

2009 annual report  
to members



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### LGsuper – a complying fund

During the 2008/09 financial year, the LGsuper Board of Directors ran LGsuper as a complying super fund in line with Australian Government legislation. As a complying fund, LGsuper members receive concessional tax treatment.

## → Welcome to LGsuper's annual report to members

The 2008/09 financial year will be remembered as one of the most challenging ever for investors. The global financial crisis, which began in the previous financial year, worsened through the September and December quarters of 2008, with economic growth subsequently slowing sharply. Australian and international sharemarkets suffered double digit losses in the December quarter, but began to rally in March 2009 as the US and Australian governments announced fiscal stimulus packages and US and European banks received government funding. The year ended on a positive note with international shares finishing the June quarter sharply higher, spurred by evidence that the decline in global economic growth was stabilising. Australian shares also gained in the June quarter.

Despite these challenges, LGsuper performed better than most super funds in Australia during 2008/09. According to independent ratings agency, SuperRatings, our Balanced option return of -9.03% was ranked 12<sup>th</sup> highest of 113 similar options nationally, while our Conservative option return of -4.79% was ranked 4<sup>th</sup> of 55 similar options nationally. Our Growth Smoothed option returned -14.10% and was ranked 28<sup>th</sup> of 82. Furthermore, over three years, returns for our High Growth, Growth Smoothed, Balanced,

Conservative and Defensive options all rank in the top 10 super funds nationally. Full details of our investment options and their performance can be found on page 6.

Once again, the Board and its staff have been busy introducing enhancements to our products and services for you. These include:

- more flexible investment options, allowing you to invest your super in up to three (3) different options in the proportions of your choice
- daily earning rates, replacing the weekly interim earning rate system
- monthly pension payments

I encourage you to take a few minutes to read this annual report to members and I hope you will find some useful information to help you plan for your future with LGsuper.



**David Todd**  
Chief Executive Officer



## → Who is looking after your super?

The Queensland Local Government Superannuation Board (ABN 94 085 088 484) is responsible for managing LGsuper in the best interests of members. Half of the Board is elected by members, with the other half nominated by the Local Government Association of Queensland (LGAQ) to represent employers. The Board has appointed an independent director who also acts as Chairman.

The Board of Directors works closely with the Chief Executive Officer and his staff to ensure your financial future is looked after.

Like most trustees, the Board has obtained trustee liability insurance. This insurance protects the fund from losses that might result from wrongful acts of the Board or its staff. Furthermore, a Director can be removed in the same way they were appointed or if they fail to meet strict requirements under superannuation legislation.

### Independent Director and Chairman

#### **Brian Roebig OAM**

- Chairman and Independent Director since August 1995
- Member, Audit and Risk Management Committee
- Former General Manager Queensland, National Mutual Life Association of Australasia Ltd.



**Brian Roebig OAM**  
Independent Director and Chairman

## Member representatives

### **Fiona Connor**

- Director since July 2001
- Member, Audit and Risk Management Committee
- Former employee of LGsuper

### **Noel Cass**

- Director since July 2008
- Former LGsuper Director from July 1995 to June 2004

### **Peter Smith**

- Director since July 2008
- Former LGsuper Chief Executive Officer from 1988–2006

## Employer representatives

### **Cr. Paul Bell AM**

- Director since July 2004
- Chair, Audit and Risk Management Committee
- President, Local Government Association of Queensland (LGAQ)
- Deputy Mayor, Central Highlands Regional Council

### **Cr. Peter Taylor**

- Director since July 1998
- Member, Executive of the Local Government Association of Queensland (LGAQ)
- Mayor, Toowoomba Regional Council

### **Cr. Les Tyrell OAM**

- Director since July 2008
- Former LGsuper Director from July 1995 to June 2004.
- Member, Executive of the Local Government Association of Queensland (LGAQ)
- Mayor, Townsville City Council



Fiona Connor

Noel Cass

Peter Smith

Cr. Paul Bell AM

Cr. Peter Taylor

Cr. Les Tyrell OAM

# → Investment returns

As an LGsuper member, you can select how your super is invested. Our options range from low risk/low return to higher risk/higher return, so you can make a choice that suits your current situation.

## High Growth

**Aim** To achieve returns of 5.5% p.a. above inflation over 5-year periods  
**Risk** high  
**Fees** 0.17% administration  
**2008/09** 0.66% investment management

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2009	-16.66	-19.36
2008	-5.72	-6.66
2007	17.51	19.25
2006	5.86*	6.60*
2005	n/a	n/a
Avg since inception (%p.a.)	-0.65	-1.25
% p.a. over CPI	n/a	n/a

\*introduced from 1 January 2006

### Strategic asset allocation

At 30 June	2009 (%)	2008 (%)
<b>Return-seeking</b>	<b>100</b>	<b>100</b>
Australian shares	26.65	26.65
International shares	26.65	26.65
Property	20.00	20.00
Alternatives	26.70	26.70
<b>Risk-controlling</b>	<b>0.00</b>	<b>0.00</b>
Fixed interest	0	0
Cash	0	0

### Actual asset allocation

At 30 June	2009 (%)	2008 (%)
<b>Return-seeking</b>	<b>96.17</b>	<b>98.70</b>
Australian shares	24.96	25.40
International shares	23.74	26.18
Property	19.91	20.48
Alternatives	27.56	26.64
<b>Risk-controlling</b>	<b>3.83</b>	<b>1.30</b>
Fixed interest	0	0
Cash	3.83	1.30

## Growth

**Aim** To achieve returns of 5.0% p.a. above inflation over 5-year periods  
**Risk** high  
**Fees** 0.17% administration  
**2008/09** 0.56% investment management

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2009	-14.17	-16.46
2008	-5.04	-5.84
2007	16.00	17.60
2006	15.68	17.03
2005	14.03	14.67
5-yr avge (%p.a.)	4.52	4.42
% p.a. over CPI	1.61	1.51

### Strategic asset allocation

At 30 June	2009 (%)	2008 (%)
<b>Return-seeking</b>	<b>85.00</b>	<b>85.00</b>
Australian shares	25.65	25.65
International shares	25.65	25.65
Property	15.00	15.00
Alternatives	18.70	18.70
<b>Risk-controlling</b>	<b>15.00</b>	<b>15.00</b>
Fixed interest	15.00	15.00
Cash	0	0

### Actual asset allocation

At 30 June	2009 (%)	2008 (%)
<b>Return-seeking</b>	<b>81.10</b>	<b>83.67</b>
Australian shares	24.02	24.45
International shares	22.85	25.20
Property	14.93	15.36
Alternatives	19.30	18.66
<b>Risk-controlling</b>	<b>18.90</b>	<b>16.33</b>
Fixed interest	15.58	15.45
Cash	3.32	0.88

## Growth Smoothed

**Aim** To achieve returns of 5.0% p.a. above inflation over 5-year periods  
**Risk** moderate to high  
**Fees** 0.17% administration  
**2008/09** 0.56% investment management

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2009	-14.10	-16.39
2008	2.25	2.16
2007	14.95	16.13
2006	14.09	15.10
2005	12.16	12.80
5-yr avge (%p.a.)	5.31	5.24
% p.a. over CPI	2.40	2.33

### Strategic asset allocation

At 30 June	2009 (%)	2008 (%)
<b>Return-seeking</b>	<b>85.00</b>	<b>85.00</b>
Australian shares	25.65	25.65
International shares	25.65	25.65
Property	15.00	15.00
Alternatives	18.70	18.70
<b>Risk-controlling</b>	<b>15.00</b>	<b>15.00</b>
Fixed interest	15.00	15.00
Cash	0	0

### Actual asset allocation

At 30 June	2009 (%)	2008 (%)
<b>Return-seeking</b>	<b>81.10</b>	<b>83.67</b>
Australian shares	24.02	24.45
International shares	22.85	25.20
Property	14.93	15.36
Alternatives	19.30	18.66
<b>Risk-controlling</b>	<b>18.90</b>	<b>16.33</b>
Fixed interest	15.58	15.45
Cash	3.32	0.88

# → Investment returns

## Socially Responsible

**Aim** To achieve returns of 4.0% p.a. above inflation over 5-year periods  
**Risk** high  
**Fees** 0.17% administration  
**2008/09** 0.85% investment management

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2009	-10.03	-11.63
2008	-9.95	-10.15
2007	15.67	17.42
2006	5.33*	6.01*
2005	n/a	n/a
Avg since inception (%p.a.)	-0.37	-0.33
% p.a. over CPI	n/a	n/a

\*introduced from 1 January 2006

### Strategic asset allocation

At 30 June	2009 (%)	2008 (%)
<b>Return-seeking</b>	<b>74.00</b>	<b>74.00</b>
Australian shares	42.00	42.00
International shares	20.00	20.00
Property	12.00	12.00
Alternatives	0	0
<b>Risk-controlling</b>	<b>26.00</b>	<b>26.00</b>
Fixed interest	23.00	23.00
Cash	3.00	3.00

### Actual asset allocation

At 30 June	2009 (%)	2008 (%)
<b>Return-seeking</b>	<b>68.40</b>	<b>72.20</b>
Australian shares	35.00	38.00
International shares	22.90	22.80
Property	10.50	11.40
Alternatives	0	0
<b>Risk-controlling</b>	<b>31.60</b>	<b>27.80</b>
Fixed interest	25.90	23.00
Cash	5.70	4.80

## Balanced

**Aim** To achieve returns of 4.0% p.a. above inflation over 5-year periods  
**Risk** moderate  
**Fees** 0.17% administration  
**2008/09** 0.48% investment management

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2009	-9.03	-10.33
2008	-1.46	-1.67
2007	11.90	13.18
2006	11.39	12.51
2005	12.18	13.04
5-yr avge (%p.a.)	4.62	4.88
% p.a. over CPI	1.71	1.97

### Strategic asset allocation

At 30 June	2009 (%)	2008 (%)
<b>Return-seeking</b>	<b>60.00</b>	<b>60.00</b>
Australian shares	16.50	16.50
International shares	16.50	16.50
Property	15.00	15.00
Alternatives	12.00	12.00
<b>Risk-controlling</b>	<b>40.00</b>	<b>40.00</b>
Fixed interest	40.00	40.00
Cash	0	0

### Actual asset allocation

At 30 June	2009 (%)	2008 (%)
<b>Return-seeking</b>	<b>57.47</b>	<b>59.27</b>
Australian shares	15.45	15.73
International shares	14.70	16.21
Property	14.93	15.36
Alternatives	12.39	11.97
<b>Risk-controlling</b>	<b>42.53</b>	<b>40.73</b>
Fixed interest	41.55	41.20
Cash	0.98	-0.47

## Conservative

**Aim** To achieve returns of 3.0% p.a. above inflation over 5-year periods  
**Risk** moderate  
**Fees** 0.17% administration  
**2008/09** 0.44% investment management (includes 0.70% p.a. fee for the Australian Government bank guarantee)

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2009	-4.79	-5.34
2008	1.22	1.46
2007	9.19	10.32
2006	8.68	9.62
2005	10.03	10.95
5-yr avge (%p.a.)	4.70	5.20
% p.a. over CPI	1.79	2.29

### Strategic asset allocation

At 30 June	2009 (%)	2008 (%)
<b>Return-seeking</b>	<b>40.00</b>	<b>40.00</b>
Australian shares	9.15	9.15
International shares	9.15	9.15
Property	15.00	15.00
Alternatives	6.70	6.70
<b>Risk-controlling</b>	<b>60.00</b>	<b>60.00</b>
Fixed interest	40.00	40.00
Cash	20.00	20.00

### Actual asset allocation

At 30 June	2009 (%)	2008 (%)
<b>Return-seeking</b>	<b>38.57</b>	<b>39.76</b>
Australian shares	8.57	8.72
International shares	8.15	8.99
Property	14.93	15.36
Alternatives	6.92	6.69
<b>Risk-controlling</b>	<b>61.43</b>	<b>60.24</b>
Fixed interest	41.55	41.20
Cash	19.88	19.04

# → Investment returns

## Defensive

**Aim** To achieve returns of 2.0% p.a. above inflation over 5-year periods  
**Risk** moderate to low  
**Fees** 0.17% administration  
**2008/09** 0.38% investment management (includes 0.70% p.a. fee for the Australian Government bank guarantee)

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2009	-0.59	-0.64
2008	3.34	3.92
2007	6.59	7.50
2006	2.07*	2.38*
2005	n/a	n/a
Avg since inception (%p.a.)	3.23	3.72
5 p.a over CPI	n/a	n/a

\*introduced from 1 January 2006

### Strategic asset allocation

At 30 June	2009 (%)	2008 (%)
<b>Return-seeking</b>	<b>20.00</b>	<b>20.00</b>
Australian shares	4.60	4.60
International shares	4.60	4.60
Property	7.50	7.50
Alternatives	3.30	3.30
<b>Risk-controlling</b>	<b>80.00</b>	<b>80.00</b>
Fixed interest	50.00	50.00
Cash	30.00	30.00

### Actual asset allocation

At 30 June	2009 (%)	2008 (%)
<b>Return-seeking</b>	<b>19.29</b>	<b>19.87</b>
Australian shares	4.31	4.38
International shares	4.10	4.52
Property	7.47	7.68
Alternatives	3.41	3.29
<b>Risk-controlling</b>	<b>80.71</b>	<b>80.13</b>
Fixed interest	51.94	51.50
Cash	28.77	28.63

## Cash

**Aim** To protect capital over any 1-year period  
**Risk** low  
**Fees** 0.17% administration  
**2008/09** 0.44% investment management (includes 0.70% p.a. fee for the Australian Government bank guarantee)

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2009	3.77	4.27
2008	4.87	5.70
2007	5.42	6.41
2006	5.03	5.90
2005	4.69	5.47
5-yr avge (%p.a.)	4.75	5.55
% p.a. over CPI	1.84	2.64

### Strategic asset allocation

At 30 June	2009 (%)	2008 (%)
<b>Return-seeking</b>	<b>0</b>	<b>0</b>
Australian shares	0	0
International shares	0	0
Property	0	0
Alternatives	0	0
<b>Risk-controlling</b>	<b>100</b>	<b>100</b>
Fixed interest	0	0
Cash	100	100

### Actual asset allocation

At 30 June	2009 (%)	2008 (%)
<b>Return-seeking</b>	<b>0</b>	<b>0</b>
Australian shares	0	0
International shares	0	0
Property	0	0
Alternatives	0	0
<b>Risk-controlling</b>	<b>100</b>	<b>100</b>
Fixed interest	0	0
Cash	100	100

## Defined Benefits Fund

accumulation comparison rate

**Aim** To achieve returns of 3.0% p.a. above the average rate of member salary growth over 5-year periods  
**Risk** medium

Year ending 30 June	Accumulation comparison rate (%)
2009	-19.00
2008	0.62
2007	11.69
2006	14.26
2005	12.88
5-yr avge (%p.a.)	3.26
% p.a. over AWOTE*	1.09

\*Proxy for salary growth

### Strategic asset allocation

At 30 June	2009 (%)	2008 (%)
<b>Return-seeking</b>	<b>60.00</b>	<b>60.00</b>
Australian shares	16.50	16.50
International shares	16.50	16.50
Property	15.00	15.00
Alternatives	12.00	12.00
<b>Risk-controlling</b>	<b>40.00</b>	<b>40.00</b>
Fixed interest	40.00	40.00
Cash	0	0

### Actual asset allocation

At 30 June	2009 (%)	2008 (%)
<b>Return-seeking</b>	<b>57.47</b>	<b>59.27</b>
Australian shares	15.45	15.73
International shares	14.70	16.21
Property	14.93	15.36
Alternatives	12.39	11.97
<b>Risk-controlling</b>	<b>42.53</b>	<b>40.73</b>
Fixed interest	41.55	41.20
Cash	0.98	-0.47

## → Investment market performance

For the second year in a row, super funds suffered negative returns for most investment options. So what contributed to this result and what is the outlook for 2009/10?

### Australian shares

The financial year began with global credit concerns dominating all markets including the Australian market, which ended down 10.4% for the September quarter. In September, the Australian Securities and Investment Commission (ASIC) introduced a ban against short-selling, prompting recoveries in some heavily shorted stocks. The recovery was short-lived however, as global developments continued to drive the Australian market throughout the December quarter. The market ended the quarter down 18.3% and the losses were broad based, with all sectors recording falls.

The new year saw Australia outperform other major sharemarkets as aggressive easing of interest rates by the Reserve Bank of Australia, a sharply weaker currency, and the announcement of a \$42 billion fiscal stimulus package by the Australian Government helped to cushion the market from an otherwise difficult global environment. Nevertheless, the March quarter ended down 2%.

During the final quarter, the market gained 11.29%, but underperformed other major sharemarkets. While a number of factors supported Australian shares, their valuations were not as attractive as those in some other sharemarkets.

### International shares

The financial year started poorly, with declines recorded in all major sharemarkets during the September quarter. The global credit crisis culminated in the failure of a number of large global and US financial institutions in September, including Fannie Mae, Freddie Mac and Lehman Brothers. The US Treasury announced a \$700 billion relief program aimed at stabilising the distressed market.

In the December quarter most sharemarkets recorded double-digit losses, prompted by a sharp worsening in the financial crisis and slowing global economic growth. Emerging markets were also hit hard, with a number of countries requiring International Monetary Fund (IMF) loans. To contain the crisis, key central banks reduced interest rates and major governments aggressively loosened fiscal policy.

The weakness in global shares extended into the March quarter, with key sharemarkets finishing the quarter lower, despite a sharp rally in early March. Policy makers continued their efforts to support their markets and rapidly weakening economies.

By the June quarter there was evidence that the decline in global economic growth was stabilising and the major developed sharemarkets ended the quarter sharply higher. The rally over the quarter was the largest quarterly gain since 1999 and was accompanied by a general improvement in market liquidity conditions as well as strong gains in emerging markets and commodity prices.

## Property

The credit crisis and an economy flirting with recession caused commercial property values in Australia to fall for the first time since the early 1990s. Shopping centres were the most resilient, with retail spending increasing as a result of the Australian government's stimulus package and the lowering of interest rates by the RBA. However, the office and industrial sectors fell at least 10-15% over the financial year.

Nevertheless, the Australian property market performed much better than international commercial property markets, as the Australian economy experienced a much shallower economic downturn. As a result, the fall in rents and occupancies was not as bad as experienced overseas.

LGsuper's property investments are represented by a high quality, low geared and well diversified portfolio which performed reasonably well during 2008/09. In particular, the portfolio benefited from a high weighting in retail properties (45%) and a low weighting to listed real estate, which fell by 42%.

## Alternatives

LGsuper invests in alternative assets such as hedge funds, emerging high-yield debt and infrastructure to reduce risk and smooth investment returns. These investments are designed to perform well when sharemarkets are weak.

The alternatives portfolio was the best performing "growth" asset class, returning -10.94% during the year. Hedge fund/emerging market debt managers, in particular, contributed to the relative outperformance compared to shares.

## Fixed interest and cash

Although bond yields fell sharply in the first half of the year as the RBA aggressively eased interest rates, they ended higher in both the March and June quarters, as expectations of further interest rate cuts were lowered.

Whilst the fixed interest portfolio posted a positive return during the year (5.03%), credit exposure (investment grade) detracted from performance as market participants sought safe haven in government bonds during the height of the financial crisis. This aversion to risk began to unwind during the latter half of 2008/09.

## Looking forward

According to many experts the worst of the financial crisis may be over and there are positive signs that point to a global economic recovery. However, the key question is whether the recovery will continue through into 2010 or if growth will suffer a relapse.

LGsuper's management and Board of Directors continue to work hard to reduce the fund's exposure to risk and minimise the potential level of volatility for members. While the last financial year was one of the worst on record for investors, LGsuper's diversified investment strategy helped to lessen the negative impact on members' funds. With so-called 'green shoots' of recovery finally beginning to emerge, we are hopeful of a much better result in 2009/10.

## Where your money is invested

### Top 10 Australian shares at 30 June 2009

- 1 BHP Billiton**  
MINING
- 2 National Australia Bank**  
FINANCE
- 3 ANZ**  
FINANCE
- 4 Commonwealth Bank**  
FINANCE
- 5 Westpac**  
FINANCE
- 6 Telstra**  
TELECOMMUNICATIONS
- 7 QBE Insurance**  
INSURANCE
- 8 Suncorp**  
FINANCE
- 9 CSL Limited**  
PHARMACEUTICALS
- 10 Felix Resources Ltd**  
MINING

### Top 10 international shares at 30 June 2009

- 1 China Overseas Land and Investment Ltd**  
CONSTRUCTION/INFRASTRUCTURE
- 2 Vodafone**  
TELECOMMUNICATIONS
- 3 Hong Kong Exchanges and Clearing Ltd**  
SECURITIES
- 4 Merck and Co**  
PHARMACEUTICALS
- 5 Pfizer**  
PHARMACEUTICALS
- 6 Microsoft Corporation**  
COMPUTER TECHNOLOGY
- 7 Shell**  
ENERGY AND PETROCHEMICAL
- 8 Ahold**  
FOOD RETAILER
- 9 Oracle Systems Co**  
DATA SOFTWARE
- 10 Ericsson**  
TELECOMMUNICATIONS

## → Investing your money

The LGsuper Board of Directors is responsible for investing your money to achieve sound returns over the long term. To do this, the Board has carefully selected 22 well known and trusted professional investment managers, who each have a specific area of investment expertise. By combining the skills of these managers, members can expect reduced risk and improved investment performance.

The Board continuously monitors the performance of each investment manager against benchmark returns. From time to time, new investment managers are appointed to increase returns or improve diversification. The Board may also stop using a particular manager due to underperformance, or when their style of investing or area of expertise is no longer required.

The following investment managers have been working hard for you this year:

Investment manager	As at 30 June 2009	
	\$M	%
<b>Australian shares</b>	<b>632.7</b>	<b>19.1</b>
Acorn	25.4	0.8
AMP	56.5	1.7
Challenger	66.2	2.0
Eley Griffiths	30.9	0.9
JF Capital Partners	125.7	3.8
Independent	63.3	1.9
Macquarie Pure Index Trust	129.5	3.9
MIR	135.2	4.1

Investment manager	As at 30 June 2009	
	\$M	%
<b>International shares</b>	<b>564.5</b>	<b>17.1</b>
Alliance Emerging Market	46.1	1.4
Alliance Growth	70.6	2.1
Bernstein Value	92.4	2.8
BGI	209.3	6.3
Lazard Thematic	146.2	4.5
JP Morgan	-0.1	0
<b>Property</b>	<b>457.3</b>	<b>13.8</b>
AMP Capital Investors	457.3	13.8
<b>Alternatives</b>	<b>493.6</b>	<b>14.9</b>
BT Grosvenor	59.2	1.8
K2 Advisors	99.8	3.0
Bridgewater	136.6	4.1
Stone Harbour	104.2	3.2
Morgan Stanley Infrastructure Fund No 3	18.1	0.5
Apostle Loomis Sayles	72.6	2.2
EQT Infrastructure	3.1	0.1
<b>SRI</b>	<b>2.6</b>	<b>0.1</b>
AMP RIL Balanced Fund	2.6	0.1
<b>Diversified fixed interest</b>	<b>906.3</b>	<b>27.4</b>
Colonial First State	102.6	3.1
Vianova	91.0	2.8
PIMCO Global Real Return Fund	206.2	6.2
QIC	267.8	8.1
PIMCO Global Bond Fund	238.7	7.2
<b>Cash</b>	<b>249.2</b>	<b>7.6</b>
<b>TOTAL</b>	<b>3306.2</b>	<b>100</b>

## Use of derivatives

Derivatives are only used by LGsuper and its investment managers to reduce investment risk or achieve or maintain exposure to particular asset classes or markets. Even then, they are only used within the limits specified in our Derivative Risk Statement parts A and B.

## Surcharge payments

The superannuation surcharge tax was an additional tax paid by higher income earners on employer contributions they received. This tax was abolished from 1 July 2005. If you've incurred any surcharge tax, LGsuper will pay it directly to the Australian Taxation Office (ATO), and then recover it from your account.

## Defined Benefits Fund

The Defined Benefits Fund is regularly reviewed through actuarial valuations, to determine if there are sufficient funds to pay members' benefits. The last actuarial valuation of LGsuper's Defined Benefits Fund was conducted at 1 July 2006. Following this review, the actuary recommended the establishment of a prudential reserve to increase the fund's ability to withstand extremely poor investment returns while still being able to pay all benefits. See page 15 for more details. In addition to actuarial reviews, the Vested Benefits Index shows the ratio of fund assets to the amount of members' Vested Benefits (see below).

30 June	2009	2008	2007
Vested Benefits Index	101-102%*	105.3%	110.9%

\*preliminary

## Tax

Employer contributions and investment earnings are subject to income tax at the rate of 15%. The full 15% tax on employer contributions is deducted from members' accounts. The tax on investment earnings can be less than 15% due to tax deductions, credits and offsets. Members who receive insurance premiums deducted from their accounts will receive a 15% tax deduction on the premiums.

## → Abridged financial statements

The abridged financial statements below were prepared before the audit of accounts was completed, using information available at the time of publication. The LGsuper Board of Director's annual report includes the audited financial statements, and will be available to members on request from November 2009.

LGsuper is made up of three separate funds—an Accumulation Benefits Fund, Defined Benefits Fund and an Insurance Fund.

Fund	2009 balance \$M	2008 balance \$M
Accumulation Benefits Fund	2,354.3	2,479.9
Defined Benefits Fund	977.0	1,124.6
Insurance Fund	16.4	23.4
<b>Total</b>	<b>3,347.7</b>	<b>3,627.9</b>

### Preliminary statement of changes in net assets

	Total funds \$M *		Accumulation \$M		Defined Benefit \$M	
	2009	2008	2009	2008	2009	2008
<b>Net assets to pay benefits at 1 July</b>	<b>3,627.9</b>	<b>3,644.6</b>	<b>2,479.9</b>	<b>2,364.4</b>	<b>1,124.6</b>	<b>1,254.9</b>
Adjustments prior years	0.0	0.0	0.0	-1.7	0.0	2.0
<b>Amended opening balance</b>	<b>3,627.9</b>	<b>3,644.6</b>	<b>2,479.9</b>	<b>2,362.7</b>	<b>1,124.6</b>	<b>1,256.9</b>
Plus/minus intra-scheme transfers	0.0	0.0	5.4	0.0	0.0	0.0
<b>Plus income</b>						
Contributions revenue	319.9	307.9	274.0	252.7	45.9	55.2
Benefits retained	212.4	278.2	212.4	278.2	0.0	0.0
Transfers from other super funds	46.2	79.8	46.2	79.8	0.0	0.0
Insurance claim proceeds	6.9	2.4	5.5	3.6	1.4	0.8
Net investment income	-389.7	-140.2	-315.9	-96.9	-73.6	-43.9
<b>Less expenses</b>						
Benefits paid	421.1	506.1	313.8	365.8	106.2	140.3
Administration expenses	7.0	6.0	0.0	0.0	6.7	5.8
Insurance premium	10.5	11.0	8.4	7.5	2.1	3.5
Tax provision	37.3	21.7	31.0	26.9	6.3	-5.2
<b>Net assets to pay benefits at 30 June</b>	<b>3,347.7</b>	<b>3,627.9</b>	<b>2,354.3</b>	<b>2,479.9</b>	<b>977.0</b>	<b>1,124.6</b>

\*Total includes Insurance Fund and Operational Risk Reserve as set out below, as well as Accumulation and Defined Benefit monies.

### Preliminary statement of net assets

		2009 \$M	2008 \$M
Investments	Australian shares	615.6	667.5
	International shares	550.1	687.8
	Alternatives	493.5	569.5
	Property	436.7	536.4
	Fixed interest	883.7	1,043.2
	Short term	255.7	86.2
	Cash	50.2	42.5
Other assets		18.0	29.6
<b>Total assets</b>		<b>3,303.5</b>	<b>3,662.7</b>
Liabilities	Tax liabilities	-64.3	17.7
	Other	20.1	17.1
<b>Total liabilities</b>		<b>-44.2</b>	<b>34.8</b>
<b>Net assets to pay benefits at 30 June 2009</b>		<b>3,347.7</b>	<b>3,627.9</b>

## Reserves

Reserves are maintained for insurance, operational risk, to support smoothing of the earning rate for the Growth Smoothed investment option and to further secure the Defined Benefits Fund.

## Insurance Fund

The Insurance Fund is subject to actuarial review every 3 years. The last review was conducted at 1 July 2006. The Insurance Fund invests 60% in cash and 40% in the same asset allocation as the Balanced investment option.

	2009 \$M	2008 \$M	2007 \$M
<b>Balance at 1 July</b>	<b>23.4</b>	<b>25.4</b>	<b>21.3</b>
Plus/minus intra-scheme transfers	-5.4	-0.3	0.0
Insurance premiums	0.0	0.0	6.3
Investment income	-0.2	0.5	1.8
Claims paid	-1.2	-1.9	-3.2
Administration expenses	-0.2	-0.3	-0.8
<b>Balance at 30 June</b>	<b>16.4</b>	<b>23.4</b>	<b>25.4</b>

## Defined Benefits Fund Prudential Reserve

The Defined Benefits Fund Prudential Reserve was established during the 12 months to February 2008 to ensure the fund has a high probability of meeting its objective of being able to pay salary based defined benefits to members as and when they fall due. The reserve was established through a 0.50% reduction per month from the Accumulation Comparison Rate over the period March 2007 to February 2008. The reserve will not be accounted for separately in LGsuper's accounts, but will be reflected in the pool of assets representing the Defined Benefits Fund and the Vested Benefits Index.

## Smoothing Reserve

The Smoothing Reserve is maintained to support smoothing of investment returns for the Accumulation Benefits Fund Growth Smoothed investment option. The allowable range for the reserve is 1% to 10% of the total amount invested in the Growth Smoothed option. The Reserve is invested in the Accumulation Benefits Fund Growth Smoothed investment option.

	2009 \$M	2008 \$M	2007 \$M
<b>Balance at 1 July</b>	<b>18.8</b>	<b>132.5</b>	<b>100.3</b>
Adjustments prior years	0.0	-1.7	0.0
Amounts to support smoothing of earning rates	-1.0	-105.6	14.9
Investment income	-2.6	-6.4	17.3
<b>Balance at 30 June</b>	<b>15.2</b>	<b>18.8</b>	<b>132.5</b>
<b>% of member balances</b>	<b>1.13%</b>	<b>1.27%</b>	<b>9.36%</b>

## Operational Risk Reserve

During the year the Board established an Operational Risk Reserve using surplus reserves from the Insurance Fund. The objective of the reserve is to offset the cost of operational errors which would otherwise be funded from investment earnings. The reserve is invested 60% in the Cash option and 40% in the Balanced option. The reserve is included under the Accumulation Benefits Fund.

	2009 \$M
<b>Balance at 1 July</b>	<b>0.0</b>
Plus/minus intra-scheme transfers	5.4
Investment income	-0.1
<b>Balance at 30 June</b>	<b>5.3</b>

## → Trust deed amendments

The following changes were made to the LGsuper Trust Deed during the 2008/09 financial year:

### Variation No 27: 1 April 2009

- Recognition of 'same sex' dependants for death benefit purposes.
- Change the priority order of 'dependants' for death benefit purposes to enable any person who meets the Federal Government's definition of dependant under the Superannuation Industry (Supervision) Act 1993 (SIS) to be considered as a potential beneficiary for the death benefit.
- Upon cessation of employment, Defined Benefits Fund (DBF) members' entitlements shall be invested in the Cash investment option pending their being given an opportunity to select an investment option other than the default option of Balanced. This provision will not apply to DBF members who have previously selected an investment option for their accumulation accounts. Their DBF entitlement will automatically be invested in their selected option.

### Variation No 28: 3 June 2009

- Following changes to the Local Government Act, this amendment gives the Board the power to change the rate of employer contributions to the DBF where the actuary recommends that a different rate is necessary.

### Variation No 29: 1 July 2009

- Changes to rules for member investment choice:
  - Members will have the ability to choose up to 3 investment options, that is they can mix and match the options;
  - Members must use one of those chosen options for their new contributions;
  - If any form of choice is made by the member they will lose access to the Growth Smoothed option for all of their entitlements and will not be allowed to return to that option in the future.
- Any insurance payments received on behalf of a member will be invested in the Cash option until paid out or switched to another option by the member.
- Upon cessation of employment, all DBF members' entitlements shall be invested in the Cash investment option pending their being given an opportunity to select an investment option other than the default option of Balanced.

If you would like a copy of the LGsuper Trust Deed, please contact us on 1800 444 396.

## → Specialist advisers and consultants

Where necessary, the LGsuper Board of Directors takes specialist advice from external professional advisers and consultants. In some cases, the Board also outsources some operational tasks to specialist service providers.

These include:

### **Actuarial advice**

Mr J Smith BS (Maths), FIAA  
The Heron Partnership, Melbourne

### **Asset consultants**

Watson Wyatt Investment Consulting, Sydney

### **Auditor – external**

Auditor General of Queensland, Brisbane

### **Auditor – internal**

Deloitte, Brisbane

### **Banking**

Commonwealth Bank of Australia, Brisbane

### **Information services**

Bravura, Sydney

### **Investment management**

See page 12 for details

### **Master custodian**

JP Morgan Investor Services, Sydney

### **Senior Medical Officer**

Dr E. Pollard MBBS FRACP, Brisbane

### **Solicitors**

King & Company  
Mr S. Fynes-Clinton, Barrister at Law, Brisbane

### **Taxation advice**

PricewaterhouseCoopers, Brisbane

### **Group Life Insurer**

AIA Australia Limited

## Complaints

We hope you're happy with LGsuper and the service we provide. If you're not, we have procedures in place to review and respond to your complaint (in most cases within 14 days). Download our *Enquiries and complaints info sheet* from our website for more information.

If you're not satisfied by our response, you can take the matter to the Superannuation Complaints Tribunal (SCT). The SCT is an independent body set up by the Australian Government to resolve complaints only where a member has already made use of their fund's internal complaints procedure. You can contact the SCT by phoning 1300 780 808 or visiting their website at [www.sct.gov.au](http://www.sct.gov.au).

## Privacy

LGsuper respects your privacy. We comply with the Australian Government's Privacy Act, and only collect the information we need to look after your account and keep in touch with you. You can obtain a copy of our Privacy policy from our website or by phoning us on 1800 444 396 .

## Disclaimer

This annual report has been produced by the Local Government Superannuation Board (ABN 94 085 088 484) (AFS Licence No. 230511) on behalf of the Local Government Superannuation Scheme (ABN 23 053 121 564) and provides general information for LGsuper members, which means that members should, before acting on this information, consider their own personal objectives, financial needs and situation. The information within this annual report is not a guarantee of benefits payable under the LGsuper rules as set out in the Scheme's Trust Deed. The Board and its employees do not accept any form of liability for this information or any consequences from its use.



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