2010 annual report to members

LGsuper

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LGsuper — a complying fund

During the 2009/10 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 solid investment returns achieved for the 2009/10 financial year will undoubtedly come as a relief for members who have recently experienced two consecutive years of very poor returns.

Across the globe, sharemarkets finally rallied following steep sharemarket declines experienced at the height of the global financial crisis. The Australian economy was supported in 2009 by demand generated by government infrastructure spending and fiscal stimulus, offsetting part of the slowdown in consumer demand. Overseas, the tone of economic data improved steadily over the second half of 2009. However, it was evident that the world's largest economies remained fragile.

The rally came to an end in mid-April 2010 as concerns about the Greek Government's ability to service its debt shook investor confidence. By May, the debt crisis had spread across peripheral European countries and shares were sold-off sharply. The EU and IMF were forced to enact a €750bn support facility to stem ratings downgrades and soaring sovereign bond yields in countries where debt sustainability was questioned (especially Portugal, Italy, Ireland, Greece and Spain). Despite this uncertainty, Australian shares gained 13.1% over the year, and overseas shares ended 11.2% higher.

Over the long-term, I am pleased to advise LGsuper's investment returns continue to outperform most super funds in Australia. According to independent ratings agency, SuperRatings, our Balanced option return ranks 4th highest from 113 similar options nationally over the 3 years to 30 June 2010, while Growth Smoothed rates 10th highest from 83 similar options. Returns for High Growth, Growth and Defensive also rank in the top 20 super funds nationally for the same period. Full details on our investment options and their performance can be found on page 7.

In other news, LGsuper and the super fund for Brisbane City Council employees, City Super, have agreed in-principle to a fund merger, subject to the outcome of an extensive due diligence process. We expect a larger, combined fund to benefit all members in a number of key areas, including the ability to keep fees low and the provision of services. If it proceeds, the merger would take place by June 2011. We will be keeping members up-to-date on how the merger progresses through our website and *SuperNews* newsletter.

I encourage you to take a few minutes to read this annual report, and remember, if you have any questions about your super our staff are here to help.

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
Member, Audit and Risk Management Committee

Brian Roebig has been Independent Director and Chairman since 1995. With more than 30 years experience in superannuation and finance, Brian's previous positions include General Manager of National Mutual in Queensland, director of numerous finance and investment-related public companies, Director of South Bank Corporation and Chairman of ASX-listed First Australian Building Society (now part of Bendigo Bank).

Brian holds a Bachelor of Arts (Economics), and is a Fellow of both the Australian Institute of Company Directors and the Australian Insurance Institute.

Brian Roebig OAM
Independent Director and Chairman

Member representatives

Noel Cass
Director

Noel Cass has been a director since 2008 and had previously been an LGsuper director from 1995 to 2004. Noel has 40 years experience working in local government, including 35 years as a chief executive officer. Noel retired from his position as Chief Executive Officer of Jondaryan Shire Council in 2008, and holds qualifications in local government administration, accounting and environmental health.

Fiona Connor
Director
Member, Audit and Risk Management Committee

Fiona Connor has been a director since 2001, and was employed by LGsuper from 1990 to 1999. Fiona has a Bachelor of Business (Public Sector Management), a Certificate in Governance Practice and Administration, and a Diploma of Financial Services (Superannuation). She is also a Graduate Member of the Australian Institute of Company Directors and a Member of Chartered Secretaries Australia.

Peter Smith
Director

Peter Smith has been a director since 2008, and was LGsuper's Chief Executive Officer from 1988 to 2006. Peter is a career superannuation professional, having held chief executive officer and other senior positions with superannuation funds for public utilities (including electricity and local government in Queensland), global mining companies and pharmaceutical companies. He has also acted as a consultant to the superannuation industry. Peter holds a Diploma of Financial Services, is a Fellow of the Association of Superannuation Funds of Australia (ASFA) and is a retired member of the National Institute of Accountants and a retired member and Senior Associate of the Australian Insurance Institute.

Noel Cass　Fiona Connor　Peter Smith

Employer representatives

Cr. Paul Bell AM
Director
Chairman, Audit and Risk Management Committee

Cr. Paul Bell has been a director since 2004, and is President of the Local Government Association of Queensland (LGAQ) and the immediate past President of the Australian Local Government Association (ALGA). Paul is Deputy Mayor of the Central Highlands Regional Council, and was Mayor of Emerald Shire Council from 1991 to 2000. He has been a Councillor since 1985. Paul's previous roles include Director of Ergon Energy and Queensland Rail. He is a Member of the Australian Institute of Company Directors and has a Bachelor of Business (Administration).

Cr. Peter Taylor
Director

Cr. Peter Taylor has been a director since 1998, and is Mayor of Toowoomba Regional Council and an Executive member and former President of the Local Government Association of Queensland (LGAQ). He was previously Mayor (1994 to 2008) and Councillor (1976 to 1994) of Jondaryan Shire Council. After 30 years, Peter has only recently ceased to run his own agricultural business on the Darling Downs. He is a Fellow of the Australian Institute of Company Directors, has a Certificate of Development Practice and is currently undertaking studies for a Masters of Development Practice.

Cr. Les Tyrell OAM
Director

Cr. Les Tyrell has been a director since 2008, and had previously been an LGsuper director from 1995 to 2004. Les is Mayor of Townsville City Council, and is an Executive Member of the Local Government Association of Queensland (LGAQ). He was formerly Mayor (1991 to 2008) and Councillor (1979 to 1991) of Thuringowa City Council, and prior to that, ran his own financial services consultancy business for 12 years. He has a background in accounting and management.

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 4.5% p.a. above inflation over 5-year periods
Risk high
Fees 2009/10 0.19% administration
0.73% investment management

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2010	7.63	8.44
2009	-16.66	-19.36
2008	-5.72	-6.66
2007	17.51	19.25
2006	5.86*	6.60*
Avge since inception (%p.a.)	1.13	0.82
% p.a. over CPI	n/a	n/a

*introduced from 1 January 2006

Strategic asset allocation and ranges

At 30 June	2010 (%)	Ranges (%)
Return-seeking	**100**	**100**
Australian shares	35.00	27.5–42.5
International shares	35.00	27.5–42.5
Property	15.00	7.5–22.5
Alternatives	15.00	7.5–22.5
Risk-controlling	**0.00**	**0.00**
Fixed interest	0	0
Cash	0	0

Actual asset allocation

At 30 June	2010 (%)	2009 (%)
Return-seeking	**96.33**	**96.17**
Australian shares	36.27	24.96
International shares	31.21	23.74
Property	14.40	19.91
Alternatives	14.45	27.56
Risk-controlling	**3.67**	**3.83**
Fixed interest	0	0
Cash	3.67	3.83

Growth

Aim To achieve returns of 4.0% p.a. above inflation over 5-year periods
Risk high
Fees 2009/10 0.19% administration
0.66% investment management

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2010	9.43	10.43
2009	-14.17	-16.46
2008	-5.04	-5.84
2007	16.00	17.60
2006	15.68	17.03
5-yr avge (%p.a.)	3.66	3.64
% p.a. over CPI	0.63	0.61

Strategic asset allocation and ranges

At 30 June	2010 (%)	Ranges (%)
Return-seeking	**85.00**	**77.5–92.5**
Australian shares	25.65	18.2–33.2
International shares	25.65	18.2–33.2
Property	15.00	7.5–22.5
Alternatives	18.70	11.1–26.1
Risk-controlling	**15.00**	**7.5–22.5**
Fixed interest	15.00	7.5–22.5
Cash	0	0

Actual asset allocation

At 30 June	2010 (%)	2009 (%)
Return-seeking	**81.86**	**81.10**
Australian shares	26.58	24.02
International shares	22.87	22.85
Property	14.40	14.93
Alternatives	18.01	19.30
Risk-controlling	**18.14**	**18.90**
Fixed interest	15.07	15.58
Cash	3.07	3.32

Growth Smoothed

Aim To achieve returns of 4.0% p.a. above inflation over 5-year periods
Risk moderate to high
Fees 2009/10 0.19% administration
0.66% investment management

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2010	6.26	6.86
2009	-14.10	-16.39
2008	2.25	2.16
2007	14.95	16.13
2006	14.09	15.10
5-yr avge (%p.a.)	4.13	4.06
% p.a. over CPI	1.10	1.03

Strategic asset allocation and ranges

At 30 June	2010 (%)	Ranges (%)
Return-seeking	**85.00**	**77.5–92.5**
Australian shares	25.65	18.2–33.2
International shares	25.65	18.2–33.2
Property	15.00	7.5–22.5
Alternatives	18.70	11.1–26.1
Risk-controlling	**15.00**	**7.5–22.5**
Fixed interest	15.00	7.5–22.5
Cash	0	0

Actual asset allocation

At 30 June	2010 (%)	2009 (%)
Return-seeking	**81.86**	**81.10**
Australian shares	26.58	24.02
International shares	22.87	22.85
Property	14.40	14.93
Alternatives	18.01	19.30
Risk-controlling	**18.14**	**18.90**
Fixed interest	15.07	15.58
Cash	3.07	3.32

Investment returns

Socially Responsible

Aim	To achieve returns of 4.0% p.a. above inflation over 5-year periods
Risk	high
Fees 2009/10	0.19% administration 0.85% investment management

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2010	8.03	9.23
2009	-10.03	-11.63
2008	-9.95	-10.15
2007	15.67	17.42
2006	5.33*	6.01*
Avge since inception (%p.a.)	1.44	1.72
% p.a. over CPI	n/a	n/a

*introduced from 1 January 2006

Strategic asset allocation

At 30 June	2010 (%)
Return-seeking	**74.00**
Australian shares	36.00
International shares	24.00
Property	14.00
Alternatives	0
Risk-controlling	**26.00**
Fixed interest	23.00
Cash	3.00

Actual asset allocation

At 30 June	2010 (%)	2009 (%)
Return-seeking	**72.58**	**68.40**
Australian shares	34.79	35.00
International shares	24.62	22.90
Property	13.17	10.50
Alternatives	0	0
Risk-controlling	**27.42**	**31.60**
Fixed interest	24.50	25.90
Cash	2.92	5.70

Balanced

Aim	To achieve returns of 3.5% p.a. above inflation over 5-year periods
Risk	moderate
Fees 2009/10	0.19% administration 0.56% investment management

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2010	10.02	11.21
2009	-9.03	-10.33
2008	-1.46	-1.67
2007	11.90	13.18
2006	11.39	12.51
5-yr avge (%p.a.)	4.22	4.54
% p.a. over CPI	1.19	1.51

Strategic asset allocation and ranges

At 30 June	2010 (%)	Ranges (%)
Return-seeking	**60.00**	**52.5–67.5**
Australian shares	16.50	9–24
International shares	16.50	9–24
Property	15.00	7.5–22.5
Alternatives	12.00	4.5–19.5
Risk-controlling	**40.00**	**32.5–47.5**
Fixed interest	40.00	32.5–47.5
Cash	0	0

Actual asset allocation

At 30 June	2010 (%)	2009 (%)
Return-seeking	**57.77**	**57.47**
Australian shares	17.10	15.45
International shares	14.71	14.70
Property	14.40	14.93
Alternatives	11.56	12.39
Risk-controlling	**42.23**	**42.53**
Fixed interest	40.18	41.55
Cash	2.05	0.98

Conservative

Aim	To achieve returns of 2.5% p.a. above inflation over 5-year periods
Risk	moderate
Fees 2009/10	0.19% administration 0.47% investment management (includes Australian Government capital guarantee fee of 0.04%)

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2010	8.53	9.64
2009	-4.79	-5.34
2008	1.22	1.46
2007	9.19	10.32
2006	8.68	9.62
5-yr avge (%p.a)	4.42	4.95
% p.a over CPI	1.39	1.92

Strategic asset allocation and ranges

At 30 June	2010 (%)	Ranges (%)
Return-seeking	**40.00**	**32.5–47.5**
Australian shares	9.15	1.7–16.7
International shares	9.15	1.7–16.7
Property	15.00	7.5–22.5
Alternatives	6.70	0–14.1
Risk-controlling	**60.00**	**52.5–67.5**
Fixed interest	40.00	32.5–47.5
Cash	20.00	12.5–27.5

Actual asset allocation

At 30 June	2010 (%)	2009 (%)
Return-seeking	**38.49**	**38.57**
Australian shares	9.48	8.57
International shares	8.16	8.15
Property	14.40	14.93
Alternatives	6.45	6.92
Risk-controlling	**61.51**	**61.43**
Fixed interest	40.18	41.55
Cash	21.33	19.88

Investment returns

Defensive

Aim To achieve returns of 2.0% p.a. above inflation over 5-year periods

Risk low

Fees 2009/10 0.19% administration
0.37% investment management
(includes Australian Government capital guarantee fee of 0.05%)

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2010	8.68	9.88
2009	-0.59	-0.64
2008	3.34	3.92
2007	6.59	7.50
2006	2.07*	2.38*
Avge since inception (%p.a)	4.42	5.06
% p.a over CPI	n/a	n/a

*introduced from 1 January 2006

Strategic asset allocation and ranges

At 30 June	2010 (%)	Ranges (%)
Return-seeking	**20.00**	**12.5–27.5**
Australian shares	4.60	0–12.1
International shares	4.60	0–12.1
Property	7.50	0–15
Alternatives	3.30	0–10.8
Risk-controlling	**80.00**	**72.5–87.5**
Fixed interest	50.00	42.5–57.5
Cash	30.00	22.5–37.5

Actual asset allocation

At 30 June	2010 (%)	2009 (%)
Return-seeking	**19.25**	**19.29**
Australian shares	4.77	4.31
International shares	4.10	4.10
Property	7.20	7.47
Alternatives	3.18	3.41
Risk-controlling	**80.75**	**80.71**
Fixed interest	50.22	51.94
Cash	30.53	28.77

Cash

Aim To protect capital over any 1-year period

Risk low

Fees 2009/10 0.19% administration
0.24% investment management
(includes Australian Government capital guarantee fee of 0.18%)

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2010	2.93	3.52
2009	3.77	4.27
2008	4.87	5.70
2007	5.42	6.41
2006	5.03	5.90
5-yr avge (%p.a.)	4.40	5.15
% p.a. over CPI	1.37	2.12

Strategic asset allocation

At 30 June	2010 (%)
Return-seeking	**0**
Australian shares	0
International shares	0
Property	0
Alternatives	0
Risk-controlling	**100**
Fixed interest	0
Cash	100

Actual asset allocation

At 30 June	2010 (%)	2009 (%)
Return-seeking	**0**	**0**
Australian shares	0	0
International shares	0	0
Property	0	0
Alternatives	0	0
Risk-controlling	**100**	**100**
Fixed interest	0	0
Cash	100	100

Defined Benefits Fund

Aim To achieve returns in excess of salary inflation plus 1.5% over rolling 3-year periods

Risk moderate

Year ending 30 June	Investment return (%)	Accumulation comparison rate (%)
2010	10.02	6.55
2009	-9.03	-19.00
2008	-1.46	0.62
2007	11.17	11.69
2006	15.18	14.26
5-yr avge (%p.a.)	4.78	2.08
3-yr avge (%p.a.)	-0.46	-4.59
%p.a. over AWOTE*	-5.57	

*Proxy for salary growth

Strategic asset allocation

At 30 June	2010 (%)
Return-seeking	**60.00**
Australian shares	16.50
International shares	16.50
Property	15.00
Alternatives	12.00
Risk-controlling	**40.00**
Fixed interest	40.00
Cash	0

Actual asset allocation

At 30 June	2010 (%)	2009 (%)
Return-seeking	**57.77**	**57.47**
Australian shares	17.10	15.45
International shares	14.71	14.70
Property	14.40	14.93
Alternatives	11.56	12.39
Risk-controlling	**42.23**	**42.53**
Fixed interest	40.18	41.55
Cash	2.05	0.98

Investment market performance

The 2009/10 year saw a welcome return to positive results for super fund members. So what contributed to these returns, and what is the outlook for 2010/11?

Australian shares

The financial year began with a sustained rally across global sharemarkets, including Australia, following the devastating losses of the global financial crisis. Despite a slowdown in consumer demand, the Australian economy was supported in 2009 by government infrastructure spending and fiscal stimulus, along with ongoing Chinese demand for raw materials. It became clear that the Australian recession had been very shallow, leading to a relatively minor increase in the unemployment rate. Combined with a strong Australian dollar, this made the Australian market one of the best performers in the developed world up to the end of September (up 34.4% over the 6 months to 30 September 2009).

The market went on to trade at a similar level between end of September and late February, consolidating the very sharp gains made in the first quarter of the financial year. The rally lost its way by mid-April 2010 though, as Greek debt concerns transformed into a European sovereign debt crisis engulfing several peripheral European Union nations. This unsettled sharemarkets globally, with investors again avoiding risky assets.

The All Ordinaries Price Index ended 13.1% higher over the year. Information technology and financial services investments performed particularly well.

International shares

The start of the financial year saw international sharemarkets continue to rally from the lows of March 2009, as economic indicators pointed to stronger world economic growth. The June 2009 quarter finally saw positive economic growth in several emerging markets, on the back of a strong Chinese recovery, as well as a turnaround in Europe and Japan. Narrowing of credit spreads and bank borrowing rates helped reduce the cost of capital and helped improve corporate earnings growth. The tone of economic data improved steadily over the second half of 2009. However, it was evident the world's largest economies remained fragile. The United States emerged from recession in October, however housing data there continue to disappoint and job losses saw the unemployment rate at a 25-year high. The end of the calendar year was dominated by uncertainty and sharemarkets traded sideways.

By mid-April the Greek debt troubles were the focus of investment marets. Risk appetite evaporated and sharemarkets began to reverse the gains of the first half of the financial year. By May, the debt crisis had spread across peripheral European countries and shares were sold-off sharply. The EU and IMF were forced to enact a €750bn support facility to stem ratings downgrades and soaring sovereign bond yields in countries where debt sustainability was questioned (especially Portugal, Italy, Ireland, Greece and Spain). During the first half of June, sharemarkets saw a short term rally as sentiment improved. However, by the end of the month, the introduction of austerity measures across Europe, as well as weaker data from the US and China, increased the uncertainty regarding growth forecasts, leading to a new sell-off.

Overall, global sharemarkets climbed 11.5% during the financial year (MSCI World (ex Australia) Index).

Property

LGsuper has a high quality, low geared and well diversified property portfolio that provided a modest return for the year. The fund mainly invests in unlisted and direct property, with limited investments in listed property trusts.

Unlisted property experienced a solid year after a poor 2008/09. Investors grew confident that property values had bottomed, and along with the rally in sharemarkets, this led to a renewed appetite for risk. Direct property values also recovered during 2009/10 as buyers sought good quality property assets. Office and industrial property is expected to outperform retail property over the next 12 to 18 months due to improving corporate profitability, while falling consumer confidence will impact heavily on retail sales.

Alternatives

LGsuper invests in alternative assets such as hedge funds and emerging market high-yield debt, as well as infrastructure to reduce risk and smooth investment returns. The alternatives portfolio was, for the second consecutive financial year, the best performing growth asset class, returning a very strong 14.8% over the year.

Fixed interest and cash

Government issued bond yields rallied early in the financial year as inflation fears declined and it became apparent that policy rates were to be kept low for an extended period. However, in the middle of the financial year, bonds sold-off on expectations of heavy supply in 2010 and rising inflation expectations. Developed countries sovereign bonds finally rallied from April, on flight to quality following the Greek debt crisis. Australian bond yields were very volatile over the year, within a 5.1% to 5.9% range.

The later part of the year was dominated by European sovereign debt concerns, causing global bond yields to fall significantly. In Australia, the RBA increased the cash rate from 3.25% to a more normal level of 4.50% over the year, as the economy performed well. Despite the cash rate rise, 10-year bonds rallied 43bps to 5.09% due to global concerns. US, European and UK bonds all rallied between 35bps and 80bps, with German bonds the main beneficiary from the flight-to-quality from peripheral European countries.

After the turbulence of the past two years, corporate credit markets underwent a strong, broad-based rally over the financial year. By the end of the calendar year, investment grade and high yield names were able to issue debt. With debt capital markets open and businesses able to refinance, the default outlook had improved considerably, supporting the rally in credit markets. By the end of March 2010, high yield spreads were at a two year low, while investment grade credit spreads were their lowest since November 2007. However, risk aversion led to a new increase in credit spreads by the end of the financial year.

The LGsuper fixed interest portfolio returned nearly 15% (gross) for the year ended June 2010.

Source: QIC

Looking forward

Last year's positive investment returns are undoubtedly a welcome relief for those members who experienced very low or negative returns for the previous 2 years. However, experts are divided on future world economic growth. Concerns about the ability to service debt have shifted from companies to countries, and cuts to government spending could result in recession if not carefully managed. On the other hand, China is driving growth around the globe and Australia continues to benefit from Chinese demand for raw materials. All of this means the high levels of volatility seen in investment markets over past few years could remain for some time yet. LGsuper members can feel secure in the knowledge they are with a super fund that fared better than most throughout the turmoil of the global financial crisis. With a solid year of investment returns behind us, we hope 2010/11 will see more of the ground that has been lost regained.

Where your money is invested

Top 10 Australian shares at 30 June 2010

1. **BHP Billiton** MINING
2. **National Australia Bank** FINANCE
3. **ANZ** FINANCE
4. **Rio Tinto** MINING
5. **Westpac** FINANCE
6. **Suncorp** FINANCE
7. **CSL Limited** PHARMACEUTICALS
8. **Woodside Petroleum** MINING
9. **Commonwealth Bank** FINANCE
10. **Newcrest Mining** MINING

Top 10 international shares at 30 June 2010

1. **Barrick Gold** MINING
2. **Hong Kong Exchanges and Clearing Ltd** SECURITIES
3. **Vodafone** TELECOMMUNICATIONS
4. **China Overseas Land and Investment Ltd** CONSTRUCTION/INFRASTRUCTURE
5. **Wells Fargo** FINANCE
6. **Procter & Gamble** CONSUMER GOODS
7. **Merck and Co** PHARMACEUTICALS
8. **IBM** COMPUTER TECHNOLOGY
9. **Oracle Systems Co** DATA SOFTWARE
10. **Visa** FINANCE

→ Investing your money

The LGsuper Board of Directors is responsible for investing your money to achieve sound returns in excess of inflation over the long term. To do this, the Board has carefully selected 23 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, a change in process, loss of staff 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 2010 $M	%
Australian shares	**801.7**	**21**
Acorn	41.6	1
AMP	113.7	3
Merlon	73.1	2
Eley Griffiths	37.1	1
JF Capital Partners	146.1	4
Independent	71.7	2
Northcape Capital	98.7	2
Macquarie Bank Pure Index Trust	219.7	6

Investment manager	As at 30 June 2010 $M	%
International shares	**687.0**	**18**
Alliance Growth	110.9	3
Arrowstreet Fund	69.4	2
Bernstein Value	95.8	2
BlackRock	194.9	5
Lazard Thematic	216.0	6
Property	**540.0**	**14**
AMP Capital Investors	540.0	14
Alternatives	**546.0**	**14**
BT Grosvenor	18.9	1
K2 Advisors	101.8	3
Bridgewater	167.6	4
Stone Harbour	130.5	3
Macquarie Bank RMBS	66.1	2
Morgan Stanley Infrastructure	27.9	0
Loomis Sayles	29.9	1
EQT Infrastructure	3.3	0
SRI	**12.8**	**0**
AMP RIL Balanced Fund	12.8	0
Diversified fixed interest	**1041.4**	**27**
Colonial First State—Australia ILB	113.3	3
QIC—Australia	213.9	6
Vianova	97.8	2
PIMCO Global Credit	157.6	4
QIC—Global ILB	101.0	3
QIC—Global Sovereign	357.8	9
Cash	**220.7**	**6**
TOTAL	**3849.6**	**100**

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 as at 1 July 2009. The actuary concluded from the review that the Defined Benefits Fund was in a satisfactory but modest financial position. The Vested Benefits Index shows the ratio of fund assets to the amount of members' Vested Benefits (see below).

30 June	2010	2009	2008
Vested Benefits Index	103–104%*	104%	105.3%

*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 2010.

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

Fund	2010 balance $M	2009 balance $M
Accumulation Benefits Fund	2,812.4	2,354.3
Defined Benefits Fund	1,057.7	982.7
Insurance Fund	6.2	16.4
Total	**3,876.3**	**3,353.4**

Preliminary statement of net assets

		2010 $M	2009 $M
Investments	Australian shares	1,257.7	981.3
	International shares	692.3	550.1
	Alternatives	449.3	493.5
	Property	66.7	71.0
	Fixed interest	1,088.1	883.7
	Short term	223.2	255.7
	Cash	97.0	50.2
Other assets		30.2	25.2
Total assets		**3,904.5**	**3,310.7**
Liabilities	Tax liabilities	-28.2	-62.8
	Other	56.4	20.1
Total Liabilities		**28.2**	**-42.7**
Net assets to pay benefits at 30 June 2010		**3,876.3**	**3,353.4**

Preliminary statement of changes in net assets

	Total funds $M*		Accumulation $M		Defined Benefit $M	
	2010	2009	2010	2009	2010	2009
Net assets to pay benefits at 1 July	**3,353.4**	**3,627.9**	**2,354.3**	**2,479.8**	**982.7**	**1,124.6**
Adjustments prior years	0.0	0.0	0.0	0.0	0.0	0.0
Amended opening balance	**3,353.4**	**3,627.9**	**2,354.3**	**2,479.8**	**982.7**	**1,124.6**
Plus/minus intra-scheme transfers	0.0	0.0	0.0	5.4	10.0	0.0
Plus income						
Contributions revenue	364.9	327.1	311.3	274.0	53.6	53.0
Benefits retained	168.2	212.3	168.2	212.4	0.0	0.0
Transfers from other super funds	48.0	46.2	48.0	46.2	0.0	0.0
Insurance claim proceeds	10.1	6.9	9.5	6.7	1.5	1.4
Net investment income	334.7	-391.1	232.7	-315.9	101.3	-75.1
Less expenses						
Benefits paid	341.7	421.1	267.7	314.9	74.0	106.2
Administration expenses	7.4	7.0	0.0	0.0	7.4	6.7
Insurance premium	12.7	10.5	9.2	8.4	3.6	2.0
Tax provision	41.2	37.3	34.7	31.0	6.4	6.3
Net assets to pay benefits at 30 June	**3,876.3**	**3,353.4**	**2,812.4**	**2,354.3**	**1,057.7**	**982.7**

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

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 2009. The Insurance Fund invests 60% in cash and 40% in the same asset allocation as the Balanced investment option.

	2010 $M	2009 $M	2008 $M
Balance at 1 July	**16.4**	**23.4**	**25.4**
Plus/minus intra-scheme transfers	-10.0	-5.4	-0.3
Insurance premiums	0.0	0.0	0.0
Investment income	0.7	-0.2	0.5
Claims paid	-0.9	-1.2	-1.9
Administration expenses	0.0	-0.2	-0.3
Balance at 30 June	**6.2**	**16.4**	**23.4**

Defined Benefits Fund Prudential Reserve

The Defined Benefits Fund Prudential Reserve was established during 2007/08 to provide additional reserves in the DBF to ensure it had sufficient assets to pay salary based defined benefits to members as and when they fall due. In 2009/10, changes were made to the Local Government Act and the LGsuper Trust Deed which enabled the Board of Directors to call for additional contributions from local government employers if there was a risk that the assets would not be sufficient to pay benefits. Given the changes, the Reserve has been effectively closed through an increase in the earning rate used to determine the minimum benefit payable to defined benefit members in accordance with Australian Government legislation.

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.

	2010 $M	2009 $M	2008 $M
Balance at 1 July	**15.2**	**18.8**	**132.5**
Adjustments prior years	0.0	0.0	-1.7
Transfer from/to investment income	49.9	-3.6	-112.0
Balance at 30 June	**65.1**	**15.2**	**18.8**
% of member balances	**4.39%**	**1.13%**	**1.27%**

Operational Risk Reserve

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.

	2010 $M	2009 $M
Balance at 1 July	**5.3**	**0.0**
Plus/minus intra-scheme transfers	0.0	5.4
Investment income	0.3	-0.1
Balance at 30 June	**5.6**	**5.3**

Trust deed amendments

The following changes were made to the LGsuper Trust Deed during the 2009/10 financial year:

Variation No 30: 4 November 2009

Changes to default investment strategies (amendments effective from 1 January 2010)

- The Growth Smoothed investment option will be the default investment option for mandatory superannuation contributions only, for permanent employees in local government, including local government entities, and for local government employees, including employees of local government entities, receiving 9% superannuation guarantee (SG) employer contributions.
- Where these employees have a second job, SG contributions paid by that employer will be treated the same and will also default to Growth Smoothed.
- All other contributions received on or after 1 January 2010 will have a different default option as follows:

  Members under age 60 who have not made an investment choice:

  - All other contributions including rollovers, voluntary contributions including additional employer contributions and the Australian Government co-contribution will be invested in the Growth investment option.
  - Spouse account members and members with Pension accounts who do not make an investment choice will have all new monies invested in the Growth investment option.
  - When a member turns 60, the existing balance will remain in the Growth investment option but new contributions will be invested in the Balanced strategy.

  Members aged 60 and over who have not made an investment choice:

  - All other contributions including rollovers, voluntary contributions and additional employer contributions and the Australian Government co-contribution will be invested in the Balanced investment option.
  - Spouse account members and members with Pension accounts who do not make an investment choice will have all new monies invested in the Balanced investment option.

Parental leave

- Employers are not liable to pay contributions in respect of paid parental leave.
- Members of the Defined Benefits Fund will not accrue benefits during periods of paid parental leave where it exceeds 4 weeks.

Other

- The definition of salary has been amended to exclude unused sick leave paid on termination of employment.
- LGsuper will apply a cash rate to the whole of a death benefit from the date of death of the member, regardless of any investment choice chosen by the member.

Variation No 31: 7 April 2010

- Members may now be enrolled in LGsuper upon receipt of the required member's details which may be provided electronically.
- LGsuper may release small account balances in accordance with the Superannuation regulations.
- The 6% limit on additional contributions, which the Board may require from employers if the Defined Benefits Fund has financial problems, has been removed.

Variation No 32: 11 June 2010

- A person shall be disqualified from becoming a director, or continuing to be a director, of LGsuper if they are a trustee or director of any other superannuation scheme other than a self managed super fund.

Specialist advisers and consultants

Where necessary, the LGsuper Board of Directors takes specialist advice from external professional advisors 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
Towers Watson

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 13 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 1800 884 114 or visiting their website at 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 Queensland Local Government Superannuation Board (ABN 94 085 088 484 AFSL 230511) (LGsuper) on behalf of the Local Government Superannuation Scheme (ABN 23 053 121 564) and provides general information for LGsuper members.

Whilst this publication has been prepared with all reasonable care, no responsibility or liability is accepted for any error, omission or mistake however caused. All forecasts and estimates are based on certain assumptions, which may change. If those assumptions change, our forecasts and estimates may also change.

LGsuper recommends that you should, before acting on this information, consider your own personal objectives, financial needs and situation. LGsuper recommends you consult a licensed financial advisor if you require advice that takes into account your personal circumstances. LGsuper has representatives that are authorised to provide personal advice on LGsuper products and superannuation in general.

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