

The risks of going it alone

Self-managed super has been one of the fastest growing segments of the superannuation industry in recent years and now hold more than 30 per cent of Australia's super savings.

Self-managed super funds (SMSFs) have many advantages with the main one being the degree of control that they provide to the investor. They tend to appeal most to those with high super balances and who take an active interest in investment markets.

But SMSFs are not for everyone and there are a few questions the ATO recommends you should ask yourself before you consider starting up your own SMSF:

1. How much time do you have?

'Self-managed' super means you have to run the fund yourself or pay someone else to do it for you. Have you got the time to keep up with what's happening in investment markets, make and implement investment decisions and cope with the administration and reporting obligations involved in running an SMSF?



2. What sort of expertise do you need?

Have you got the skills and experience to make better investment decisions than the investment professionals who follow markets and investment trends full-time? Have you got the legal and administrative experience to manage the many obligations that becoming a trustee demands?

For example, trustees of SMSFs have to submit regular income tax and regulatory returns and comply with a myriad of super and tax laws. They also have a host of legal responsibilities, including keeping proper records for ten years, preparing an investment strategy and selecting and managing investments.

They also have to make all investment decisions in accordance with the sole purpose test which requires that investments be made to maximise retirement benefits and means that you can't lend super money to members or relatives or use investments like artworks for your immediate personal benefit.

If trustees don't comply with these statutory requirements, the Australian Taxation Office (ATO) can impose penalties ranging from fines and loss of tax concessions to imprisonment. The ATO

has recently announced that it will double the number of audits and enlarge its oversight of fund auditors as it shifts its focus to compliance with the law from that of education.

3. What will it cost you?

If you haven't got the time or the expertise you can of course delegate the running of the SMSF to external providers but you will have to pay for those services.

It is often suggested that you need at least \$200,000 in super to make the costs of an SMSF worthwhile. With less than this amount, the fund may have difficulty earning enough to cover the set-up and running costs, such as auditing and regular reporting fees. According to the ATO, SMSFs can typically cost around \$2,000 to run each year and often much more. This doesn't take into account incidentals such as transaction costs.

If you outsource your administration and investment management then your expenses will rise even further and you will still, as a trustee, have to satisfy certain obligations that cannot be delegated altogether.

4. How does it really compare to your current super fund?

Anyone thinking of an SMSF should also make an assessment of the benefits they enjoy in their existing fund and consider whether they can be replicated in an SMSF. For example, could the SMSF provide life insurance at the same cost and the same terms and conditions as the previous fund? Would you be successful in qualifying for a new insurance policy with a new provider?

The same test should be applied to the other considerations already mentioned. Will the SMSF be as cost-effective? Will the extra time you'll need to devote to it be worthwhile? Are the legal and investment risks worth the trouble?

While there are many reasons why people invest in SMSFs they're not for everyone. If you'd like to talk to one of our financial planners about your options in this area, please call **1300 369 901**.

Investment performance Six months to 31 December 2010

Strategy	%
High Growth	7.6
Balanced Growth	6.2
Balanced	4.6
Conservative	3.3
Cash	2.5

All returns are shown to one decimal place. Investment returns shown are historical and future performance cannot be guaranteed. Investment returns can go up and down and past performance is not a reliable indicator of future performance.



Go to the web for up-to-date account information

You can now view up-to-date account information on the website. Recent enhancements mean that your account details are current when you view them. This includes:

- account balances
- investment strategy details
- transaction history
- insurance details
- and benefit quotes.

You can now also change your contact details online and there will be further enhancements in the future.

If you haven't registered for web access previously and would like to see what the new member site has to offer, all you need to do is go to the Member Login area of the website and follow the registration prompts.

If you have already registered but have not visited the website recently you will need to change your password when logging in to the new member site.

If you have any questions about the new member website or about how to register, please contact Member Services on **1300 369 901**.

We can help you with more than just your super

- Would you like to build an investment portfolio? **We can help you.**
- Looking to maximise your Centrelink and other Government entitlements? **We can help you.**
- Need financial advice? **We can help you.**

Call 1300 369 901 for more information.

Frequently asked questions

What are alternative investments?

In Australia most super funds invest mainly in the traditional asset classes like shares, cash, fixed interest (which is made up of corporate and government bonds), property trusts and direct property. Most investment strategies offered by super funds have differing proportions of these asset types depending on how aggressive or conservative they are.

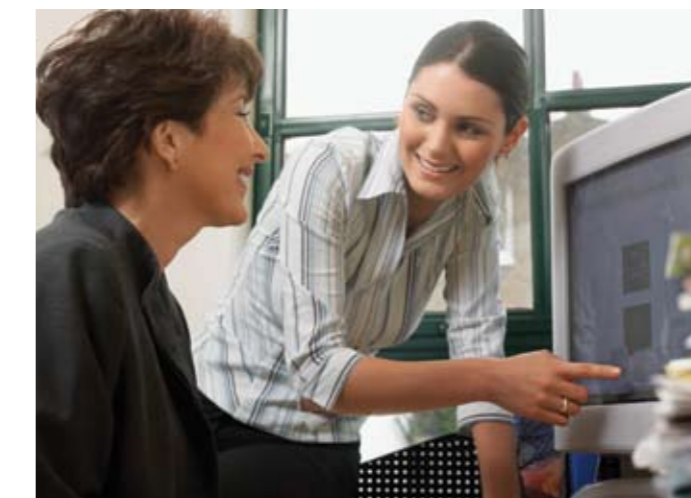
Alternative investments are basically any asset types that do not fall into these traditional categories and include hedge funds, infrastructure, distressed debt funds, and investment strategies linked to insurance such as life settlement and catastrophe bonds. This is just to name a few.

The definition can vary from country to country. For example, direct property in the US is regarded as alternative while in Australia it is regarded as a conventional type of investment.

The reasons for investing in alternative investments are:

- to increase diversification within a portfolio
- to make the returns of a portfolio more stable by selecting investments that do not all move in the same direction at the same time
- to gain access to less liquid (which means readily convertible to cash) markets that can offer strong returns for those with a long investment time frame.

At LGS the exposure to alternative investments has been relatively small with the level of exposure depending on market conditions and the goals of the particular investment strategy.



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The best solution for your travel is Accor's Away on Business Program.

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Simply call Accor Reservations on **1300 65 65 65** and quote company Accor ID Code **SC754685196**.

2. Via the internet

Click on the Accor Link and then follow these instructions:

- Enter City, Country or Hotel code.
- Enter arrival/departure dates.
- Click "OK" and continue on with booking.

Important note: When checking in, you will need to present your Fair Go membership card.

ME Bank

Term deposits back in vogue

Fashions have a way of repeating themselves, even, it seems in the world of Australian banking. We're not talking about a renaissance for ultra-conservative brown ties, but the humble term deposit.

If you are saving for a long term goal such as a deposit for a new home, to pay for your son or daughter's wedding, or another investment opportunity, then a Term Deposit may help you save towards your goal.

As a member of LGS, you're entitled to **bonus interest of up to 0.25% p.a.** with the Super Members Term Deposit.*

The Super Members Term Deposit provides you the peace of mind of knowing exactly what return you will receive when your investment finally matures. With a guaranteed interest rate that is locked in for the life of the term you choose, your money is protected from market fluctuation. Leaving you to simply sit back, relax and reap the full rewards.

You can open an account with a minimum deposit of \$1,000 and select your own term from between 1 month to 24 months, or select a maturity date that suits your end goal.

To view our current interest rates or for more information, visit **mebank.com.au** or call **13 15 63**. Apply online at **mebank.com.au**

* The Super Members Term Deposit interest rates are up to 0.25% p.a. higher than the interest rates for an ME Bank Standard Term Deposit. You will get the interest rate that applies to your deposit on the day your application is received. Terms and conditions available on request. This is general information only and you should consider if this product is appropriate for you. Members Equity Bank Pty Ltd. ABN 56 070 887 679.

Test your super knowledge

quickquiz

Answers on next page.

1. What tax rate is applied to Concessional contributions (e.g. Superannuation Guarantee, salary sacrifice)?

(a) 0%
(b) 30%
(c) 15%
(d) 46.5%

2. At what age do you have to withdraw funds from super?

(a) 65
(b) Never
(c) 75
(d) 90

3. If you exceed the Concessional cap what additional rate of tax applies to your contributions?

(a) 15%
(b) 46.5%
(c) 92%
(d) 31.5%

Seminars

Would you like to have a better understanding of how to manage your money, increase your savings, improve your investment portfolio or ensure you have enough on which to retire?

As a valued member you can attend a FREE pre-retirement seminar. To view our full calendar of forthcoming seminars, visit **www.lgsuper.com.au/Seminars/seminarcalendar.asp**

Sustainability and you



At Local Government Super (LGS) we have a long standing commitment to environmentally sustainable practices. With a few small changes you too can play a role in reducing your carbon footprint and slowing the effects of climate change.

So what can you do? Everyone can play a role around the home that will reduce your carbon footprint and lower your energy and water bills. Here are some simple tips:

- On hot summer days, close windows, doors, curtains and blinds to keep the heat out
- Of an evening and on cooler days, open windows and use fans to stay cool and keep air conditioning as a last resort
- Set air conditioning thermostats at 26 – 27 degrees for summer cooling. For each degree the thermostat is lowered, running costs can increase by up to 15%
- When buying new appliances, look for high energy and water star ratings
- Switch to compact fluorescent light globes (CFLs). They last up to 8 times as long and are 80% more efficient than regular globes
- Turn appliances off when not in use. Even in standby mode, most appliances still consume power which can account for 10% or more of your electricity bill. So turn appliances off at the wall to reduce consumption even further
- Reduce your showering time and substitute showerheads for lower flow, water efficient alternatives.

Did you know?

If a family of 3 moved from 7 minute showers to 4 minute showers and replaced their showerhead with a 3 star water efficient one, they could avoid the production of 17,000 garbage bags of CO2 per year – the equivalent of taking a small car off the road!

For further sustainability tips and information, visit www.nabers.com.au

So start saving money and reduce your carbon footprint now!

Sustainable Super Fund of the Year



Local Government Super was awarded Sustainable Super Fund of the Year by Ethical Investor as part of the annual Australian Sustainability Awards.

LGS received this award for:

- the consistent application of sustainable principles in investing over many years
- its leadership in promoting sustainable investing and ESG within the industry funds sector
- its use of its position as a direct owner of properties to lead other funds in the management of a property portfolio in a green, sustainable and responsible way
- its embrace of sustainable investing at a trustee and senior management level.

LGS has more assets in responsible investment than any other fund in Australia with more than \$1.8 billion in funds dedicated to sustainability strategies.



quickquiz answers (p. 3) (b) 2 (c) 1

What's happened in investment markets?

The December half year period produced very good returns for investors. The Australian share market was outstanding, while international share market returns were held back by the rising \$A. Fixed income markets were more restrained, as bond yields had started to rise by the end of the period. The property markets have produced moderate returns, with capital values steady. The outlook for the global economy has strengthened considerably over the period, even in the US and Europe. This has propelled commodity prices and the resources stocks but has also resulted in a sell-off in the bond markets.

The Reserve Bank of Australia (RBA) increased official interest rates once in the half year when it hiked the rate 0.25% at the start of November. The RBA is concerned that inflation could start to become a problem due to the reasonably low 5.2% unemployment rate and the resources boom. This rise was the seventh increase in rates since the RBA began raising rates in October 2009. Official interest rate moves are important because they usually flow on to general interest rates. The standard variable housing loan rate actually rose by more than the RBA cash rate, bringing political pressure onto the banks. The Australian dollar increased in value strongly over the half year to December, breaking through parity with the \$US and reaching the highest level against the \$US since 1982.

The \$A has appreciated by 58% against the \$US since the low point in January 2009 and has also gone up against all other major currencies. One factor driving this advance is the current boom in commodity prices. The RBA's Commodity Price Index rose by 8% in average currency terms over the half, thanks to iron ore and coal export prices.

Chinese monetary policy was tightened in reaction to creeping inflation problems and strong house price growth. The main policy move was a requirement for the banks to hold more reserves, in an attempt to slow down lending. Interest rates have been on hold but more action may be required in 2011.

In a reaction to the persistently high US unemployment rate, the US Federal Reserve launched a second round of quantitative easing, whereby the central bank creates money to buy securities from the market. This has the effect of keeping interest rates low and is designed to stimulate the economy. Also, the temporary tax cuts for US individuals were extended. Business indicators suggest that industrial activity was already starting to recover.

Europe has been handicapped by the debt problems of some of the smaller nations. Some of the Irish banks faced liquidity problems caused by bad loans and they needed the support of the government. The IMF and the European Union agreed to help fund a bailout program of 85 billion euros. The concern is now whether Portugal and Spain will also get caught in the financial crisis.

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The market commentary below 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 shares

The Australian stock market rose by 12.8%* in the second half of 2010 with four positive months out of six as the market was buoyed by a gradually improving economic backdrop and encouraging corporate profits.

Additionally, the continued demand for raw materials out of China gave the Australian miners a boost with record-high commodity prices and proposed sales volumes increasing.

* as measured by the S&P/ASX 200 Accumulation Index.

International shares

International stock markets rose by 19.0%* over the six months on a hedged basis. Like the domestic stock market, investors were encouraged by improving economic data and improved profit outlooks.

A further driver was the extremely low interest rates throughout much of the developed world, which enticed investors out of fixed interest markets and into riskier assets like equities in order to chase returns.

* as measured by the MSCI World ex-Australia Accumulation Index (Hedged).

Fixed interest and cash

With only Australia offering any kind of return on fixed interest investors, the majority of investors steered clear of bonds in favour of riskier assets and this led to very subdued returns in global fixed interest markets.

Australian bonds returned 0.6%* for the six months – the lowest 6-month return since October 2009. Meanwhile, global bonds returned 2.2%***, marginally higher than domestic returns, as the Federal Reserve (the US central bank) announced that interest rates would be left at emergency level for an extended period, which had the effect of pushing the capital value of bonds higher.

Australian cash investments produced an improved return of 2.5%[^] following the recent interest rate rises.

*as measured by the UBS Australian Government Bond Index.

**as measured by the Barclays Capital based Aggregate Index - \$A hedged.

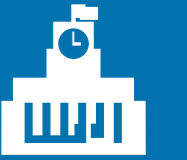
[^]as measured by the UBS Australian Bank Bill.

should seek professional advice that takes account of investment objectives, financial situation, and particular needs before making a decision in relation to any of the matters covered in this document. For more information about Local Government Super, contact Member Services on 1300 369 901 or go to www.lgsuper.com.au to obtain a copy of the relevant Product Disclosure Statement pertaining to your membership.

If you have any questions, feel free to contact Member Services on 1300 369 901 or visit www.lgsuper.com.au

This paper is certified under Environmental Management Systems ISO14001.

YOUR FUTURE



LOCAL GOVERNMENT SUPER ANNUATION SCHEME

LOCAL GOVERNMENT SUPER
Accumulation and Executive Scheme - ABN 74 925 979 278

Six months to 31 December 2010

Message from Peter Lambert, CEO



Taking control of our future

Over the next few years we are likely to see a lot of changes to superannuation in this country and all industry and retail super funds will be affected in some way or another.

So it's essential that Local Government Super be in the best position possible to take advantage of any reforms and continue to provide you with the best products, advice and service that we can offer.

That's why we at Local Government Super have made a few changes.

We've sold our stake in FuturePlus who until recently provided Local Government Super with administration and member services. FuturePlus will continue to provide administration services to Local Government Super but we will now directly undertake a range of member activities. In particular we have in-sourced client relationship and financial planning services and this means we can sharpen our focus to better meet the specific needs of people working in local government across NSW.

But of course, providing you with strong long-term returns on your super will always be our number one priority.

While investment markets have been performing well for some time now, fears about European debt and the weak US economy continue to dampen the global economic recovery.

We remain cautiously optimistic, but there may still be a way to go before we return to strong economic growth.

Our commitment to sustainable investing

LGS has for more than ten years displayed a commitment to sustainable and responsible investing and has used several programs to achieve its goals in this area. It takes environmental, social and corporate governance (ESG) issues into account when choosing fund managers and runs a socially responsible overlay which excludes companies such as tobacco, armaments and gambling which have a high ESG risk. It has also adopted an environmental policy designed to increase energy and water efficiencies in the properties it owns directly throughout NSW.

LGS has adopted an environmentally responsible and sustainable approach to investing not only because it is good for the environment but also because it is good for investment returns. One of the primary aims of the LGS Trustee is to make sure it achieves the best possible returns for members and we believe that taking consideration of the ESG risks of the companies in which we invest enhances our ability to achieve that goal. The BP oil spill in the Gulf of Mexico last year is only one example of the consequences of ignoring them. Not only did it create environmental havoc and economic misery for the Gulf communities, it also halved BP's share price and left it with an uncertain future.

In order to promote its activities in this area LGS has appointed Bill Hartnett as its first Sustainability Manager. Bill has over ten years experience in developing environmentally and socially responsible investment strategies for financial institutions and he

will help our investment team to monitor our existing sustainable investment programs and develop new ones.

For example, we will expand our work on identifying sectors and companies with a high ESG risk and developing policies to deal with them to minimise our exposure to the negative consequences of events such as the BP oil spill.

We will also be exploring new investments (both companies and asset classes) that meet our environmental, social and governance criteria and our performance criteria so that we can consider what represents an attractive investment opportunity.

As mentioned earlier, we run a Socially Responsible Investment overlay on our Australian share portfolio to minimise exposure to companies that do not meet our ESG standards and in 2011 we are going to extend this to our international share portfolio.

Finally, LGS will become more active in exercising its voting rights as a shareholder in Australian and internationally listed companies. This will cover a range of issues including excessive executive remuneration and improved disclosure on managing environmental risks.

Local Government Super has a track record of investing in an environmentally and socially responsible way and at the same time providing members with strong, long-term returns and we believe that these two factors are mutually dependent. The best way to achieve strong long-term returns is to ensure that the companies we invest in are prepared for the risks that the future may hold.

For more information on our commitment to sustainable and responsible investing, please visit www.lgsuper.com.au

Office details are:

Newcastle 161 King St
From 1 March 2011 the Newcastle office address will be:
Suite 2/76 Park Avenue, Kotara

Sydney 28 Margaret St

Wollongong Shop 2/60 Burelli St

**Office hours 8.30am - 5.00pm
Monday - Friday**

Offices in Lismore, Orange, Parramatta and Wagga Wagga are available on an appointment only basis.

Bookings are essential. Phone 1300 369 901 to make an appointment.



LOCAL GOVERNMENT SUPER ANNUATION SCHEME