

[Slide 1]

Good Afternoon everyone, and thank you for the opportunity to discuss industry trends with you. My name is Brett Westbrook and I'm the C.E.O. of FuturePlus Financial Services, the Financial Services organisation part owned by your scheme.

[Slide 2]

Contents

- The FuturePlus Group
- LGSS Performance
- DIY's
- Adequacy
- CDO's

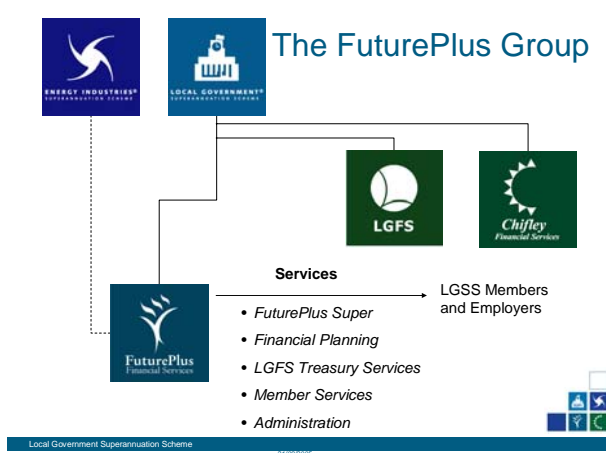


Today I'll be covering 5 topics in my brief speech:

- The role and values of the FuturePlus group
- The performance of LGSS, and why, as an industry fund, it has performed better than retail funds in recent years
- My views on DIY's
- The importance of Adequacy
- And I'll finish off with some comments on CDO's

I'll start off by talking about FuturePlus.

[Slide 3]



Most of you will know that FuturePlus is an investment of your scheme. Its genesis was laid 7 years ago, when LGSS moved out of State Super. Over the last 7 years, FuturePlus has grown to provide a full range of Financial Services to your scheme, including Financial Planning and Investment Advice, Member Services and (from July of this year) Administration services. FuturePlus, as an investment by the schemes, has also increased in value over this period, adding to your scheme's investment performance.

FuturePlus now provides services to LGSS, EISS and Chifley (which in itself is part owned by your scheme), and of course operates FuturePlus Super – our public offer fund that enables LGSS members (and their friends) to continue contributing after they have left the employ of Council. More recently your scheme purchased LGFS, an organisation that offers Treasury management to Councils. Again FuturePlus Financial Services provides the back-office and support to this organisation.

[Slide 4]

How does a super fund differentiate itself in a choice environment?

1. Service
2. Competitive Fees
3. Consistent investment performance
4. Features



Because FuturePlus is owned by members, it is able to deliver better services and performance at competitive fees to members. Given our large scale, FuturePlus can offer products that are the equal of any in the market. In a choice of fund environment, we believe that the things that matter most are service, investment performance, competitive fees and features such as insurance and product design.

Customer service is our overriding focus and we've found that members and employers view it to be just as important as we do. We've taken many steps to provide the best possible service to you through our regional branches, extensive field team, financial planning service at no additional cost to members and increasing emphasis on personalised communication. And our efforts in this area certainly seem to be paying off.

[Slide 5]

Overall Satisfaction Comparison

	Total Population 2004 %	Total FuturePlus General Members 2004 %
HIGH (score 8-10)	38	51
MEDIUM (score 4-7)	50	44
LOW (score 0-3)	13	4

Base: General (n=376)

Base: NSW Respondents with superannuation N=270



A recent study done by an independent research house, Woolcott Research, found that members in our funds are far more satisfied than most NSW workers with their super funds. In fact, 51% of our members were extremely satisfied with their fund compared to only 37% of other NSW workers.

I'll now turn to investment returns. Thanks to the recent emergence of ratings agencies, the strong investment returns from industry funds are also increasingly being highlighted in the press. Here's how LGSS ranked in the latest SuperRatings Investment Survey for the year ended July 31.

[Slide 6]

LGSS Performance

Local Government Superannuation Scheme			
Investment Option	Return	Rank	Total Funds
High Growth	19.8	3	38
Diversified	16.7	9	57
Cap Guarded	11.0	9	46

Source: SuperRatings Investment Survey for the year to end July 31, 2005



Local Government Superannuation Scheme

#1030205

Slide 6

As you can see, the performance of the LGSS High Growth, Diversified and Cap Guarded options were in the Top 10. The Balanced Fund is not ranked due to the difficulty in getting a proper peer group with similar allocations to growth/income type assets.

Nonetheless, there's little purpose in obtaining good returns if these are eaten up by fees, so I'd like to talk to you about fees. I will start by playing an advert run by Industry Funds Services. While LGSS is an industry fund, we are not part of the Victorian based Industry Funds Services group. The message, though, is instructive.

[Run IFS advert! – Slide 6a]



There are few Australians unaware of the recent legislative change that gave many choice of superannuation fund, thanks to all the media hype it generated.

[Slide 7]

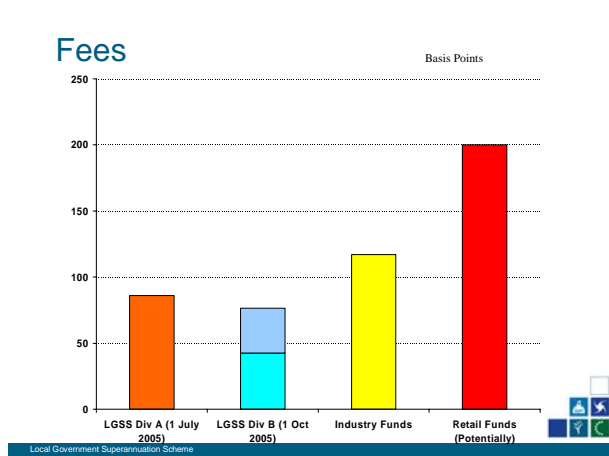


The good thing about all the hype, and campaigns like those from Industry Funds Services, is that they've fostered debate about fees and charges – and about the commissions that financial planners earn, especially in the retail sector.

With most Australians unlikely to save enough for retirement and with the baby boomer retirement time bomb ticking loudly on our doorsteps, this debate could not have come soon enough.

Unnecessary charges and commissions are like white ants – not always that visible but busily eating away at the things we've so carefully built up.

[Slide 8]



As you can see we are more than competitive, not only with retail funds, but also with industry funds.

Choice of fund has intensified competition in the superannuation industry, and this has made members increasingly aware of the many benefits of belonging to LGSS, something they may have taken for granted in the past.

The focus on fees and charges has certainly put the offerings of large strongly branded retail players under the microscope. Their funds claim to offer more investment options and flexibility than industry funds do. As always, members need to assess how much flexibility is actually of value for the price.

That's not to say that industry funds are short on features. We've introduced investment choice, beefed up our services and in LGSS, we are fully unitised, which is leading edge in the industry.

[Slide 9]

Some of our features include:

- Insurance options
- Financial Planning
- Investment Flexibility
- Fair Go Member Benefits
- Pre-retirement Seminars
- Wealth Creation Seminars
- Home Loans
- Work Site visits
- Call Centre support
- Sydney Office and Regional Branches
- Member Communications

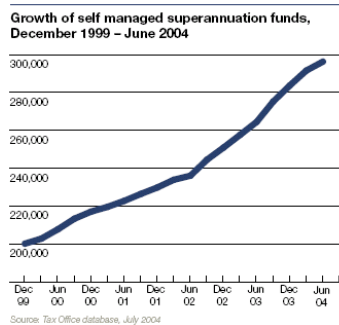


Insurance has also been highlighted in the choice of fund debate with many industry players raising concerns that members might lose access to competitively priced group rate insurance when they leave employer sponsored funds. As you are no doubt aware, members of LGSS are not only provided with solid basic insurance but also have access to a competitive variety of voluntary insurance options.

Talking about super, it's hard to ignore the huge growth in DIY or self managed super funds. This part of the market has shown enormous growth in recent years and according to the ATO, there are now over 300,000 active self managed funds in Australia. This equates to approximately 600,000 trustees or members.

[Slide 10]

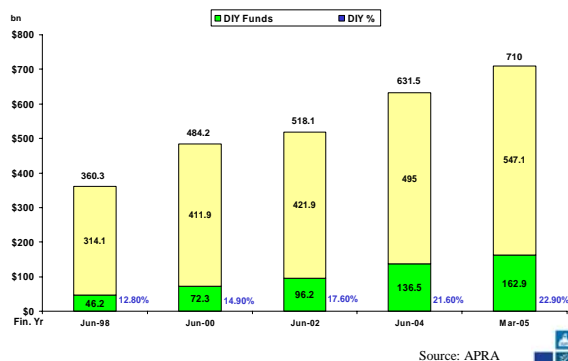
Growth in SMSF's



By the end of March 2005, DIY funds held assets of \$162.9 billion or almost 23% of Australia's total superannuation assets.

[Slide 11]

DIY: % of total superannuation assets



The ATO, however, reports that the registrations of self managed funds have trended down this year, with about 2,000 established each month, and on average, 200 wound up each month, perhaps reflecting the increased understanding of the responsibilities of maintaining such funds.

They may be trendy and even considered status symbols, but DIYs are NOT for everyone. Much depends on how much you have to invest, your personality and how much time you are willing to spend on super.

[Slide 12]



DIY's

Pro's

- Greater control
- Greater investment flexibility
- Can house direct property
- Can attract favourable tax treatment for some assets
- Can include spouse and family

Con's

- Large compliance burden and extensive legal responsibilities
- High fixed costs
- Headaches at tax time
- Require a large time commitment
- Require an interest in investments



Local Government Superannuation Scheme #17030208 Slide 12

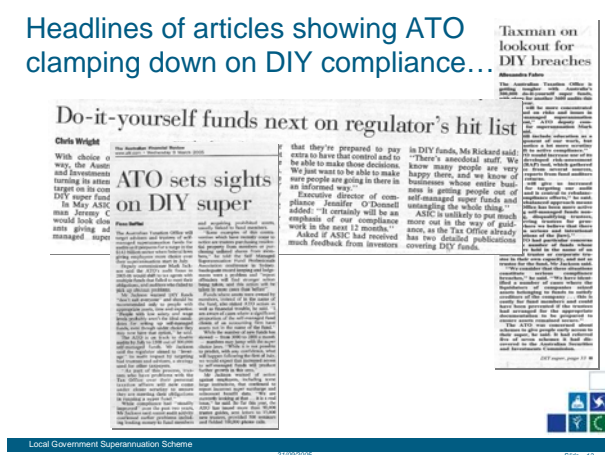
DIYs are popular because they give you greater control over your affairs and allow you to tailor your investments to meet your personal needs. But with greater control comes increased obligation and a mountain of paperwork. DIY regulations are complicated and they change often.

There are superannuation and tax laws to comply with and added responsibilities, such as

- Having to keep proper records
- Having to detail your funds' investment strategy
- Not lending super money to members or relatives

[Slide 13]

Headlines of articles showing ATO clamping down on DIY compliance...



If you don't comply, the Australian Tax Office can impose penalties ranging from fines and a loss of tax concessions to imprisonment.

A recent CPA Australia study found that many people are put into DIYs by their accountants or financial planners without really knowing their responsibilities. But if things go wrong, it's you, not the accountant or planner, that will take the heat.

In contrast, there are other products, such as the FuturePlus Premium Wrap, which also allow great investment flexibility, but take away all the compliance worries.

Our Wrap, for example, allows you to invest in over 300 wholesale funds and directly in shares. And, tax time is a breeze because you get one consolidated statement with everything already worked out for you.

[Slide 14]

Costs of setting up a DIY:

- Set Up Costs:
 - Trust deed – approx \$1500
 - ASIC Company Registration - approx \$1085
- Ongoing costs:
 - Administration services - approx \$2280
 - Annual income tax and regulatory return - approx \$440
 - ATO Supervisory Levy - approx \$45
 - Audit - approx \$440
 - Possibly an Actuarial certificate



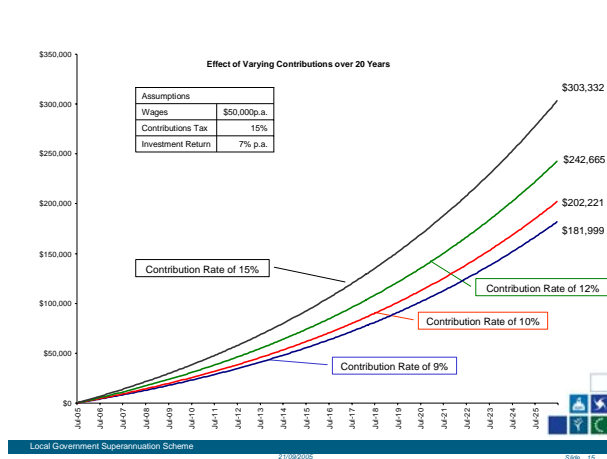
And you really should compare a product like a WRAP with a DIY fund in terms of costs and facilities on offer. In particular, bear in mind that, extraordinarily, some DIY funds end up investing through Retail Funds, which ramp up their costs dramatically.

Ultimately, whether it's DIY, WRAP or some industry fund, the overriding purpose of investments is to provide adequacy in retirement.

Historically, a key benefit of employment was the defined benefit scheme on retirement. Defined benefit Schemes have typically provided generous retirement benefits. With the change to SGC, however, there is now a concern as to whether members will have adequate resources for retirement.

Time and again we have highlighted that the SGC is probably not enough to provide members with adequate funding for their retirement and members should really look at whether top up contributions can assist!

[Slide 15]



I'd like to show you a notional chart of contributions at 9% for a period of time, and demonstrate that, based on certain assumptions, an increase in contributions by just 6% p.a. would increase the amount available for retirement by 100,000's of thousands of dollars.

Lastly, I'd like to make a few quick comments about collateralised debt obligations or CDOs. I understand that these are being warmly embraced by many Councils. However, we have some reservations about them. We've all probably learnt in one way or another that there's no such thing as a free lunch. And this is true with CDOs too!

[Slide 16]

“There’s no such thing as a free lunch”



They’ve been in vogue, particularly over the past two years, because of their high returns. But their returns have been achieved in a largely benign credit environment where credit spreads have been progressively contracting and are now close to their lows. They haven’t as yet been tested in a difficult market in Australia - and it doesn’t take much to know that at some point, the markets will turn.

In addition, in this low interest rate environment, CDO manufacturers have been forced to incorporate higher levels of leverage and add riskier debt to maintain high returns

[Slide 17]

CDOs: The Risks:

- The Risks aren't easily understood
- Poor diversification
- Possible liquidity problems

Return = function [risk]



We sometimes see CDOs promoted as having the same capital security as Rated Bank Bills and Term Deposits. Again, it's important to understand the underlying risk of any product, particularly structured products, prior to making an investment and especially when the credit market looks uncertain.

Many CDOs have a AAA rating, given by organisations such as Standard & Poor Australia. Most people don't look further! If they did, they would find that some of the underlying assets usually have a lower rating, with BBB being typical.

CDOs are complex and not widely understood. Ultimately, however, higher returns imply higher riskiness. And while, in a portfolio of equities, risk mitigation is well understood, a portfolio of debt behaves differently with risk comprising not only variability and volatility of returns, but also credit risk which is largely default based. Because a limited range of assets may be used to structure CDOs, the portfolio assets may have a relatively high correlation between them.

Another concern regarding CDOs is the possibility that a rating agency such as S&P could downgrade the underlying assets. In this situation, the CDOs' rating also falls and investors could become forced sellers.

[Slide 18]

The screenshot shows a Microsoft Internet Explorer browser window displaying the SmartPros website. The address bar shows the URL: http://finance.ano2net.com/v20636_vw. The page features a navigation menu with links: Home | Member Services | News | Resource Library | Career Center | Professional Education | Marketplace | Investor Relations. Below the menu, there is a search bar and a list of categories: Accounting | A & A | Ethics & Compliance | Financial Planning | HR | International | Legal | Corporate Finance | Students | Tax | Technology. The main content area is titled "Collateralized Debt Obligations" with the subtitle "Making High-Yield Assets Safe" and the author "By: Jason Nelson". The article text begins with "Sept. 11, 2000 (SmartPros) — Many investors believe that junk bonds died with the Michael Milken era. Actually, junk bonds are very much alive and are more appropriately known to fixed income professionals as "high-yield bonds."". A sub-section titled "How Did Collateralized Debt Obligations Originate?" explains that CDOs are privately placed securitizations created in the late 1980s, involving the reallocation of risk from assets into securities.

For many Councils, now may be a good time to recall the story of Michael Milken and the US savings and loans crisis, which cost over US\$190 billion to resolve. I think the term used was junk bonds. Today, some commentators believe that the same phenomena are fuelling the market for CDOs.

I am by no means saying all CDOs are problematic. But it is crucial that before you embrace them, you look at them very carefully and are aware of their many risks and their risk/reward profile. You need to invest time and resources into analysing them and you need to monitor these on an ongoing basis. These are not a 'set and forget' product. Some Councils also need to assess whether they are at present overexposed to CDOs and what the risks are of being in this position.

When you get the opportunity, please speak to our staff at LGFS, who have vast experience in a whole range of investment options for the fund.

Thank you for the opportunity to address you.