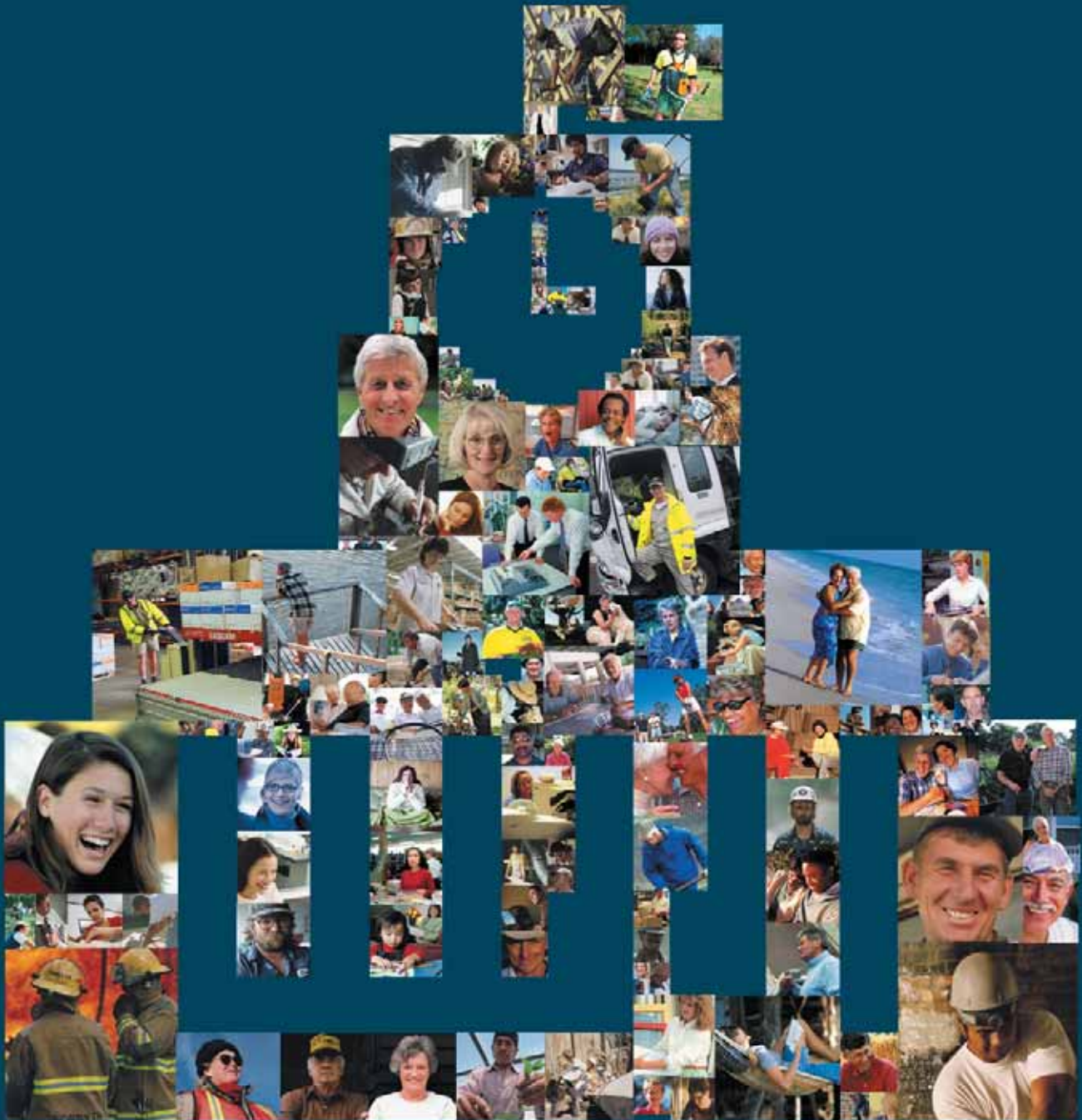


# Annual Report

2003-2004



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# Local Government Superannuation Scheme

Annual Report  
2003-2004



Our Mission Statement:

“We are here to protect and enhance members’ wealth through quality service and competitive products”

This means we are focused on:

- Ensuring that our products are market competitive, both on benefits and cost, whilst returning a competitive investment return.
- Extending our product and service offers to meet the needs of all of our members at various stages in their lives.
- Ensuring that the financial security of your Scheme is protected.



## A Note from the Chair

# A Note from the Chair



Dear Members,

On behalf of the Board, I have great pleasure in presenting to you the 2004 Annual Report for the Local Government Superannuation Scheme, after what has been a year of strong investment returns for most members.

This year's Annual Report includes a lot of information on the improved services the Scheme is making available to members.

Over the next 12 months your Scheme will be focusing on, not only increasing our service offerings, but also continuing to improve them to meet the changing needs of members throughout the various stages of their lives.

Our aim is to communicate with you in a clear, concise and effective way, so that you have all the information you need and in a form you can readily understand. If there is anything you think we can improve, we welcome your feedback.

I would like to take this opportunity to notify members of the recent acquisition by the Scheme of Local Government Financial Services. We believe that this acquisition will provide great opportunities for Local Government generally, as well as to the Scheme.

We have listed some of the highlights of the 2003/2004 year and some information on looking ahead on the following page.

Peter Woods OAM  
CHAIR  
Local Government Superannuation Scheme

## Is Your Super Scattered?

If you've changed jobs over the years, you probably have several different superannuation accounts. There are a number of reasons it could pay to consolidate your super.

If you have your super in two or more funds, you could be paying a lot more fees than you need to.

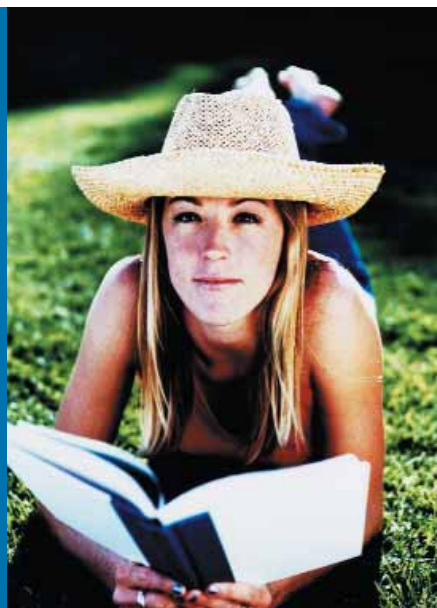
If you're receiving several sets of reports and information, it can be difficult to track your overall situation.

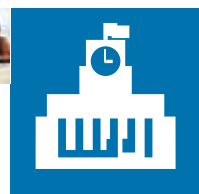
AND very importantly....

There are no entry fees if you transfer your super into one of your Scheme's products.<sup>1</sup>

To consolidate your super into the Scheme simply call Member Services on 1300 369 901 and ask for a transfer-in form or download it from our website [www.lgsuper.com.au](http://www.lgsuper.com.au)

1. This does not constitute personal advice and you should carefully consider your individual objectives and circumstances. You should also make enquiries of your current superannuation fund/s as you may be liable to pay exit fees or lose an insurance benefit attached to your superannuation.





## Highlights & Looking Ahead

# Highlights of 2003/04

There were a number of positive changes and additions to the Local Government Superannuation Scheme, including:

- The opening of the Newcastle office. The office services the 12,000 members who live and work in the Hunter region and offers a range of services, including financial planning.
- The Financial Services Reform legislation came into effect, bringing with it a raft of new compliance obligations. Not only have we met our FSR obligations, but we have also used the new legislation as an opportunity to streamline all of our communications. Our marketing materials now have a consistent look and feel and include mandatories like Product Disclosure Statements.
- The Home Loan service now offers a range of new features, which have been highly rated by Cannex.
- A wealth creation seminar service has been introduced to members through FuturePlus Financial Services<sup>1</sup>, a company jointly owned by the Local Government Superannuation Scheme and the Energy Industries Superannuation Scheme.
- The website continues to improve. More members have now registered for web access, which allows them to access their statements and learn more about the Scheme.
- Our Member Services team is now accredited with all the training necessary to meet legislative requirements. This gives them the ability to help members individually with information about superannuation and insurance.

# Looking Ahead

There are two significant changes to superannuation for 2004/2005, that are beneficial to members.

- In the May budget, the Federal Government announced a reduction in the superannuation surcharge rate. The rate, which had been 14.5%, is being reduced to 12.5% for 2004/2005. This will be further reduced to 10% for the 2005/2006 financial year. The income level at which the surcharge applies is indexed. It starts at \$99,710 for the 2004/2005 year.
- Secondly, the co-contribution scheme has been improved from 1 July 2004. The Government will contribute \$1.50 to a member's superannuation fund for every \$1 that a member contributes after tax, subject to eligibility. More details about the co-contributions scheme can be obtained from Member Services.

## Scheme Research

As part of improving and developing services the Scheme conducts research during the year.

The intention of the research is to obtain feedback from members on a variety of matters, to ensure their needs continue to be met, to identify and address any issues, to improve processes and to develop existing and new services and products.

Over the course of the coming year, members may receive a telephone call from one of the research groups the Scheme currently uses. Members are encouraged to participate and provide feedback, but are under no obligation to do so. If you do not wish to participate, simply let the researcher know.

The Scheme currently uses the following research companies.

- Woolcott Research Pty Ltd.
- Stent Research and Planning Pty Ltd.

<sup>1</sup> FuturePlus Financial Services (ABN 90 080 972 630) is an Australian Financial Services Licensee (AFSL 238445).



## Financial Services Available to Members

# Financial Services Available to Members

### Voluntary Insurance<sup>1</sup>

Members have access to voluntary insurance at very competitive rates. There are three types of cover available:

- A lump sum death benefit;
- A lump sum death and total and permanent disablement benefit; and
- A salary continuance benefit.

The voluntary insurance is externally insured with PrefSure Life Limited (the Insurer). Effective from 1 December 2004, the Scheme's voluntary insurance will be changing. These changes will impact on the cost of cover in some cases and on the member occupational categories used. Please contact Member Services on 1300 369 901 for further details.

### Fair Go Member Benefits Program<sup>2</sup>

The Fair Go program was launched in December 2003 to provide special rates and discount offers for Scheme members who actively contribute to their superannuation and have a balance of at least \$1,000. The program to date has included the following offers and discounts for members:



- Health Insurance savings.
- Savings on holiday accommodation.
- Air fare savings.
- Car rental discounts.

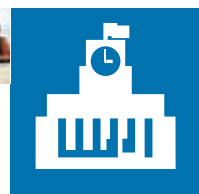
In the past year we have worked to enhance the member benefits significantly. The program for 2005 will now also include:

- A number of discount offers on admission to family entertainment type venues such as: Sydney Aquarium, Manly Oceanworld, Jamberoo Recreation Park and many more.
- A significant discount offer on a specially designed lifestyle package that includes special rates at over 3,000 outlets throughout Australia and New Zealand, giving you savings at restaurants, hotels, B&B's, cinemas, tourist attractions, video hire, car hire, holidays and much more. Access to a telephone shopping service and ticket booking service offering premium seating is also available within this package.
- A number of extra accommodation offers.
- Wine club offers.
- National fleet-type discounts on the purchase of cars.
- Discounts at a large gym chain.
- Telco and IT discounts on items such as home phones, broadband, PCs and laptops.

To view the entire range of offers available, visit [www.lgsuper.com.au](http://www.lgsuper.com.au) and click on 'Fair Go'.

<sup>1</sup> To access this facility a Pool A account needs to be set up. Contact Member Services for further details on 1300 369 901.

<sup>2</sup> Conditions apply to some of the offers. Visit our website ([www.lgsuper.com.au](http://www.lgsuper.com.au)) or read the Fair Go booklet for further information concerning any applicable conditions.



## Financial Services Available to Members

### Chifley Home Loans

Thanks to Chifley Financial Services<sup>1</sup>, members can take advantage of Chifley's low-interest, fee-free home loan. Chifley Home Loans is a Home Loan product service offered through Chifley Financial Services (a company co-owned by the Local Government Superannuation Scheme, the Energy Industries Superannuation Scheme and the Labor Council of NSW). These resources and backing mean we can offer members home loans at very competitive rates, which include:

- Very low interest rates.
- No hidden or extra fees.
- A choice of loans.
- Straightforward, everyday language.

The loan terms are transparent, to ensure members always understand the loan conditions. For more information, call Chifley on 1800 800 002.

### Account Management Services

We have a team of Account Managers who provide regular site visits, seminars and one-on-one on site consultations. Both members and employers find these visits valuable in keeping them informed of developments affecting their superannuation. It also provides us with an opportunity to obtain feedback from members and employers. Members can arrange a one-on-one consultation with an Account Manager by calling 1300 369 901.

### Member Services Contact Centre

The most common method of member contact is by phone, through our Member Services Contact Centre.

All Member Services Officers undergo an extensive training and induction programme so that they can provide members with accurate and appropriate information. They are graded using both internal and external criteria, to ensure they are offering the highest quality service.

The Member Services Contact Centre also complies with Financial Services Reform requirements. To speak to a Member Services Officer simply call 1300 369 901.

### Communications

Communicating with members is important to us. In addition to our statutory requirements, such as producing this Annual Report, we also have:

- Regular newsletters;
- Interim statements (Pool A);
- Product and service offers by mailing, emailing and telephone; and
- Conferences.

For more information go to [www.lgsuper.com.au](http://www.lgsuper.com.au) or call Member Services on 1300 369 901.



"The newsletters are a good read and if I have any questions I know I can ring up for help."

- Geoffrey Gollan, Richmond Valley Council

<sup>1</sup> Chifley Financial Services Limited (ABN 75 053 704 706) is an Australian Financial Services Licensee (AFSL 231148).



## Financial Services Available to Members

### Seminars

FuturePlus holds financial planning seminars for members, including:

- Retirement Seminars.
- Wealth Creation Seminars.

These seminars give members direct contact with our financial staff.

For more information about these seminars, please contact Member Services on 1300 369 901 or visit [www.lgsuper.com.au](http://www.lgsuper.com.au) to view upcoming seminars and their locations.

### Financial Planning Advice and Education

FuturePlus Financial Services has a full-time team devoted to offering members a comprehensive financial planning service. Because the Financial Planners are employed by us, their advice aims to help members, rather than earn them a commission.

Members can make an appointment to see a Financial Planner at any time, at any one of our six regional offices or two satellite offices.

Contact Member Services on 1300 369 901, or visit the Local Government Superannuation Scheme website [www.lgsuper.com.au](http://www.lgsuper.com.au) to find out more.

### Regional Offices

We have offices in the following locations:

Sydney	28 Margaret St
Orange	187 Summer St
Wagga Wagga	2/209 Baylis St
Wollongong	Shop 2, 60 Burelli St
Lismore	81-83 Molesworth St
Newcastle	235 Darby Street Cooks Hill
Albury <sup>1</sup>	429 Swift St
Goulburn <sup>1</sup>	148 Auburn St

<sup>1</sup> By appointment only. These offices are staffed for one day a month only. It is essential that you phone 1300 369 901 to book an appointment.

### Website Calculators and Services

The website offers a comprehensive range of tools and calculators to help members work out what suits them best. These include:

- Risk Profiling questionnaire;
- Superannuation and Allocated Pension calculator;
- Insurance Premium calculators;
- Salary Continuance calculator; plus
- Other calculators available through FuturePlus, such as: budgeting; borrowing limit; insurance; loans; term deposit; and rent vs. buy.

To register for web access, simply go to [www.lgsuper.com.au](http://www.lgsuper.com.au) and click on the web access registration link.

"It shows common sense to move all my super funds into one because then all you're doing is paying one set of fees."

- Denise Townsend, Cabonne Council





## Financial Services Available to Members

### Additional Benefit Cover for Retirement Scheme Members

Additional Benefit Cover is a form of insurance cover available to Retirement Scheme members on an optional basis, subject to meeting prescribed medical standards. It is paid if the member ceases employment due to total and permanent invalidity or death. This is to help compensate for the difference between the standard benefit and the benefit the member would have received had he or she been able to remain in employment until the normal early retirement age.

Additional Benefit Cover offers the following features:

- It is payable on top of both the standard benefit available to all contributors and the basic benefit - where retirement due to total and permanent invalidity or death occurs prior to the early retirement age.
- The total benefit payable can be as much as seven times the final salary (including the basic benefit).
- The cost of this additional cover is minimal, as the employer finances around 75% of the Additional Benefit Cover cost.

Anyone not already covered by the Additional Benefit should give it serious thought, as it may help protect your - and your family's - living standards in the event of total and permanent invalidity or death.<sup>1</sup>

Additional Benefit Cover is based on prospective benefit points. These are the extra points that it is assumed the member would have accrued by the early retirement age, had total and permanent invalidity or death not occurred. Each prospective benefit point is worth 4% of the final salary (or final average salary if it is higher).

The number of prospective benefit points plus accrued points cannot exceed 180.

#### The Cost

Members granted cover will have a levy deducted from their Personal Account for Additional Benefit Cover each month. The annual levy charge is shown on the Annual Statement. The levy rates are considerably lower than those charged by commercial insurers for similar products.

Members can apply for Additional Benefit Cover at any time up to early retirement age. Members close to early retirement age, or who are close to having 180 accrued benefit points (early retirement age or obtaining 180 accrued points would mean that cover would cease) should ask for more information from Member Services, in case the cover is not appropriate.

#### Eligibility for Cover

Most applications will be assessed on the information provided on the application form. If we are unable to make an assessment of eligibility for the Additional Benefit Cover from this information, the member may be required to provide additional information, or undergo a medical examination. The Additional Benefit Cover begins on the day the application is approved and the levy generally becomes payable.

<sup>1</sup> Only available to the Pool B Retirement Scheme members. Contact Member Services for further details on 1300 369 901.



## How the Sectors Performed

# How the Sectors Performed

Overall, 2003/04 delivered strong investment returns. Those investment options with a high exposure to equities (such as the "High Growth" and "Diversified" options) performed especially well on the strength of improving local and global economic conditions and consequent increases in corporate profits and dividends. Nevertheless, all portfolios performed well against their benchmark this year in gross terms, gaining good results for investors.

### Australian Equities

Solid domestic economic conditions, and a return to good global economic growth, allowed for reasonably strong corporate earnings during 2003/04, making Australian equities the best performing asset class.

Despite this, it was a difficult year for those fund managers who actively aim to outperform benchmark, as the market switched its preferences, one after another, between various sectors. Your Scheme's investment managers performed reasonably well as they anticipated these trends and took advantage of the strong overall growth to reflect this in performance.

### International Equities

The first half of the financial year saw a return in demand for lower quality growth stocks, particularly those in the technology area, which made it difficult for active managers to perform well. The re-emergence of good corporate growth in Japan and the general rise in world economic activity, though, looks set to support a solid performance in international equities during the early part of 2004/05.

The other major factor in 2003/04 was the extreme volatility in the value of the Australian dollar (AUD). The AUD rose against the US dollar but fell against all the other major currencies (e.g. Yen, Euro and

Sterling). Your Scheme continued to add value by using currency hedges to protect the performance of international equities.

### Property

A large difference emerged during the year between the performance of the direct property market and the apparent performance of Listed Property Trusts (LPTs). LPTs are investment vehicles listed on the Stock Exchange which provide investors with access to a portfolio of a number of properties.

Direct property returns generally reflected the more difficult leasing market. However, the increase in the price of many LPTs was more likely a result of acquisition activities. As this latter factor falls out of the market, listed property returns are likely to perform less well, reflecting the slightly higher interest rates expected to prevail during 2004/05. This means a more difficult performance year ahead for this sector.

### Fixed Interest

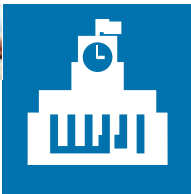
Partly as a result of the growth in the global economy and the rise in commodity prices in 2003/04, there was some pressure on interest rates worldwide. Rising interest rates imply that bond prices need to fall to provide new investors with the higher interest returns required. This meant that fixed interest managers had to be reasonably quick to avoid major capital losses as the value of existing bond prices fell. Part of the Scheme's Australian fixed interest portfolio was hedged against unfavorable interest rate movements and this assisted returns during the year.

The international fixed interest sector experienced lower returns during the financial year, with both government and corporate debt portfolios suffering under rising interest rates. Combined with the impact of the rising Australian dollar, your Scheme had to carefully manage any adverse effects of this sector.

The factors which saw fixed interest portfolios struggling to perform in 2003/04 could well continue during the first part of 2004/05.

### Cash

With cash returning close to 5.5% (gross) by year-end, and with interest rates likely to experience a slight rise over the course of 2004/05, cash investments are generating solid real returns on behalf of investors.



## Your Superannuation Explained

# Your Superannuation Explained

The Local Government Superannuation Scheme was established on 1 July 1997, to specifically cater for employees of NSW Local Government employers. The Scheme is divided into two Pools (Pool A and Pool B). The diagram at right shows the Scheme's structure.

FuturePlus Financial Services provides superannuation and financial services to members of the Scheme and is 50% owned by the Scheme.

### Pool A Consists of the Assets of Three Divisions:

- Accumulation Scheme - Division A
- Executive Scheme - Division E
- Allocated Pension and Rollover Plan - Division F

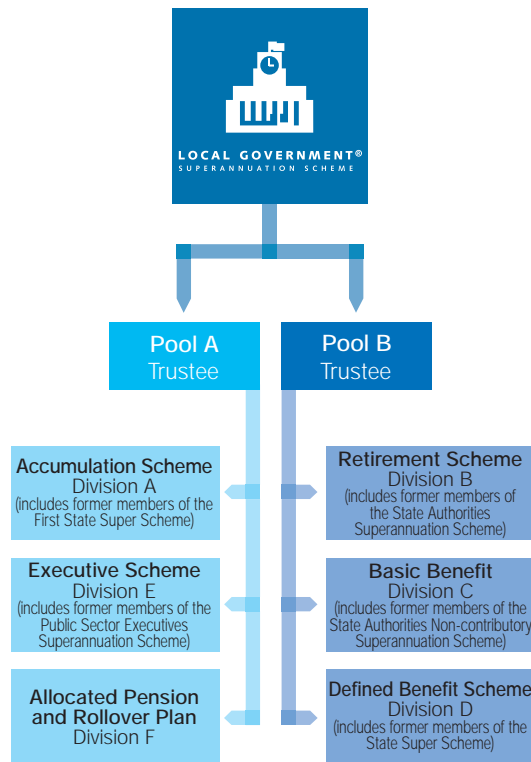
### Pool B Consists of the Assets of Three Divisions:

- Retirement Scheme - Division B
- Basic Benefit - Division C
- Defined Benefit Scheme - Division D

The following section lists the strategies for each of the available investment options, along with more detailed information on past performance, asset allocations and definitions.

Net earnings rates disclosed in this Report may not be the same as the rate credited to a member's benefit because of the effect of Scheme Administration Fees. Please note that past net earning rates are not an indicator of future net earning rates and that members benefits invested in any particular strategy are not guaranteed and the value of their investment may rise or fall.

### Local Government Superannuation Scheme Divisions



For more information go to [www.lgsuper.com.au](http://www.lgsuper.com.au), check the Product Disclosure Statement, or call Member Services on 1300 369 901.



"I brought my wife along to one of the personal interviews so we could talk about salary sacrifice and now we know where we stand."

- Michael Savage, Bathurst Regional Council



## Investment Strategies

# High Growth

For high growth above inflation over the longer term.

### Definition

The High Growth strategy generally invests approximately 90% of its funds in traditional growth assets, such as Australian and International Shares and Property. This combination aims to earn high growth above inflation over a minimum period of 5 years. Because the emphasis is on growth, there may be short-term volatility. 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 may decrease in the short term. The chance of a negative return in any year is 1 in 3.

### Risk Profile

High.

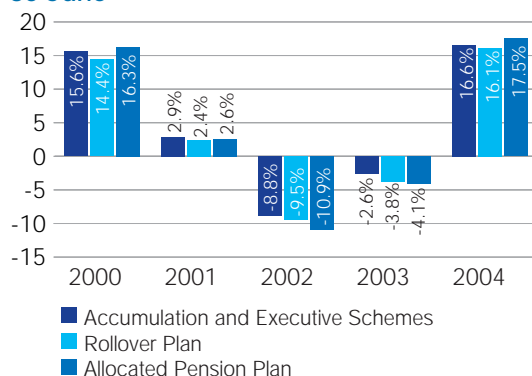
### Divisions that can Invest

Accumulation Scheme (Division A)  
Executive Scheme (Division E)  
Allocated Pension and Rollover Plans (Division F)

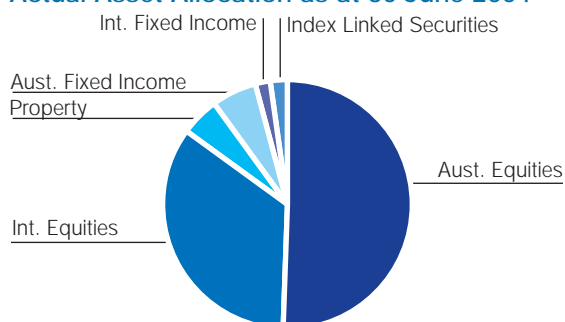
### Annualised Returns as at 30 June 2004<sup>1</sup>

	Annualised 5 year returns
Accumulation and Executive Schemes (Divisions A and E)	4.3%
Rollover Plan (Division F)	3.4%
Allocated Pension Plan (Division F)	3.7%

### Investment Returns over 5 years as at 30 June<sup>1</sup>

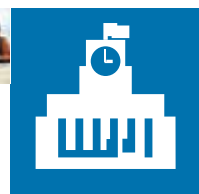


### Actual Asset Allocation as at 30 June 2004<sup>1</sup>



	Strategic 2004	Actual 2004	Actual 2003
Aust. Equities	51.0%	50.7%	51.2%
Int. Equities	34.0%	34.5%	33.8%
Property	5.0%	4.9%	5.0%
Aust. Fixed Income	3.0%	6.0%	6.0%
Int. Fixed Income	2.0%	2.0%	2.0%
Global Market Neutral	3.0%	0.0%	0.0%
Index Linked Securities	2.0%	1.9%	2.0%

<sup>1</sup> All figures are represented to one decimal place.



## Investment Strategies

# Diversified

For real growth above inflation over longer periods.

### Definition

The Diversified strategy generally invests approximately 70% of its funds in growth assets, such as Australian and International Equities and Property. This combination aims to earn real growth above inflation over a period of five years. Because the emphasis is still on growth, there may be short-term volatility. In other words, the value of the investment may fluctuate over the short term. This volatility should be less than what you would find 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.

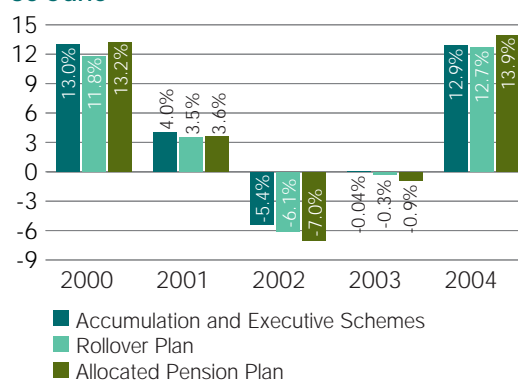
### Divisions that can Invest

Accumulation Scheme (Division A)  
Executive Scheme (Division E)  
Allocated Pension and Rollover Plans (Division F)

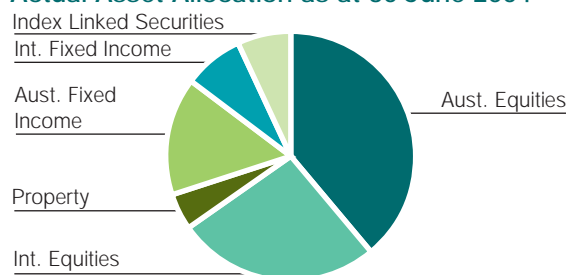
### Annualised Returns as at 30 June 2004<sup>1</sup>

	Annualised 5 year returns
Accumulation and Executive Schemes (Divisions A and E)	4.7%
Rollover Plan (Division F)	4.1%
Allocated Pension Plan (Division F)	4.4%

### Investment Returns over 5 years as at 30 June<sup>1</sup>



### Actual Asset Allocation as at 30 June 2004<sup>1</sup>



	Strategic 2004	Actual 2004	Actual 2003
Aust. Equities	39.0%	38.9%	39.1%
Int. Equities	26.0%	26.4%	25.9%
Property	5.0%	4.9%	5.0%
Aust. Fixed Income	12.0%	15.1%	15.0%
Int. Fixed Income	8.0%	7.9%	8.0%
Global Market Neutral	3.0%	0.0%	0.0%
Index Linked Securities	7.0%	6.8%	7.0%

<sup>1</sup> All figures are represented to one decimal place.



## Investment Strategies

# Balanced

For real growth above inflation over the medium term.

### Definition

The Balanced strategy generally invests approximately 50% in growth assets and 50% in income-producing assets such as cash and fixed interest. This combination offers real growth above inflation over five years. There are more assets that produce income, such as interest-bearing securities, which make the strategy more stable than either the High Growth or Diversified strategies.

### Objective

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

### Risks

Although the emphasis is on spreading investments 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 nominal return in any year is 1 in 5.

### Risk Profile

Medium.

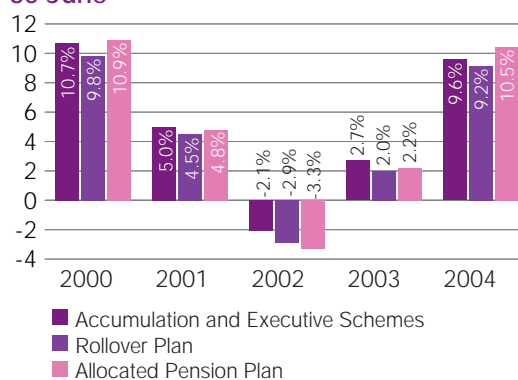
### Divisions that can Invest

Accumulation Scheme (Division A)  
Executive Scheme (Division E)  
Allocated Pension and Rollover Plans (Division F)

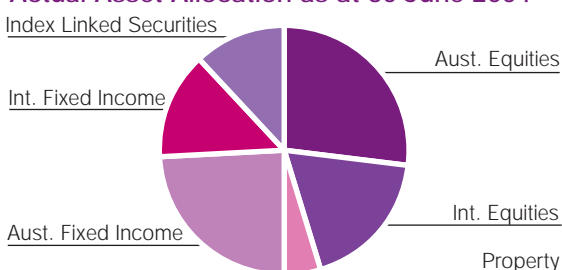
### Annualised Returns as at 30 June 2004<sup>1</sup>

	Annualised 5 year returns
Accumulation and Executive Schemes (Divisions A and E)	5.1%
Rollover Plan (Division F)	4.4%
Allocated Pension Plan (Division F)	4.9%

### Investment Returns over 5 years as at 30 June<sup>1</sup>

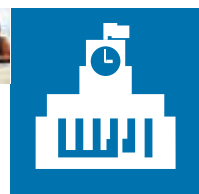


### Actual Asset Allocation as at 30 June 2004<sup>1</sup>



	Strategic 2004	Actual 2004	Actual 2003
Aust. Equities	27.0%	27.0%	27.1%
Int. Equities	18.0%	18.4%	17.9%
Property	5.0%	4.9%	4.9%
Aust. Fixed Income	21.0%	24.2%	24.0%
Int. Fixed Income	14.0%	13.8%	14.1%
Global Market Neutral	3.0%	0.0%	0.0%
Index Linked Securities	12.0%	11.7%	12.0%

<sup>1</sup> All figures are represented to one decimal place.



## Investment Strategies

# Capital Guarded

For short-term investment with good security and some potential for growth.

### Definition

The Capital Guarded strategy generally invests approximately 30% in growth assets and 70% in income-producing assets. This combination aims to maintain value and reduce volatility.

### 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.

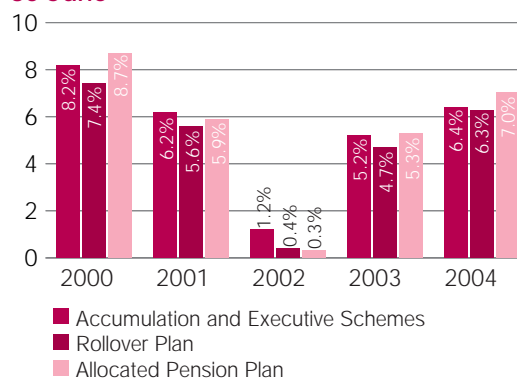
### Divisions that can Invest

Accumulation Scheme (Division A)  
Executive Scheme (Division E)  
Allocated Pension and Rollover Plans (Division F)

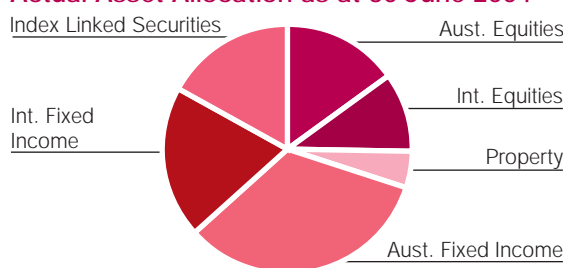
### Annualised Returns as at 30 June 2004<sup>1</sup>

	Annualised 5 year returns
Accumulation and Executive Schemes (Divisions A and E)	5.4%
Rollover Plan (Division F)	4.9%
Allocated Pension Plan (Division F)	5.4%

### Investment Returns over 5 years as at 30 June<sup>1</sup>



### Actual Asset Allocation as at 30 June 2004<sup>1</sup>



	Strategic 2004	Actual 2004	Actual 2003
Aust. Equities	15.0%	15.1%	15.0%
Int. Equities	10.0%	10.2%	9.9%
Property	5.0%	4.9%	5.0%
Aust. Fixed Income	30.0%	33.3%	33.0%
Int. Fixed Income	20.0%	19.8%	20.1%
Global Market Neutral	3.0%	0.0%	0.0%
Index Linked Securities	17.0%	16.7%	17.0%

<sup>1</sup> All figures are represented to one decimal place.



## Investment Strategies

# Cash Plus

For very short-term investments.

### Definition

The Cash Plus strategy invests 100% of available assets in short-term securities, such as cash deposits, and bank, government and semi-government securities. The investment return should be more than personal bank deposit rates.

### Objective

1.5% investment return per annum above inflation over 1 year.

### Risks

There is a chance that your investment will not keep up with inflation and its real value will decrease over time. The prospect of under-performance and loss of value due to inflation increases the longer you leave your investment in cash.

### Risk Profile

Low.

### Divisions that can Invest

Accumulation Scheme (Division A)  
 Executive Scheme (Division E)  
 Allocated Pension and Rollover Plans (Division F)

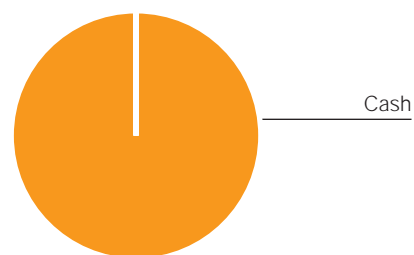
### Annualised Returns as at 30 June 2004<sup>1</sup>

	Annualised 5 year returns
Accumulation and Executive Schemes (Divisions A and E)	4.8%
Rollover Plan (Division F)	4.3%
Allocated Pension Plan (Division F)	4.8%

### Investment Returns over 5 years as at 30 June<sup>1</sup>

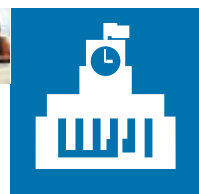


### Actual Asset Allocation as at 30 June 2004<sup>1</sup>



	Strategic 2004	Actual 2004	Actual 2003
Cash	100%	100%	100%

<sup>1</sup> All figures are represented to one decimal place.



## Investment Strategies

# BT Institutional Retirement PST<sup>1</sup>

For consistent returns over the medium to long term (for the Executive Scheme only).

### Definition

The BT Institutional Retirement PST is a "Balanced Fund" which invests across a broad range of asset sectors, including shares, property, fixed interest and cash.

### Objective

Aims to provide a return (before fees) that exceeds the Fund's benchmark over the long term (5+ years), through stock selection and asset allocation.

### Risks

There is potential for the value of the investment to decrease in the short term.

### Risk Profile

High/Medium.

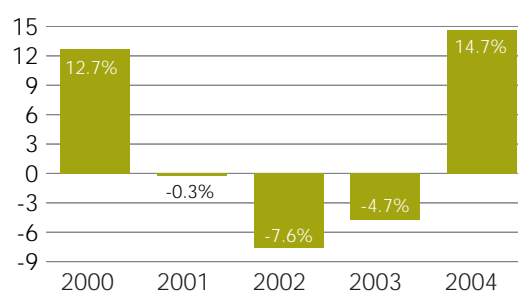
### Divisions that can Invest

Executive Scheme (Division E)

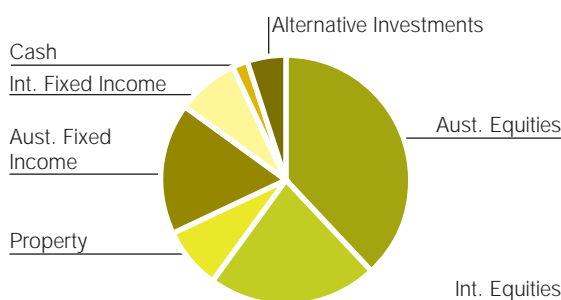
### Annualised Returns as at 30 June 2004<sup>2</sup>

	Annualised 5 year returns
Executive Scheme (Division E)	2.6%

### Investment Returns over 5 years as at 30 June<sup>2</sup>



### Actual Asset Allocation as at 30 June 2004<sup>2</sup>



	Strategic 2004	Actual 2004	Actual 2003
Aust. Equities	38.0%	38.5%	34.8%
Int. Equities	22.0%	26.1%	32.8%
Property	8.0%	8.0%	5.8%
Aust. Fixed Income	17.0%	16.2%	7.8%
Int. Fixed Income	8.0%	4.2%	11.0%
Cash	2.0%	5.0%	7.8%
Alternative Investments	5.0%	2.0%	0.0%

<sup>1</sup> BT Institutional Retirement PST was formerly known as the BT Retirement Fund.

<sup>2</sup> All figures are represented to one decimal place.



## Investment Strategies

# BT Institutional Conservative Growth PST<sup>1</sup>

For consistent returns over the medium term (for the Executive Scheme only).

### Definition

The BT Institutional Conservative Growth PST invests primarily in fixed interest investments, but can hold up to 30% in other assets, including shares and property.

### Objective

Aims to provide a return (before fees) that exceeds the Fund's benchmark over the medium term (3+ years), through stock selection and asset allocation.

### Risks

Although the emphasis is more on security and returns, the value of the investment can still fluctuate.

### Risk Profile

Medium/Low.

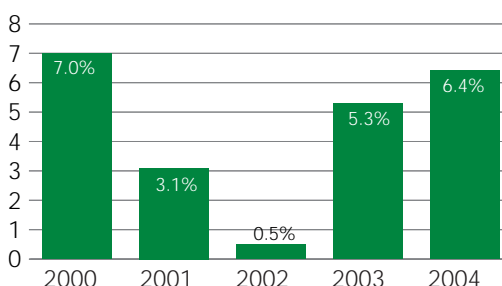
### Divisions that can Invest

Executive Scheme (Division E)

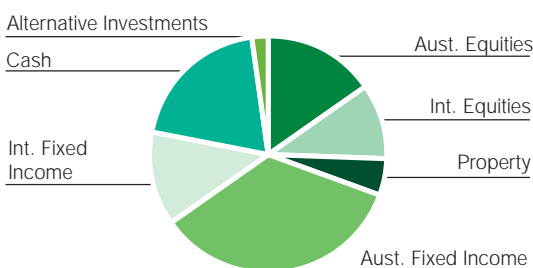
### Annualised Returns as at 30 June 2004<sup>2</sup>

	Annualised 5 year returns
Executive Scheme (Division E)	4.4%

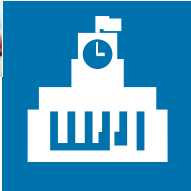
### Investment Returns over 5 years as at 30 June<sup>2</sup>



### Actual Asset Allocation as at 30 June 2004<sup>2</sup>



	Strategic 2004	Actual 2004	Actual 2003
Aust. Equities	15.0%	15.4%	11.6%
Int. Equities	8.0%	10.3%	11.8%
Property	5.0%	5.1%	4.8%
Aust. Fixed Income	35.0%	34.7%	25.6%
Int. Fixed Income	15.0%	12.7%	23.8%
Cash	22.0%	19.8%	15.7%
Alternative Investments	0.0%	2.0%	6.7%



## Investment Strategies

# Retirement and Defined Benefit Schemes (Pool B)

For high growth above inflation over the longer term.

### Definition

The Retirement and Defined Benefit Schemes (Pool B) generally invest approximately 80% of their funds in traditional growth assets, such as Australian and International Equities and Property. This combination aims to earn high growth above inflation over a minimum of five years. Because the emphasis is on growth, there may be some short-term volatility. In other words, the value of the investment may fluctuate over the short term.

### Objective

5% 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 chance of a negative nominal return in any year is 1 in 3.7.

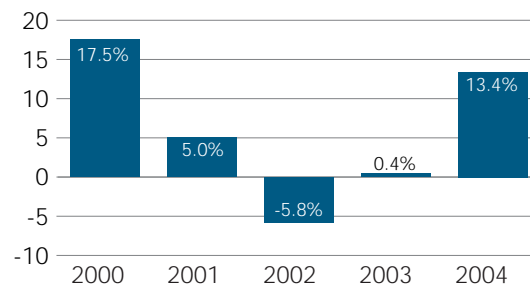
### Divisions that can Invest

- Retirement Scheme (Division B)
- Basic Benefit (Division C)
- Defined Benefit Scheme (Division D)

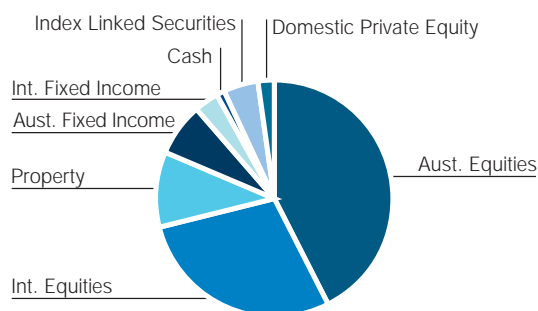
### Annualised Returns as at 30 June 2004<sup>1</sup>

	Annualised 5 year returns
Retirement and Defined Benefit Schemes (Pool B)	5.8%

### Investment Returns over 5 years as at 30 June<sup>1</sup>



### Actual Asset Allocation as at 30 June 2004<sup>1</sup>



	Strategic 2004	Actual 2004	Actual 2003
Aust. Equities	43.0%	42.6%	43.0%
Int. Equities	29.0%	28.9%	24.8%
Property	8.0%	10.2%	11.5%
Aust. Fixed Income	6.0%	7.0%	8.0%
Int. Fixed Income	5.0%	3.5%	4.3%
Cash	2.0%	1.1%	0.7%
Index Linked Securities	5.0%	4.7%	5.5%
Absolute Return	2.0%	0.0%	2.2%
Domestic Private Equity	0.0%	2.0%	0.0%

<sup>1</sup> All figures are represented to one decimal place.



## Investment Managers

# Investment Managers

The Trustee has invested the majority of its assets in the Local Investment Fund (LIF) a wholesale investment trust. Below are the managers currently appointed by LIF to manage the assets of the Scheme.

**Aberdeen Asset Management** - Aberdeen manages both an Australian fixed interest and an equities portfolio for the Scheme. It believes markets are not always efficient and superior returns are attainable by identifying stocks that they believe will deliver superior returns over the long term. Aberdeen follows a bottom-up process based on a disciplined evaluation of companies through direct company visits. Stock selection is the major source of "value add" that Aberdeen provides.

As at 30 June 2004, funds under management were approximately \$54 billion<sup>1</sup>.

**Alliance Capital Management** - Alliance Capital (Alliance) manage an international equities portfolio for the Scheme. Alliance believes that research is the ultimate source of superior investment returns. The Alliance product is a growth-oriented portfolio, that employs bottom-up stock selection to deliver meaningful returns over time. Alliance's research team seek to own companies with superior growth prospects and superior earnings. The end result is a high conviction, 'best-idea' portfolio, which may display characteristics that differ significantly from the benchmark.

As at 30 June 2004, funds under management were approximately \$482 billion<sup>1</sup>.

**AQR Capital Management** - AQR Capital manages an international equities portfolio for the Scheme. It is an independently owned investment management firm employing a disciplined multi-asset, global research process.

As of June 30 2004, funds under management were approximately \$12.2 billion<sup>1</sup>.

**Bank of Ireland (BIAM)** - Bank of Ireland manages an international equities portfolio for the Scheme. BIAM's investment style is active, research driven and focused on bottom-up stock selection.

BIAM applies a value discipline as part of its investment process, so the price paid is a key determinant in whether they purchase a stock for the portfolio. This value discipline is a function of both the intrinsic value of a stock and its relative value when compared to its peer group.

As of June 30 2004, funds under management were approximately \$100.3 billion<sup>1</sup>.

**BT Funds Management (BT)** - BT manages two diversified portfolios for the Scheme. BT manages these portfolios on a style neutral basis, investing in companies without a predetermined growth or value bias. They believe investment markets are not always rational or efficient and that these inefficiencies can result in periods where markets and securities are mispriced. In-depth fundamental research drives their stock selection decisions and is supported by a range of sophisticated, quantitative tools.

As of June 30 2004, funds under management were approximately \$44 billion<sup>1</sup>.

**Loomis Sayles** - Loomis Sayles manage an international fixed interest portfolio for the Scheme. They are a bottom up "value" manager, with heavy emphasis on research.

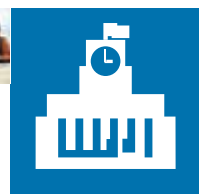
Their portfolio is constructed through a diligent research process, primarily devoted to corporate issues, which in their view are positioned to gain from price adjustments associated with upgrades and downgrades by credit rating agencies. They typically invest in securities they judge to be stable to improving, largely call protected and tend to be fairly neutral in duration.

As of June 30 2004, funds under management were approximately \$78.9 billion<sup>1</sup>.

**Concord Capital Limited** - Concord manage an Australian equities portfolio for the Scheme. Concord does not focus on a particular style. Stocks in their concentrated portfolio reflect only the best investment ideas of its analysts/portfolio managers and are derived from detailed bottom-up stock research.

As of June 30 2004, funds under management were approximately \$4.3 billion<sup>1</sup>.

<sup>1</sup> All figures are in Australian dollars unless otherwise indicated.



## Investment Managers

### **Deutsche Asset Management (DeAM) -**

DeAM manage both an Australian equities and a private equities (unlisted) portfolio for the Scheme. DeAM's approach does not favour any particular investment style, as their primary investment decision revolves around the quality of cashflow generated by a company and how much needs to be paid to own that company.

As a result 'style' is a residual of their process and they are broadly classified as Growth At a Reasonable Price 'GARP'. DeAM also manages a Private Equity portfolio using a similar investment process to the above.

As of June 30 2004, funds under management were approximately \$1 trillion<sup>1</sup>.

**FuturePlus Financial Services** - FuturePlus is a financial services company, jointly owned by both the Local Government and Energy Industries Superannuation Schemes. It provides funds management services to the Local Government Superannuation Scheme covering the sectors of cash, bonds, indexed linked products, together with currency management activities related to the Scheme's international equity exposures.

FuturePlus employs an enhanced index approach to the management of fixed income based products.

**Marvin & Palmer Associates** - Marvin & Palmer manage an international equities portfolio for the Scheme. Their style combines a top-down approach with bottom-up fundamental research and invests in high quality, large-cap, growth stocks. The decision making process is based on a combination of relative price strength screening and fundamental analysis.

As of June 30 2004, funds under management were approximately \$13.9 billion<sup>1</sup>.

**PIMCO Australia** - PIMCO manage an international credit fixed interest portfolio for the Scheme. PIMCO's style emphasises active decision making with a long-term focus.

Their investment objective is to maximise total return while moderating volatility. They believe low volatility out-performance is best achieved through wide diversification across bond market sectors, issuers and industries within global credit markets.

As of June 30 2004, funds under management were approximately \$560 billion<sup>1</sup>.

**The Boston Company** - The Boston Company manage an international equities portfolio for the Scheme. They are an equity specialist group that forms part of the Mellon Global Equities Trust.

They believe that successful international investing is achieved through a process that is based on security selection, consistency, research and risk control. Their approach is a core strategy, intended to perform well in both up and down markets.

As of June 30 2004, funds under management were approximately \$55 billion<sup>1</sup>.

**UBS Global Asset Management** - UBS manage an Australian equities portfolio for the Scheme. The process does not have an inherent style bias (eg "growth", "value").

Internally generated research, focussed on longer term value drivers at the industry, stock and country level, is used to estimate fundamental value for stocks, upon which investment decisions are made. UBS believes that discrepancies between market price and intrinsic value arise from market behaviour and market structure, providing opportunities to outperform.

As of June 30 2004, funds under management were approximately \$687 billion<sup>1</sup>.

**Wellington International Management Company** - Wellington manage an international equities portfolio for the Scheme.

They look to add value through internally developed fundamental research, which is focused on bottom up stock selection within industries. It consists of multiple sub-portfolios, which are actively managed by the firm's global industry analysts and diversified by each analyst's particular investment style.

As at 30 June 2004, funds under management were approximately \$609 billion<sup>1</sup>.

<sup>1</sup> All figures are in Australian dollars unless otherwise indicated.



## Your Trustee

# Your Trustee

The Trustee of your Scheme is LGSS Pty Limited (ABN 68 078 003 497). In accordance with the Constitution of the Trustee Company, the Board consists of equal numbers of directors appointed by

both employer and employee associations. The Board is supported by the Scheme's Chief Executive Officer - Brett Westbrook and Fund Secretary - Peter Lambert.



## Board Members

Pictured left to right:

**Peter Woods OAM, Emeritus Mayor, BA, M LITT, Cert. Comm. Med., MACE MAICD - Appointed by Local Government Association of NSW** - Patron - Local Government Association of NSW; Chair - LGSS Pty Limited; Director - Chifley Financial Services Limited; Director - FuturePlus Financial Services Pty Limited; Director - Kokoda Trust Memorial Walkway; Member - Board of the Environment Protection Authority of NSW.

**Ian Robertson - Appointed by Development & Environmental Professionals' Association (depa)** - Secretary - depa; Chair - Determinations Committee; Secretary - Australian Institute of Superannuation Trustees.

**Beverley Giegerl - Appointed by Local Government Association of NSW** - Councillor - Hurstville City Council; Treasurer - Local Government Association of NSW.

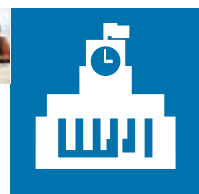
**Martin O'Connell - Appointed by Local Government Engineers' Association** - Director - Local Government Engineers' Association and Association of Professional Engineers, Scientists and Managers, Australia (NSW Branch); Chair - Audit & Compliance Committee.

**Leo Kelly OAM - Appointed by Local Government Association of NSW** - Mayor - Blacktown City Council; Vice President - Local Government Association of NSW; Member of NSW Local Government Committee for Planning, Environment and Industrial Waste Management; Member - NSW Local Government Boundaries Commission.

**John Wearne AM - Appointed by Shires Association of NSW** - Patron - Shires Association of NSW; Chair - Investment Committee; Commissioner - National Transport Commission; Director - Country Energy; Board Member - Australia Day Council of NSW; Chair - NSW ARTS Capital Infrastructure Advisory Committee; Trustee - Bluet Awards Foundation.

**John Ernst - Appointed by United Services Union (NSW Division)** - President - Metropolitan Salaried Officers Branch, United Services Union (NSW Division); Chair - FuturePlus Financial Services Pty Limited.

**Barry Mason - Appointed by United Services Union (NSW Division)** - Project Accountant - Kogarah Council; Deputy Chair - LGSS Pty Limited; Member of the Local Government Managers of Australia.



## Scheme Governance

# Scheme Governance

## Role of the Board

The Board is responsible for setting the overall strategy for the Scheme and ensuring it is operating in accordance with the Trust Deed and all applicable laws. The Board meets monthly and receives and reviews reports from most third party service providers, such as the Scheme's administrators (Mellon Human Resources and Investor Solutions Pty Limited, FuturePlus Financial Services), the Custodian (JP Morgan Chase Bank) and the Scheme's investment managers. Where necessary, the Board calls upon specialist advice from advisors, such as solicitors, accountants and the Scheme's actuary.

The Board has appointed two Committees to allow it to oversee the operations of the Scheme in greater detail. The Investment Committee (made up of John Wearne - Chair, Barry Mason, Ian Robertson and Peter Woods) generally meets twice a quarter. The main function of the Committee is to monitor the performance of the Scheme's investment managers and oversee the work of the Scheme's Investment Advisor, Russell Investment Group.

The role of the Audit and Compliance Committee (made up of Martin O'Connell - Chair, John Ernst, Beverley Giegerl and Leo Kelly) is to review the internal controls and risk management of the Scheme and its service providers. Committee meetings are also attended by the Scheme's Internal Auditor - Leonard Yong. The Committee generally meets quarterly.

The financial services industry is becoming increasingly complex, as are the prudential requirements for trustees of superannuation funds. To assist in meeting this challenge, the Board regularly undertakes courses/seminars aimed at keeping their skills and knowledge up to date. This year, most of the Board successfully completed one of the more demanding industry qualifications - known as PS146.

## Industry Regulator

The operations of the Scheme are supervised by the Australian Prudential Regulation Authority (APRA).

Representatives of the Board meet APRA regularly, so as to keep the regulator informed about the activities of the Scheme. These meetings also provide an opportunity for the Board to hear APRA's views about the superannuation industry generally.

## Indemnity Insurance

The Trustee is indemnified by a policy of insurance in respect of its duties as Trustee of the Scheme.

## Sustainable Investing

The Trustee believes that it is not only important to maximise investment returns, but also to invest in a way that favours companies/projects that show a commitment to our community and the environment. A few specific initiatives illustrate this:

**Property Holdings** - The Trustee has adopted an environmental policy which, in part, is designed to increase energy and water efficiencies across those properties we directly own. Additionally, the policy encompasses waste reduction and recycling, indoor air quality, improving operations and maintenance, materials and resources, OH&S and environmental risk management.

**Regional Development Trust** - The Regional Development Trust (RDT) was set up to provide finance to companies that operate in rural NSW. Many of these are start up or management buy out companies. Our investment in the RDT is a relatively small one and the nature of these investments often take a number of years to materialise.

**Socially Responsible Overlay** - Our Australian equity managers invest in a range of companies, which may operate in areas such as gambling, uranium mining, logging of old forests and the like, or have a poor environmental record. We run a separate portfolio that sells the shares we hold in these areas and purchases alternative shares in companies that have good social/environment records.

While we have only operated the overlay for a short time, it has performed reasonably well. However, more importantly, it ensures that your superannuation money is invested in industries that enhance the social/environmental profile, without affecting returns.

With regard to International Equities, running an overlay product is not feasible, so some stocks are specifically excluded from the portfolio.



## Taxes, Fees and Charges

# Taxes, Fees and Charges

## General Tax Information

### Taxation of Contributions

The Scheme is required to pay tax of up to 15% on all employer contributions<sup>1</sup> received (including contributions made by way of salary sacrifice). Any tax payable in respect of these contributions is deducted from your account. Personal contributions made on an after-tax basis are not subject to tax.

### Superannuation Surcharge Tax

In the 2004/2005 period, a surcharge will be levied on tax-deductible member contributions and employer contributions where the 'adjusted taxable income' exceeds \$97,710. From 1 July 2004, the surcharge is 0.00001% for those with an 'adjusted taxable income' of \$97,710. This rises to a maximum of 12.5% for those with an 'adjusted taxable income' of \$121,075 or more<sup>2</sup>.

Year	Maximum Rate %
Prior to 2003/2004	15%
2003/2004	14.5%
2004/2005	12.5%
2005/2006 and later	10.0%

The ATO determines the amount of surcharge (if any) which relates to your contributions. All surcharge amounts are deducted from your account and paid to the ATO on your behalf (except for Retirement or Defined Benefit Schemes).

## Member Protection

If your account balance is less than \$1,000, any management fees deducted from your account cannot exceed the earnings on your account balance in that financial year. This means that your account balance will not fall because of

## Fees

There are a number of fees levied by the Scheme. These include:

### Management Fee

The Management Fee consists of two different fees.

- **Investment Management Fee** - This covers the cost of investment. The Investment Management Fee relates to the cost of transactions, advice and other investment charges incurred by your Scheme in investing your money.
- **Management Expense Recovery Fee** - This is a charge to your account that represents most of the other costs incurred by the Trustee in administering your Scheme.

These two fees are the total variable costs charged to your account and are among the lowest in the market.

Note that the Management Fee is not charged directly to your account. It is debited against investment earnings before they are credited to members.

### Administration Fee

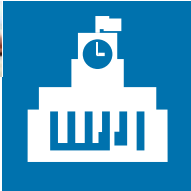
The Trustee sets the Administration Fee at the level needed to recover the cost of administering a member's individual account. This fee is charged on a monthly basis to a member's account (except for Allocated Pension and Rollover Plan and Pool B).

The following page lists all fees charged to members' accounts. For further details refer to the Product Disclosure Statement, or contact Member Services on 1300 369 901, or visit the website [www.lgsuper.com.au](http://www.lgsuper.com.au).

management fees (insurance and taxes excluded). It is important to note that member protection will not fully apply in times of poor or negative returns, as superannuation law provides that the Scheme can charge a protected member a nominal management fee of no more than the investment return plus \$10 in such times.

<sup>1</sup> Net of allowable deductions e.g. administration and insurance fees.

<sup>2</sup> These amounts are indexed annually.



## Taxes, Fees and Charges

### Fees Charged to Pool A

Year Ending June 2004	Accumulation Scheme	Executive Scheme	Allocated Pension and Rollover Plan
Administration Fee – Non contributing member	75c per week	\$3.00 per month	N/A
Administration Fee – contributing member	75c per week	\$6.33 per month	N/A
Basic Death or Invalidity cover	\$5.00 per month	N/A	N/A
Benefit Payment Fee	\$20	\$30	No charge
Management Fee <sup>1</sup>	0.62% – 0.74%	0.62% – 0.74%	1.25% – 1.62%
Optional investment switch in any financial year	\$20 per switch <sup>2</sup>	\$30 per switch <sup>2</sup>	No charge

1 The Management Fee percentage will vary according to the investment option you select (see below).

2. The first switch is free in any financial year. Any subsequent switches in that financial year are charged the stated amount.

### Investment Fees Charged to Pool A

Year Ending June 2004	High Growth	Diversified	Balanced	Capital Guarded	Cash Plus
Accumulation and Executive Schemes (Divisions A and E <sup>1</sup> )					
Management Fee (per annum)	0.74%	0.70%	0.66%	0.62%	0.62%
Allocated Pension and Rollover Plan (Division F)					
Management Fee (per annum) <sup>2</sup>	1.62%	1.59%	1.56%	1.52%	1.25%

1 For information on the Executive Scheme BT options contact the Executive Scheme Relationship Manager – Member Services on 1300 369 901.

2 Management Fee for the Allocated Pension and Rollover Plans includes investment management, financial planning and account administration fees.

### Fees Charged to Pool B<sup>1</sup>

Year Ending June 2004	Retirement Scheme	Defined Benefit Scheme
Administration Fee (per annum)	Nil	Nil
Management Fee (per annum)	0.32%	0.32%

1 The fees shown only relate to the Contributor Financed Benefit. Fees relating to other benefits payable (including the Basic Benefit - Division C) are charged to the Scheme as a whole.

### Family Law Fees

From the 1st July 2004, the following fees will be payable for the provision of Family Law information and for the actual 'splitting of the benefit'.

Accumulation Scheme, Executive Scheme, and Allocated Pension and Rollover Plan (incl. GST)	
Request for information <sup>1</sup>	\$110
Benefit Split Fee <sup>2</sup>	\$88

#### Retirement, Basic Benefit and Defined Benefit Schemes (incl. GST)

##### Request for information<sup>1</sup>

Current members	\$275
Deferred members	\$110
Pensioners	\$110
Benefit Split Fee <sup>2</sup>	\$88

1 This fee is payable by the person requesting the information.

2 This fee is generally payable by the member and non-member spouse in equal parts (\$44 each). However, if the non-member spouse is entitled to the whole amount of a splittable payment, the entire amount is payable by the non-member spouse. The member's share of the fee is deducted from the member's account and the non-member spouse's share is deducted from the non-member spouse's splittable payment prior to the transfer of the payment out of the Scheme.



## Financial Statements

# Financial Statements

## Pool A

### Operating Statement for the Year Ended 30 June 2004

	30 June '04 (\$ '000)	30 June '03 (\$ '000)
<b>Revenue</b>		
Net Investment Revenue	118,736	20,292
Employer Contributions	136,248	117,932
Member Contributions	7,588	8,028
Transfers In	118,157	118,810
Other Revenue	14	64
<b>Total Revenue</b>	<b>380,743</b>	<b>265,126</b>
<b>Less Outgoings</b>		
Administrative Expenses	9,001	7,116
Insurance Premium	-	212
Contributions Surcharge	1,079	938
Income Tax Expense	31,434	16,359
<b>Total Outgoings</b>	<b>41,514</b>	<b>24,625</b>
<b>Benefits Accrued as a Result of Operations</b>	<b>339,229</b>	<b>240,501</b>

The complete Financial Report, including the Auditor's Report is available on request by calling Member Services on 1300 369 901, or going to our website [www.lgsuper.com.au](http://www.lgsuper.com.au)

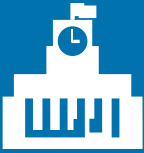
### Statement of Financial Position for the Year Ended 30 June 2004

	30 June '04 (\$ '000)	30 June '03 (\$ '000)
<b>Investments</b>		
Short-term Investment	21,597	14,995
Australian Fixed Interest	(102)	1,068
Unit Trusts	1,102,705	832,956
International Investments	279	285
Pooled Superannuation Trusts	11,040	10,644
<b>Total Investments</b>	<b>1,135,519</b>	<b>859,948</b>
<b>Other Assets</b>		
Cash	18,784	9,058
Receivables	501	2,623
Deferred Tax Asset	-	7,397
<b>Total Assets</b>	<b>1,154,804</b>	<b>879,026</b>
<b>Less Liabilities</b>		
Payables	5,408	953
Current Tax Liability	8,149	5,503
Differed Tax Liability	3,000	-
<b>Total Liabilities</b>	<b>16,557</b>	<b>6,456</b>
<b>Net Assets Available to Pay Benefits</b>	<b>1,138,247</b>	<b>872,570</b>

### Large Investments

Local Investment Fund (LIF) is a wholesale investment trust and the majority of the assets of the Scheme are invested through LIF. The investment pool of LIF is allocated to a range of investment managers. Investment managers (and/or their weightings) are changed at appropriate times.

Other than investments made through LIF, during the year there were no individual investments that exceeded 5% of Pool A assets, or 5% in a single enterprise.



## Financial Statements

### Pool B

#### Statement of Changes in Net Assets for the Year Ended 30 June 2004

	30 June '04 (\$ '000)	30 June '03 (\$ '000)
Net Assets Available to Pay Benefits at the Beginning of the Year	2,453,576	2,560,617
<b>Plus Revenue</b>		
Net Investment Revenue	349,730	(28,635)
Employer Contributions	1,766	140
Member Contributions	38,651	40,599
Transfers In	2,648	44,734
Other Revenue	-	203
<b>Total Revenue</b>	<b>392,795</b>	<b>57,041</b>
<b>Less Outgoings</b>		
Benefits Paid	156,078	158,901
Administrative Expenses	9,731	10,715
Contributions Surcharge	1,016	890
Income Tax Expense (Benefit)	22,331	(6,424)
<b>Total Outgoings</b>	<b>189,156</b>	<b>164,082</b>
<b>(Decrease)/Increase in Net Assets After Income Tax</b>	<b>203,639</b>	<b>(107,041)</b>
<b>Net Assets Available to Pay at the End of the Year</b>	<b>2,657,215</b>	<b>2,453,576</b>

The complete Financial Report, including the Auditor's Report, is available on request by calling Member Services on 1300 369 901, or going to our website [www.lgsuper.com.au](http://www.lgsuper.com.au)

#### Statement of Net Assets for the Year Ended 30 June 2004

	30 June '04 (\$ '000)	30 June '03 (\$ '000)
<b>Investments</b>		
Short-term Investment	94	6,250
Unit Trusts	2,341,953	2,091,266
Australian Equities	52,015	60,511
International Investments	1,330	482
Property	271,183	280,353
<b>Total Investments</b>	<b>2,666,575</b>	<b>2,438,862</b>
<b>Other Assets</b>		
Cash	6,537	8,896
Receivables	5,910	7,112
Income Tax Receivable	5,926	2,469
Deferred Tax Asset	-	11,708
<b>Total Assets</b>	<b>2,684,948</b>	<b>2,469,047</b>
<b>Less Liabilities</b>		
Payables	12,789	15,471
Deferred Tax Liability	14,944	-
<b>Total Liabilities</b>	<b>27,733</b>	<b>15,471</b>
<b>Net Assets Available to Pay Benefits</b>	<b>2,657,215</b>	<b>2,453,576</b>

#### Large Investments

Local Investment Fund (LIF) is a wholesale investment trust and the majority of the assets of the Scheme are invested through LIF. The investment pool of LIF is allocated to a range of investment managers. Investment managers (and/or their weightings) are changed at appropriate times.

Other than investments made through LIF, during the year there were no individual investments that exceeded 5% of Pool B assets, or 5% in a single enterprise.



## More information

# More Information

## Service Providers

The following service providers assist the Trustee in effectively managing the Scheme:

### Actuary

Mercer Human Resource Consulting Pty Limited

### Administration

FuturePlus Financial Services Pty Limited<sup>1</sup>  
(from 01/01/2004)

Mellon Human Resources and Investor Solutions Pty Limited

Superannuation Services Company Pty Limited  
(until 31/12/2003)

### Auditor

Deloitte Touche Tohmatsu

### Asset Consultant

Russell Investment Group

### Custodian

JP Morgan Chase Bank

### Investment Managers

Aberdeen Asset Management (Australia) Limited

Alliance Capital Australia Limited

AQR Capital Management LLC

BIAM Australia Pty Limited

BT Funds Management Limited

Loomis Sayles

Concord Capital Limited

Deutsche Asset Management (Australia) Limited

FuturePlus Financial Services Limited

Marvin & Palmer Associated Inc

PIMCO

The Boston Company Asset Management LLC

USB Global Asset Management (Australia) Limited

Wellington International Management Company Pty Ltd

### Solicitors

Phillips Fox

Allens Arthur Robinson

### Secretariat to Trustee

FuturePlus Financial Services Pty Limited

The Trustee reviews its service providers regularly and may from time to time make changes.

## Complaints

With our focus on quality service and transparency, the Trustee of your Scheme wishes to ensure that any enquiries or complaints are handled courteously and promptly. We hope that you will always receive satisfactory service from your Scheme and that all your enquiries are promptly attended to. However, if you are dissatisfied with the service you are receiving, you may lodge a formal complaint. This should be made in writing to:

Complaints Resolution Officer  
FuturePlus Financial Services Pty Limited  
PO Box N835  
Grosvenor Place NSW 1220

The Complaints Resolution Officer will consider your complaint on behalf of the Trustee and provide you with a response as soon as possible. If you are not satisfied with the response, or your complaint has not been resolved within 90 days, you have the option of referring your complaint to the Superannuation Complaints Tribunal.

The Tribunal is an independent body established by the Commonwealth Government to review certain types of decisions.

The contact details are:

Superannuation Complaints Tribunal  
Locked Bag 3060 GPO  
Melbourne VIC 3001  
Ph: 1300 884 114

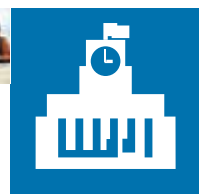
## Pool A Reserves

The Scheme operates the following reserves in Pool A:

### Death or Invalidity Reserve (DORI)

DORI operates to allow for the payment of certain death and disability benefits provided to members.

<sup>1</sup> FuturePlus Financial Services Pty Limited (ABN 90 080 972 630) is an Australian Financial Services Licensee (AFSL 238445). The Allocated Pension and Rollover Plans have been administered by FuturePlus since inception.



## More Information

This reserve receives monies that are deducted from members' accounts from time to time. The Actuary regularly reviews this reserve to ensure that the premium charged to members is adequate to support likely future payments based on actuarial assumptions.

### Unit Pricing Equalisation Reserve (UPER)

UPER operates for the purpose of allowing reimbursement to members who have been disadvantaged by an error or anomaly to the unit price they have been allocated and that amount cannot be recovered from external sources. The maximum amount that may be maintained in this reserve for this purpose is 0.3% of assets. If the reserve exceeds this figure for any reason, that excess amount may be credited to earnings and distributed to members.

### Administration and Tax Reserves

Deductions are made from members' accounts and investment earnings to pay for the Scheme's income tax liabilities and operational expenses. These deductions are set out on page 22 of this Annual Report. They are invested in cash and applied towards the expenses they relate to as and when they become payable.

Changes to the balance held in each of the abovementioned reserve accounts as at 30 June 2004 are as follows:

Year	DORI (\$ '000)	UPER (\$ '000)	Admin (\$ '000)	Tax (\$ '000)
2002	873	-4727	5	1112
2003	-72	1912	-43	4251
2004	46	1417	248	-4897

## Derivatives

Derivatives are used to adjust the weightings of the various portfolios in line with the overall investment strategy. Various derivatives may be applied, such as Futures and Options. Strict investment guidelines which detail all limits approved on the use of derivatives are in place.

Currency hedging activities are also carried out in relation to the international equities portfolio, within strictly defined parameters. Derivatives can also be used to protect against possible adverse moves in the markets, to implement tactical asset allocations, or to

enter or exit the market at a defined price level. Under no circumstances can they be used to gear the investment portfolio or used for speculative trading.

Various managers in LIF have, at times, made extensive use of derivatives as part of their portfolio management activities during 2003/2004.

The Trustees require that all derivatives positions (a) are fully cash covered; (b) are offsets to existing assets; or (c) are used to alter the exposures in underlying asset classes.

The derivatives charge ratio is the percentage of the total market value of the assets of the Scheme (other than cash) that the Trustee has charged as security for derivatives investments made by the Trustee.

During the year, the highest point the derivatives charge ratio attained was 8.77% for Pool A and 6.91% for Pool B.

The reason why the derivatives charge ratio exceeded 5% during the year was that the Trustee had decided to operate a bond portfolio protection programme to protect against a possible rise in interest rates.

As at 30 June 2004, the derivatives charge ratio was nil in both pools following the conclusion of this programme.

## Eligible Rollover Fund

An Eligible Rollover Fund (ERF) is a fund which is established for the purpose of accepting and protecting benefits in respect of members of superannuation funds. If transferred to an ERF, a member ceases to have any rights which he or she previously had against the transferring fund.

The Trustee has nominated the 'Australia's Unclaimed Super Fund' (AUSfund) as the ERF to which such members' benefits may be paid.

Contact details are as follows:

AUSfund Administration  
PO Box 2468  
Kent Town SA 5071  
Ph: 1300 361 798  
Fax: 1300 366 233



## More Information

If the Trustee deems that you are a “lost” member (ie your Benefit Statement is returned unclaimed), you may be transferred to the nominated ERF.

If the Scheme proposes to transfer the benefits of a member who is not “lost” to the ERF, the Scheme will write to the member;

- giving the member the option to request that their benefits be transferred to a rollover fund (or where the benefits are \$200 or less to receive payment of the benefit in cash); and
- advising the member that, if such request is not received within 28 days, the Scheme shall transfer their benefits to the ERF.

If a member’s benefit has been paid to an ERF, the member should apply to the trustee of the ERF for payment of the benefit.

If the Trustee decides that a benefit may be transferred to an ERF in circumstances other than those outlined above, then the Trustee will provide members with reasonable notice of those circumstances.

Being transferred to the AUSfund ERF can impact on your benefits as follows:

- once you are transferred to the AUSfund ERF you will no longer be a member of Local Government Superannuation Scheme;
- you will become a member of the AUSfund ERF and be subject to its governing rules. We will provide your contact details to the AUSfund ERF and they should provide you with their current Product Disclosure Statement (PDS) which outlines all the operational details of their fund. You can contact AUSfund to ask for a copy of their PDS;
- the AUSfund ERF investment structure is different from that of Local Government Superannuation Scheme and you should seek information from AUSfund on this matter;
- the AUSfund fee structure is also different to that of Local Government Superannuation Scheme - please see their PDS; and
- the AUSfund ERF does not offer insured benefits in the event of death or disablement.

## Important Changes

### Privacy Policy

The Scheme’s Privacy Policy was extended to provide for disclosure of non-sensitive member personal information, to allow FuturePlus Financial Services Pty Limited to offer members a pre-retirement financial planning service.

### Earning Rate for Retirement Scheme Members Who Leave

From May 2004, members who cease employment and who choose to leave the Scheme, will receive the cash earnings rate on their benefit from the date they cease employment to the date their benefit is paid or transferred to the “deferred” category.

### Change of Insurer for the Accumulation and Executive Schemes

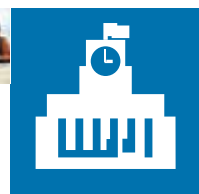
The Trustee has, after a full tender process, recently re-approved PrefSure Life Limited to provide voluntary insurance for members for a 3 year period.

While the Trustee has been able to maintain the types and level of cover available to our members, the premium rates for the insurance cover have changed.

There is also a slight change in the occupational categories used by the Insurer in assessing the premium cost. Although the definitions for each category have changed, you will not be required to reassess the category you are currently in, unless you apply for further cover.

Dependent on the type of cover you have, you may end up paying more for your insurance cover compared to what is offered currently. The premiums charged are dependent on your age, sex, occupational category, level and type of cover and any underwriting “loading” applied by the Insurer to your cover. In moving to the arrangement, the Trustee has been able to secure generally reduced premiums for the majority of members covered for either Lump Sum Death, or Lump Sum Death and Total and Permanent Disablement cover.

Unfortunately, the premiums for the majority of members who have either short or long term Salary Continuance Cover, will increase. These increases were inevitable, as Salary Continuance premiums in



## More Information

the market have risen significantly since the Trustee negotiated the premium in the original insurance agreement back in 2000.

There are no changes to the existing Basic Insurance Cover provided in the Scheme.

These changes are relevant to you if you are considering your insurance arrangements. Please refer to the website for further information, or call Member Services for a copy of the new Voluntary Insurance booklet which details all aspects about the new insurance arrangements.

### Trust Deed Changes

During the year a number of amendments were made to the Scheme's Trust Deed and Rules. Detailed below is a summary of these amendments and the date they were approved by the Trustee.

**28 April 2003** - A separate reserve was established to enable the monitoring of its adequacy to meet additional death / disability benefits for Pool B members.

**30 July 2003** - Allocated Pension and Rollover Plan members previously had a number of different fee structures. The change allowed for these fees to be amalgamated into an all inclusive management fee (as disclosed in the PDS for the Allocated Pension and Rollover Plan).

**27 August 2003** - The definition of "Superable Salary" for Pool B members was expanded to include shift allowances, workers, compensation payments, the private use component of a motor vehicle, the value of any child minding facilities paid by the employer, salary sacrifice contributions and other salary sacrifice arrangements (to bring them into line with Pool A members).

**19 November 2003** - Changes were made to ensure compliance with new Family Law Legislation (allowing member benefits to be "split" or "flagged"). Also minor changes were made to correct previous drafting errors and allow Pool B members to remain in the Scheme until age 75.

**30 June 2004** - Provisions were inserted to allow member accounts to be expressed as "units" from 31 December 2004. Also there was a tidy up of a number of drafting issues, with specific reference to ensuring that Deferred members (Division B) can access their benefits at age 55 (subject to preservation requirements).

### Enquiries and Branches

Contact Member Services on 1300 369 901 (8.30 am - 5.00 pm Monday - Friday).

One-on-one consultations can be arranged between 9.00 am - 4.30 pm at any one of our listed locations

Our website is packed with information:  
[www.lgsuper.com.au](http://www.lgsuper.com.au)

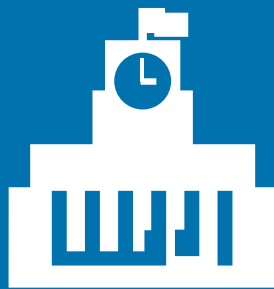
Sydney	28 Margaret St
Orange	187 Summer St
Wagga Wagga	2/209 Baylis St
Wollongong	Shop 2, 60 Burelli St
Lismore	81-83 Molesworth St
Newcastle	235 Darby Street Cooks Hill
Albury <sup>1</sup>	429 Swift St
Goulburn <sup>1</sup>	148 Auburn St



"There is an office here in town, so you can speak to a face, instead of just a phone. People can just walk down and talk to someone personally."

- Sharon Cattell, Wagga Wagga City Council

<sup>1</sup> By appointment only. These offices are staffed for one day a month only. It is essential that you phone 1300 369 901 to book an appointment.



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