



# Local Government Superannuation Scheme

## Supplementary Product Disclosure Statement

Accumulation Scheme  
Executive Scheme  
Rollover and Allocated Pension Plan  
Retirement Scheme  
Defined Benefit Scheme



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**LOCAL GOVERNMENT®**  
SUPERANNUATION SCHEME

**Issue date: 9 November 2006.**

Issued by: LGSS Pty Limited (ABN 68 078 003 497).

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Website: [www.lgsuper.com.au](http://www.lgsuper.com.au). LGSS Pty Limited is also an APRA Registrable Superannuation Entity Licensee (RSEL: L0001243). Local Government Superannuation Scheme is a Registered Superannuation Entity (RSE: Pool A-R1004656 and RSE: Pool B-R1004663).

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This Supplementary Product Disclosure Statement (SPDS), dated 9 November 2006, supplements the Product Disclosure Statement (PDS), for the following Local Government Superannuation Schemes: Accumulation Scheme PDS dated 6 October 2006;

Executive Scheme PDS dated 1 July 2005; Rollover and Allocated Pension Plan PDS dated 1 July 2005 and Supplementary PDS dated 1 March 2006; Retirement Scheme PDS dated 1 October 2005 and the Defined Benefit Scheme PDS dated 19 May 2006. This SPDS is issued by LGSS Pty Limited ABN 68 078 003 497 (the Trustee) and should be read in conjunction with your relevant PDS.

This SPDS outlines important changes relating to information contained in the PDS and has been issued to advise all LGSS Scheme members of the impending changes to the schemes investment strategies.

This SPDS has been prepared without taking account of your objectives, financial situation or needs. You should, before acting on this SPDS, ensure that you have read this SPDS and your relevant PDS<sup>1</sup> and consider its appropriateness having regard to your objectives, financial situation and needs.



# Enquiries

## Who do I contact for enquiries, help and advice?

If you have any issues regarding the information contained in this SPDS, then please contact:

**Member Services**

Ground Floor  
Local Government House  
28 Margaret Street  
Sydney

Phone: 1300 369 901

Fax: (02) 9279 4131

Telephone enquiries and personal interviews (by appointment only) can be made between 8.30am and 5.00pm on any business day.

**Written enquiries should be sent to:**

PO Box N835  
Grosvenor place  
NSW 1220

You can also contact the Scheme by going to our website [www.lgsuper.com.au](http://www.lgsuper.com.au)

<sup>1</sup> As well as the supplementary PDS dated 1 March 2006 in the case of the Rollover and Allocated Pension Plan.



# Introduction

## What is the purpose of this communication?

The Trustee of your Scheme has recently reviewed the way in which we invest your money and has decided on a new approach, which we believe will provide you with a better investment outcome.

The purpose of this document is to tell you about these proposed changes and to provide you with the information you may need about your investment strategies. Of course this document cannot cover all your questions, and in particular cannot take your specific needs into account. If you need further information or help with your financial affairs, please call us on **1300 369 901** and we'll either answer your questions, or, if necessary, recommend that you speak to our advisors (at no direct cost to you).

## So, what are the changes to the way my investments are managed?

Up until now, the bulk of the monies held in each of our investment strategies tended to be concentrated in traditional asset classes such as Shares, Property and Fixed Interest.

After careful analysis, the Trustee has decided that each of the Scheme's investment strategies would benefit by having a greater degree of diversification. In simple terms, this means that each investment strategy will now also invest in new asset classes, such as Private Equity, Semi Liquids, Australian Direct Property and International Listed Property. To enable this, less money will be allocated to Australian and International Equities. Some other asset classes may also lose a portion of their existing allocation.

The current and proposed allocation percentage for each investment strategy is shown on the pages that follow.

Some of these asset classes you will have already heard of. A description of the various asset classes included under each investment strategy can be found starting on page 2 of this document.

## Are all the portfolios affected?

Yes, except for the Cash Plus investment strategy, which we have already made changes to (from 1 July 2006) and have advised you of this already. If you want to see the communication again, please call us and ask for Cash Plus communication – we'll post it to you right away. Alternatively, look on our website under <http://www.lgsuper.com.au/schemeInfo/PDS.asp> and go to the 'Important changes to the Cash Plus investment strategy' under your respective superannuation PDS.

## How will this change the riskiness of my investments?

Simply put, based on advice we have received from our advisors, we believe that it is unlikely to change the riskiness of your investments in the Scheme.

## Will this impact on my investment objectives?

This change in asset allocation will change the 'Objective' for each investment strategy so as to actually shorten the period over which we aim to achieve the objective. The tables that follow (from pages 2-7) show you the change to the objectives for each investment strategy.

However we will also change the way the 'Objective' will be measured. Up to now we have 'benchmarked' your portfolio's return against the inflation rate. We believe that it is a better approach to compare your returns against the "risk free" rate (i.e. the cash return). That way you can see how the return objective increases for the increased "risk" associated with certain investment strategies.

## When will the changes take place?

Because the changes require us to move significant holdings in some asset classes, it will take some time to complete the transition. We will start to implement the changes in early 2007 and we hope to complete these by the middle of 2007.

## Are you going to put any other constraints on investing my money?

Yes, in order to ensure that the portfolio has enough liquidity (or putting it another way, to ensure that we can readily 'cash out' our investments as needed), we will limit the amount that we invest into Australian Direct Property, Semi Liquids and Private Equity, to 30% in total for the combination of these three assets. So irrespective of the proportion of funds we invest in each, the sum total of your money in these three asset classes will be limited to 30%.

## Where's the detail?

The following tables show the current investment strategies in detail as outlined in your respective PDS (note that members of the Defined Benefit Scheme have only one investment strategy – Trustee Selection), alongside the new descriptions (with the changes in a bold font). The tables also summarise the existing asset allocation of each investment strategy and highlight the changes that will occur from early 2007, when your Scheme starts moving towards the new asset allocations.

# Investment strategies in detail

## Current Description

### High Growth

For high investment growth above inflation over the longer term.

#### Definition

The High Growth strategy generally invests about 90% of its funds in growth assets, such as Australian and international equities and property. This combination aims to earn high real investment growth above inflation over a minimum period of 10 years. Because the emphasis is on growth, you should keep in mind that there may be what financial professionals call 'short-term volatility' in this strategy. In other words, the value of the investment may fluctuate over the short-term.

#### Objective

5.5% investment return per annum above inflation over 10 years.

#### Risks

There is a significant chance that the investment value may decrease in the short-term. The chance of a negative return in any year is 1 in 3.

#### Risk profile

High.

## New Description from early 2007

### High Growth

For high investment growth above the "cash" rate over the longer term.

#### Definition

The High Growth strategy generally invests a **very high proportion** of its funds in growth assets, such as Australian and international equities and property. This combination aims to earn high real investment growth above **the cash rate** over a **3 year period**. Because the emphasis is on growth, you should keep in mind that there may be what financial professionals call 'short-term volatility' in this strategy. In other words, the value of the investment may fluctuate over the short-term.

#### Objective

**3.5% net investment return per annum above the "cash" rate, measured over a rolling 3 year period.**

#### Risks

There is a significant chance that the investment value may decrease in the short-term. The chance of a negative return in any year is 1 in 3.

#### Risk profile

High.

Asset classes <sup>1</sup>	Current Asset Allocation	New Asset Allocation Ranges	Asset Changes	
Australian Equities (or Shares)	51%	37%-43%	<b>(-8% to -14%)</b>	
International Equities (or Shares)	34%	33%-38%	<b>(-1% to +4%)</b>	
Australian Listed Property	2.5%	0%	<b>(-2.5%)</b>	
International Listed Property	0%	5%-15%	<b>(+5% to +15%)</b>	
Australian Fixed income	2%	0%-5%	<b>(-2% to +3%)</b>	
Australian Inflation Linked Bonds (previously called Indexed-Linked Securities)	2%	0%-5%	<b>(-2% to +3%)</b>	
International Fixed Income	1%	0%-5%	<b>(-1% to +4%)</b>	
Absolute Return Funds (previously called Hedge Funds)	5%	5%-25%	<b>(0% to +20%)</b>	
Cash	0%	0%-10%	<b>(0% to +10%)</b>	
Australian Direct Property	2.5%	0%-7.5%	<b>(-2.5% to +5%)</b>	Note that the combined investments in these three asset classes will not exceed 30%
Semi Liquids	0%	0%-15%	<b>(0% to +15%)</b>	
Private Equity	0%	0%-20%	<b>(0% to +20%)</b>	

\* Note that each objective aims to return in excess of the cash rate. The benchmark for the cash rate is the UBS bank bill index.

<sup>1</sup> For a description of the various asset classes listed see the Glossary on page 10.

# Investment strategies in detail

## Current Description

### Trustee Selection

For high growth above inflation over the longer term.

#### Definition

The Scheme generally invests approximately 80% of its assets in traditional growth assets, such as Australian and international equities and property. This combination aims to earn high real growth, above inflation over a minimum period of 5 years. Because the emphasis is on growth, there may be some short term volatility in this selection. In other words, the value of the investment may fluctuate over the short-term although to a lesser extent than the High Growth strategy.

#### Objective

5.0% investment return per annum above inflation over 5 years.

#### Risks

There is a significant chance that the investment may decrease in the short-term. The Scheme has a risk objective of less than 25% chance of a negative nominal return in any year.

#### Risk profile

High/Medium.

## New Description from early 2007

### Trustee Selection

For real investment growth above the “cash”<sup>\*\*</sup> rate over the medium to long-term.

#### Definition

The Trustee Selection strategy generally invests a **very high proportion** of its funds in growth assets, such as Australian and international equities and property. **The balance is invested in income producing assets.** This combination aims to earn **real investment growth above the cash rate over a 3 year period.** Because the emphasis is on growth, you should keep in mind that there may be what financial professionals call ‘short-term volatility’ in this strategy. In other words, the value of the investment may fluctuate over the short-term. This volatility is not as great as it is in the High Growth strategy.

#### Objective

**3% net investment return per annum above the “cash”<sup>\*\*</sup> rate, measured over a 3 year period.**

#### Risks

There is potential for the value of the investment to decrease in the short-term. The chance of a negative return in any year is 1 in 4.

#### Risk profile

High/Medium.

Asset classes <sup>1</sup>	Current Asset Allocation	New Asset Allocation Ranges	Asset Changes
Australian Equities (or Shares)	39.5%	26%-31%	<b>(-13.5% to -8.5%)</b>
International Equities (or Shares)	26.5%	26%-31%	<b>(-0.5% to +4.5%)</b>
Australian Listed Property	0%	0%	<b>(0%)</b>
International Listed Property	0%	5%-15%	<b>(+5% to +15%)</b>
Australian Fixed Income	4%	0%-10%	<b>(-4% to +6%)</b>
Australian Inflation Linked Bonds (previously called Indexed Linked Securities)	5%	5%-10%	<b>(0% to +5%)</b>
International Fixed Income	4%	0%-10%	<b>(-4% to +6%)</b>
Absolute Return Funds (previously called Hedge Funds)	5%	5%-25%	<b>(0% to +25%)</b>
Cash	2%	0%-10%	<b>(-2% to +8%)</b>
Australian Direct Property	11%	5%-15%	<b>(-6% to +4%)</b>
Semi Liquids	0%	0%-15%	<b>(0% to +15%)</b>
Private Equity	3%	3%-20%	<b>(0% to +20%)</b>

Note that the combined investments in these three asset classes will not exceed 30%

\* Note that each objective aims to return in excess of the cash rate. The benchmark for the cash rate is the UBS bank bill index.

<sup>1</sup> For a description of the various asset classes listed see the Glossary on page 10.

# Investment strategies in detail

## Current Description

### Diversified

For real investment growth above inflation over the medium to long-term.

#### Definition

The Diversified strategy generally invests about 70% of its funds in growth assets, such as Australian and international equities and property. This combination aims to earn real investment growth above inflation over a period of 5 years. Because the emphasis is still on growth, you should keep in mind that there may be what financial professionals call 'short-term volatility' in this strategy. In other words, the value of the investment may fluctuate over the short-term. This volatility is not as great as it is in the High Growth strategy.

#### Objective

4.7% investment return per annum above inflation over 5 years.

#### Risks

There is potential for the value of the investment to decrease in the short-term. The chance of a negative return in any year is 1 in 4.

#### Risk profile

High/Medium.

## New Description from early 2007

### Diversified

For real investment growth above the "cash" rate over the medium to long-term.

#### Definition

The Diversified strategy generally invests **a high proportion** of its funds in growth assets, such as Australian and international equities and property. **The balance is invested in income producing assets.** This combination aims to earn real investment growth **above the cash rate over a 3 year period.** Because the emphasis is on growth, you should keep in mind that there may be what financial professionals call 'short-term volatility' in this strategy. In other words, the value of the investment may fluctuate over the short-term. This volatility is not as great as it is in the High Growth strategy.

#### Objective

**2.5% net investment return per annum above the "cash" rate, measured over a rolling 3 year period.**

#### Risks

There is potential for the value of the investment to decrease in the short-term. The chance of a negative return in any year is 1 in 4.

#### Risk profile

High/Medium.

Asset classes <sup>1</sup>	Current Asset Allocation	New Asset Allocation Ranges	Asset Changes	
Australian Equities (or Shares)	39%	25%-30%	<b>(-9% to -14%)</b>	
International Equities (or Shares)	26%	25%-30%	<b>(-1% to +4%)</b>	
Australian Listed Property	2.5%	0%	<b>(-2.5%)</b>	
International Listed Property	0%	5%-15%	<b>(+5% to +15%)</b>	
Australian Fixed Income	11%	0%-10%	<b>(-11% to -1%)</b>	
Australian Inflation Linked Bonds (previously called Indexed Linked Securities)	7%	5%-10%	<b>(-2% to +3%)</b>	
International Fixed Income	7%	0%-10%	<b>(-7% to +3%)</b>	
Absolute Return Funds (previously called Hedge Funds)	5%	5%-25%	<b>(0% to +20%)</b>	
Cash	0%	0%-10%	<b>(0% to +10%)</b>	
Australian Direct Property	2.5%	0%-7.5%	<b>(-2.5% to +5%)</b>	Note that the combined investments in these three asset classes will not exceed 30%
Semi Liquids	0%	0%-15%	<b>(0% to +15%)</b>	
Private Equity	0%	0%-20%	<b>(0% to +20%)</b>	

\* Note that each objective aims to return in excess of the cash rate. The benchmark for the cash rate is the UBS bank bill index.

<sup>1</sup> For a description of the various asset classes listed see the Glossary on page 10.

# Investment strategies in detail

## Current Description

### Balanced

For real investment growth above inflation over the medium term.

#### Definition

The Balanced strategy generally invests about 50% of its funds in growth assets and 50% in income-producing assets, such as interest-bearing securities. This combination offers real investment growth above inflation over 3 years. There are more assets that produce income, which makes the strategy more stable than the High-Growth and Diversified strategies.

#### Objective

4.0% investment return per annum above inflation over 3 years.

#### Risks

Although the emphasis is on spreading your investment over various asset classes, there is a possibility that the value of the investment will decrease in the short-term. The chance of a negative return in any year is 1 in 5.

#### Risk profile

Medium.

## New Description from early 2007

### Balanced

For real investment growth above the “cash”<sup>\*\*</sup> rate over the medium term.

#### Definition

The Balanced strategy generally invests a proportion of its funds in growth assets **such as Australian and international equities and property, semi liquids and private equity** and the balance in income-producing assets, such as interest-bearing securities. This combination offers real investment growth above the **cash rate** over a 3 year period. There are more assets that produce income, which makes the strategy more stable than the High-Growth and Diversified strategies.

#### Objective

**1.5% net investment return per annum above the “cash”<sup>\*\*</sup> rate, measured over a rolling 3 year period.**

#### Risks

Although the emphasis is on spreading your investment over various asset classes, there is a possibility that the value of the investment will decrease in the short-term. The chance of a negative return in any year is 1 in 5.

#### Risk profile

Medium.

Asset classes <sup>1</sup>	Current Asset Allocation	New Asset Allocation Ranges	Asset Changes
Australian Equities (or Shares)	27%	15%-20%	<b>(-7% to -12%)</b>
International Equities (or Shares)	18%	15%-20%	<b>(-3% to +2%)</b>
Australian Listed Property	2.5%	0%	<b>(-2.5%)</b>
International Listed Property	0%	5%-10%	<b>(+5% to +10%)</b>
Australian Fixed Income	20%	0%-15%	<b>(-5% to -20%)</b>
Australian Inflation Linked Bonds (previously called Indexed Linked Securities)	12%	10%-15%	<b>(-2% to +3%)</b>
International Fixed Income	13%	0%-10%	<b>(-3% to -13%)</b>
Absolute Return Funds (previously called Hedge Funds)	5%	5%-20%	<b>(0% to +15%)</b>
Cash	0%	0%-10%	<b>(0% to +10%)</b>
Australian Direct Property	2.5%	0%-7.5%	<b>(-2.5% to +5%)</b>
Semi Liquids	0%	0%-15%	<b>(0% to +15%)</b>
Private Equity	0%	0%-20%	<b>(0% to +20%)</b>

Note that the combined investments in these three asset classes will not exceed 30%

\* Note that each objective aims to return in excess of the cash rate. The benchmark for the cash rate is the UBS bank bill index.

<sup>1</sup> For a description of the various asset classes listed see the Glossary on page 10.



# Investment strategies in detail

## Current Description

### Capital Guarded

For shorter term investing with good security and some potential for growth.

#### Definition

The Capital Guarded strategy generally invests 30% in growth assets and 70% in income-producing assets. This combination aims to keep investment return fluctuations to a minimum. Although it is relatively more stable than the High-Growth, Diversified and Balanced strategies, the returns and the value of the investment can still fluctuate.

#### Objective

3.5% investment return per annum above inflation over 3 years.

#### Risks

Although the emphasis is more on security, returns and the value of the investment can still fluctuate. The chance of a negative return in any year is 1 in 8.

#### Risk profile

Medium/Low.

## New Description from early 2007

### Capital Guarded

For shorter term investing with good security and some potential for growth.

#### Definition

The Capital Guarded strategy generally invests a **small proportion** in growth assets and the balance in income-producing assets **such as interest-bearing securities**. This combination aims to keep investment return fluctuations to a minimum. Although it is relatively more stable than the High-Growth, Diversified and Balanced strategies, the returns and the value of the investment can still fluctuate.

#### Objective

**1% net investment return per annum above the "cash"\* rate, measured over a rolling 3 year period.**

#### Risks

Although the emphasis is more on security, returns and the value of the investment can still fluctuate. The chance of a negative return in any year is 1 in 8.

#### Risk profile

Medium/Low.

Asset classes <sup>1</sup>	Current Asset Allocation	New Asset Allocation Ranges	Asset Changes	
Australian Equities (or Shares)	15%	7.5%-12.5%	<b>(-7.5% to -2.5%)</b>	
International Equities (or Shares)	10%	10%-15%	<b>(0% to +5%)</b>	
Australian Listed Property	2.50%	0%	<b>(-2.5%)</b>	
International Listed Property	0%	5%-10%	<b>(+5% to +10%)</b>	
Australian Fixed Income	29%	0%-25%	<b>(-4% to +29%)</b>	
Australian Inflation Linked Bonds (previously called Indexed Linked Securities)	17%	15%-20%	<b>(-2% to +3%)</b>	
International Fixed Income	19%	0%-15%	<b>(-4% to -19%)</b>	
Absolute Return Funds (previously called Hedge Funds)	5%	5%-20%	<b>(0% to +15%)</b>	
Cash	0%	0%-10%	<b>(0% to +10%)</b>	
Australian Direct Property	2.5%	0%-7.5%	<b>(-2.5% to +5%)</b>	Note that the combined investments in these three asset classes will not exceed 30%
Semi Liquids	0%	0%-15%	<b>(0% to +15%)</b>	
Private Equity	0%	0%-20%	<b>(0% to +20%)</b>	

\* Note that each objective aims to return in excess of the cash rate. The benchmark for the cash rate is the UBS bank bill index.

<sup>1</sup> For a description of the various asset classes listed see the Glossary on page 10.

# Investment strategies in detail

## Cash Plus

(There is no further change to the Cash Plus strategy – this strategy was changed with effect from 1 July 2006 and members can see details of those changes on our website or refer to page 1 of this SPDS for the website link)

For investors who want exposure to investments in money market securities with a very low risk of capital loss.

### Definition

The Cash Plus strategy invests predominantly in short term Australian money market assets. In addition, a small proportion of the assets (up to 15%) are invested in global interest type assets having a longer maximum term. This gives this strategy greater exposure to higher returns than by just investing in short term domestic assets, with only a small increase in the overall volatility of the returns. This strategy offers investments for short term investors or those seeking less volatile returns.

### Objective

0.25% net investment return per annum above the “cash”\* rate, measured over a rolling 3 year period.

### Risks

Depending on market volatility, there is a chance that this investment may experience a negative return, but this is expected to only be for periods of no more than a month. Over longer time frames, the chance of a negative return would be remote.

### Risk Profile

Low.

### Indicative asset allocation

100% Cash and income producing assets.

\* Note that each objective aims to return in excess of the cash rate. The benchmark for the cash rate is the UBS bank bill index.



# Important information

## How will I know what the asset allocations are at any given time?

Our website will be regularly updated to show you the actual asset allocation invested in each sector from time to time. Once a year you will receive your Annual Report, which will provide the actual asset allocation of your investment strategy as at 30 June 2006. The Annual Report will also advise you of the investment managers appointed to manage your assets as at 30 June each year.

## How will I know which managers are managing my assets?

We may change investment managers, where we believe that this will improve your investment returns or investment risk. We will regularly list the current investment managers on the website, or alternatively call us and we will provide you details of the current investment managers we are using at the time of your call.

## What do I do if I want to change my investment strategy?

If after reading and considering all the information contained in this SPDS and your Scheme PDS you would like to change your investment strategy, then you should either go to our website at [www.lgsuper.com.au](http://www.lgsuper.com.au), or call Member Services for a 'Changing Investment Strategy' form. Please remember if you are a Division D member (Defined Benefit Scheme) you can't make an investment change in relation to your compulsory member contributions, as these contributions form part of your Defined Benefit.

## What other important information do I need to know about my investments?

The changes in the way we manage your investments mean that we need to provide you with information about the various risks that are involved in investing and to inform you of our policy regarding derivatives (highly leveraged financial instruments).

### Risk of investing

In general, investments looking to generate the highest returns tend to have the highest risks. 'Risk' means not only that returns might be variable (or 'volatile'), but that part or all of the investment might be lost. Historically, shares have been more volatile than other investments, such as property or fixed interest.

Regardless of the investment strategy chosen, the value of your investment can fall as well as rise. Even where your investment does not fall in value, it may not perform according to your expectations.

### Inflation risk

A further risk is inflation. Although the investment may produce a positive return, when we compare this to the increase in the cost of living, we may find that your return hasn't been able to keep up with inflation, effectively reducing your purchasing power. You need to balance risks against returns in order to achieve your investment goals.

### Credit risk

Where we invest in debt securities or other debt instruments (such as debentures), these could be subject to default risk. For example, where we buy a Bond that has an interest payable regularly, and a capital repayment (the money you get at the end of the period of the bond), there is a risk that the organisation that issued the bond (credit issuer) may default on interest payments, the capital repayment, or both.

Bond investments with a non-investment grade credit rating (that is, Standard and Poor's BB+ rating or equivalent, or less) are subject to increased risks, compared with investment grade securities – rated AA for example). A lower graded Bond may have a higher chance that the credit issuer may be more likely to default on the interest payments, the repayment of capital or both. However it is likely that these debt securities may provide a higher return, and we may still invest in lower grade debt securities.

### Interest rate risk

Cash, cash-like securities and debt securities investments are affected by interest rate movements. Capital gains can be earned from debt securities investments where interest rates are falling and capital losses can occur where interest rates are rising. The risk of capital gain or loss tends to increase as the term to maturity of the investment increases. For example, if you buy a bond that provides an interest payment of 5% a year, and a capital repayment of \$100 at the end of 10 years, and the interest rates climb today to 10%, you won't be able to sell this bond for \$100, as the purchaser will want to receive a 10% return on their purchase. As such the purchaser will probably offer you somewhat less than \$100.

# Important information

## Liquidity risk

Many investment strategies hold assets which are 'illiquid'. If we have an investment in illiquid assets, we may not be able to sell the investment at short notice, or we may need to sell our investment at a discount or a loss if we need to 'cash out' quickly. Examples are direct property, absolute return, private equity and non-listed alternative investments. Listed investments can be illiquid where there is not an active market for the securities such as small companies' shares.

Diversifying across a range of investments, and limiting holdings in potentially illiquid investments can help you manage the risks of illiquid investments.

## Market risk

General economic conditions both in Australia and elsewhere in the world affect markets. Changes in government policies, changes in interest rates and inflation, technological developments and demographic changes (alterations in the makeup of the population – such as the fact that on average the population of Australia is ageing), all affect investment markets as a whole causing the value of investments to rise and fall. We have no way of accurately predicting what will happen and how this will affect the markets.

## Asset class risks

Risks for individual asset classes include:

- **Alternative assets** – Alternative assets can involve exposure to all of the risks applying to the traditional asset classes described above. In addition, many alternative assets are illiquid and can also involve the use of derivatives, gearing and short selling.
- **Australian equities** – Specific risks relating to individual companies include profits and dividends being below expectations, adverse management charges or reassessment of the outlook for the company or industry.
- **Cash** – Whilst it is unlikely that the market value of a cash investment will decline, longer-term returns are generally lower than other assets.
- **Debt securities** – Whilst such investments normally pay a set amount of interest income over time, market values can fluctuate. Overall returns over short term periods can be negative. The value will fall if yields rise. Fixed interest investments are also subject to default risk.

- **International equities** – Global economic trends and individual country and risk factors as well as specific risks relating to individual companies will affect the price. There is also currency risk (unless hedged). Capital gains may occur when the Australian dollar depreciates against other currencies and capital losses may occur when the Australian dollar appreciates.

- **Property** – Risks include vacancies, locational factors, unprofitable property development activities, declining property values and realised losses when properties are sold where the property investments are held in a listed entity. It will also attract some of the risk associated with share market volatility. Other risks include delays in obtaining required approvals, construction risk, leasing risk and market risk.

## Derivatives risk

Your Trustee has a policy<sup>1</sup> that is applied when approved investment managers trade in derivatives. This policy includes guidelines for writing and buying 'options', 'futures' and other derivatives. Derivatives can be used for many purposes, including hedging to protect an asset against market fluctuations, reducing costs of achieving a particular market exposure and maintaining benchmark asset allocations. Risks include:

- **Price** – the risk that changes in prices in the market underlying a derivative contract, or in the derivative contract itself, are adverse to the position held.
- **Leverage** – the risk that by creating greater exposure to a market than that of the assets backing the position, losses will be magnified.
- **Liquidity** – the risk that a derivative position cannot be reversed.
- **Default** – the risk that the other party does not meet its obligations.

## Short Selling risk

Short selling is a sophisticated technique where a share is sold, for delivery at a later date, in anticipation that its value will decline over the period, and you will be able to buy it back at a cheaper price than you sold it. Of course if the price has gone up you can lose the difference between what you sold it for and what you need to buy it for (plus all the transaction, holding and other costs). However it is important to note that due to the nature of short selling, the potential loss to the asset may be greater than for the more traditional purchase and sale transactions. This is because there is risk that the price of the asset sold increases rather than falls.

<sup>1</sup> A copy of the policy can be obtained by contacting Member Services or by going to our website [www.lgsuper.com.au](http://www.lgsuper.com.au)



# Important information

## How do I understand and manage my risks?

There are a number of things you need to do to manage the risks associated with investing in the investment strategies offered:

- Obtain professional advice to determine whether the investment strategies suit your investment objectives, financial situations and needs.
- Carefully read all the information in this SPDS and the PDS before investing.
- Consider investing for at least the suggested minimum investment timeframe for the investment strategy. You should also consider relative risk rating for each investment strategy. However, you should note that investing for the suggested minimum investment timeframe does not eliminate the risk of loss.
- Regularly review your investments in light of your investment objectives, financial situation and needs.

# Glossary

## Glossary: or what do some of the terms used in this document mean?

Some of the terms used when describing how assets are invested can be confusing. In order to assist you in better understanding the information and terms contained in this SPDS, the following table simplifies those terms.

**Absolute Return Funds** - A broad exposure to strategies which produce an absolute return rather than a return relative to market benchmark. (For example absolute returns are measured with reference to returns generated by cash rather than the share market). These strategies may include investments in private equity, hedge funds, infrastructure transactions and assets, varying branches of structured credit offerings and distressed debt funds.

**Australian Direct Property** - Investments in direct Australian property as well as in listed and unlisted Australian Property vehicles or trusts.

**Australian Equities (or Shares)** - A diversified range of equities listed on the Australian Stock Exchange.

**Australian Fixed Interest** - A broad range of securities that may provide income and could have a fixed term. Generally these are debt instruments and could include Government and Company bonds, money market securities and cash instruments which may have differing levels of credit exposure.

**Australian Inflation Linked Bonds** - A broad range of both government and corporate issues of securities which generate a bond like return that is linked to the prevailing inflation rate of the day.

**Australian Listed Property** - A diversified range of property investments listed on the Australian Stock Exchange.

**Cash** - A diverse range of short term assets with relatively low risk and high credit quality in addition to Australian and global debt securities.

**International Equities (or Shares)** - A diversified range of equities listed on world share markets, including some investments in emerging markets.

**International Fixed Interest** - A diversified range of debt securities that are representative of global bond markets and which may include sovereign, investment grade, corporate, mortgage and asset backed securities.

**International Listed Property** - A diversified range of property investments listed on world share markets.

**Private Equity** - Non-listed alternative assets (such as airports, tollways, ports and power stations). Many of these assets have long term quality leases/income streams and so provide strong cash flow and steady returns.

**Semi Liquids** - Unlisted securities that provide an income stream for a fixed period and could include 'Collateralised debt and Obligations' and debentures.



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