LOCAL GOVERNMENT SUPER

Our commitment to improving our services

Peter Lambert
CEO

After a disappointing 2009, LGS bounced back with fantastic returns in 2010 with many of our investment strategies being the best performing in their categories*.

We were determined to build on this result, and I'm pleased to report that we achieved solid returns across all of our investment strategies for the last financial year.

In 2010 we took steps to take control of most of the services we offer to our members. As part of our move to insource a number of key business activities, we now directly employ our own team of financial planners and have serviced offices in Lismore, Orange, Parramatta and Wagga Wagga as well as a dedicated office in Margaret Street, Sydney.

We wanted to make our regional offices more convenient and accessible to members, particularly in terms of parking, so we have relocated our Newcastle office close to a major shopping centre, as is the case for our Wollongong office.

Most importantly, by insourcing a number of key functions we can now focus on our number one priority, our members. So if you have any questions about your super, or if you are experiencing any problems with our service, please let us know and we will do all we can to ensure you receive the quality service you expect.

*SuperRatings survey of the largest 50 Superannuation products available with comparable asset allocation ranges.

Some relief if you exceed your cap

If you've ever exceeded your concessional (pre-tax) super contribution cap, you'll know that the penalties can be pretty steep and you can end up paying as much as 46.5% on your excess contributions.

The concessional contribution cap for members over 50 years of age is $50,000.

Many people have been caught out exceeding the cap as due to an error or an oversight, so starting from this financial year, the Government will provide 'once only' relief if you exceed your concessional cap by $10,000 or less.

This means that if you exceed your concessional contribution cap by say, $3,000, you'll be able to request a refund of your excess contributions. The Tax Office will then assess these contributions as income and they'll be taxed at your marginal tax rate.

But it's important to note that this relief only applies for the first occurrence; any subsequent breaches will attract the excess contributions tax.

It does underline the need for you to carefully keep track of all your super contributions to make sure you don't end up paying too much tax.

But if you have $500,000 or more in super...

You need to understand that from 1 July 2012, the concessional cap for people over 50 will remain at $50,000, but only if you have a super balance of less than $500,000.

If you have more than $500,000 in super, your cap is $25,000 in each financial year.

The 'over 50s' cap will not be indexed in the strict sense but will remain $25,000 above the general concessional cap for people under 50. The general cap is currently $25,000 and will be indexed annually.

Of course you can always call us if you have any questions at all about your contribution caps.

Investment performance

Financial year ending 30 June 2011

Strategy	%p.a.*
High Growth	9.1
Balanced Growth	8.5
Balanced	7.7
Conservative	6.9
Cash	4.9

* 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.

The Consumer Price Index as a benchmark

When you measure the performance of any investment, you need to work out how it has performed in real terms. For example, if a term deposit earns a return of 6% per annum and over the same period the inflation rate is 4%, then the real return on that investment is 2%.

Up until recently the benchmark LGS used to measure the performance of our investment strategies was the cash rate, but on 1 July we changed this to the Consumer Price Index (CPI) for each of our investment strategies except 'Cash'.

While both the cash rate and CPI can be used as a benchmark, there is a distinct difference between the two.

Generally speaking, the cash rate is an artificial rate used as the basis for setting interest rates, such as deposit rates and mortgage rates. In contrast, CPI is used to measure inflation, which is a change in the purchasing power of your money over a period of time, when compared to a representative 'basket of goods and services'.

For example, the same 'basket of goods and services' valued at $100 in the year 2000 would have cost you $134.42 in 2010*, a total increase of 34.4% over a ten year period.

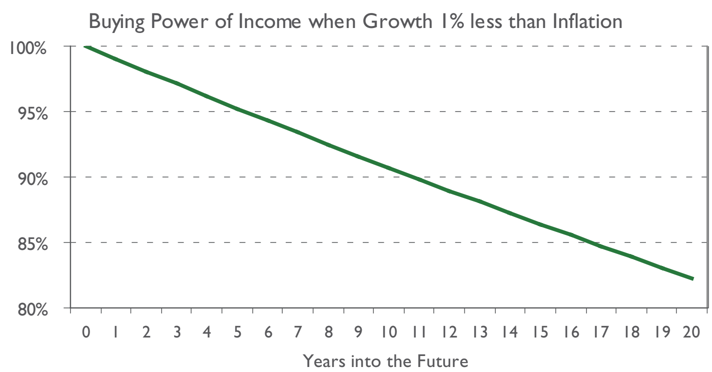
*Source: RBA inflation calculator

If this was your super investment, you would have needed to earn at least 34.4% over that same period, just for your money to keep up with inflation. To achieve strong long-term returns on any investment you need to achieve real returns in excess of inflation, otherwise inflation will start to eat into your investment.

So why have we made the change?

We have made this change as we believe that using CPI as a benchmark provides a truer picture of how your super investment is performing and better describes the long-term objective to provide you with sufficient super for a comfortable retirement.

It's important for your super to grow at a rate at least equal to inflation to avoid a decrease in the future purchasing power of your money. For example, if you were to retire today and your retirement income grew at a rate that was only 1% less than the rate of inflation, in 20 years time your benefit would only have 82% of the purchasing power it has today.



That means instead of being able to put 40 litres of petrol in your car, you would only be able to purchase 32.8 litres.

What this will mean for your super investment

Our aim is to achieve investment returns which exceed inflation and we aim to achieve this by making sure we have exposure to investments that have income linked to inflation, including shares, direct property, infrastructure and inflation linked bonds.

LGS is focused on achieving investment returns that are greater than inflation and we believe that CPI is a realistic benchmark that is more relevant to the future value of your funds.

Online investment switching

An upcoming enhancement to the member login area of our website means you will shortly be able to change your investment strategy online.

To change your investment strategy, you will need to login to the secure section of the website. So if you haven't previously registered for access or if you have misplaced your login details, visit the Log in page at **www.lgsuper.com.au** for further instructions.

Switching investment options may not be for everyone.

Your current investment strategy may be suitable for your situation so it's important that you take the time to consider whether switching options is appropriate for you.

Our online Risk Profiler calculator can help you with this process by assessing your risk and investment tolerances and suggesting an investment strategy that may be appropriate for you. You can access the Risk Profiler calculator under the **Tools** menu on our homepage.

If you're still unsure about the investment strategy appropriate for you and your circumstances, you should seek professional financial advice. As a member of Local Government Super, this service is available to you at no additional cost. Just call **1300 369 901** to find out more.

Nominating your beneficiaries

Up until recently, you could only nominate your legal personal representative (the executor of your will or administrator of your estate) to receive your super benefit in the event of your death, but we've changed our rules so you now have more options.

You can now choose to nominate your legal personal representative and/ or any number of your dependants, and you can specify what proportion of your super benefit you would like paid to each of your beneficiaries. Making a binding nomination means that you have the final say, so you can ensure that your super is paid as you want, after your death.

Why would I nominate a beneficiary?

Nominating a beneficiary is optional, but if you have not made a nomination, in the event of your death the Trustee will decide who your benefit is paid to. Your benefit includes any life insurance you hold through LGS which could potentially be worth hundreds of thousands of dollars.

The Trustee must assess all claims made against your account and will pay your benefit to your legal personal representative and/or dependant(s).

If you haven't left any instructions by making a binding nomination, your benefit may not be distributed in accordance with your wishes. For this reason it's a good idea to consider nominating and regularly reviewing your beneficiaries.

How do you make a binding nomination?

To make a binding nomination, just go to the Forms section on our website at **www.lgsuper.com.au**, complete the Binding Nomination form and send it to us.

We understand that circumstances often change so your binding nomination will remain valid for three years, after which we'll remind you that it's coming up for renewal.

If you already have one in place and would like to update it, you can simply complete a new Binding Nomination form.

What's happened in investment markets?

Craig Turnbull, Chief Investment Officer

The financial year to June produced solid returns for investors across most sectors, but the standouts were clearly the Australian share market and listed property investments.

The Australian share market finished the year 12.5% higher, with small companies leading the way. However, all of the positive performance came in the first half of the financial year and since April there has been three consecutive months of negative returns.

International share market returns were positive for the financial year, but were held back by the rising Australian dollar. Once again, small companies led the way on international share markets, while emerging markets such as China and India lagged behind.

The Australian dollar ($A) increased in value strongly throughout the year, breaking through parity with the US dollar ($US) in December and finishing the financial year at the highest level against the $US since the currency was floated in 1983.

The $A has appreciated by 67% against the $US since the low point in January 2009 and has also gone up against all other major currencies.

The Reserve Bank of Australia (RBA) raised official interest rates once during the financial year in November, but has since left them on hold despite the threat of rising inflation. The RBA has put rising inflation down to temporary weather factors, such as the Queensland floods earlier in the year, and expects inflation to be close to their target next year.

The best performing sector for the financial year was global listed real estate, up 28.4%. Our direct property investments returned 7.9%, which reflects property income and no capital gain.

Fixed income markets also achieved good returns, particularly corporate bonds and inflation linked bonds, which made small capital gains as well as income returns. Regular Australian government bonds and cash both returned about 6.0%.

The outlook for the global economy weakened towards the end of the financial year, due to a number of factors including:

- The scaling back of government economic stimulus packages across the globe in places like Europe, USA, China and Australia
- Austerity budgets in high debt countries in Europe, compounded by ongoing debt refinance problems
- Rising interest rates in the developing countries and Australia
- High oil prices
- Weak consumer sentiment.

We're not just talking about climate change...

Over the last few years there's been a lot of talk about climate change but most people would agree there has been very little in the way of action.

In fact, a recent survey conducted by the Climate Institute and the Australian Institute of Superannuation Trustees found that while over a third of super funds recognise the impact of climate change, only 11% of them have a strategy to measure and manage the risks of climate change.

The survey results also confirmed that Local Government Super is an industry leader in this field and for the second year in a row we've been named the best super fund when it comes to the management of climate change risks.

By leading the way on climate change and responsible investment, our aim is to achieve long-term sustainable returns for all our members.

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LOCAL GOVERNMENT SUPER

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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.

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