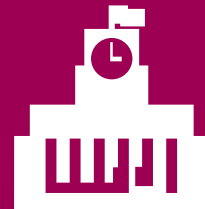


FINANCIAL PLANNING

NEWS



LOCAL GOVERNMENT®
SUPERANNUATION SCHEME

Local Government Super

September quarter 2010

Changes to the investment strategies



Craig Turnbull, Chief Investment Officer

The Trustee constantly monitors and reviews investment performance to ensure that its investment approach is achieving the best possible returns with the lowest level of risk. To this end we

make changes from time to time to the types of assets we choose to invest in as well as the level of exposure we have to the various asset classes in response to changing circumstances.

As a result of the latest review the Trustee has decided to establish a new asset class called Defensive Illiquids. Investments in this area would target low risk assets that produce high returns such as infrastructure, royalties, timber and some forms of debt such as property-related debt.

I would emphasise that this is intended to be a low risk, defensive asset class and is designed to improve the diversification of our overall portfolio and make the returns from our investment strategies more stable.

Liquidity refers to the relative ease with which an asset can be sold at a reasonable price. Some assets such as shares are highly liquid while others such as property take a longer time to sell and are therefore more "illiquid". Many investors became nervous about illiquid investments during the global financial crisis because it became very difficult to get out of those investments at a reasonable price.

All the LGS investment strategies are highly liquid and their exposure to illiquid investments is well below the target levels. While the new asset class, Defensive Illiquids, will form part of this position it will not have a material impact on the flexibility of the overall portfolio. It will in fact reduce the risk profile of the investment strategies by increasing diversification, giving members access to a greater range of stable investments than was previously available.

The exposure of the investment strategies to Defensive Illiquids will be small, ranging from 1% in High Growth to 5% in the Conservative strategy. It will be higher in the more

Welcome. In this issue of Financial Planning NEWS you will find information on:

- Changes to the investment strategies
- The real cost of financial plans
- Frequently asked questions
- Newcastle Retired Member Forum
- The latest from Fair Go
- Health and lifestyle tips

conservative strategies as it is a defensive and stable asset class.

The introduction of this new asset class will also have a minor impact on the asset allocation ranges of some of the other asset sectors. For further details about this and to see the current asset sector composition of the investment strategies please go to the Performance section of our website www.lgsuper.com.au

We can help you with more than just your pension

- ❖ Looking for advice about investing?
We can help you.
- ❖ Are your family members looking for a flexible home loan?
We can help you.
- ❖ Looking to maximise Centrelink and other government benefits?
We can help you.

Call 1300 883 788 for more information.

Is it time to give your financial plan a spring clean?



A lot has happened over the last two years which may have affected your financial circumstances. So if you haven't reviewed your financial plan recently, we encourage you to take five minutes to answer these quick questions.

- Is your investment strategy still relevant to your current situation?
- Do you have the right investment mix to maximise your investment returns?
- Are you in a position to benefit from the current trends in the markets?
- Are you aware of all the Centrelink benefits you are entitled to?
- Are you confident that you have enough funds to meet all your future financial needs?

If you answered 'no' to any of these questions it may be a good time to review your financial plan.

People's circumstances change over time. The aim of a review is to ensure that your financial plan remains appropriate to your goals and that you are doing the very best you can to maximise your savings.

As a member, you can review your plan with one of our financial planners at no extra cost to you. You can come in and meet with one of our planners or we can easily talk with you over the phone if that's more convenient. Just call us on **1300 883 788** or send an email to reviews@futureplus.com.au to book a meeting.

How much does a financial plan cost?

Every time you see one of our financial planners you do so at no direct cost to yourself. But if you did have to pay to see a financial planner how much would it cost?

It's difficult to place an exact cost on the preparation of a financial plan. It can vary depending on the size of the financial planning company, the complexity of the plan and the types of investments recommended, to name just a few factors.

However, the Financial Planning Association of Australia has conducted research in this area to attempt to determine the average cost of drawing up a complex plan across the financial planning industry. It calculates that on average an initial complex plan would cost around \$3,600. Business Health, a financial services research company, has estimated that the average cost of reviewing an existing plan is roughly \$2,500.

Based on these figures, if you had a financial plan drawn up, accepted its recommendations and then had an annual review in the first five years the average direct cost to you would be \$13,600.

The research also indicates that nearly half of those surveyed think that \$500 is about the right price for a financial plan while a quarter thought that \$1,500 was the limit for a reasonably priced plan. The respondents felt that any price beyond those limits would discourage them from paying for financial planning advice.

That is why Local Government Super has adopted a model which provides additional services to members throughout their working lives and in retirement at no additional cost and without the discouragement of an upfront fee.

So make the most of it! Remember that all the additional services we provide are designed to make your retirement easier.

If you would like to speak to a financial planner or you would like to review your existing financial plan please call **1300 883 788**.



Seminars



If you haven't retired yet, or your partner is planning to retire, why not attend a free pre-retirement planning seminar? Also, if you have family or friends that you think may benefit, please feel free to invite them along too.

To view our full calendar of forthcoming seminars, visit www.lgsuper.com.au/Seminars/seminarcalendar.asp

To attend one of our free financial seminars near you, call **1300 369 901**. Alternatively you can book a seat by emailing: info@lgsuper.com.au.

It couldn't be simpler.

Annual Reports online



In an effort to reduce both costs and our carbon footprint, LGS is no longer mailing printed copies of annual reports to members. Rather, the report will be available for viewing and download at our website www.lgsuper.com.au. If you would prefer a printed copy, please call us on **1300 369 901**.

Are you getting enough sun?



Vitamin D is vital for maintaining healthy bones and muscles but the best source of vitamin D is the sun's ultraviolet radiation (UV) which is also the major cause of skin cancer in Australia. Is it possible to maintain a healthy skin while getting adequate vitamin D levels? The answer, according to Osteoporosis Australia is yes.

It seems unlikely that people in a country as sunny as Australia should suffer vitamin D deficiencies but it is a significant problem, especially in the winter. This is partly because many Australians have responded to the Cancer Council's message about the dangers of UV radiation and partly because some groups, especially the elderly, find it

hard to get sufficient exposure to the sun while others, such as office workers, can spend too long at their desks and not enough time outside.

Vitamin D deficiency can affect bone density, making fractures and broken bones more likely and can also reduce muscle strength, making falls more likely, especially for the elderly. So it is important to maintain adequate levels.

Unfortunately, diet can provide only a small proportion of the amount required and while supplements are available the best way to increase vitamin D levels is through exposure to the sun. So how much is safe?

Osteoporosis Australia suggests in winter in NSW people may need two to three hours of sunlight to the face, arms and hands over the course of a week while in the summer a few minutes each day is sufficient. Skin colour is also a factor as the darker your skin the longer the exposure required. There is one important restriction though: you should not expose yourself to the sun if the UV index is 3 or greater. Early morning and late afternoon are usually safe but if you are unsure you should check the SunSmart UV alert displayed in most newspapers or it can be found at the Bureau of Meteorology website at www.bom.gov.au

Getting this right is something of a balancing act and if you are uncertain about how much sun is appropriate or if you need further information go the Osteoporosis Australia website at www.osteoporosis.org.au or consult your GP.

Fair Go - Chartis Travel Insurance



Chartis Travel Insurance

Chartis offers members great travel insurance, at a great price. With savings of up to 50%* on travel insurance compared to buying from a travel agent, not only will you keep your travel agent's commission, you'll also have more money to spend on your next holiday.

Members have access to the following policies:

- International
- Domestic
- Frequent (Annual) Travellers
- Travellers aged over 70

Benefits include:

- Unlimited overseas medical & hospital expenses
- Cover for lost or stolen luggage such as your camera or your iPod
- Cover for trip cancellations and flight delays
- Access to Travel Guard pre trip and emergency assistance
- And lots more!

Visit <http://www.lgsuper.com.au/fairgo/insure.asp> for more information, quotes and to purchase your insurance online.

*Terms & Conditions apply

Frequently asked questions

In the last financial year, why was the Conservative strategy return so close to that of Balanced Growth?

A number of members have questioned why the returns of the aggressive strategies (High Growth and Balanced Growth) were so close to the more conservative ones (Balanced and Conservative) in the last financial year.

The answer in short is twofold - the relatively strong performance of fixed interest or bond type investments and timing - but to explain this fully it is necessary to provide a little background.

All the investment strategies have an investment objective for a specified investment timeframe. For example, High Growth has an objective of 3.5% net return above the "cash" rate (whose benchmark is the UBS bank bill index) over a rolling nine year period. In contrast, the investment objective for the Conservative strategy is 1% above the cash rate over a rolling three year period.

Another difference between strategies is the volatility or risk of short-term upward and downward movements in the value of the investment. For instance, volatility is much higher in a strategy like High Growth than the Conservative strategy. This can be summarised by the investment motto "The higher the return the higher the risk".

You would expect therefore that over time High Growth would outperform the more conservative strategies. However, its volatile nature means that taking a snapshot at one particular moment can produce irregular results. For example, the High Growth return for the financial year was 14.6% but if the financial year had ended three months earlier i.e. the 12 months to 31 March 2010, its return would have been 30.8%.

In other words, when assessing the relative performance of investment strategies you need to take their character into account. Snapshots of a strategy like High Growth with its nine year investment timeframe could produce wildly differing and misleading results while a stable strategy like Cash is meant to be judged over the short term as that is its benchmark.

Timing however is not the only explanation for the close relative performance of the aggressive and conservative strategies in the last financial year.

In the first half of the last financial year share markets around the world recovered from their lows reached during the global financial crisis while they were flat in the second half as worries about debt and the strength of the recovery repressed investor confidence. It was the reverse for bonds and fixed interest investments; while shares performed strongly they struggled but when the mood became more defensive in the second half of the year they rebounded, producing a relatively strong return for the financial year.

Newcastle Retired Member Forum



Left to right: Craig Turnbull, Margaret McNaughton and Peter Lambert

Local Government Super hosted the first Retired Member Forum at Newcastle on 29 July 2010 at the Souths Leagues Club in Merewether, Newcastle. These Forums are designed to help retired members keep in touch with what's happening in investment markets, in super and also to catch up with old colleagues or workmates.

At the Newcastle Forum, Peter Lambert, the CEO of LGS gave an update about changes at Local Government Super and Craig Turnbull, the Chief Investment Officer gave an investment market overview.

There were several exhibitors including Centrelink, the Newcastle regional health service and Volunteers Australia.

It was also a good opportunity for many members to catch up with their financial planner or with the staff at the Newcastle office who were all on hand to help with member enquiries.

The guest speaker was Margaret McNaughton who spoke about her experiences as a volunteer and the benefits for retirees and the community of engaging in volunteering as a retirement activity.

The event finished with a Q and A session which gave members the opportunity to raise any questions they had with senior members of staff.

The response from those who attended was very warm and Forums will be held at other locations in NSW in the future.

me Bank First Home Saver Accounts offer even more value

If you are trying to help your children or grandchildren enter the property market, using the new First Home Saver Account from ME Bank may be the best first step.

The Federal Government has increased the Account Balance Cap and Contribution Threshold on First Home Saver Accounts in line with Average Weekly Earnings as it promised when the savings product was first introduced in October 2008.

	Old	New (effective 1 July 2010)
Account balance cap	\$75,000	\$80,000
Contribution threshold	\$5,000	\$5,500
Maximum government contribution (remains at 17% p.a.)	\$850	\$935

The First Home Saver Account "Account Balance Cap" and "Contribution Threshold" were raised effective from 1 July 2010.

The Contribution Threshold is defined as the amount that a First Home Saver Account customer can put into the account in a financial year that will receive the additional 17% p.a. Government contribution.

Members can currently earn a high 6.25% p.a. interest rate on every dollar they deposit in an ME Bank First Home Saver Account. There is no account keeping fee.

In addition to the First Home Saver Account ME Bank also offers a discounted home loan without the many fees other banks charge, a First Home Saver Account, a low rate personal loan and the low rate MasterCard.

For more information about ME Bank call **13 15 63** today or visit mebank.com.au

Terms, conditions, fees and charges apply. Applications for credit are subject to approval. This information does not take into account your situation and you should consider if these products are appropriate for you. Before you make any decisions about the First Home Saver Account you should review the Product Disclosure Statement and Terms and Conditions available from Members Equity Bank Pty Ltd ABN 56 070 887 679.

Local Government Super makes no representations as to the suitability of ME Bank's products. Any loan you take out or deposit you make with ME Bank is an arrangement between you and ME Bank and LGS has no liability to you in relation to that deposit or loan.

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*Bookings are essential. Phone 1300 883 788 to make an appointment.

What's happened in investment markets?

Throughout the quarter, there were two competing forces trying to drive markets in different directions. On a positive note, companies look attractively valued and the general feeling is that this should sustain an ongoing rally or upswing in share markets. However, the general economic outlook has held share markets back with investors unsure about the long-term outlook and stability of the major economies, particularly the United States.

With US interest rates at all-time lows and the significant levels of stimulus applied to the economy now fading, investors are looking for the Federal Reserve (sometimes called the Fed) to take further action in order to provide renewed stimulus that will spark growth, which currently sits at just 1.3% per annum (compared to 3.3% in Australia). Ben Bernanke, the Federal Reserve chairman, issued several press releases during the quarter to try to instil some investor confidence. These suggested that interest rates will remain at 0.25% for an extended period and hinted that the Fed may put more cash into the economy by buying back previously issued debt in a process called quantitative easing. The Obama government is also trying to reduce the size of government debt through tax increases for high-income earners. This has yet to be passed and the measure is encountering significant opposition from the Republican Party.

Australia still looks to be in a good position, especially in comparison with its US and European counterparts. All economic indicators are at or close to trend (or their long-term average) and unemployment remains low at 5.1%. Unlike most other developed nations the Reserve Bank has been raising interest rates and may continue to do so in order to contain growth in our accelerating economy. This may be unappealing to people with mortgages but it is an indication of the economic strength and positive outlook of the Australian economy.

The following market commentary is provided to give an indication of the various factors affecting the investment performance of individual asset classes. It is based only on the gross performance of the relevant market index and no allowance is made for taxes or fees as they apply in your superannuation investment. It is provided merely as an indication of relative performance between asset

classes and should not be used as a measure for judging the performance of your investment strategy.

Australian Equities

The Australian share market benchmark, the S&P/ASX200 Accumulation Index, returned 8.0% for the quarter, producing the best 3-month return since October 2009. The market was driven by impressive company earnings and a perception that many stocks were reasonably priced. The only thing stopping the market from rallying further was the economic outlook, resonating from the US, which made investors a little nervous about how sustainable a long-term rally might be.

International Equities

Like the domestic market, international equities performed well with the benchmark for global shares, the MSCI World ex-Australia Index, returning 9.4% on a currency hedged basis. The currency impact was again very significant in the quarter with the Australian Dollar appreciating against all of the major currencies. The unhedged version of the MSCI World ex-Australia Index returned -1.1% for the quarter, demonstrating the degree to which currency movements can affect the value of overseas investments.

Cash and Fixed Interest

Interest rates in Australia were left at 4.5% during the quarter as the RBA looks to assess the impact of the rate rises over the previous year. Interest rates are now at a neutral level and are sitting within the long-term average of between 4.5 - 5.5%.

Short-term money markets produced average returns with the UBS Bank Bill Index finishing up 1.2% for the quarter. Bond markets were much the same with the UBS Australian Government Bond Index returning 1.3% as investors sought riskier investments in the rallying equity markets. Globally, government bond prices increased with the benchmark S&P/Citigroup World Government Bond Index (Hedged) returning 3.3%. This is surprising as many foreign governments have interest rates at all-time low levels, which usually push bond prices down, but investors are speculating that interest rates will not rise any time soon and could even fall further.

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