

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.



Changes to the concessional contribution caps

The 'concessional' or before-tax super contribution caps are currently \$25,000 per annum for people under the age of 50 and \$50,000 per annum for people 50 years of age and over. However the Government is considering reducing this cap to \$25,000 for people over 50 with \$500,000 or more in super.

The Government has announced a pause in the indexation of these caps, and they will now not be indexed to inflation for the 2013/14 financial year. So these caps will effectively remain the same for a much longer period.

What does this mean for you?

The Government has not adjusted the concessional contribution caps since it halved these caps in 2009, but in the meantime you may have received annual salary increases.

This means that if you sacrifice some of your salary into your super, you need to make sure that you are not running the risk of exceeding your contribution cap.

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.

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



Green is good best!

Local Government Super has been committed to sustainable and responsible investing for over ten years now.

And that's why we recently received *Money* magazine's Best of the Best Award for the Best Green Super Fund in Australia.



Contribution splitting

I'm 50 and have been working longer than my wife, who has been studying part time and looking after our children. I've got a lot more super than she does at the moment and wanted to know whether I can transfer some of my super to her account and even up our balances?

Answer:

Unfortunately you can't voluntarily split your account balance with your spouse, however you can split certain types of contributions.

Concessional (before-tax) contributions, including employer super guarantee and salary sacrifice contributions, that were made in the previous financial year can be split with your spouse. The maximum amount you can split with your spouse is 85% of the previous financial year's concessional contributions.

Once these contributions have been transferred to your spouse, they then belong to your spouse and the withdrawal of these funds are still subject to the standard preservation rules.

Contribution splitting can be an effective way of evening up your and your spouses account balance, especially if one of you has been in the workforce longer and accumulated more super.

To request a contribution split, all you need to do is complete an 'Application for Contribution Splitting' form which is available from www.lgsuper.com.au

To find out whether this strategy is right for you, speak to your Financial Planner or contact us on 1300 369 901.

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.

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What's happened in investment markets?



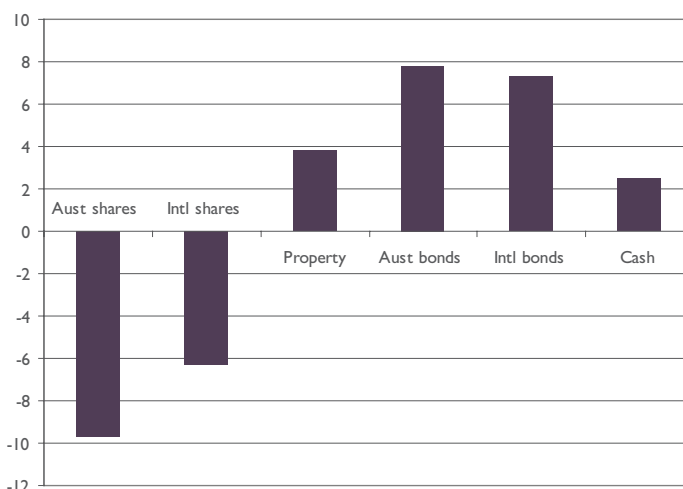
Australian and overseas share markets suffered negative returns in the half-year ended 31 December due to sharp falls in the September quarter. This was caused by concerns over global economic growth and the ongoing debt problems in Europe.

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.

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This paper is certified under Environmental Management Systems ISO14001.



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