0.32%	0.23%	0.10%

## 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 2018

High Growth	Growth	Balanced Growth	Balanced	Conservative	Cash
0.79%	0.77%	0.75%	0.76%	0.75%	0.13%

Indirect costs ratio charged in the Retirement Scheme to contributory  
members for the Other Contributions account for the year ended 30 June  
2018

High Growth	Growth	Balanced Growth	Balanced	Conservative	Cash
0.79%	0.77%	0.75%	0.76%	0.75%	0.13%

Indirect costs ratio charged in the Retirement Scheme to deferred members  
for the year ended 30 June 2018

High Growth	Growth	Balanced Growth	Balanced	Conservative	Cash
0.79%	0.77%	0.75%	0.76%	0.75%	0.13%

## 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 <sup>2</sup>	\$88

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

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

Further details of fees and charges are provided in our member statements and also in the applicable PDS, available at [lgsuper.com.au/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)

### **Comparative information**

LIF Pty Limited 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 2017 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 two investments that exceeded 5% of Fund assets:

- QIC Cash Enhanced Fund (7.03% as at 30 June 2018)
- Local Government Property Fund (5.15% as at 30 June 2018)

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**“ALL OUR PROFITS  
GO BACK TO OUR  
MEMBERS SO THEY  
CAN MAXIMISE THEIR  
SUPER INVESTMENT.”**

**Statement of Financial Position  
As at 30 June 2018**

	<b>2018 \$'000</b>	<b>2017 \$'000</b>
<b>Assets</b>		
Cash and cash equivalents	109,186	92,420
Receivables	3,735	3,282
Investments		
Cash and short-term deposits	1,866,735	1,678,081
Other interest bearing securities	1,929,168	1,748,403
Australian equities	4,197,896	3,123,168
International equities	2,920,250	2,276,333
Australian unit trusts	168,192	1,177,471
International unit trusts	303,293	330,097
Derivative assets	23,091	78,400
Deferred tax assets	2,364	204
<b>Total assets</b>	<b>11,523,910</b>	<b>10,507,859</b>
<b>Liabilities</b>		
Payables	(11,376)	(4,671)
Derivative liabilities	(85,204)	(16,868)
Income tax payable	(45,485)	(14,839)
Deferred tax liabilities	(52,063)	(41,600)
<b>Total liabilities excluding member benefits</b>	<b>(194,128)</b>	<b>(77,978)</b>
<b>Net assets available for member benefits</b>	<b>11,329,782</b>	<b>10,429,881</b>
<b>Member benefits</b>		
Defined contribution member liabilities	(7,668,819)	(6,924,978)
Defined benefit member liabilities	(3,532,201)	(3,423,390)
Unallocated to members	(838)	(2,230)
<b>Total member liabilities</b>	<b>(11,201,858)</b>	<b>(10,350,598)</b>
<b>Total net assets</b>	<b>127,924</b>	<b>79,283</b>
<b>Equity</b>		
Other reserves	8,217	1,792
Operational risk reserve	33,010	27,241
Defined benefits that are overfunded	86,697	50,250
<b>Total equity</b>	<b>127,924</b>	<b>79,283</b>

**Income Statement**  
**For the year ended 30 June 2018**

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Superannuation activities</b>		
Interest	73,465	42,263
Dividend revenue	106,998	54,065
Distributions from unit trusts	271,888	1,608,867
Changes in assets measured at fair value	472,889	(716,258)
Other investment income	6,675	2,104
Other income	261	99
<b>Total superannuation activities income</b>	<b>932,176</b>	<b>991,140</b>
Administration expenses	(6,942)	(6,720)
Investment expenses	(35,899)	(12,379)
Operating expenses	(27,383)	(28,486)
Anti-detriment expenses	(655)	(1,192)
<b>Total expenses</b>	<b>(70,879)</b>	<b>(48,777)</b>
<b>Net result from superannuation activities</b>	<b>861,297</b>	<b>942,363</b>
<b>Profit from operating activities</b>	<b>861,297</b>	<b>942,363</b>
Net change in defined benefit member liabilities	(265,607)	(212,914)
Net benefits allocated to defined contribution member accounts	(507,459)	(546,001)
<b>Profit before income tax</b>	<b>88,231</b>	<b>183,448</b>
<b>Income tax expense</b>	<b>39,590</b>	<b>54,705</b>
<b>Profit after income tax</b>	<b>48,641</b>	<b>128,743</b>

**Statement of Changes in Member Benefits  
For the year ended 30 June 2018**

	Defined Contribution ("DC") Members \$'000	Defined Benefit ("DB") Members \$'000	Total \$'000
<b>Opening balance as at 1 July 2017</b>	<b>6,924,978</b>	<b>3,425,620</b>	<b>10,350,598</b>
Contributions:			
Employer	343,693	126,240	469,933
Member	128,445	10,367	138,812
Transfer from other superannuation plans	284,637	11,584	296,221
Government co-contributions	353	28	381
Income tax on contributions	(48,917)	(18,831)	(67,748)
<b>Net after tax contributions</b>	<b>708,211</b>	<b>129,388</b>	<b>837,599</b>
Benefits to members/beneficiaries	(488,888)	(273,006)	(761,894)
Transfer from defined benefit to defined contribution	14,570	(14,570)	-
Insurance premiums charged to members' accounts	(13,743)	-	(13,743)
Death and disability insurance benefits credited to members' accounts	16,232	-	16,232
Benefits allocated to members' accounts, comprising:			
Net investment income	514,158	286,268	800,426
Administration fees	(6,699)	(1,103)	(7,802)
Actuarial Deficiency**	-	(19,558)	(19,558)
<b>Closing balance as at 30 June 2018</b>	<b>7,668,819</b>	<b>3,533,039</b>	<b>11,201,858</b>

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

**Statement of Changes in Member Benefits  
For the year ended 30 June 2017**

	Defined Contribution ("DC") Members \$'000	Defined Benefit ("DB") Members \$'000	Total \$'000
<b>Opening balance as at 1 July 2016</b>	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 Deficiency**	-	(110,507)	(110,507)
Net change in DB member benefits	-	(20)	(20)
<b>Closing balance as at 30 June 2017</b>	<b>6,924,978</b>	<b>3,425,620</b>	<b>10,350,598</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 Deficiency equates to the relative change in the value of the net assets and the related defined benefit accrued liability.

**Statement of Changes in Reserves  
For the year ended 30 June 2018**

	Defined Benefits that are overfunded \$'000	Other reserves \$'000	ORFR \$'000	Total equity \$'000
<b>Opening balance as at 1 July 2017</b>	50,250	1,792	27,241	79,283
Increase in DB member accounts	(265,607)	-	-	(265,607)
Operating result	302,054	6,425	5,769	314,248
<b>Closing balance as at 30 June 2018</b>	<b>86,697</b>	<b>8,217</b>	<b>33,010</b>	<b>127,924</b>

	Defined Benefits that are overfunded \$'000	Other reserves \$'000	ORFR \$'000	Total equity \$'000
<b>Opening balance as at 1 July 2016</b>	(78,469)	2,062	26,947	(49,460)
Increase in DB member accounts	(212,914)	-	-	(212,914)
Operating result	341,633	(270)	294	341,657
<b>Closing balance as at 30 June 2017</b>	50,250	1,792	27,241	79,283

**Statement of Cash Flows**  
**For the year ended 30 June 2018**

	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>		
Interest from cash and cash equivalents	73,465	42,263
Administration expenses	(34,236)	(34,797)
Insurance proceeds	16,452	16,340
Insurance premiums	(14,046)	(18,153)
Other (expenses)/income	(193)	74
Anti-detriment expenses	(655)	(1,192)
Income tax (paid)	(641)	(31,745)
<b>Net cash inflows/(outflows) from operating activities</b>	<b>40,146</b>	<b>(27,210)</b>
<b>Cash flows from investing activities</b>		
Purchase of investments	(2,370,949)	(1,371,589)
Proceeds from sale of investments	2,307,763	1,247,755
Investment expenses	(35,899)	(12,379)
<b>Net cash outflows from investing activities</b>	<b>(99,085)</b>	<b>(136,213)</b>
<b>Cash flows from financing activities</b>		
Employer contributions	469,933	479,120
Member contributions	138,812	186,429
Transfers from other superannuation plans received	296,221	320,408
Government co-contributions received	381	330
Benefits paid to members	(761,894)	(764,083)
Income tax paid on contributions received	(67,748)	(68,185)
<b>Net cash inflows from financing activities</b>	<b>75,705</b>	<b>154,019</b>
<b>Net increase/(decrease) in cash</b>	<b>16,766</b>	<b>(9,404)</b>
<b>Cash at the beginning of the financial period</b>	<b>92,420</b>	<b>101,824</b>
<b>Cash at the end of the financial period</b>	<b>109,186</b>	<b>92,420</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;
- lodging online via the 'Contact us' section of the website; 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 handling or outcome of their complaint, or their complaint has not been resolved within 90 days, they do have the option of referring their complaint to the Australian Financial Complaints Authority (AFCA).

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.

### Australian Financial Complaints Authority (AFCA)

If an issue has not been resolved to your satisfaction, you can lodge a complaint with the Australian Financial Complaints Authority, or AFCA. AFCA commences operation from 1 November 2018 and will replace the three previous external dispute resolution schemes, including the Superannuation Complaints Tribunal. AFCA provides fair and independent financial services complaint resolution that is free to consumers.

AFCA can be contacted by:

Online: [www.afca.org.au](http://www.afca.org.au)  
Email: [info@afca.org.au](mailto:info@afca.org.au)  
Phone: 1800 931 678 (free call)  
Mail: Financial Complaints Authority  
GPO Box 3, Melbourne  
VIC 3001

Time limits may apply to complain to AFCA and so you should act promptly or otherwise consult the AFCA website to find out if or when the time limit relevant to your circumstances expires.

## 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 Administration Fee charged to members' account. This funding ceased on 10 August 2015.

As at 30 June 2018, the Accumulation ORFR was 0.30% 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.

## MORE INFORMATION ABOUT THE FUND

continued

### 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 2018, 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.

### Reserve Data

Below are the closing balances of these reserves as at 30 June for the last seven 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
2018	126	50,905	23,182	1,391

#### 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	-	-*
2018	1,903,479	9,828	6,191	-	-

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

Movement during the financial year for each of the abovementioned reserve accounts as at 30 June for the last seven 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)
2018	(160)	14,678	5,281	(114)

#### 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)*
2018	87,536	488	(57)	-	-

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

#### 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.

#### 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.

# IMPORTANT CHANGES



## Changes in the 2017/18 financial year

Below is a summary of the most important changes in the 2017/18 financial year affecting Local Government Super (LGS) and our members.

### Interactive Statements

LGS launched the interactive statement in February 2018 for Accumulation and Account-Based Pension Plan members, and in March for Retirement Scheme Contributory and Deferred members.

The interactive statement allows members to shape and digest the information via self-navigation. Members can access key account information, such as their account balance, contribution history and insurance details. Members can also complete actions such as consolidating their super accounts, updating their personal details and requesting an appointment with a financial planner.

The interactive statement is fully responsive across a wide range of devices from mobile phones to desktop computer monitors.

### Member Online enhancements for pensioners

Members of the Account-Based Pension Plan now have the ability to change details of their pension payments via Member Online, including the payment amount, frequency and the options from which their payments are drawn.

### Centrelink schedules available online

Members receiving a pension or a guaranteed income stream from LGS now have the ability to request their Centrelink Schedule via Member Online. The schedule is usually available within five minutes of the request.

### SuperMatch2 (supermatch.lgsuper.com.au)

LGS introduced SuperMatch2 which is a search function for members enabling them to find all their superannuation accounts and consolidate these super accounts into one account.

SuperMatch2 searches the Australian Tax Office (ATO) for lost super and other super accounts. Once the member's details are verified, any super money currently held by the ATO is automatically transferred to their LGS account, and the member can choose to consolidate any other super accounts with their LGS account.

### Trust Deed changes

During the 2017/18 financial year two amendments were made to the Fund's Trust Deed and Rules, as follows:

**Amendment No. 50 dated 2 May 2018** – amendment to Schedule 2 (Retirement Scheme) of the Trust Deed regarding Accrued Benefit Points. An anomaly has been identified whereby a Retirement Scheme member is able to accrue points greater than 180, which was inconsistent with the benefit design. It is within the Trustee's power to restrict the total benefit points to 180.

**Amendment No. 51 dated 11 July 2018** – amendment regarding the Murrumbidgee Irrigation Pension Members funding.

# IMPORTANT CHANGES

continued

## Legislative changes

### First Home Super Saver (FHSS) Scheme

From 1 July 2017, the FHSS Scheme has been helping members save money for their first home by making voluntary contributions to LGS. Members can benefit from the tax treatment within super by making contributions to their super, where concessional contributions and any earnings are taxed at 15% instead of their personal marginal rate.

From 1 July 2018, members have been able to apply to withdraw these contributions made to super together with deemed earnings to help purchase their first home.

### Downsizing contributions

From 1 July 2018, the Australian Government introduced the Downsizing Contributions measure enabling eligible members to contribute up to \$300,000 of the sale of their home into superannuation.

This amount does not count towards the non-concessional cap, but is counted towards their total super balance cap of \$1.6 million when it is calculated on 30 June at the end of the financial year.

### Transfer balance cap

The transfer balance cap is a limit on the total amount of superannuation that can be transferred into the retirement phase. The transfer balance cap for 2017/18 is \$1.6 million.

### Superannuation government co-contributions

For the 2017/18 financial year, the maximum entitlement was \$500 with the lower income threshold at \$36,813 and the higher income threshold at \$51,813.

The new thresholds will apply for the 2018/19 financial year; the lower and higher income thresholds will increase to \$37,697 and \$52,697 respectively.

### Superannuation benefit caps

The low rate cap for 2017/18 is \$200,000. The untaxed plan cap amount for 2017/2018 is \$1,445,000.

### Employment termination payments (ETP)

The ETP cap amount for life benefit termination payments and death benefit termination payments for 2017/18 is \$200,000.

### Superannuation guarantee

The maximum super contribution base for 2017/18 is \$52,760 per quarter.

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## Contact us

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12 Perkins St

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8.30am – 5.00pm, Monday – Friday

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

Bookings are essential.

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





**2017  
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