YOUR FUTURE

LOCAL GOVERNMENT SUPERANNUATION SCHEME

LOCAL GOVERNMENT SUPER
Retirement and Defined Benefit Schemes - ABN 28 901 371 321

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 already 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.**

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**

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 holds 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 a few questions 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 10 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

Retirement Scheme
Contributor Financed Benefit

Strategy	%
High Growth	8.5
Growth	6.6
Balanced Growth	7.2
Balanced	5.4
Conservative	4.1
Cash	3.0

Defined Benefit Scheme

Strategy	%
Defined Benefit	6.5

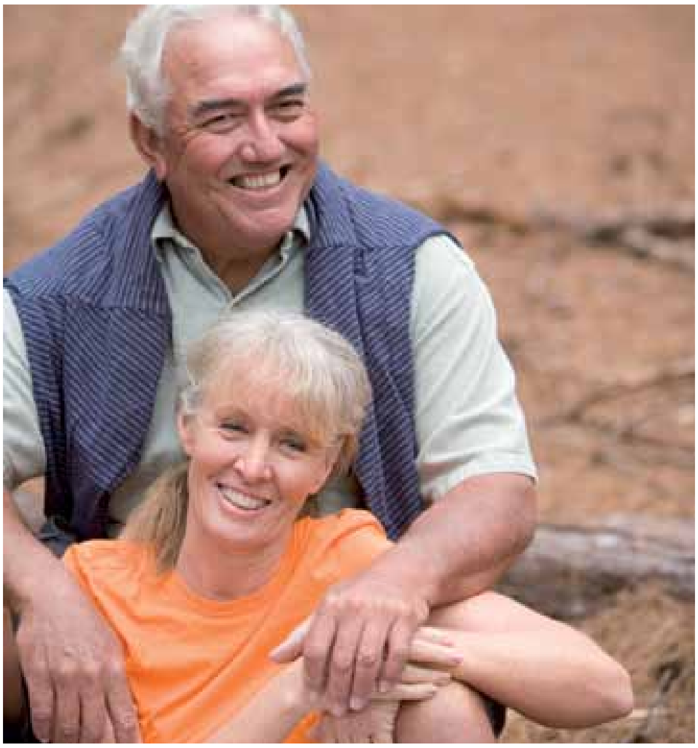
All returns are shown to one decimal place.
Investment returns shown are historical and future performance cannot be guaranteed. Investment returns can go up and down and past performance is not a reliable indicator of future performance.

Some common questions

How can currency fluctuations affect my super benefit?

Currency fluctuations can have a significant effect on super benefits as the value of investments held overseas is determined in part by the exchange rate. In simple terms, a rising Australian dollar reduces the value of overseas investments and a falling dollar has the reverse effect.

To illustrate this we can use a simple example. An Australian invests $1,000 ($AUS) in an American listed company. Six months later the investment in the US has performed well and the share price has increased by 10%. However over the same period the Australian dollar has risen by 12%. Despite the fact that the US investment was positive, due to the currency effect the investor lost 1.8%.



Why do we make investments overseas?

We invest overseas to gain access to industries that we do not have access to in Australia as they form only a small part of the domestic market. A few examples are technology stocks, entertainment and manufacturing companies. The Australian market is heavily dominated by financial and banking stocks, mining and resource stocks and about 10% of the share market is made up of property related companies which limits the range of choice for investors in listed companies.

The other reason for investing in overseas companies is to increase the diversification of our investments. Diversification is a way of making returns from an investment more stable as it is rare for a number of different asset classes to move in the one direction at the same time. For example, in the first half of this financial year shares have performed reasonably strongly while bonds have struggled.

So how can an investor protect against currency fluctuations?

The answer is through the use of hedging. Hedging is a method used by investors to remove a particular risk (such as market downturns or currency movements) from their investment approach. LGS generally adopts a 50%* currency hedge for international equities and a 100% hedge for all other international assets which has provided some protection for its foreign investments from the rise in the Australian dollar. The level of hedging for international equities can change from time to time depending on the Trustee's view about market conditions and the prospects for the Australian dollar. Hedging does not remove risk altogether but it provides greater certainty and stability.

*Currently 25%.

ME Bank

The Best Home Loan Provider in Australia.*

Independent research shows that on average people who bank with ME Bank are more satisfied and more likely to recommend the Bank to their family and friends than the customers of the four major banks.^

ME Bank has also recently been rated as the Best Home Loan Provider in Australia by independent financial services rating company MOZO in their prestigious People's Choice Awards 2010.

Many banks recently raised their interest rates by more than the Reserve Bank's increase of 0.25% p.a. in November 2010. ME Bank did not. So now is the time to take stock and compare your current home loan with a Super Members Home Loan which is available to all eligible LGS members.

Consider ME Bank's Super Members Home Loan which offers a discount of up to 0.45% p.a. off the Members Equity Home Loan variable rate for LGS members.*

As well as a competitive interest rate and the opportunity to borrow up to 95% of your property value, other features include:

- No application fees
- No ongoing monthly fees
- No fees to split, fix or top up your loan.

To view the current interest rates or for more information, visit **mebank.com.au** or call **13 15 63**. You can arrange an appointment with a Member Banking Manager and apply online at **mebank.com.au**

^CoreData Net Promoter Score (NPS) Survey July 2010. The NPS of customer satisfaction is determined by taking the percentage of "promoters", those who are highly likely to recommend the product or service, and subtracting the percentage of "detractors", those who are unlikely to recommend. ME Bank's NPS is +55.6 in comparison to ANZ -14.4, NAB -32.9, CBA -33.1, Westpac -40.0.

*The Super Members Home Loan standard variable interest rate is up to 0.45% less than the Members Equity Home Loan Standard Variable rate. Fees and charges apply. Terms and conditions are available on request. Applications are subject to credit approval. Members Equity Bank Pty Ltd. ABN 56 070 887 679.

Fair Go

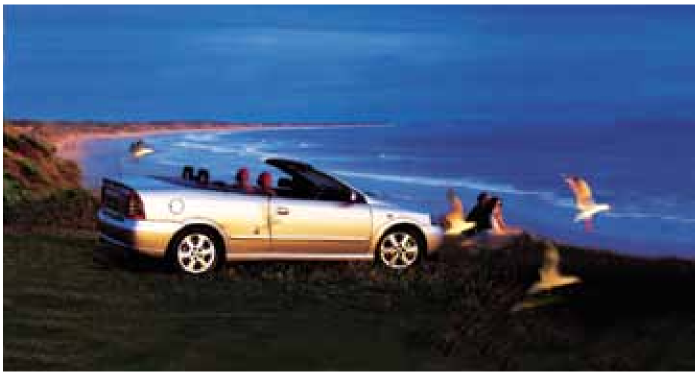
Avis car rental

AVIS We try harder.

Avis, Australia's leading car rental company is offering Scheme members a special rate through the Fair Go Program.

Avis has been renowned for its famous "We Try Harder" service for over 50 years, collecting many awards including "Best Car Rental Company" in the National Tourism Awards for 9 out of the last 10 years, making Avis the most awarded Car Rental Company in Australia.

Avis has over 240 locations around Australia, and has a large fleet of modern air-conditioned vehicles, but the big difference is the staff who take pride in offering the best service in the industry.



Whether you are travelling for business or pleasure, Avis has a car to suit your needs and you can be confident that Avis will be there to help anytime 7 days a week as they offer a 24-hour roadside service. Of course all Avis vehicles are equipped with local street directories or strip maps to help you find your way in unfamiliar territory.

In addition Avis offers Holiday Voucher Booklets (at selected locations) throughout Australia, which offers discounts of approximately $300 including free entry into many tourist attractions and discounts on accommodation, meals and much more.

For full details of any of the Avis vehicles, rates and services contact Avis Australia Wide on **136 333** or visit **www.avis.com.au**. Please quote AWD P698000 when booking, this entitles members to a 30% discount on standard rates and 2.5% discount on selected promotional rates.

Test your super knowledge

quick**quiz**

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. What is the current rate of Superannuation Guarantee (compulsory employer) contributions?

(a) 12%
(b) 9%
(c) 15%
(d) 7%

3. Assume that your taxable income for the year is $25,000 and you are eligible for the Government Co-contribution scheme. If you make a $1,000 contribution to super how much will the Government contribute?

(a) $1,000
(b) $500
(c) $1,500
(d) Nothing

Answers on next page.

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 CO_2 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

ethicalinvestor presents
10TH AUSTRALIAN SUSTAINABILITY AWARDS

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.

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

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

Office details are:

Newcastle	161 King St *From 1 March 2011 the Newcastle office address will be:* Suite 2/76 Park Avenue, Kotara, 2289
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.

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.

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.

LOCAL GOVERNMENT®
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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.

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