

ANNUAL
REPORT

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EARNING SUSTAINABLE LONG-TERM RETURNS FOR OUR MEMBERS

George
Skid steer operator
Member since 2002

CONTENTS

Welcome to Local Government Super's 2020 annual report. This year's report features a number of our members, some whom have been with us for decades, some just a few years. All of them share a real passion for their local community.



LOCAL
GOVERNMENT
SUPER



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0 | MESSAGE FROM THE CHAIR AND THE CHIEF EXECUTIVE OFFICER

A year that has strengthened our resilience

2020 has been a real test for all of us but it's also been a year that has strengthened our resilience.

The economic, business and personal disruptions caused by COVID-19 presented Local Government Super (LGS) with a unique opportunity to move quickly and become more adaptable, find better ways to support our members, adopt new technology, provide even better value for money, and build stronger relationships with our employers and key stakeholders.

The solid performance of our investment options, particularly through a period of extreme market volatility, is a testament to our diversified portfolio and our long-standing commitment to genuine responsible investment.

The pandemic has accelerated change and innovation and we believe that LGS is now more agile and better equipped to provide our members with high quality service and long-term sustainable returns well into the future.

Diversified investments provide protection and long-term returns

While the recent market volatility has reduced short-term returns across the industry, we're pleased that our long-term performance remains strong and this is the key to maximising our members' retirement incomes.

Our highly diversified portfolio includes a wide range of assets such as Australian and international shares, property, infrastructure, private equity, fixed interest and absolute return asset classes.

This diversity has not only provided our members with some protection from the recent market volatility it also helps to generate long-term sustainable returns.

**“OUR VISION IS TO BE
RECOGNISED AS A LEADER
IN RESPONSIBLE INVESTMENT
AND RETIREMENT SOLUTIONS,
SUPPORTING OUR MEMBERS
THROUGH THEIR LIFELONG
FINANCIAL JOURNEY”**

Phil Stockwell, Chief Executive Officer

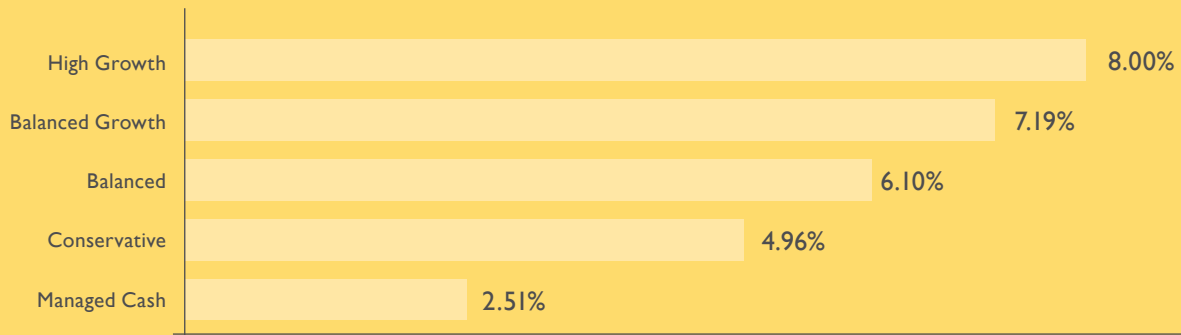
Jack

Senior lifeguard

Member since 2014

OUR GOAL IS TO BUILD
ON OUR
STRENGTHS

Accumulation Scheme – 10 years to June 2020



Note: Returns are after fees and taxes and reflect an annualised compound rate.

Our strong commitment to responsible investment

LGS kicked off the financial year by reaching the milestone of \$12 billion in funds under management. The milestone reflected the growing appetite of our members for a genuine responsible investment strategy.

Our strategy is to seek out investments that have a positive impact on the community and the environment while limiting our exposure to high-risk industries. We are also an active owner, engaging directly with companies and industry organisations to improve the sustainability performance of the companies in our portfolio.

LGS has been identified by the world's leading independent proponent of responsible investment, Principles for Responsible Investment (PRI), as being in the top 10% of responsible asset owners worldwide.

This recognition was reflected in our latest Principles for Responsible Investment (PRI) assessment report. LGS achieved an outstanding result, scoring highly with 11 categories across its portfolio assessed in the A+ performance band, the highest possible rating.

Our aim is to lead by example, and recently LGS was certified carbon neutral through Climate Active, meeting all the requirements of the Climate Active Carbon Neutral Standard for the Sydney head office and the fund's seven regional offices. We are one of only five Australian super funds to actively hold this certification.

Making sure we offer good value for money

Our members have come to expect strong long-term returns and good value for money, and this has become more important than ever during the pandemic.

We are continually looking for ways to reduce our operating costs while still providing our members with local and professional service.

We are pleased that from 1 July this year we reduced the rate of our percentage-based administration fee by 0.01% to 0.25% per year for all our investment options. This is in addition to a similar administration fee reduction in October 2019.

These reductions mean that members with a balance of \$50,000 in our Accumulation Scheme Balanced Growth investment option are paying around \$65 less in total fees per year.

This is a real boost to the retirement savings of all our members.

▼ Witzend Greenfleet NSW

LGS partners with Greenfleet to offset carbon, benefiting this reforestation area north-east of Byron Bay. Between 2018 and 2020, Greenfleet planted 13,000 native trees at this property, which is growing to extend habitat for wildlife such as koalas and the endangered glossy black cockatoo.



“OUR MEMBERS AND THEIR LOCAL COMMUNITIES ARE AT THE HEART OF EVERYTHING WE DO. AT LGS, OUR CLEAR PURPOSE IS TO HELP MAXIMISE RETIREMENT INCOMES AND CREATE A BETTER FUTURE FOR OUR MEMBERS”

Kyle Loades, Chair

Providing much needed support for our members and employers

COVID-19 has hit many of our local communities hard. Our priority since the start of the pandemic is to provide high levels of communication and support while safeguarding the wellbeing of our members, our employers, and our staff.

To maintain a strong connection with our members and employers, we made the decision to suspend face-to-face meetings and events and make the switch to phone and online communication.

Despite our entire contact centre team working from their homes, we handled more than 7,300 inbound contacts in March 2020 alone, hitting a peak of more than 650 in one day.

Launching regular member webinars proved a great way to communicate and engage with members on a wide range of issues including market and performance updates, the temporary changes to super, and responsible investment.

We measure the satisfaction of our members on a regular basis, and the good news is that over the last six months we have continued to compare very favourably with other funds. LGS scored highly for overall satisfaction, trust, our knowledge, and the ease of doing business.

It may be a while before we can return to normal but we will continue to engage, innovate and look for new and better ways to maintain and strengthen our support for our members and employers.

Ongoing support of members, employers and stakeholders

We would like to thank our members, employers, and our stakeholders for their ongoing support for LGS. This support is crucial if we're to provide the service, the products, and the performance our members need to build their super and enjoy a great retirement.

The work of employer and union stakeholders to establish the Local Government (COVID-19) Splinter Award 2020 enabling many local government employers to retain their staff during the pandemic was a significant achievement.

Lastly, we would like to thank the Board and the whole LGS team for their outstanding efforts during what has been a very challenging year.

As a result of COVID-19, LGS has evolved as a super fund, one that is now stronger and more agile, a super fund that is better positioned than ever to deliver strong long-term outcomes for our members.



Kyle Loades
Chair



Phil Stockwell
Chief Executive Officer

02 RESPONSIBLE INVESTMENT

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What is a responsible investment strategy?

Responsible investment may mean different things to different people, but at LGS, genuine responsible investment is all about making sure we look after the long-term interests of our members and our community.

Our approach to responsible investment has two main streams:

- Integration of environmental, social and governance (ESG) considerations into all our investment decisions
- Active ownership of all the assets and the companies in our portfolio

The key to earning long-term sustainable returns for our members is to minimise the impact of our investments on our environment and the social fabric of our community, while supporting the good corporate governance of our companies.

We do this by seeking out positive investments for our members while restricting investments that have a more harmful effect on the environment and the community.

LGS is also an active owner of our members' investments. We analyse companies from every angle and actively engage with Boards and management to improve their environmental, social and governance practices. Our aim is to minimise our risks and maximise our members' returns.

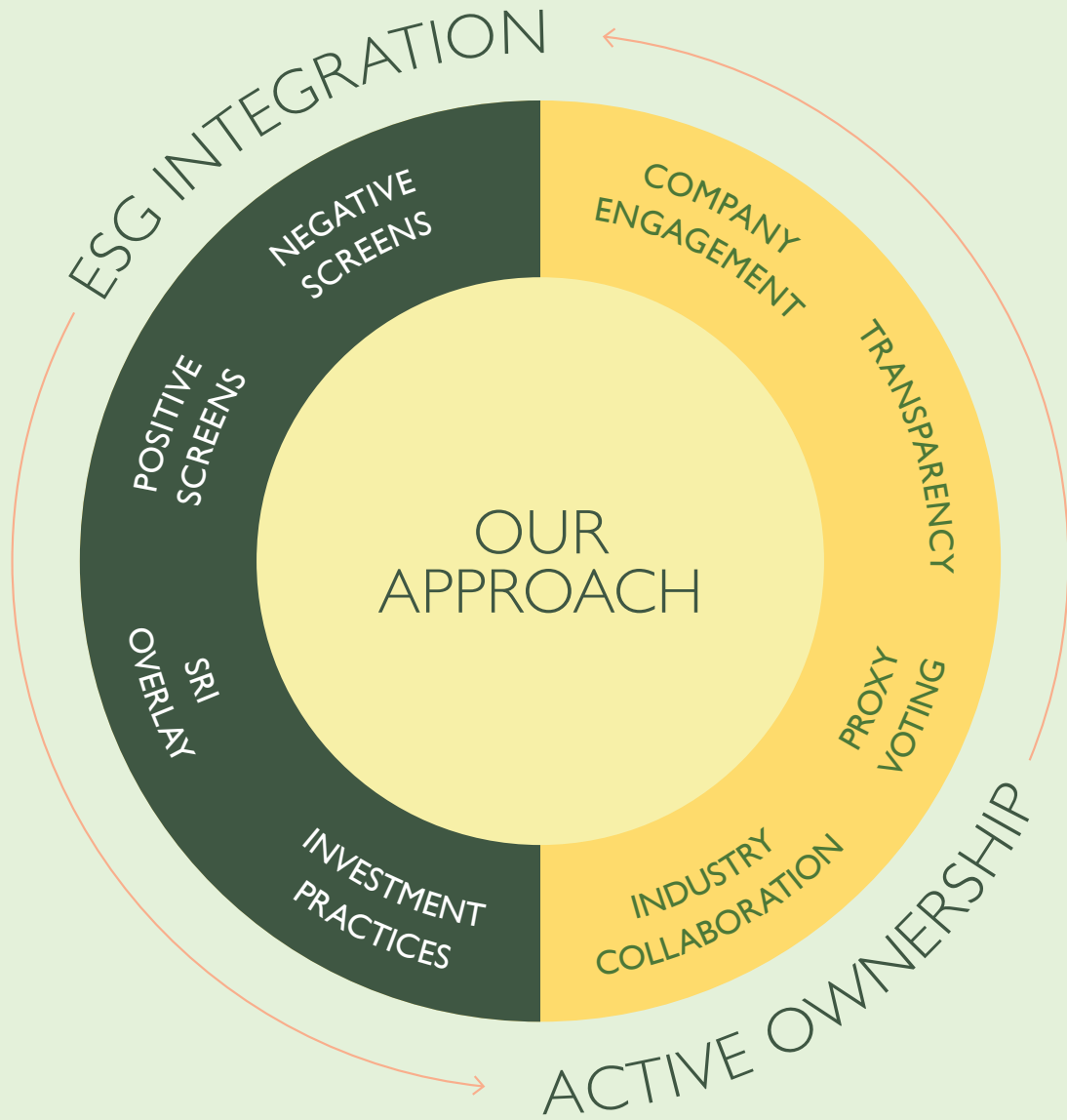


MAKING SURE WE LOOK AFTER THE LONG-TERM

INTERESTS OF OUR MEMBERS
AND OUR COMMUNITY

7

Dave
Resource recovery supervisor
Member since 1971





Making a genuine positive impact

LGS uses the United Nations Sustainable Development Goals (UNSDG) as a guide to seek out investments that have a positive impact on the community and the environment.

The UNSDGs are a set of aspirational goals developed by the United Nations to protect the environment and ensure all people enjoy peace and prosperity. These goals aim to tackle a wide range of issues including climate change, gender equality, clean water and sanitation, quality education, affordable and clean energy.

These investments are not only good for the environment and the community, they also earn long-term sustainable returns for our members.

Engaging globally on climate change

LGS works with Climate Action 100+, a global engagement initiative to focus companies on climate change and better climate-related disclosure.

An example is Woolworths where we engage with senior management on climate issues such as emissions targets and pathways towards a low carbon economy. Being part of a global initiative allows LGS to look at similar retail companies and aim for global best practice.

Woolworths became the first retailer and first supermarket globally to issue Green Bonds. Projects supported by Green Bonds include the installation of solar panels on the roofs of Woolworths stores and distribution centres, and the development of low-carbon supermarkets.

▲ Rimba Raya

Our carbon offset program supports Rimba Raya, which develops a livelihood program in villages in Indonesian Borneo (addressing all 17 of the UN Sustainable Development Goals) to provide education, employment and hope for the future.

United Nations Sustainable Development Goals





Renewable energy: Rio Grande Do Norte, Brazil

Wind power creating jobs and community facilities

Echoenergia is one of LGS' defensive alternative investments; a wind platform operating in the north-east of Brazil. The private company builds, owns and operates wind assets with a target portfolio of one gigawatt.

The company has created 30 permanent jobs and 432 contractor jobs. Additionally, Echoenergia's community investment programs provide quality education facilities and training to 7,860 community members through a US\$1 million investment to date.

Sustainable property portfolio

LGS manages one of the most sustainable direct property portfolios in Australia.

The Local Government Property Fund (LGPF) comprises a diverse portfolio of eight high quality assets located in NSW. This includes four office buildings, three retail centres and one multi-unit industrial estate.

Despite challenging market conditions as a result of the COVID-19 restrictions, LGPF delivered a 5.55% return for the 2019/20 financial year, an impressive 7.63% above the industry benchmark* of -2.08%.

We believe that the high sustainability performance of our direct property portfolio translates into better investment performance for members as sustainable buildings are more efficient and tend to have lower vacancy rates, firmer yields, stronger rents and high-quality management.

LGPF RETURNS 2019/20 FINANCIAL YEAR

5.55%

5 YEARS TO 30 JUNE 2020

16.00%
PER ANNUM

▲ Renewable energy: Rio Grande Do Norte, Brazil

As long-term asset owners we participate in the transition to a more sustainable economy. LGS invests in a company called EDP Renovaveis, a Spanish renewable energy company operating in 14 countries around the world. Renewable energy sources such as onshore and offshore wind as well as solar do not produce toxic emissions,

*Mercer/IPD Australian Property Pooled Fund Index



Committed to net zero carbon emissions

LGS is a signatory to the World Green Building Council's global Net Zero Carbon Buildings Commitment to achieve net zero operating carbon emissions across the LGS direct property portfolio by 2030, as well as advocating for all buildings to be net zero by 2050.

In keeping with this commitment, LGS achieved a 26% reduction in emissions across its portfolio over the course of the year. LGS also achieved carbon neutral certification for Bridge Plaza Batemans Bay, bringing the total number of properties certified by NABERS under Climate Active to seven.

LGS shopping centre portfolio tops NABERS index

In 2020, LGS was the top performing shopping centre portfolio for both NABERS energy and water ratings in the NABERS Sustainable Portfolios Index (SPI).

NABERS is a national rating system that measures the environmental performance of Australian buildings including; energy efficiency, water usage, waste management and indoor environment quality.

The index provides comparative analysis on the environmental performance of Australia's most sustainable property portfolios.



DURING THE 2019/20
FINANCIAL YEAR:
VOTED AT

100%
OF COMPANY AGMS

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Green loan certified by the Climate Bonds Initiative

During the year LGPF worked closely with Westpac to roll over its existing \$65 million debt facility into a Green Loan as certified by the internationally recognised Climate Bonds Initiative (CBI).

The loan is 'Green' because the proceeds are applied to refinance eligible 'Green Assets' which meet stringent emissions criteria set by the CBI. This requires LGS assets to perform in the top 15% of buildings in the market in terms of their emissions intensity.

The Green Loan has extended LGS's 'sustainability reach' into the area of responsible finance and members also benefit from the low interest rate compared to the broader market.

Being an active long-term investor

As a shareholder in hundreds of Australian and international companies, we take our responsibility seriously and work actively with the companies across our portfolio to improve their environmental, social and governance (ESG) practices.

We believe that by working with the super industry and engaging with companies we can minimise our investment risks and maximise the long-term returns for our members.

Proxy voting

LGS holds shares in the majority of the top-listed companies in Australia and overseas. As a shareholder we are entitled to vote at the shareholder meetings of most of the ASX200 companies and approximately 500 of the world's largest listed companies.

As an active owner, we believe that it is important to fulfil our ownership obligations and rights that come with being a long-term shareholder.

During the 2019/20 financial year, LGS voted at 100% of our shareholder meetings using the recommendations of the Australian Council of Superannuation Investors and CGI Glass Lewis as a guide, and we published all our voting decisions before the company meetings.

When determining voting recommendations, our proxy voting advisers take into account a broad range of factors including the importance of the ESG issue, how long the issue has been a concern, previous dialogue with the company and improvements in company behaviour.

LGS has voted against company resolutions on a range of issues including executive remuneration, board independence and capital management.

In 2020, LGS voted in favour of a number of shareholder resolutions on climate change disclosure.

In April, we voted in favour of shareholder resolutions recommending that two Australian energy companies provide more detail on targets and strategies to reduce emissions.

Similarly, in May, LGS voted in favour of a shareholder resolution recommending that a diversified financial services company report on its climate risk strategies and how it intends to reduce emissions of its lending activities.

694
MEETINGS IN TOTAL

VOTED ON
8,340
RESOLUTIONS

Global recognition

In September 2019 at the Principles for Responsible Investment (PRI) conference in Paris, LGS was identified by the PRI, the world's leading independent proponent of responsible investment, as being in the top 10% of responsible asset owners worldwide. As a result, LGS is now included in the PRI Leaders' Group.

The PRI is an international network that works to better understand the investment implications of environmental, social and governance (ESG) factors, and to support asset owners to incorporate these factors into their investment and ownership decisions.

The PRI founded the Leaders' Group to showcase ESG leadership, and to increase the accountability in respect to responsible investment standards.

Signatory of:



Our leadership in responsible investment has also been reflected in the results of the 2020 assessment report from the Principles for Responsible Investment (PRI). LGS was assigned top marks (A+) in 11 categories and one A achievement in the latest PRI report which assesses asset owners' implementation of responsible investment strategies across their investment portfolio.

These scores underline the importance of a comprehensive strategy and strong governance when it comes to responsible investment, as well as the benefits of active ownership in improving environmental, social and governance practices.

PRI 2020 assessment report LGS summary scorecard

Module name	2020 score	2019 score	Median score
Strategy and governance	A+	A+	A
Selection, appointment and monitoring of external fund managers			
Listed Shares	A+	A+	A
Fixed Income – Sovereigns, Supranational and Agencies (SSA)	A+	A	B
Fixed Income – Corporate Financial	A+	A	A
Fixed Income – Corporate Non-Financial	A+	A	A
Fixed Income – Securitised	A+	A	A
Private Equity	A+	B	A
Property	A	A	A
Infrastructure	A+	B	A
Active ownership modules			
Listed Shares – Incorporation	A+	E	A
Listed Shares – Active Ownership	A+	A+	B
Property	A+	A+	B

LGS' full 2020 assessment report and the LGS 2020 Principles for Responsible Investment Transparency Report are both available from lgsuper.com.au

76 Berry St North Sydney



2-4 Lyonpark Rd Macquarie Park



120 Sussex St Sydney



A REAL FOCUS ON BUILDING
**STRONG PERSONAL
RELATIONSHIPS**
WITH OUR MEMBERS
AND THEIR EMPLOYERS.



Peter
Parks coordinator
Member since 1997

ORS

CURRENT RATINGS AND RECOGNITION 03

Local Government Super has received wide recognition and been highly rated for our commitment to responsible investment and high quality products and services.



LGS won the 2021 SuperRatings Infinity Award for a record seventh time. The award recognises the super fund most committed to environmental and ethical responsibilities.



LGS is one of only five Australian super funds to be certified carbon neutral by Climate Active by meeting all the requirements of the Climate Active Carbon Neutral Standard (formerly the National Carbon Offset Standard). The certification includes all LGS employees, the Sydney head office, and the fund's seven regional offices.

Signatory of:



In September 2019, the world's leading independent proponent of responsible investment, the Principles for Responsible Investment (PRI), identified LGS as being in the top 10% of responsible asset owners worldwide for the selection, appointment and monitoring of external managers. As a result, LGS has been included in the PRI Leaders' Group.



LGS received a whole of fund certification as a responsible super fund by the Responsible Investment Association of Australasia (RIAA), the peak body representing responsible and ethical investors across Australia and New Zealand. This certification means that responsible investment practices are applied to the entire super fund and to all asset classes.



In April 2019, LGS achieved carbon neutral certification by the Australian Government for all NABERS rated buildings in our direct property portfolio. This is Australia's first NABERS rated property portfolio to achieve carbon neutral certification (base building) by NABERS on behalf of Climate Active.



In 2017, the LGS direct property portfolio was the first property portfolio in Australia to be awarded a 5-Star Green Star Performance rating from the Green Building Council of Australia (GBCA). The rating represents 'Australian Excellence' in building operations under this internationally recognised sustainability rating system.



In 2019, LGS received a 4-Star rating from the Global Real Estate Sustainability Benchmark (GRESB), demonstrating our continued leadership and commitment to sustainability. GRESB is the leading Environmental, Social and Governance (ESG) benchmark for real estate investments across the world.



Maintained triple-A rating from leading financial services information company, SelectingSuper. This rating is based on organisational strength, administration, communications, investment performance, insurance and other services.

Gold ranking from Australia's leading ratings agency for super funds, SuperRatings, recognising our competitive service, insurance benefits fees and strong fund governance.

Assigned the 2019/20 five-star quality rating by independent advisers, the Heron Partnership for our superannuation products

04 HOW WE INVEST YOUR MONEY

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

It's important to note that the net earnings allocated to a member's account during the 2019/20 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.

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 MEMBERS ARE AT THE
**HEART OF
EVERYTHING
WE DO**

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Sue
Senior library officer
Member since 2004

OUR INVESTMENT PORTFOLIO

Top 10 Australian share holdings as at 30 June 2020

Rank	Australian shares top 10 holdings	% of portfolio holding	% of index ¹
1	CSL	5.97	8.01
2	BHP	5.86	6.35
3	CBA	5.07	7.39
4	Westpac	3.18	3.91
5	NAB	2.94	3.52
6	Telstra	2.72	2.27
7	Wesfarmers	2.51	3.03
8	ANZ	2.50	3.21
9	Rio Tinto	2.03	2.20
10	Macquarie Group	1.91	2.34

1. This measure shows how much of that share is held by the overall market. For Australia, the index used is the S&P/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 2020

Rank	International shares top 10 holdings	% of portfolio holding	% of index ²
1	Visa	1.61	0.71
2	Thermo Fisher Scientific	1.45	0.31
3	Medtronic	1.38	0.26
4	Tencent	1.29	0.79
5	Oracle Corp	1.24	0.27
6	Microsoft	1.24	3.15
7	Accenture	1.13	0.29
8	Apple	1.07	3.42
9	Comcast	0.99	0.38
10	State Street	0.89	0.05

2. This measure shows how much of that share is held by the overall market. For international shares, the index is the MSCI ACWI ex Australia 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 2020. 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

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 the CPI rate 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. 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 2020 ¹	Actual 2019 ¹
Australian Shares	25% – 36%	31.00%	30.34%
International Shares	31% – 44%	36.05%	38.23%
International Listed Property	0% – 6%	2.27%	2.26%
Australian Direct Property ²	0% – 10%	5.75%	5.52%
Private Equity and Opportunistic Alternatives ²	5% – 25%	15.28%	13.87%
Commodities	0% – 3%	0.48%	1.22%
Bonds	0% – 15%	0.0%	0.0%
Absolute Return Funds	0% – 13%	5.04%	5.03%
Defensive Alternatives ²	0% – 8%	2.46%	2.60%
Cash	0% – 10%	1.67%	0.92%

1. As at 30 June.

2. Combined investments in these asset classes do not exceed 30% of the portfolio.

Investment returns as at 30 June 2020

	1 year	3 years	5 years
Accumulation Scheme (Division A)	-1.11%	5.65%	6.54%
Account-Based Pension Plan (Division F)	-1.37%	6.19%	7.25%

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. 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 3.0 negative annual returns in any 20-year period.

Asset classes	Asset allocation ranges	Actual 2020 ¹	Actual 2019 ¹
Australian Shares	18% – 31%	23.11%	23.30%
International Shares	20% – 32%	26.67%	27.10%
International Listed Property	0% – 6%	2.36%	2.24%
Australian Direct Property ²	0% – 10%	5.82%	5.46%
Private Equity and Opportunistic Alternatives ²	2% – 22%	13.16%	11.63%
Commodities	0% – 3%	0.50%	1.18%
Bonds	7% – 17%	11.01%	11.98%
Absolute Return Funds	7% – 17%	11.17%	9.50%
Defensive Alternatives ²	0% – 8%	3.93%	3.57%
Cash	0% – 10%	2.27%	4.05%

1. As at 30 June.

2. Combined investments in these asset classes do not exceed 30% of the portfolio.

Investment returns as at 30 June 2020	1 year	3 years	5 years
Accumulation Scheme (Division A)	-0.54%	5.00%	5.83%
Account-Based Pension Plan (Division F)	-0.68%	5.56%	6.54%



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 2020 ¹	Actual 2019 ¹
Australian Shares	10% – 20%	14.30%	14.38%
International Shares	10% – 21%	15.80%	16.02%
International Listed Property	0% – 6%	2.36%	2.27%
Australian Direct Property ²	0% – 10%	5.84%	5.53%
Private Equity and Opportunistic Alternatives ²	0% – 20%	13.16%	11.62%
Commodities	0% – 3%	0.46%	1.32%
Bonds	20% – 30%	23.16%	25.57%
Absolute Return Funds	12% – 22%	18.97%	13.02%
Defensive Alternatives ²	2% – 9%	4.87%	4.57%
Cash	0% – 10%	1.09%	5.71%

1. As at 30 June.

2. Combined investments in these asset classes do not exceed 30% of the portfolio.

Investment returns as at 30 June 2020

	1 year	3 years	5 years
Accumulation Scheme (Division A)	0.06%	4.35%	5.04%
Account-Based Pension Plan (Division F)	0.08%	4.91%	5.77%

▲ Water recovery: Kurnell, NSW

The Sydney Desalination Plant uses reverse osmosis to desalinate seawater, and produce high quality drinking water for Sydney when required. The plant can produce an average of 250 million litres per day for up to 1.5 million people. This equates 15% of Sydney's total drinking water supplies.

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 2020 ¹	Actual 2019 ¹
Australian Shares	1% – 11%	5.42%	5.29%
International Shares	1% – 12%	6.90%	6.97%
International Listed Property	0% – 6%	1.32%	1.23%
Australian Direct Property ²	0% – 10%	5.32%	4.55%
Private Equity and Opportunistic Alternatives ²	3% – 20%	11.92%	11.59%
Commodities	0% – 3%	0.51%	1.28%
Bonds	26% – 36%	29.25%	32.36%
Absolute Return Funds	16% – 26%	22.99%	15.69%
Defensive Alternatives ²	0% – 10%	5.11%	4.65%
Cash	5% – 15%	11.25%	16.40%

1. As at 30 June.

2. Combined investments in these asset classes do not exceed 30% of the portfolio.

Investment returns as at 30 June 2020	1 year	3 years	5 years
Accumulation Scheme (Division A)	0.67%	3.42%	3.95%
Account-Based Pension Plan (Division F)	0.83%	3.95%	4.62%

MANAGED CASH

Definition – For investors who want exposure to investments in money market securities with a very low risk of capital loss. The Managed Cash strategy invests predominantly in short-term Australian money market assets and term deposits. A proportion of the assets are invested in floating rate debt securities issued by Australian banks, which have a longer maximum term.

This gives this strategy greater exposure to higher returns than by just investing in short-term cash

deposits, with only a small increase in the volatility of the returns. This option offers investments for short-term investors or those seeking less volatile returns.

Objective – 0.20% net investment return per annum above the cash rate¹, measured over a rolling two-year period.

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

Asset allocation at 30 June 2020	Actual
Cash term deposits and money market securities	100%

Investment returns as at 30 June 2020	1 year	3 years	5 years
Accumulation Scheme (Division A)	0.94%	1.49%	1.75%
Account-Based Pension Plan (Division F)	1.10%	1.76%	1.97%

1. The benchmark for the cash rate is the Bloomberg Ausbond Bank Bill 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 S&P/ASX 200 Index benchmark.

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

Risk profile – Risk Band 6 (High). Estimate of 5.0 negative annual returns in any 20-year period.

Please note that this option was closed to members on 24 September 2019.

Asset allocation at 30 September 2019	Actual
Sustainable Australian Shares	100%

Investment returns as at 30 September 2019	1 year	3 years	5 years
Accumulation Scheme (Division A)	5.23%	6.34%	7.35%
Account-Based Pension Plan (Division F)	5.68%	7.23%	8.42%

GROWTH – RETIREMENT SCHEME

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. 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 – 3.0% 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 1 in 4.

Asset classes	Asset allocation ranges	Actual 2020 ¹	Actual 2019 ¹
Australian Shares	18% – 31%	23.15%	23.42%
International Shares	20% – 32%	26.60%	27.30%
International Listed Property	0% – 6%	2.40%	2.30%
Australian Direct Property ²	0% – 10%	5.87%	5.59%
Private Equity and Opportunistic Alternatives ²	2% – 22%	13.72%	13.36%
Commodities	0% – 3%	0.54%	1.22%
Bonds	7% – 17%	10.96%	11.97%
Absolute Return Funds	7% – 17%	11.28%	9.43%
Defensive Alternatives ²	0% – 8%	4.25%	3.64%
Cash	0% – 10%	1.23%	1.77%

1. As at 30 June.

2. Combined investments in these asset classes do not exceed 30% of the portfolio.

Investment returns as at 30 June 2020	1 year	3 years	5 years
Retirement Scheme – Contributory	-0.66%	4.85%	5.82%
Retirement Scheme – Other Contributions	-0.66%	4.85%	5.74%
Retirement Scheme – Deferred Benefit	-0.66%	4.85%	5.77%

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 Managed 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 2020.

Retirement Scheme – Contributor financed benefit

Returns as at 30 June 2020	1 year	3 years	5 years
High Growth	-1.03%	5.60%	6.40%
Balanced Growth	-0.46%	4.95%	5.77%
Balanced	0.12%	4.36%	5.11%
Conservative	0.71%	3.43%	4.05%
Managed Cash	0.96%	1.50%	1.82%

Retirement Scheme – Other contributions

Returns as at 30 June 2020	1 year	3 years	5 years
High Growth	-1.03%	5.60%	6.39%
Balanced Growth	-0.46%	4.95%	5.76%
Balanced	0.12%	4.36%	5.09%
Conservative	0.71%	3.43%	4.02%
Managed Cash	0.96%	1.50%	1.79%

Retirement Scheme – Deferred benefit

Returns as at 30 June 2020	1 year	3 years	5 years
High Growth	-1.03%	5.60%	6.40%
Balanced Growth	-0.46%	4.95%	5.77%
Balanced	0.12%	4.36%	5.07%
Conservative	0.71%	3.43%	4.02%
Managed Cash	0.96%	1.50%	1.77%

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, which means the value of the investment may fluctuate over the short-term.

Objective – 5.75% 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 2020 ¹	Actual 2019 ¹
Australian Shares	18% – 28%	22.21%	22.32%
International Shares	20% – 30%	25.71%	26.14%
International Listed Property	0% – 6%	1.86%	1.31%
Australian Direct Property ²	5% – 15%	10.01%	10.28%
Private Equity and Opportunistic Alternatives ²	2% – 20%	11.37%	10.74%
Commodities	0% – 3%	0.55%	1.23%
Bonds	2% – 12%	6.94%	4.95%
Absolute Return Funds	8% – 18%	12.34%	11.26%
Defensive Alternatives ²	0% – 8%	1.69%	1.59%
Cash	0% – 15%	7.32%	10.18%

1. As at 30 June.

2. Combined investments in these asset classes do not exceed 30% of the portfolio.

Investment returns as at 30 June 2020	1 year	3 years	5 years
Defined Benefit Strategy	-0.46%	4.85%	5.75%

05 THE TEAM BEHIND YOUR SUPER

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The Board is responsible for setting the overall strategy and ensuring LGS is operating in the best interest of members.

About the trustee

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

The Trustee is LGSS Pty Limited, a non-profit company solely engaged in the management and control of LGS assets for the benefit of its members. This means that profits go back to members.

Industry regulators

LGS is a Registrable Superannuation Entity (RSE) under the Superannuation Industry (Supervision) Act 1993 (Cth) (SIS Act). The Trustee holds an RSE licence (L0001243) which is regulated by the Australian Prudential Regulation Authority (APRA).

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 LGS in the event of a claim against its assets.

Governance

The Board is ultimately responsible for managing LGS which includes the safekeeping of assets and ensuring it operates in accordance with the Trust Deed, the Corporations Act 2001 (Cth), the SIS Act 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.



THE RIGHT
EXPERTISE TO MAKE
THE MOST OF **NEW**
OPPORTUNITIES

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Jack
Senior lifeguard
Member since 2014



John
Retired senior lifeguard
Member since 1985

Role of the Board

The Board is responsible for setting the overall strategy and ensuring LGS is operating in the best interest of members in accordance with the Trust Deed and Superannuation Laws.

As at 30 June 2020, there were nine directors on the Board of the Trustee Company. 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, a sub-committee of the Governance, Remuneration and Nomination Committee
- Risk Committee
- Member Services Committee.

These committees allow the Board to oversee operations in greater detail.

As at 30 June 2020, the members of the committees and their duties were as follows:

Investment Committee

Craig Peate (Chair), Bruce Miller, Domenico Figliomeni and Sandi Orleow as well as two additional members who are independent experts, Anne Whittaker and John Evans. These additional members bring specific knowledge and expertise to assist with our overall investment strategy.

Duties – Meetings are generally held at least quarterly and assists the Board in the day-to-day management of investments by monitoring the performance of the investment managers and investment options, overseeing the in-house management of Fund assets and reviewing the performance of asset consultants, and provides updates to the Board.

Audit and Compliance Committee

Karen McKeown (Chair), Gordon Brock, Claudia Bels and Gregory McLean, and is also attended by LGS's external auditor:

Duties – Meetings are generally held quarterly and assists with monitoring the Trustee's compliance with all relevant licences, laws and regulations and reviewing the effectiveness of the Trustee's financial reporting and compliance framework.

Risk Committee

Claudia Bels (Chair), Gordon Brock, Kyle Loades, Karen McKeown, and Gregory McLean.

Duties – Meetings are generally held at least quarterly and assists the Board by providing an objective non-executive review of the effectiveness of the Trustee's risk management framework by ensuring that the Fund has an independent and adequately resourced Internal Audit Function, overseeing the Fund's Business Continuity Management Framework, overseeing the LGS information security framework, overseeing compliance with AML/CTF obligations, identifying and managing emerging risks and reviewing risk related policies.

Member Services Committee

Gordon Brock (Chair), Karen McKeown, Gregory McLean, Sandi Orleow and Kyle Loades.

Duties – Meetings are generally held at least quarterly 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.

Governance, Remuneration and Nomination Committee

Domenico Figliomeni (Chair), Bruce Miller, Craig Peate, Kyle Loades and Claudia Bels.

Duties – Meets as required and assists the Board to fulfil its responsibilities in relation to APRA's prudential standard SPS 510 by implementing, reviewing and making recommendations to the Board regarding the governance framework, as well as assisting the Board in regard to renewal of the LGS Board trustee directors.

YOUR BOARD

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Kyle Loades
MBA Newcastle, FAICD (Chair)

Appointed as an Independent Chair on 22 October 2019.

Director – Credit Union Australia (CUA), Credicorp Insurance Pty Ltd, Hunter Medical Research Institute (HMRI) – Chair, Australian Transformation and Turnaround Association (AUSTTA) – Chair

Qualifications: Master Business Administration, AICD Fellow.

Current committee memberships: Governance, Remuneration and Nomination, Member Services, Risk.



Bruce Miller
MAICD (Deputy 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.

Member of Australian Institute of Company Directors (AICD).

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

Current committee memberships: Investment, Governance, Remuneration and Nomination.



Craig Peate
GAIST (Adv.) (Deputy Chair)

Appointed by the United Services Union on 25 October 2012, and re-appointed on 25 October 2020.

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

Director – AIST, Owner/Director-Dunnara Debt Services.

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

Current committee memberships: Investment (Chair), Governance, Remuneration and Nomination.



Claudia Bels
GAICD, GAIST, BEc/LLB (Hons),
Grad Cert BA (Exec)

Appointed as an Independent Director on 13 January 2020.

Independent Director – CBHS Corporate Health Pty Limited.

Independent Director; Deputy Chair – Australia & New Zealand Recycling Platform Limited.

Independent Director – Australian Settlements Limited.

Qualifications: Bachelor of Laws (Hons), Bachelor of Economics, Graduate Certificate Business Administration (Exec), Diploma for the Company Directors Course AICD, Graduate of the Trustee Director Course, AIST.

Current committee memberships: Audit and Compliance, Governance, Remuneration and Nomination, Risk (Chair).



Gordon Brock
BEcon, MLL

Appointed by the Local Government Engineers Association (LGEA) on 31 August 2016.

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

Qualifications: Bachelor of Economics; Masters in Labour Law.

Current committee memberships: Risk, Member Services (Chair), Audit and Compliance.

YOUR BOARD

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Domenico Figliomeni
Port Graduate B.Mgt, B.Bus,
Dip P.Admin, FCPA, FCILT,
FECU, GAICD, GAIST

Appointed by Local Government
NSW on 5 December 2017.

Councillor – Wollongong City Council
(since September 2017).

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

Current committee memberships:
Investment, Governance, Remuneration
and Nomination (Chair).



Karen McKeown
OAM BCom GAICD GAIST

Appointed by Local Government
NSW on 10 April 2018.

Mayor and Councillor – Penrith
City Council.

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

Director – Local Government NSW.

Qualifications: Bachelor of Commerce,
Labour Law Certificate, Executive
Certificate for Elected Members.

Current committee memberships:
Risk, Member Services, Audit and
Compliance (Chair).



Gregory (Greg) McLean
OAM GAICD GAIST

Appointed by the United Services Union on 6 June 2018.

Councillor – Sutherland Shire Council.

Qualifications: Graduate of the Trustee Director Course, Postgraduate Labour Law Course, Postgraduate Industrial Law Course.

Current committee memberships: Risk, Member Services, Audit and Compliance.



Sandi Orleow
BCom B.Acc CFA GAICD

Appointed as an Independent Director on 22 October 2019.

Director – CFA Sydney Board.

Director; Chair Audit & Risk Committee – Pengana International Equities Ltd (ASX:PIA).

Member – Investment Advisory Board, ACT Treasury.

Member of the Over Fifty Guardian Friendly Society Ltd Investment Committee.

Qualifications: Bachelor of Commerce, Post-Graduate Bachelor of Accounting, Chartered Financial Analyst, Graduate Member AICD.

Current committee memberships: Investment, Member Services.

2019/20 meetings attendance by Directors

The attendance by Directors at meetings of the Board and its Committees from 1 July 2019 to 30 June 2020 was as follows:

Board

Director	Meetings held during tenure	Number of meetings attended
Miller, Bruce	13	12
Peate, Craig	13	13
Byrne, Sam*	1	1
Figliomeni, Domenico	13	13
McKeown, Karen	13	13
McLean, Greg	13	11
Brock, Gordon	13	11
Khaldoun (Khal) Asfour*	1	1
Loades, Kyle	8	8
Orleow, Sandi	8	8
Bels, Claudia	6	6

*Sam Byrne and Khal Asfour resigned from the Board on 31 July 2019.

Audit and Compliance Committee

Director	Meetings held during tenure	Number of meetings attended
Brock, Gordon	5	5
McKeown, Karen	5	5
Miller, Bruce	4	4
Peate, Craig	4	3
Loades, Kyle	3	3
Bels, Claudia	1	1
McLean, Gregory	1	1

Investment Committee

Director	Meetings held during tenure	Number of meetings attended
Miller, Bruce	7	7
Peate, Craig	7	7
Figliomeni, Domenico	7	7
Byrne, Sam*	1	0
Orleow, Sandi	4	4
Loades, Kyle	4	4

*Sam Byrne resigned from the Board on 31 July 2019.

Governance and Remuneration Committee (discontinued August 2019)

Director	Meetings held during tenure	Number of meetings attended
Miller, Bruce	2	2
Peate, Craig	2	2
Figliomeni, Domenico	2	2
McLean, Gregory	2	2

Remuneration Committee (ceased 4 March 2019)

Director	Meetings held during tenure	Number of meetings attended
Miller, Bruce	1	1
Peate, Craig	1	1
Figliomeni, Domenico	1	1
McLean, Gregory	1	0

Governance Committee (ceased 4 March 2019)

Director	Meetings held during tenure	Number of meetings attended
Miller, Bruce	3	3
Peate, Craig	3	3
Figliomeni, Domenico	3	3
McLean, Gregory	3	2
Loades, Kyle	1	1

Governance, Remuneration and Nomination Committee (from 4 March 2019)

Director	Meetings held during tenure	Number of meetings attended
Miller, Bruce	3	3
Peate, Craig	3	3
Figliomeni, Domenico	3	3
Loades, Kyle	3	3
Bels, Claudia	3	3

Member Services Committee

Director	Meetings held during tenure	Number of meetings attended
Brock, Gordon	6	6
McLean, Gregory	6	6
McKeown, Karen	6	6
Figliomeni, Domenico	5	5
Loades, Kyle	4	4
Orleow, Sandi	3	3

Risk Committee

Director	Meetings held during tenure	Number of meetings attended
Brock, Gordon	6	6
McLean, Gregory	6	6
McKeown, Karen	6	6
Figliomeni, Domenico	3	1
Loades, Kyle	4	4
Bels, Claudia	3	3

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. In addition, the CEO has a variable component to his remuneration package (bonus).

For more details about the directors and executives' remuneration, please visit lgsuper.com.au and take a look at the Payments and Benefits Table and the Compensation 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 LGS.

At 30 June 2020, the Executive personnel included:

- Phil Stockwell, Chief Executive Officer
- Donna Heffernan, Deputy Chief Executive Officer and Company Secretary
- Craig Turnbull, Chief Investment Officer
- Andrew Gledhill, Chief Risk Officer
- Michelle Hopwood, Chief Marketing Officer
- Daniel Musson, Chief of People and Transformation
- Brett Dolling, Chief Experience Officer

Since 30 June 2020, there have been the following changes to the Executive Team:

- 3 July - Michelle Hopwood and Daniel Musson resigned from LGS.
- 24 August - Tim Carmichael appointed as the Head of Human Resources.
- 14 September - Peter Gilmore appointed to the role of Chief Financial and Commercial Officer.
- 6 October - Chantal Walker appointed to the role of Chief Digital and Marketing Officer.
- 30 October - Brett Dolling resigned from LGS.
- 2 November - Heather Dawson appointed to the role of Chief Experience Officer.

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 to LGS 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 Specialty Insurance

Investment managers at 30 June 2020

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
Cerberus Capital Management
Champ Private Equity
Cheyne Capital Management (UK) LLP
CQS Asset Management
DNR Capital
ECP Asset Management Pty Ltd
EQT Partners Advisors LLP
Farallon Capital Management Ltd
First Sentier Investors (Australia) Services Pty Ltd
GMO Investment Management
Golden Gate Capital
GPT Group
Hawkesbridge Capital Pty Ltd
HealthCare Royalty Partners
Hermes Investment Management
IFM Investors
Impax Asset Management Ltd
Investa Property Group
Janus Henderson Global Investors
JP Morgan Chase
Kapstream Capital

Lighthouse Infrastructure
Longview Partners (Guernsey) Ltd
LSV Asset Management
Macquarie Investment Management
Mesirow Financial
MFS Institutional Advisors
Morrison & Co
Mutual Ltd
Oaktree Capital Management
PAG Investment Management
Pental Group
PIMCO Australia Pty Ltd
QIC Ltd
Quadrant Private Equity
Resolution Capital
Sculptor Capital
Stafford Private Equity
State Street Global Advisors, Australia Ltd
TCW Asset Management Company
The Growth Fund
Ubique Asset Management Pty Ltd
WCM Investment Management
Wellington International Management Company Pty Ltd
Wilshire Australia Pty Ltd
Winton Capital Management

Legal Advisors

Sparke Helmore Lawyers
Norton Rose Fulbright
MinterEllison
Allens
Harmers Workplace Lawyers

28 Margaret St Sydney – Building owned by Local Government Super



06 TAXES, FEES AND CHARGES

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General Tax Information

LGS 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.

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.

From 1 July 2018, members are able to carry forward their unused concessional contributions cap amounts to later income years, provided they have a total superannuation balance of less than \$500,000 in the previous year.

Unused amounts are available for a maximum of 5 years, after which any unused amounts will expire. The first year that members will be able to use unused caps from previous years will be the 2019-20 financial year.

If someone breaches the concessional contributions limits, they 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.

OUR STRATEGY IS TO SEEK OUT
INVESTMENTS THAT HAVE A

POSITIVE IMPACT

ON THE COMMUNITY
AND THE ENVIRONMENT

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Brooke
Bush regenerator
Member since 2019

Non-concessional contributions

Non-concessional contributions are capped at \$100,000, 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.

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%.

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%.

Fees and other costs

Cap on fees for low balance accounts

From 1 July 2019, super accounts with balances of \$6,000 or less at the financial year end will have their fees capped at 3% per annum.

This cap includes administration fees, investment fees and the indirect cost ratio. Fees over the 3% cap will be refunded.

Exit fees have been abolished across all superannuation funds from 1 July 2019. From this date there is no fee to roll over to another super fund, or to withdraw your account balance.

Investment fee

An investment fee is a fee that relates to the investment of the assets of a superannuation entity and includes:

- a) fees in payment for the exercise of care and in the investment of those assets (including performance fees); and
- b) costs that relate to the investment of assets of the entity; other than:
 - i) borrowing costs; and
 - ii) indirect costs that are not paid out of the superannuation entity that the trustee has elected in writing will be treated as indirect costs and not fees incurred by the trustee of the entity or in an interposed vehicle or derivative financial product; and
 - iii) costs that are otherwise charged as an administration fee, a buy-sell spread, a switching fee, an activity fee, an advice fee or an insurance.

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

Indirect cost ratio

The indirect cost ratio for a MySuper product or an investment option offered by a superannuation entity, is the ratio of the total of the indirect costs for the MySuper product or investment option, to the total average net assets of the superannuation entity attributed to the MySuper product or investment option.

This cost is an additional cost to investments and is not a fee charged by, or paid to, LGS.

Administration fee

An administration fee is a fee that relates to the administration or operation of the superannuation entity and includes costs that relate to that administration or operation, other than:

- a) borrowing costs; and
- b) indirect costs that are not paid out of the superannuation entity that the trustee has elected in writing will be treated as indirect costs and not fees incurred by the trustee of the entity or in an interposed vehicle or derivative financial product; and
- c) costs that are otherwise charged as an investment fee, a buy-sell spread, a switching fee, an activity fee, an advice fee or an insurance fee.

The administration fee percentage relates to the cost of the administration and operation of the superannuation fund. As LGS is a profit-for-member fund, this fee is estimated each year, and any excess not used in the running of the Fund is returned to the Fund for the benefit of members.

All fees charged to members' accounts during the 2019/20 financial year are detailed in the following tables:

Administration fees, other fees and insurance premiums charged

For the year ended 30 June 2020	Accumulation Scheme	Account-Based Pension Plan
Administration fee	\$71.24 per annum (\$1.37 per week) and 0.26% p.a.	\$71.24 per annum (\$1.37 per week) and 0.26% p.a.
Basic Death cover (male)	\$0.914 per unit per month	N/A
Basic TPD cover (male)	\$0.475 per unit per month	
Basic Death cover (female)	\$0.704 per unit per month	
Basic TPD cover (female)	\$0.592 per unit per month	
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 2020**

Sustainable Australian Shares	High Growth	Balanced Growth	Balanced	Conservative	Managed Cash
N/A	0.33%	0.30%	0.28%	0.23%	0.07%

Investment fee charged for the Account-Based Pension Plan for the year ended 30 June 2020

Sustainable Australian Shares	High Growth	Balanced Growth	Balanced	Conservative	Managed Cash
N/A	0.33%	0.30%	0.28%	0.23%	0.07%

Indirect costs ratio

Indirect costs ratio charged for the Accumulation Scheme for the year ended 30 June 2020

Sustainable Australian Shares	High Growth	Balanced Growth	Balanced	Conservative	Managed Cash
N/A	0.47%	0.45%	0.45%	0.45%	0.06%

Indirect costs ratio charged for the Account-Based Pension Plan for the year ended 30 June 2020

Sustainable Australian Shares	High Growth	Balanced Growth	Balanced	Conservative	Managed Cash
N/A	0.47%	0.45%	0.45%	0.45%	0.06%

Administration fees charged

For the year ended 30 June 2020	Retirement Scheme	Defined Benefit Scheme
Administration fee	\$71.24 per annum (\$1.37 per week) and 0.26% p.a.	0.37% p.a.
Exit fee	N/A	N/A
Investment Switching fee	\$27.00 per switch	N/A

Investment fee charged in the Retirement Scheme (Accumulation components only) for the year ended 30 June 2020

These investment fees are charged to the following accounts:

- Contributory members (excluding any Other Contributions account)
- Other Contributions
- Deferred members

High Growth	Growth	Balanced Growth	Balanced	Conservative	Managed Cash
0.33%	0.30%	0.30%	0.28%	0.23%	0.07%

Indirect costs ratio charged in the Retirement Scheme (Accumulation components only) for the year ended 30 June 2020

These indirect costs ratios are charged to the following accounts:

- Contributory members (excluding any Other Contributions account)
- Other Contributions
- Deferred members

High Growth	Growth	Balanced Growth	Balanced	Conservative	Managed Cash
0.47%	0.46%	0.45%	0.45%	0.45%	0.06%

Financial planning fee ('advice fee')

LGS 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

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 ¹	\$110
Benefit split fee ²	\$88

Retirement Scheme and Defined Benefit Scheme (includes GST)

Request for information ¹	
- Current members	\$275
- Deferred members	\$110
- Pensioners	\$110
Benefit split fee ²	\$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 or from Member Services.

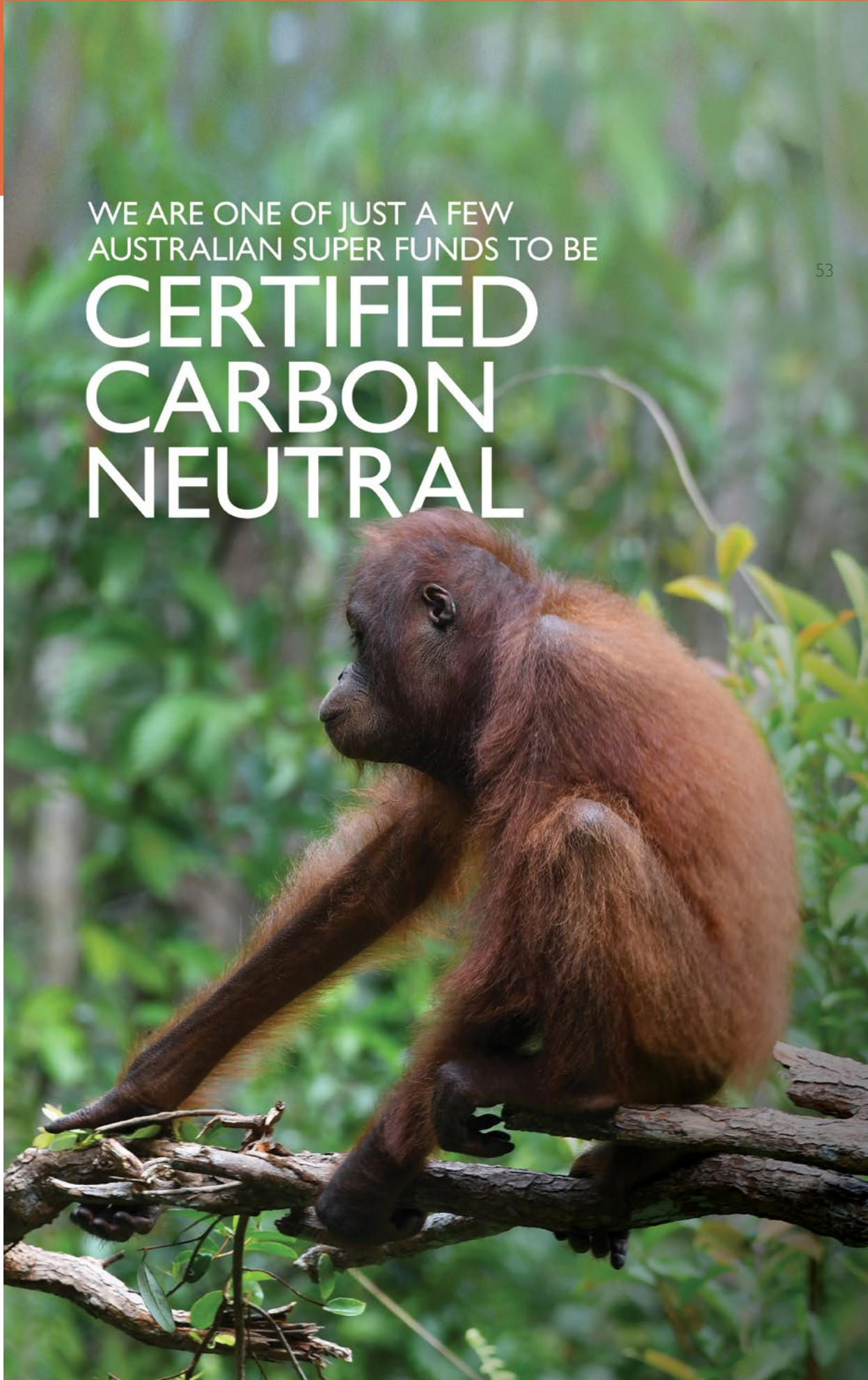
1. This fee is payable by the person requesting the information.
2. This fee is generally payable by the member and non-member spouse in equal parts (\$44 each). However, if the non-member spouse is entitled to the whole amount of a splittable payment, the entire amount is payable by the non-member spouse. 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.

▼ Reforestation: Borneo

We are one of just a few Australian super funds to be certified carbon neutral. We offset some of our carbon output to Rimba Raya – 65,000 hectares of protected area in Indonesian Borneo, and also the world's largest privately-funded orangutan sanctuary.

WE ARE ONE OF JUST A FEW
AUSTRALIAN SUPER FUNDS TO BE

CERTIFIED CARBON NEUTRAL



07 FINANCIAL STATEMENTS

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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

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 as part of 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 (5.28% as at 30 June 2020)
- Local Government Property Fund (5.47% as at 30 June 2020)



Paul

Crew leader, parks maintenance
Member since 2016

CREATE A
BETTER FUTURE
FOR OUR MEMBERS



**Statement of Financial Position
As at 30 June 2020**

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	2020 \$'000	2019 \$'000
Assets		
Cash and cash equivalents	153,673	116,073
Receivables	945	6,107
Investments		
Cash and Short Term Deposits	939,739	1,268,829
Other Interest Bearing Securities	3,409,352	2,575,352
Australian Equities	3,668,409	4,251,428
International Equities	2,082,247	3,387,286
Australian Unit Trusts	617,126	228,996
International Unit Trusts	1,080,748	342,132
Derivative Assets	149,911	57,496
Deferred tax assets	616	1,594
Total assets	12,102,766	12,235,293
Liabilities		
Payables	(3,997)	(4,314)
Derivative Liabilities	(46,784)	(51,868)
Income tax payable	(62,550)	(27,558)
Deferred tax liabilities	(61,709)	(82,736)
Total liabilities excluding member benefits	(175,040)	(166,476)
Net assets available for member benefits	11,927,726	12,068,817
Member benefits		
Defined contribution member liabilities	(8,438,056)	(8,363,802)
Defined benefit member liabilities	(3,413,212)	(3,559,666)
Unallocated to members	(1,189)	(767)
Total member liabilities	(11,852,457)	(11,924,235)
Total net assets	75,269	144,582
Equity		
Other reserves	80,531	94,570
Operational risk reserve	33,278	32,260
Defined benefits that are (underfunded) / overfunded	(38,540)	17,752
Total equity	75,269	144,582

Income Statement
For the year ended 30 June 2020

	2020	2019
	\$'000	\$'000
Superannuation activities		
Interest	80,139	86,292
Dividend revenue	158,660	212,378
Distributions from unit trusts	182,129	316,692
Changes in assets measured at fair value	(438,121)	218,121
Other investment income	4,437	2,328
Other income	110	220
Total superannuation activities income	(12,646)	836,031
Expenses		
Administration expenses	(5,955)	(7,029)
Investment expenses	(36,006)	(38,910)
Operating expenses	(29,624)	(26,887)
Anti-detriment expenses	-	(144)
Total expenses	(71,585)	(72,970)
Net result from superannuation activities	(84,231)	763,061
(Loss) / profit from operating activities	(84,231)	763,061
Net change in Defined Benefit member liabilities	(40,682)	(221,814)
Net benefits allocated to Defined Contribution member accounts	27,993	(511,330)
(Loss) / profit before income tax	(96,920)	29,917
Income tax benefit / (expense)	27,607	(13,259)
(Loss) / profit after income tax	(69,313)	16,658

**Statement of Changes in Member Benefits
For the year ended 30 June 2020**

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	Defined Contribution Members ("DC") \$'000	Defined Benefit Members ("DB") \$'000	Total \$'000
Opening balance as at 1 July 2019	8,363,802	3,560,433	11,924,235
Contributions:			
Employer	368,972	109,899	478,871
Member	135,863	9,542	145,405
Transfer from other superannuation plans	315,097	8,781	323,878
Government co-contributions	355	22	377
Income tax on contributions	(54,245)	(16,503)	(70,748)
Net after tax contributions	766,042	111,741	877,783
Benefits to members/beneficiaries	(672,891)	(288,757)	(961,648)
Transfer from defined benefit to defined contribution	9,698	(9,698)	-
Insurance premiums charged to members' accounts	(12,491)	-	(12,491)
Death and disability insurance benefits credited to members' accounts	11,889	-	11,889
Benefits allocated to members' accounts, comprising:			
Net investment income	(22,158)	(15,642)	(37,800)
Administration fees	(5,835)	(996)	(6,831)
Actuarial Deficiency**	-	57,320	57,320
Closing balance as at 30 June 2020	8,438,056	3,414,401	11,852,457

** 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 2019**

	Defined Contribution Members ("DC") \$'000	Defined Benefit Members ("DB") \$'000	Total \$'000
Opening balance as at 1 July 2018	7,668,819	3,533,039	11,201,858
Contributions:			
Employer	357,998	124,954	482,952
Member	157,021	10,521	167,542
Transfer from other superannuation plans	315,580	7,319	322,899
Government co-contributions	347	32	379
Income tax on contributions	(51,923)	(18,549)	(70,472)
Net after tax contributions	779,023	124,277	903,300
Benefits to members/beneficiaries			
	(610,288)	(305,212)	(915,500)
Transfer from defined benefit to defined contribution	13,485	(13,485)	-
Insurance premiums charged to members' accounts	(13,879)	-	(13,879)
Death and disability insurance benefits credited to members' accounts	15,312	-	15,312
Benefits allocated to members' accounts, comprising:			
Net investment income	518,288	224,174	742,462
Administration fees	(6,958)	(1,150)	(8,108)
Transfer from reserve*	-	68	68
Actuarial Deficiency**	-	(1,278)	(1,278)
Closing balance as at 30 June 2019	8,363,802	3,560,433	11,924,235

* Transfer from Murrumbidgee reserve for cash flow deficit due to timing of insurance payments received from Challenger.

** 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 2020**

	Defined Benefits that are (underfunded) \$'000	Other reserves \$'000	ORFR \$'000	Total equity \$'000
Opening balance as at 1 July 2019	17,752	94,570	32,260	144,582
Increase in DB member benefits	(40,682)	-	-	(40,682)
Operating result	(15,610)	(14,039)	1,018	(28,631)
Closing balance as at 30 June 2020	(38,540)	80,531	33,278	75,269

	Defined Benefits that are (underfunded) \$'000	Other reserves \$'000	ORFR \$'000	Total equity \$'000
Opening balance as at 1 July 2018	86,697	8,217	33,010	127,924
Increase in DB member benefits	(221,814)	-	-	(221,814)
Transfer between reserves	68	(68)	-	-
Operating result	152,801	86,421	(750)	238,472
Closing balance as at 30 June 2019	17,752	94,570	32,260	144,582

Statement of Cash Flows
For the year ended 30 June 2020

	2020	2019
	\$'000	\$'000
Cash flows from operating activities		
Interest from cash and cash equivalents	80,159	86,292
Administration expenses	(35,936)	(40,672)
Insurance Proceeds	11,889	15,555
Insurance Premiums	(12,452)	(14,428)
Other income / (expenses)	5,244	(2,145)
Anti-detriment expenses	-	(144)
Income tax refunded / (paid)	42,550	258
Net cash inflows from operating activities	91,454	44,716
Cash flows from investing activities		
Purchase of investments	(4,288,384)	(2,229,742)
Proceeds from sale of investments	4,354,401	2,243,023
Investment expenses	(36,006)	(38,910)
Net cash inflows / (outflows) from investing activities	30,011	(25,629)
Cash flows from financing activities		
Employer contributions	478,871	482,952
Member contributions	145,405	167,542
Transfers from other superannuation plans received	323,878	322,899
Government co-contributions received	377	379
Benefits paid to members	(961,648)	(915,500)
Income tax paid on contributions received	(70,748)	(70,472)
Net cash outflows from financing activities	(83,865)	(12,200)
Net increase in cash	37,600	6,887
Cash at the beginning of the financial period	116,073	109,186
Cash at the end of the financial period	153,673	116,073

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MORE INFORMATION ABOUT THE FUND

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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;
- emailing a complaint to info@lgsuper.com.au with Notice of Complaint included in the subject line of the email; or
- mailing a written complaint with Notice of Complaint marked on the envelope.

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

Send written complaints to:
Complaints Resolution Manager
Local Government Super
PO Box H290
Australia Square NSW 1215

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 will ensure a complaint is considered appropriately and a response provided as soon as possible.

If the Trustee has not made a decision within 90 days of receipt of a complaint, the 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 its decision.

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 have the option of referring their complaint to the Australian Financial Complaints Authority (AFCA).



Sam

Library assistant, children and youth
Member since 2001

OUR VISION IS
TO BE RECOGNISED
AS A LEADER IN
**RESPONSIBLE
INVESTMENT**

Australian Financial Complaints Authority (AFCA)

If an issue has not been resolved to your satisfaction or you are unhappy with the way we are handling your complaint, you can lodge a complaint with the Australian Financial Complaints Authority, or AFCA. AFCA commenced operation from 1 November 2018 and replaced 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
Email: info@afca.org.au
Phone: 1800 931 678 (free call)
Mail: Australian 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.

Diversity and inclusion

LGS has a Diversity and Inclusion Policy and the LGS Board provides specific gender diversity targets.

The gender representation within our employee groups against the Board targets are reported through to the Governance, Remuneration and Nomination Committee quarterly. An overview is also provided to the Board through the CEO's dashboard reporting.

A key objective of the policy is to increase cultural diversity in leadership and senior executive positions.

As at 30 June 2020, the average headcount was 100 with an even ratio of male to female respectively across the organisation.

Temporary residents leaving Australia

Temporary residents of Australia who have permanently left Australia, may be entitled to take their super with them when they leave.

However, temporary residents can only claim their super benefits from LGS within six months of departing Australia or within six months of the expiry or cancellation of the visa, whichever event is later.

If they don't claim their money within six months of departing Australia, their super will be paid to the ATO and their LGS account will be closed without notification. They will then need to contact the ATO directly to claim their super.

Under Australian Securities and Investments Commission relief, we are not required to notify or give an exit statement to a member who was a temporary resident if we are required to transfer their unclaimed super to the ATO in these circumstances.

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 Laws 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.

As at 30 June 2020, the Accumulation ORFR was 0.28% of Accumulation products' assets.

The Trustee is required to maintain the reserve in accordance 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 relate to the period prior to the commencement of the external insurance arrangements on 1 March 2009.

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 2020, the Defined Benefit ORFR was 0.29% of the Defined Benefit product's assets.

The Trustee is required to maintain the reserve in accordance 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)
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
2019	37	108,700	22,917	1,391
2020	4,559	58,349	23,582	1,352

Defined Benefit Reserves

Year	Defined Benefit (\$'000)	ORFR (\$'000)	Additional Benefit (\$'000)	Admin (\$'000)	Tax (\$'000)
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	-	-
2019	1,918,431	9,343	6,191	-	-
2020	1,806,433	9,696	6,002	-	-

* 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 above-mentioned 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)
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)
2019	(89)	57,795	(265)	-
2020	4,552	(50,351)	665	(39)

Defined Benefit Reserves

Year	Defined Benefit (\$'000)	ORFR (\$'000)	Additional Benefit (\$'000)	Admin (\$'000)	Tax (\$'000)
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)	-	-
2019	14,952	(485)	-	-	-
2020	(111,998)	353	-	-	-

* 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?

The Defined Benefits Reserve is invested in a Growth style investment strategy. The other 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 other investments.

09 IMPORTANT CHANGES

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Changes in the 2019/20 financial year

Below is a summary of important changes in the 2019/20 financial year affecting LGS and our members.

Trust Deed changes

There were no amendments to the Fund's Trust Deed during the 2019/20 financial year.

Constitution change

On 16 March 2020, the LGSS Pty Limited Constitution was amended to allow for resolutions in writing to be passed by a majority of directors, instead of requiring the unanimous approval by all directors, which is intended to increase the efficiency of the decision-making process.

LGS identified as global leader in responsible investment

On 11 September 2019, it was announced that LGS was selected by the Principles for Responsible Investment (PRI) to be included into the PRI Leaders' Group.

LGS was identified by the PRI as being in the top 10% of responsible asset owners worldwide and as a result, has been included in the PRI Leaders' Group which was founded to showcase ESG leadership and to increase the accountability in respect to responsible investment standards.

Update to Insurance in Superannuation Voluntary Code of Practice (the Code)

The Code came into effect on 1 July 2018 to set standards that will provide greater understanding, clearer accountability and consistency of delivery for insurance benefits provided in superannuation.

The Code was updated on 1 March 2020, and again on 3 July 2020, to align with the *Treasury Laws Amendment (Putting Members' Interests First) Act 2019* (the PMIF) and the *Treasury Laws Amendment (Protecting Your Superannuation) Act 2019* (the PYS) legislation. LGS has voluntarily adopted the Code and will transition to the standards of the Code by 1 July 2021.

Reduction of our administration fees

From 1 October 2019, LGS reduced the rate of our percentage-based administration fee by 0.01% to 0.26% per year. The rate of administration fee was further reduced to 0.25% from 1 July 2020. LGS continues to look for ways to improve the retirement outcomes of our members and to provide better value for money products and services.



SUPPORTING OUR MEMBERS

THROUGH THEIR LIFELONG
FINANCIAL JOURNEY



Rachael
Coordinator, landscape
Member since 2001

Changes in strategic asset allocation

In September 2019, LGS undertook a strategic asset allocation review with the help of an asset consultant.

The Board approved the following changes to the strategic allocations:

- Increased exposure to Australian shares matched by a decrease in commodities
- Increased allocation to private equity matched by a decrease in opportunistic alternatives
- Increased weighting to absolute return matched by a decrease in bonds
- Some increase in defensive alternatives
- Some reduction in cash

The changes were made to take advantage of long-term opportunities in Australian shares and private equity. The reductions in bonds and cash were due to the low yields available in the fixed income asset class.

Some of the investment ranges were shifted to centre them around the strategic allocation.

Insurance premium increases from 1 October 2019

Insurance premiums for Death Total and Permanent Disablement (TPD) insurance cover increased by 7% from 1 October 2020. There were no insurance premium increases for Salary Continuance Insurance (SCI) insurance cover.

This increase is due to the impact of the 'Protecting Your Super' legislation.

LGS continues to ensure the cost of insurance cover does not inappropriately erode members' retirement incomes whilst ensuring our insurance cover remains appropriate.

Closure of the Sustainable Australian Shares (SAS) investment option

LGS regularly reviews the range of investment options to make sure the provision of appropriate and cost-effective investment options for members. As a result, the Sustainable Australian Shares (SAS) investment option was closed effective 24 September 2019.

Legislative Changes

'Putting Members' Interests First' (PMIF) legislation

The PMIF legislation commenced on 1 April 2020, which means that insurance in superannuation can only be offered on an opt-in basis for:

- members under 25 years of age, or
- members who have low account balance (below \$6,000).

The new legislation is intended to protect members' superannuation account balances from being eroded by insurance premiums for cover that members may not want or need.

As a result, new members who join LGS from 1 April 2020 must be above 25 years of age and have at least \$6,000 in their superannuation account to automatically receive Basic Insurance Cover.

‘Protecting Your Super’ (PYS) legislation

The PYS legislation commenced on 1 July 2019, which means that:

- member accounts which have not received a contribution in 16 months will have their insurance cancelled, unless a member makes a written election to keep their insurance;
- member accounts which are inactive and have an account balance below \$6,000 will be transferred to the ATO, who will try to combine the amount into another active account held by the member;
- member accounts with balances less than \$6,000 will have their fees now capped at 3% of the account balance; and
- exit fees will also no longer be charged.

The new legislation was introduced to protect account balances from erosion due to fees and insurance premiums as well as to reduce unintended multiple low balance accounts.

Coronavirus Economic Response Package Omnibus Act 2020

The *Coronavirus Economic Response Package Omnibus Act 2020* commenced on 25 March 2020 which means that:

- there is a new compassionate ground of early release allowing eligible individuals to access up to \$10,000 of their superannuation in 2019-20 and a further \$10,000 in 2020-21; and
- the minimum draw-down for account-based pensions and similar products is reduced by 50 per cent for 2019-20 and 2020-21.

The new legislation was introduced to provide temporary relief to individuals and corporations suffering from financial distress due to the COVID-19 pandemic.

Members need to apply online through myGov and the ATO will assess their eligibility. If eligible, the ATO will advise LGS to release the amount requested from their super account to the member.

New rule to support Coronavirus early release of superannuation

AUSTRAC has introduced a new rule to help to streamline the customer verification process for superannuation funds to make payments to members under the COVID-19 early release of superannuation initiative.

Commencing on 16 April 2020, the *Anti-Money Laundering and Counter-Terrorism Financing Rules Amendment Instrument 2020 (No. 1)* means that where the ATO has approved a payment under the COVID-19 early release of superannuation initiative, superannuation funds will not have to carry out the applicable customer identification procedure before making these payments to members.

Under the new rule, LGS is exempt from carrying out the applicable customer identification procedure before making payments under the early release of superannuation initiative; however, other obligations under the AML/CTF Act still apply, including ongoing customer due diligence and suspicious matter reporting.

Government extends timeline for reporting entities to submit statements under the Modern Slavery Act 2018

On 28 April 2020, the Government announced that it would provide entities with an additional 3 months to assess changing modern slavery risks linked to COVID-19 and to ensure that entities are able to comply with their legislative obligations and prepare their modern slavery statements. The deadline for the modern slavery statements has been extended from 31 December 2020 to 31 March 2021.

As a reporting entity, LGS must adhere to the Modern Slavery Act and work is ongoing on our first modern slavery statement due 31 March 2021.

Implementation of Royal Commission Recommendations deferred

The Government has announced a six month deferral to the introduction of legislation in relation to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry as a result of the significant impacts of COVID-19.

Under the updated timetable, measures that the Government had indicated would be introduced into the Parliament by 30 June 2020, will now be introduced by December 2020. Similarly, those measures originally scheduled for introduction by December 2020 will now be introduced by 30 June 2021.

Superannuation Guarantee (Administration) Amendment (Jobkeeper Payment) Regulations 2020

The Government has registered the *Superannuation Guarantee (Administration) Amendment (Jobkeeper) Payment Regulations 2020* (the Regulations) to ensure that employers are not subject to additional Superannuation Guarantee (SG) obligations as a result of participation in the JobKeeper scheme.

The Regulations set out that SG payments will only be required to be paid to an employee for the performance of work (including the taking of leave).

The Regulations recognise that an employer is only entitled to a JobKeeper payment for its employees if the business has suffered a substantial decline in turnover. In these circumstances, employers are only required to make superannuation contributions in respect of amounts that are paid to an employee for the performance of work and are not required to make contributions in relation to additional amounts paid to satisfy the wage condition.

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