

your FUTURE

Six months ending
31 December 2011



Peter Lambert
CEO

Welcome to your interim member statement and Your Future newsletter for the six months to 31 December 2011.

I'm pleased to announce that our commitment to sustainable investment practices has again been recognised, with LGS receiving *Money* magazine's Best Green Super Fund award in early December.

We've recently increased the range of investment options available to members of the Accumulation Scheme, who now have access to six new 'sector' investment options, providing you greater freedom and control over how you would like your benefit invested. Further information on these options is included in this newsletter.

After achieving solid returns across all of our investment options in the 2011 financial year, the continued volatility of global investment markets has resulted in a number of our options providing a negative return for the first six months of this financial year.

It's important to remember that in volatile investment markets there is always the temptation to switch your investment to a more conservative option, though it pays to be aware of the implications of investment switching to minimise the risk of cementing losses. It's not always a straightforward decision to make, so if you're thinking of switching your investment option, you should consider talking with your financial planner first to make sure you're making the right decision for your investment.

New 'sector choice' investment options

In the coming months, Accumulation Scheme members will have the ability to invest in six new 'sector' investment options, in addition to the five 'pre-mixed' options that are currently available.

We're introducing these options to allow you greater choice over where you have your benefits invested. These new sector options will give you the freedom and flexibility to invest across a number of sectors and create your own investment mix that best suits you and your risk profile.

The new sector investment options are:

- Australian Shares
- Sustainable Australian Shares
- International Shares
- Australian Listed Property
- Australian Fixed Interest
- International Fixed Interest

Here are two simple case studies to show you how these investment options can work:

Brad already has personal investments in shares and property and wants to diversify his portfolio further, so he chooses to invest in the following sector investments:

| | |
|------------------------------|-----|
| International fixed interest | 35% |
| Australian fixed interest | 35% |
| Cash | 30% |

Sue on the other hand has a keen interest in sustainable investments and has always invested in Australian Shares. Therefore, she decides that the following mix would suit her best:

| | |
|-------------------------------|-----|
| Sustainable Australian Shares | 85% |
| Australian Shares | 15% |

Further information on these options is available at our website, www.lgsuper.com.au

Investment performance as at 31 December 2011

| Strategy | %p.a.* | 3 years | 5 years |
|-----------------|--------|---------|---------|
| High Growth | -6.6 | 5.3 | -3.0 |
| Balanced Growth | -4.0 | 5.6 | -1.1 |
| Balanced | -1.2 | 5.8 | 0.4 |
| Conservative | 1.0 | 6.1 | 1.8 |
| Cash | 1.6 | 4.8 | 4.9 |

* All returns 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.

12% super guarantee

The super guarantee is the minimum percentage of your salary that your employer must contribute to your super. It's helped a lot of Australians save for their retirement, but the fact is that many people still retire with not enough super.

The good news is that the government has recognised that 9% super guarantee won't be enough for most people to retire on and has proposed an increase to 12% which will help many Australians achieve a much better standard of living in retirement.

In fact, by increasing the super guarantee to 12% the average wage earner could increase their retirement savings by more than \$100,000 over 30 years*.

If this proposal is accepted, it will be brought in gradually and won't come into full effect until 2019 – 2020, so why not get ahead and start to boost your retirement savings today?

Visit www.lgsuper.com.au to access our Retirement or Super contributions calculator to find out how even an extra few dollars a week could really help your super grow.

*Based on Australian Government estimates of a 30 year old earning average full-time wages. Source: visit www.futuretax.gov.au



What a carbon price means for you

From 1 July 2012 the Australian Government will introduce a carbon price aimed at cutting pollution in Australia and driving investment in cleaner energy sources, such as solar, gas and wind.

What this means for you

A carbon price is not a tax on households, it will be paid by Australia's biggest carbon polluters, but the Government recognises that some businesses will pass on the carbon price, leading to a modest increase in prices and your cost of living.

The Government aims to ensure that households are no worse off and will provide assistance in managing these increased costs.

So what assistance will you receive?

It's expected that average household expenditure will go up by around \$9.90 a week and on average, households will receive \$10.10 per week in assistance. The assistance you receive will be in the form of:

Lump sum payments:

- Family Tax Benefit Part A recipients will get up to an extra \$110 per child per year
- Eligible families will get up to an extra \$69 in Family Tax Benefit Part B per year
- Single income families where the primary income earner has taxable income between \$68,000 and \$150,000 will also receive a new supplement payment of up to \$300 per year.

Tax cuts:

- From 1 July 2012, taxpayers with incomes up to \$80,000 will receive a tax cut, with most receiving at least \$300 per year
- Further tax cuts in 2015 and an increase in the tax-free threshold to \$19,400 mean tax payers with incomes below \$80,000 will receive a tax cut of up to \$385.

There will also be a range of benefits for allowance recipients, carers and pensioners. For full details, visit www.cleanenergyfuture.gov.au

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Are you one in two?

In 2011 there was \$18.8 billion of lost super across 5.8 million super accounts. That's an average of one lost account for every two working Australians.*

Does any of that money belong to you?

How your account can become lost

A super fund will report you as a lost member if they can't contact you, which can happen if you've ever changed jobs, moved houses, married or changed your name.

Why you should track down your lost super

It's your money! Plus, you're missing out on investment returns that you could be earning if this money was in the same account as the rest of your super.

Searching for lost super online is free and easy using the ATO's SuperSeeker search engine, so get out your Tax File Number and visit www.ato.gov.au/super today.

Once you've found your lost super

Why not transfer it into your Local Government Super account? Simply complete a 'Transfer-In Authority' form available from www.lgsuper.com.au or call us on 1300 369 901 for assistance.



Looking beyond a name

When it comes to understanding your super investment, the name of an investment option doesn't necessarily give you the full picture. To better understand the option, its risks and objectives, you need to look at the actual underlying asset classes.

Each investment option is made up of a mix of different asset classes. Some of these are growth style assets which are susceptible to market volatility and can change in value relatively quickly, while others are income producing and more defensive by nature. The weighting and mix of these asset classes in each investment option can give you a good indication of its potential risk and return.

Generally speaking, each asset class can be categorised as either a growth asset or defensive asset and a combination of these make up each of the investment options that LGS offers.

| | Growth assets | Defensive assets |
|-----------------------------------|---------------|------------------|
| Australian shares | X | |
| International shares | X | |
| International listed property | X | |
| Australian direct property | X | |
| Private equity | X | |
| Semi liquids | X | |
| Commodities | X | |
| Australian fixed income | | X |
| Australian inflation linked bonds | | X |
| International fixed income | | X |
| Absolute return funds | | X |
| Defensive illiquids | | X |
| Cash | | X |

If you're going to select an investment option, you should look beyond its name to really understand the asset allocation of that investment option. You should also consider the performance objectives and risk profile of the option to determine whether it's right for you.

LGS defines each of its investment options and lists their objective, risk profile and investment asset allocation so you get a better understanding of what your investment option aims to achieve for you.

To view this information, visit www.lgsuper.com.au and view your product's performance, under the **Investment performance** tab.

What's happened in investment markets?



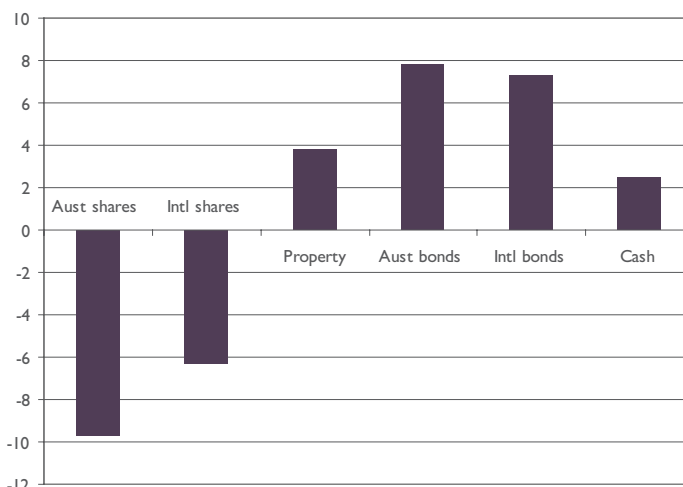
Australian and overseas share markets suffered negative returns in the half-year ended 31 December due to sharp falls in the September quarter. This was caused by concerns over global economic growth and the ongoing debt problems in Europe.

The Australian share market fell by nearly 10%, with resources as the weakest sector due to falling commodity prices and the softening economic outlook. Late in the period the retail sector also suffered. The telecommunications sector had the best return for the six months to December.

International share markets also had a negative return for the period, although not as bad as Australia. International asset returns were boosted by the fall in the Australian dollar over the six months. Several European countries are still struggling to maintain enough investor confidence to contain their interest rates.

Bond markets continued their impressive year-long rally, with ten year Australian Government bond yields falling from 5.2% at the end of June to 3.8% by the end of December. This resulted in good gains for defensive strategies with a high bond weighting. Inflation linked bonds had the best return, which was over 11% for the period.

The Australian economy was supported by two cuts to the Cash rate totalling 0.5%, which now stands at 4.25%. The Reserve Bank of Australia has become more relaxed about local inflation due to the softening in the economy. The Australian dollar fell from US\$1.07 to US\$1.02 over the half year.



Direct property had a steady gain of nearly 4%, comprising mostly property income as capital values have been stable. Global listed property had negative returns similar to the general equities markets.

Overall, our half-year returns for the growth and balanced type investment options were negative due to the weak equities performance in the September quarter. The Conservative investment option managed a positive return due to the strong Fixed Interest sector performance.

Changes to the new low income superannuation contribution

This proposal was first announced earlier in the financial year. From 1 July 2012, it allows people earning up to \$37,000 to effectively pay no tax on their compulsory super guarantee (SG) contributions, as the Government will refund the 15% contributions tax to those who are eligible.

What does this mean for you?

If you have a taxable income of \$37,000 or less, you will pay no tax on your super guarantee contributions as the Government will refund the 15% tax which you normally pay. Depending on your income, this could amount to nearly \$500 per year!*

*The contributions tax for a person earning \$37,000 and receiving the standard 9% super guarantee.

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