LOCAL GOVERNMENT SUPER

Product Disclosure Statement

Fact sheet

5. How we invest your money

The information in this document forms part of the Product Disclosure Statement (PDS), dated 6 February 2012, for the LGS Accumulation Scheme. This document is dated 6 February 2012.

Overview

You can elect to invest your account balance and/ or future contributions in a combination of one or more of the following investment options.

Pre-mixed options	Single sector options
High Growth	Australian Shares
Balanced Growth	Sustainable Australian Shares
Balanced	International Shares
Conservative	Australian Listed Property
	Australian Fixed interest
	International Fixed Interest
	Cash

High Growth investment option

Definition	For high investment growth above the Consumer Price Index (CPI) over the longer term. The High Growth option generally invests a very high proportion of its funds in growth assets, such as Australian and international shares and property. This combination aims to earn high real investment growth above CPI over a 7 year period. Because the emphasis is on growth, you should keep in mind that there may be what financial professionals call 'short-term volatility' in this option. In other words, the value of the investment may fluctuate over the short term.	
Asset allocation	**Asset class**	**Asset allocation range**
	Australian Shares	30-40%
	International Shares	27-37%
	Australian Direct Property*	0-10%
	International Listed Property	0-6%
	Commodities	0-3%
	Semi Liquids*	0-10%
	Private Equity*	5-15%
	Absolute Return Funds	3-13%
	Australian Fixed Interest	0-5%
	Aust Inflation Linked Bonds	0-5%
	International Fixed Interest	0-5%
	Cash	0-10%
	Defensive Illiquids*	0-5%
Objective	4.5% net investment return per annum above CPI, measured over a rolling 7 year period**	
Time horizon	7 years	
Risk profile	High. There is a significant chance that the investment value may decrease in the short term. The chance of a negative return in any year is 1 in 3.	

*Note that the combined investments in these asset classes will not exceed 25%.

** Objective net investment returns is net of fees but not net of taxes.

How we invest your money

Balanced Growth investment option

Definition	For real investment growth above the CPI over the medium to longer term. For investors who want a high exposure to Australian and international shares and property and are prepared to accept more risk. The emphasis is on growth so investors should be prepared for some potential short-term volatility. In other words the value of the investment may fluctuate over the short term.	
Asset allocation	**Asset class**	**Asset allocation range**
	Australian Shares	21-31%
	International Shares	20-30%
	Australian Direct Property*	0-10%
	International Listed Property	0-6%
	Commodities	0-3%
	Semi Liquids*	0-10%
	Private Equity*	1-11%
	Absolute Return Funds	6-16%
	Australian Fixed Interest	0-10%
	Aust Inflation Linked Bonds	0-10%
	International Fixed Interest	0-10%
	Cash	0-10%
	Defensive Illiquids*	0-6%
Objective	3.5% net investment return per annum above CPI, measured over a rolling 5 year period**	
Time horizon	5 years	
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.	

Balanced investment option

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 3 year period. There are more assets that produce income which makes the option more stable than the High Growth and Balanced Growth options.	
Asset allocation	**Asset class**	**Asset allocation range**
	Australian Shares	11-21%
	International Shares	10-20%
	Australian Direct Property*	0-10%
	International Listed Property	0-6%
	Commodities	0-3%
	Semi Liquids*	1-11%
	Private Equity*	0-10%
	Absolute Return Funds	7-17%
	Australian Fixed Interest	6-16%
	Aust. Inflation Linked Bonds	6-16%
	International Fixed Interest	6-16%
	Cash	0-10%
	Defensive Illiquids*	0-8%
Objective	2.5% net investment return per annum above CPI, measured over a rolling 3 year period.**	
Time horizon	3 years	
Risk profile	Medium. Although the emphasis is on spreading your investment over various asset classes, there is a possibility that the value of the investment will decrease in the short term. The chance of a negative return in any year is 1 in 5.	

*Note that the combined investments in these asset classes will not exceed 25%.
** Objective net investment returns is net of fees but not net of taxes.

How we invest your money

Conservative investment option

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 2 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.	
Asset allocation	**Asset class**	**Asset allocation range**
	Australian Shares	1-11%
	International Shares	1-11%
	Australian Direct Property*	0-8%
	International Listed Property	0-6%
	Commodities	0-3%
	Semi Liquids*	5-15%
	Private Equity*	0-6%
	Absolute Return Funds	11-21%
	Australian Fixed Interest	8-18%
	Aust. Inflation Linked Bonds	8-18%
	International Fixed Interest	8-18%
	Cash	5-15%
	Defensive Illiquids*	0-10%
Objective	2% net investment return per annum above CPI, measured over a rolling 2 year period.**	
Time horizon	2 years.	
Risk profile	Medium/Low. Although the emphasis is more on security, returns and the value of the investment can still fluctuate. The chance of a negative return in any year is 1 in 8.	

*Note that the combined investments in these asset classes will not exceed 25%.
** Objective net investment returns is net of fees but not net of taxes.

Australian Shares

Definition	Australian Shares aims to provide for high investment growth above the Consumer Price Index (CPI) over the long term, 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 Australian Shares is measured against the S&P/ASX 200 Accumulation Index benchmark.	
Asset allocation	**Asset Class**	**Asset Allocation Range**
	Australian Shares	100%
Objective	4.5% net investment return per annum above CPI, measured over a rolling 7 year period.	
Time Horizon	7 years.	
Risk Profile	High. There is a significant chance that the investment value may decrease in the short term.	

Sustainable Australian Shares

Definition	Sustainable Australian Shares aims to provide for high long term investment growth above the Consumer Price Index (CPI) by investing in Australian Shares according to the Sustainability Criteria. However because the emphasis is on growth, it is likely that this option will from time to time produce a negative return. The performance of Sustainable Australian Shares is measured against the S&P/ASX 200 Accumulation Index benchmark.	
Asset allocation	**Asset Class**	**Asset Allocation Range**
	Sustainable Australian Shares	100%
Objective	4.5% net investment return per annum above CPI, measured over a rolling 7 year period.	
Time Horizon	7 years	
Risk Profile	High. There is a significant chance that the investment value may decrease in the short term.	

International Shares

Definition	International Shares aims to provide for high investment growth above the CPI over the long term, 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 International Shares is measured against the MSCI World Index (ex Australia) benchmark.	
Asset allocation	**Asset Class**	**Asset Allocation Range**
	International Shares	100%
Objective	4.5% net investment return per annum above CPI, measured over a rolling 7 year period.	
Time Horizon	7 years	
Risk Profile	High. There is a significant chance that the investment value may decrease in the short term.	

Australian Listed Property

Definition	Australian Listed Property aims to provide for investment growth above the CPI over the medium term, 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 Australian listed property is measured against the S&P/ASX 200 Property Accumulation Index benchmark.	
Asset allocation	**Asset Class**	**Asset Allocation Range**
	Australian Listed Property	100%
Objective	3.5% net investment return per annum above CPI, measured over a rolling 5 year period.	
Time Horizon	5 years	
Risk Profile	Medium to High. There is a moderate chance that the investment value may decrease in the short term.	

Australian Fixed Interest

Definition	Australian Fixed Interest aims to provide for investment growth above the CPI, over the medium term, however there may be occasions over short time periods where returns may be low or negative. The performance of Australian fixed interest is measured against the UBSA Government Index.	
Asset allocation	**Asset Class**	**Asset Allocation Range**
	Australian Fixed Interest	100%
Objective	2% net investment return per annum above CPI, measured over a rolling 2 year period.	
Time Horizon	2 years.	
Risk Profile	Medium. There is potential that the investment value may decrease in the short term.	

International Fixed Interest

Definition	International Fixed Interest aims to provide for high long term investment growth above the Consumer Price Index (CPI), 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 International fixed interest is measured against the Barclays Global Aggregate Index (hedged).	
Asset allocation	**Asset Class**	**Asset Allocation Range**
	International Fixed Interest	100%
Objective	2.5% net investment return per annum above CPI, measured over a rolling 3 year period.	
Time Horizon	3 years	
Risk Profile	Medium. There is potential that the investment value may decrease in the short term.	

How we invest your money

Cash investment option

Definition	For investors who want exposure to investments in money market securities with a very low risk of capital loss. The Cash option invests predominantly in short-term Australian money market assets. In addition, a small proportion of the assets (up to 15%) is invested in global interest type assets having a longer maximum term. This gives this option greater exposure to higher returns than by just investing in short-term domestic assets, with only a small increase in the overall volatility of the returns. This option offers investments for short-term investors or those seeking less volatile returns.	
Asset allocation	**Asset class**	**Asset allocation range**
	Cash and income producing assets	100%
Objective	0.25% net investment return per annum above the "cash"* rate, measured over a rolling 2 year period.**	
Time horizon	2 years	
Risk profile	Low. Depending on market volatility, there is a chance that this investment may experience a negative return, but this is expected to only be for periods of no more than a month. Over longer time frames, the chance of a negative return would be remote.	

* The benchmark for the cash rate is the UBS bank bill index.
** Objective net investment returns is net of fees but not net of taxes.

Automatic Switch upon Death Notification

Upon notification of the death of a member, any of the deceased's benefit will be moved to the cash option where it will remain until the death benefit is paid out.

Sustainable investing

LGS, like other super funds, invests in a range of assets including shares, private equity and direct property, but unlike most funds LGS actively invests these assets based on a sustainable and socially responsible investment policy. This policy specifically takes into consideration environmental, social and corporate governance (ESG) issues[1].

How does the policy work?

The policy sets out the sustainability framework for all investments made by LGS. It covers the total investment portfolio, with specific policies for private equity and direct property investments as follows:

- The regulatory framework of LGS
- Selection of external asset consultants
- Selection and monitoring of investment managers, private equity and targeted investments
- Collaboration and engagement with other sustainable investing organisations
- Negative screening and replacement of investments
- Green management of direct property
- Commitment to the issue of climate change
- Proxy voting to influence companies environmental decisions
- Reporting of sustainability option to members and
- Corporate citizenship.

We further expand on several of the above initiatives to confirm to you the way in which the assets of LGS are invested in compliance with this policy.

1 Note that third party investment managers for the underlying portfolios in the Local Investment Fund may have various policies which also take these ESG factors into account when they make investment decisions. However, these policies do not have any direct bearing on the Trustee's investment decisions.

Manager selection and monitoring

When selecting new investment managers, our due diligence requires a demonstration of how an assessment of ESG risks is incorporated into their investment process. The investment manager is asked to specify the resources available to analyse ESG risks, including personnel and their expertise, and their use of any external research services.

Managers are encouraged to discuss ESG and other risks in their investment reports to LGS. The LGS investment team monitors the investment portfolios of its investment managers to ensure that LGS' investment and ESG guidelines are adhered to. The LGS investment team holds discussions with investment managers who do not adhere to LGS policy to reiterate the importance of these policies. If there are continual breaches of the investment policies, LGS may withdraw the investment mandate.

Environmental issues

LGS considers climate change to be one of the most serious environmental risks facing the long-term prosperity of the fund and its members. LGS is a signatory to the Carbon Disclosure Project which collects and distributes information that helps prevent dangerous climate change.

LGS participated in the Climate Change Investment Initiative and commits to ongoing support for this project. It assists superannuation funds to understand their climate change risks and manage them effectively. As part of this initiative, in 2010 LGS was ranked first in an Asset Owners Disclosure Project. LGS ranked first overall but also placed in top spot in six out of the 12 categories and in the top ten for the remaining categories. LGS has also joined the Investor Group on Climate Change, which has the objective of raising awareness of climate change risks and encouraging best practices in the management of these risks.

When assessing existing and future investments, LGS assesses the environmental impact the operations of the investment have on the environment and the active steps the organisation has taken to commit to environmentally sustainable operations.

The Trustee of LGS is also an active shareholder and attempts to influence proper social and environmental activities when it casts its votes at company or shareholder meetings.

Principles of Responsible Investment

LGS is a signatory to the United Nations Principles of Responsible Investment (UN PRI) and as such undertakes to:

1. Incorporate ESG issues into investment analysis and decision making processes
2. Be active owners, vote on shareholder issues and participate in collective engagement
3. Seek disclosure on ESG issues by our investment managers
4. Promote the acceptance and implementation of the UN PRI Principles in the investment industry
5. Collaborate with other organisations to enhance effectiveness and
6. Report on our sustainability activities.

Collaboration and engagement

LGS is a foundation member of the Australian Council of Superannuation Investors (ACSI) and utilises ACSI to assist in ensuring that there is adequate scrutiny in the governance policies of listed companies. LGS is also a part owner and subscriber to Regnan - Governance Research & Engagement Pty Limited, a company dedicated to research and engagement services that promote improved ESG performance from Australian companies.

Through these organisations, LGS is able to engage with companies using a collective voice.

Socially responsible overlay

LGS uses an overlay based on research to exclude companies that operate in the industries and companies set out below which have been assessed to have a high ESG risk. It then replaces those stocks with companies that have high ESG ratings. This practice helps ensure that your superannuation money is invested in industries which are sustainable in the long term.

Where it is impractical for an investment to participate in the separate portfolio, LGS will consider the divestment of that investment on a case by case basis.

The Trustee has determined that LGS will not make investments in companies that are engaged in the following areas of activity:

1. Armaments
2. Gambling
3. Nuclear / Uranium
4. Old Growth Logging
5. Tobacco
6. Poor Mining Practices
7. Questionable Workplace Practices and
8. Questionable Environmental, Social or Corporate Governance Practices.

Sustainable Australian Shares

This investment option aims to provide for high long-term investment growth 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.

LGS determines the sustainability criteria applied to the Sustainable Australian Shares investment option. Daily stock selection and portfolio management is outsourced to an external fund manager appointed by LGS. LGS and the external fund manager are in regular contact to ensure the investment and sustainability aims of the fund are maintained.

Sustainability criteria

The Sustainable Australian Shares investment option will exclude investments in ASX listed companies deriving any revenue (that is a 0% revenue threshold) in the activities listed below. Please note that the exclusions are focussed on revenue generated from the "manufacture" or "production" and "ownership" of the activity. They do not extend to other companies providing services to these activities (e.g. banks, transport and mining services companies).

Excluded Activities

- Armaments: Companies undertaking or having ownership in the manufacture, production of armaments, including controversial weapons such as land mines and cluster bombs.
- Gambling: Companies undertaking or having ownership in the manufacture and production of gambling machines and/or ownership of outlets housing these machines.
- Uranium Mining/Nuclear: Companies undertaking or having ownership in uranium mining and production of nuclear energy and weapons.
- Old growth logging: Companies undertaking or having ownership in the logging of old growth forests.
- Tobacco: Companies undertaking or having ownership in the manufacture, production and ownership of tobacco products.
- Coal mining: Companies undertaking or having ownership in the mining of coal. This exclusion does not extend to the companies involved in the main uses of coal such as electricity generators or steel producers.

In addition to the activities listed above, the Sustainable Australian Shares investment option may exclude company investments based on environmental social governance (ESG) Risk. ESG Risk is a commonly used term to describe the broad range of ESG issues that could affect the financial performance and/or share price of a company. As such, LGS seeks to understand the degree to which a company is exposed to these issues and how it manages them. Examples of these ESG issues include, but are not limited to:

- Environmental - climate change, spills and contamination, resource usage, water, waste, and energy consumption
- Social - labour rights, human rights, and supply chain issues
- Governance - corporate governance, board structure, director and executive remuneration.

LGS' internal investment team has established minimum standards for evaluating ESG risk. A company that does not meet these minimum standards may be excluded from investment consideration until their performance has improved. As a core part of this process, LGS sources information from a wide range of external parties such as research houses and stock brokers (please refer www.lgsuper.com.au/sustainability for examples) that have developed scoring and/or rating processes for determining ESG risk profiles of ASX companies.

LGS may change the sustainability criteria applied to the Sustainable Australian Shares investment option without gaining prior approval from unit holders.

Role of LGS and the External Fund Manager(s)

In line with LGS' overall investment approach for the Sustainable Australian Shares investment option, LGS will appoint an external fund manager(s) to manage the daily and ongoing investment research, stock selection and portfolio management and performance reporting roles. LGS employs its expert asset consultant to assist with the selection process for the appointing (and ongoing review) of the external manager(s) for the Sustainable Australian Shares investment option.

As at February 2012, LGS has selected Intrinsic Investment Management to manage the Sustainable Australian Shares investment option. LGS regularly reviews all its external managers. LGS may change the external fund manager(s) employed without consulting unit holders in the investment option.

External fund manager(s) are required to invest in companies that satisfy the Sustainable Australian Shares investment option sustainability criteria. Companies are regularly screened to ensure they continue to satisfy the criteria. Should an existing investment breach the criteria, the external fund manager(s) will have six months to fully divest of the investment.

LGS regularly provides external fund manager(s) with a list of excluded companies (i.e. that do not meet the Sustainable Australian Shares investment option sustainability criteria). The external fund manager(s) will be expected to develop and manage a diversified portfolio of ASX listed companies selected via the fund managers' preferred investment philosophy and approach and with regard to the Sustainable Australian Shares investment option's investment aims and sustainability criteria.

The Sustainable Australian Shares investment option fund manager provides LGS with monthly reporting on the investment performance of the fund as well as compliance with the option's sustainability criteria.

LGS will publish the investment performance of the Sustainable Australian Shares investment option on the LGS website. LGS will also publish the list of the Sustainable Australian Shares investment option's portfolio holdings on the LGS website. A historical list of the option's holdings are provided so as to protect its performance.

Direct Property holdings

The Trustee has adopted an environmental policy which, in part, is designed to increase energy and water efficiencies across the properties directly owned by LGS. The policy also encompasses waste reduction and recycling, indoor air quality, improving operations and maintenance, material and resources, Workplace Health and Safety and environmental risk management.

It is also now the current policy of the Trustee to source 100% of its energy requirements through green energy and requires tenants to follow suit as a condition of their lease renewal.

The Trustee will continually monitor performance in this area and is working towards an objective of 100% green energy for its commercial and industrial direct property investments within 10 years.

Alternative investments

An alternative investment is generally one that is not one of the four traditional asset types (i.e. stocks, property, bonds and cash). As part of its sustainable and socially responsible policy, LGS invests with certain private equity managers such as Hawkesbridge and Macquarie Clean Technology, which make direct investments into clean technology companies such as the Environmental Technology Group and SolarReserve. LGS has a strong commitment to these clean technologies and will continue to explore opportunities in this sector.

Local Investment Fund (LIF)

The LIF is a wholesale investment trust and the majority of the assets of Local Government Super are invested through LIF. The Trustee of LIF is LIF Pty Limited which is a wholly owned subsidiary of the Trustee of LGSS.

The Trustee of LGSS, through its ownership of LIF Pty Limited, is responsible for selecting and managing the range of investment managers which collectively manage the portfolio of each option within LIF. The Trustee also invests a minor proportion of the assets into direct investments, namely the Property Fund.

Local Government Super adheres to the guiding principle that several carefully selected investment managers will over any reasonable period produce:

- More consistency
- Lower volatility and risk
- Better results.

Having a single investment manager is not likely to be as effective.

What is an investment option?

An investment option is a set of rules or guidelines used in constructing an investment portfolio. It will usually set ranges for different classes of assets designed to target different levels of overall investment risk. The ranges for each asset class will be determined by the investment objective of that investment option.

In selecting an investment option, you are instructing the Trustee to invest the amount nominated into a pool of assets constructed by the Trustee, to give effect to the objectives of that option.

When making investment decisions for the investment options, the Trustee takes into account labour standards, environmental, social or ethical considerations in the following manner:

- Such issues that may affect an investment. Any such financial affect would influence our investment decisions.

- The investment managers for the underlying portfolios in LIF may have various policies regarding the extent to which they take into account such matters when investing but they have no direct bearing to the Trustee's investment decision. The Trustee does not consider such factors when selecting third party investment managers.

Your investment in the Scheme is not guaranteed. The value of your investment can rise or fall.

Diversification

Local Government Super's assets are allocated to a range of investment managers. This is to ensure diversification of both investments and investment managers.

Please note that investment managers and/or their weightings will change from time to time and that updated details will be provided in the Local Government Super Annual Report.

Investment returns in recent years

Up–to-date information in relation to the annual effective net earnings for each investment option for the last five financial years are set out in the latest Annual Report, along with other related investment performance information.

You should note that the net earning rate reported in the Annual Report may not be the same as the rate experienced by members because of the timing differences and the reserving policy of Local Government Super.

You should also be aware that past net earning rates are not a reliable indicator of future net earning rates.

More information regarding recent performance can also be found on the website or by contacting Member Services.

Unit pricing

The value of your account is expressed in terms of units. When money is allocated to your account, units in a selected investment are issued to you. The number of units purchased is dependant on the unit price for that day and the amount allocated to your account.

The unit price is the net asset value of the investment on a particular day divided by the total number of units on issue on that particular Business Day. The net asset value is the valuation of assets and liabilities (including indirect management costs) determined by the market price at a valuation point after allowing for transaction costs and the deduction of taxation and expenses.

Provided that all relevant information is available to the Trustee to make the declaration, unit prices for each investment option are calculated and delcared for each business day, with the exception of Australian Listed Property and Sustainable Australian Shares which receive a weekly unit price, calculated and declared once per week. There may be times when unit prices cannot be issued and payments are temporarily suspended. This may occur in times of extreme market volatility caused by political, financial year end, economic or any other crisis.

If this were to occur, an interim valuation method may be applied or payments suspended for a period of time.

Note: A Business Day is a day that the Australian Stock Exchange (i.e. both SEATS [Stock Exchange Automated Trading System] and DTF [Derivatives Trading Facility]) is open for trading in Australia.

Reserves

LGS operates the following reserves in Pool A:

Operational Risk Reserve (ORR)

The ORR operates principally to meet any remaining self insured death/invalidity claims within Pool A and generally to protect LGS from other contingent events or the need for capital expenditure. A specific amount of $100,000 is also maintained in the ORR at all times to satisfy one of the requirements of the Trustee's public offer licence.

The ORR may also hold a reserve up to a maximum of 0.3% of LGS's assets for the purpose of reimbursing members disadvantaged by an error or anomaly to the unit price allocated to them where such amount cannot be recovered from external sources.

Administration and tax reserves

Deductions are made from members' accounts and investment earnings to pay for LGS's income tax liabilities and operational expenses. The administration and tax reserves are invested in cash and apply towards the expenses they relate to as and when they become payable. This information is disclosed in the Annual Reports.

Investment of Reserves

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

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