



**LGsuper**

Looking after you  
and your super

# 2011 Annual report to members

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## **LGsuper—a complying fund**

During the 2010/11 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

LGsuper continued to deliver solid returns to members in the 2010/11 financial year despite the mixed performance of economies across the globe.

International sharemarkets rose in local currency terms by 22.3% over the financial year (MSCI World Index ex-Australia). Economic performance was uneven, with Asia remaining strong, European economies mixed and the US economy stalling even with additional monetary and fiscal stimulus measures. Commodity prices soared at the start of 2011 in the face of supply constraints and rising global growth, while concerns surrounding European sovereign debt, particularly the servicing of debt by Ireland, Portugal and most notably, Greece, dominated the later part of the financial year.

Back home, the Australian sharemarket climbed 11.7% (ASX 200) in 2010/11, lower than the highs seen in February 2011 and the 13.1% performance for 2009/10. The Australian economy achieved its 20th consecutive year of growth. However, its continued expansion was tempered by the devastation wrought by widespread flooding and Cyclone Yasi, along with cautious consumer and business spending.

As superannuation is a long term investment for most members, the LGsuper Board of Directors is particularly pleased LGsuper's investment returns continue to outperform most super funds in Australia over longer periods. In fact, according to independent ratings agency, SuperRatings, two of our investment options (High Growth and Balanced) rank in the top ten out of at least 60 similar investment options for the 5 years to 30 June 2011, while three other

options (Growth Smoothed, Growth and Defensive) were in the top fifteen of at least 81 similar options for the same period. Full details on our investment and options and their performance can be found on pages 7-9.

In other news, LGsuper officially merged with the superannuation fund for Brisbane City Council employees, City Super, on 1 July 2011. Management, staff and the Boards of Directors of both super funds worked extremely hard over the last 12 months to develop and launch a combined fund that offers all members better products at a lower cost. We hope you take the time to learn more about the enhancements (if you haven't already), and stay tuned for more improvements as we review and consolidate our insurance arrangements over the next 12 months.

I encourage you to take a few minutes to read this annual report, and as always, if you have any questions about your super our friendly and knowledgeable team 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. At 30 June 2011, half of the Board had been elected by members, with the other half nominated by the Local Government Association of Queensland (LGAQ) to represent employers. The Board had 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.

## Transitional Board of Directors from 1 July 2011

A transitional Board of Directors is in place for the period since merging with City Super on 1 July 2011 until 30 June 2014. This arrangement is designed to provide continuity of oversight during the merger transition period. The transitional Board of Directors consists of:

- Four member representative Directors, including one previous City Super member representative nominated by the Trustee of City Super
- Four employer representative Directors, including one previous City Super employer representative nominated by Brisbane City Council
- One independent Director appointed by the Board who also acts as Chairman.

The next member representative election will take place in 2014. Similarly, nominations for employer representative directors will be requested in 2014.

## 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

## Who is looking after your super? (cont.)

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### 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

## Who is looking after your super? (cont.)

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### 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.



# Investment returns\*

## High Growth

**Aim** To achieve returns of 4.5% p.a. above inflation over 5-year periods

**Risk** high

**Fees** 0.21% administration

**2010/11** 0.74% investment management

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2011	12.77	13.94
2010	7.63	8.44
2009	-16.66	-19.36
2008	-5.72	-6.66
2007	17.51	19.25
5-yr avge (%p.a.)	2.30	2.09
% p.a. over CPI	-0.45	-0.66

## Strategic asset allocation and ranges

At 30 June	2011 (%) Ranges (%)	
<b>Return-seeking</b>	<b>100</b>	<b>100</b>
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
<b>Risk-controlling</b>	<b>0</b>	<b>0</b>
Fixed interest	0	0
Cash	0	0

## Actual asset allocation

At 30 June	2011 (%)	2010 (%)
<b>Return-seeking</b>	<b>96.65</b>	<b>96.33</b>
Australian shares	33.73	36.27
International shares	33.48	31.21
Property	13.46	14.40
Alternatives	15.98	14.45
<b>Risk-controlling</b>	<b>3.35</b>	<b>3.67</b>
Fixed interest	0	0
Cash	3.35	3.67

## Growth

**Aim** To achieve returns of 4.0% p.a. above inflation over 5-year periods

**Risk** high

**Fees** 0.21% administration

**2010/11** 0.72% investment management

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2011	11.59	12.80
2010	9.43	10.43
2009	-14.17	-16.46
2008	-5.04	-5.84
2007	16.00	17.60
5-yr avge (%p.a.)	2.92	2.88
% p.a. over CPI	0.17	0.13

## Strategic asset allocation and ranges

At 30 June	2011 (%) Ranges (%)	
<b>Return-seeking</b>	<b>85.00</b>	<b>77.5-92.5</b>
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
<b>Risk-controlling</b>	<b>15.00</b>	<b>7.5-22.5</b>
Fixed interest	15.00	7.5-22.5
Cash	0	0

## Actual asset allocation

At 30 June	2011 (%)	2010 (%)
<b>Return-seeking</b>	<b>82.64</b>	<b>81.86</b>
Australian shares	24.72	26.58
International shares	24.54	22.87
Property	13.46	14.40
Alternatives	19.92	18.01
<b>Risk-controlling</b>	<b>17.36</b>	<b>18.14</b>
Fixed interest	15.24	15.07
Cash	2.12	3.07

## Growth Smoothed

**Aim** To achieve returns of 4.0% p.a. above inflation over 5-year periods

**Risk** medium

**Fees** 0.21% administration

**2010/11** 0.72% investment management

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2011	9.32	10.05
2010	6.26	6.86
2009	-14.10	-16.39
2008	2.25	2.16
2007	14.95	16.13
5-yr avge (%p.a.)	3.24	3.13
% p.a. over CPI	0.49	0.38

## Strategic asset allocation and ranges

At 30 June	2011 (%) Ranges (%)	
<b>Return-seeking</b>	<b>85.00</b>	<b>77.5-92.5</b>
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
<b>Risk-controlling</b>	<b>15.00</b>	<b>7.5-22.5</b>
Fixed interest	15.00	7.5-22.5
Cash	0	0

## Actual asset allocation

At 30 June	2011 (%)	2010 (%)
<b>Return-seeking</b>	<b>82.64</b>	<b>81.86</b>
Australian shares	24.72	26.58
International shares	24.54	22.87
Property	13.46	14.40
Alternatives	19.92	18.01
<b>Risk-controlling</b>	<b>17.36</b>	<b>18.14</b>
Fixed interest	15.24	15.07
Cash	2.12	3.07

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.

\* Note: Past performance is not an indication of future performance.

## Investment returns (cont.)

### Socially Responsible

<b>Aim</b>	To achieve returns of 4.0% p.a. above inflation over 5-year periods
<b>Risk</b>	high
<b>Fees</b>	0.21% administration
<b>2010/11</b>	0.85% investment management

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2011	7.65	8.61
2010	8.03	9.23
2009	-10.03	-11.63
2008	-9.95	-10.15
2007	15.67	17.42
5-yr avge (%p.a.)	1.74	2.04
% p.a. over CPI	-1.01	-0.71

### Strategic asset allocation

At 30 June	2011 (%)
<b>Return-seeking</b>	<b>74.00</b>
Australian shares	36.00
International shares	24.00
Property	14.00
Alternatives	0
<b>Risk-controlling</b>	<b>26.00</b>
Fixed interest	23.00
Cash	3.00

### Actual asset allocation

At 30 June	2011 (%)	2010 (%)
<b>Return-seeking</b>	<b>72.58</b>	<b>72.58</b>
Australian shares	34.79	34.79
International shares	24.62	24.62
Property	13.17	13.17
Alternatives	0	0
<b>Risk-controlling</b>	<b>27.42</b>	<b>27.42</b>
Fixed interest	24.50	24.50
Cash	2.92	2.92

### Balanced

<b>Aim</b>	To achieve returns of 3.5% p.a. above inflation over 5-year periods
<b>Risk</b>	medium
<b>Fees</b>	0.21% administration
<b>2010/11</b>	0.60% investment management

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2011	9.68	10.89
2010	10.02	11.21
2009	-9.03	-10.33
2008	-1.46	-1.67
2007	11.90	13.18
5-yr avge (%p.a.)	3.89	4.24
% p.a. over CPI	1.14	1.49

### Strategic asset allocation and ranges

At 30 June	2011 (%)	Ranges (%)
<b>Return-seeking</b>	<b>60.00</b>	<b>52.5-67.5</b>
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
<b>Risk-controlling</b>	<b>40.00</b>	<b>32.5-47.5</b>
Fixed interest	40.00	32.5-47.5
Cash	0	0

### Actual asset allocation

At 30 June	2011 (%)	2010 (%)
<b>Return-seeking</b>	<b>57.92</b>	<b>57.77</b>
Australian shares	15.90	17.10
International shares	15.78	14.71
Property	13.46	14.40
Alternatives	12.78	11.56
<b>Risk-controlling</b>	<b>42.08</b>	<b>42.23</b>
Fixed interest	40.64	40.18
Cash	1.44	2.05

### Conservative

<b>Aim</b>	To achieve returns of 2.5% p.a. above inflation over 5-year periods
<b>Risk</b>	medium to low
<b>Fees</b>	0.21% administration
<b>2010/11</b>	0.47% investment management

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2011	7.90	9.00
2010	8.53	9.64
2009	-4.79	-5.34
2008	1.22	1.46
2007	9.19	10.32
5-yr avge (%p.a.)	4.27	4.83
% p.a. over CPI	1.52	2.08

### Strategic asset allocation and ranges

At 30 June	2011 (%)	Ranges (%)
<b>Return-seeking</b>	<b>40.00</b>	<b>32.5-47.5</b>
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
<b>Risk-controlling</b>	<b>60.00</b>	<b>52.5-67.5</b>
Fixed interest	40.00	32.5-47.5
Cash	20.00	12.5-27.5

### Actual asset allocation

At 30 June	2011 (%)	2010 (%)
<b>Return-seeking</b>	<b>38.17</b>	<b>38.49</b>
Australian shares	8.82	9.48
International shares	8.75	8.16
Property	13.46	14.40
Alternatives	7.14	6.45
<b>Risk-controlling</b>	<b>61.83</b>	<b>61.51</b>
Fixed interest	40.64	40.18
Cash	21.19	21.33

\* Note: Past performance is not an indication of future performance.



## Investment returns (cont.)

### Defensive

<b>Aim</b>	To achieve returns of 2.0% p.a. above inflation over 5-year periods
<b>Risk</b>	low
<b>Fees</b>	0.21% administration
<b>2010/11</b>	0.32% investment management

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2011	6.27	7.45
2010	8.68	9.88
2009	-0.59	-0.64
2008	3.34	3.92
2007	6.59	7.50
5-yr avge (%p.a.)	4.81	5.56
% p.a. over CPI	2.06	2.81

### Strategic asset allocation and ranges

At 30 June	2011 (%)	Ranges (%)
<b>Return-seeking</b>	<b>20.00</b>	<b>12.5-27.5</b>
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
<b>Risk-controlling</b>	<b>80.00</b>	<b>72.5-87.5</b>
Fixed interest	50.00	42.5-57.5
Cash	30.00	22.5-37.5

### Actual asset allocation

At 30 June	2011 (%)	2010 (%)
<b>Return-seeking</b>	<b>19.07</b>	<b>19.25</b>
Australian shares	4.43	4.77
International shares	4.40	4.10
Property	6.73	7.20
Alternatives	3.51	3.18
<b>Risk-controlling</b>	<b>80.93</b>	<b>80.75</b>
Fixed interest	50.80	50.22
Cash	30.13	30.53

\* Note: Past performance is not an indication of future performance.

### Cash

<b>Aim</b>	To protect capital over any 1-year period
<b>Risk</b>	low
<b>Fees</b>	0.21% administration
<b>2010/11</b>	0.06% investment management

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2011	4.05	4.81
2010	2.93	3.52
2009	3.77	4.27
2008	4.87	5.70
2007	5.42	6.41
5-yr avge (%p.a.)	4.20	4.94
% p.a. over CPI	1.45	2.19

### Strategic asset allocation

At 30 June	2011 (%)
<b>Return-seeking</b>	<b>0</b>
Australian shares	0
International shares	0
Property	0
Alternatives	0
<b>Risk-controlling</b>	<b>100</b>
Fixed interest	0
Cash	100

### Actual asset allocation

At 30 June	2011 (%)	2010 (%)
<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

<b>Aim</b>	To achieve returns in excess of salary inflation plus 1.5% over rolling 3-year periods
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Year ending 30 June	Investment return (%)	Accumulation comparison rate (%)
2011	9.68	8.43
2010	10.02	6.55
2009	-9.03	-19.00
2008	-1.46	0.62
2007	11.17	11.69
5-yr avge (%p.a.)	3.76	1.01
3-yr avge (%p.a.)	3.16	-2.19
%p.a. over AWOTE*	-2.06	

\*Proxy for salary growth

### Strategic asset allocation

At 30 June	2011 (%)
<b>Return-seeking</b>	<b>60.00</b>
Australian shares	16.50
International shares	16.50
Property	15.00
Alternatives	12.00
<b>Risk-controlling</b>	<b>40.00</b>
Fixed interest	40.00
Cash	0

### Actual asset allocation

At 30 June	2011 (%)	2010 (%)
<b>Return-seeking</b>	<b>57.92</b>	<b>57.77</b>
Australian shares	15.90	17.10
International shares	15.78	14.71
Property	13.46	14.40
Alternatives	12.78	11.56
<b>Risk-controlling</b>	<b>42.08</b>	<b>42.23</b>
Fixed interest	40.64	40.18
Cash	1.44	2.05

# Investment market performance

The 2010/11 financial year delivered LGsuper members their second consecutive year of solid returns following the global financial crisis. Let's take a closer look at what contributed to these returns, and the outlook for the current financial year.

## International shares

The MSCI World Equity Index (ex Australia) rose by 22.3% in local currency terms over 2010/11, while commodity prices also rose as global growth expectations improved. The strength in global demand combined with a series of supply issues in commodity markets, resulted in sharp rises in the price of oil (up 26%), metals and minerals, and agricultural commodities, which benefited commodity currencies but added to inflationary pressures in developing countries. Commodity prices peaked in April, and have since fallen quite sharply.

In late 2010, prospects for the US economy received a boost from additional monetary and fiscal stimulus. In contrast, developing economies, particularly those in the Asian region, began the process of removing stimulus as their economies showed signs of overheating. In 2011 it became apparent the US economy remained weak and was experiencing below trend growth as a result of short term cyclical slowing in the economy. Stubbornly high US employment continues to concern markets.

Across the globe, the strongest sharemarket gains occurred in Argentina (up 54%), Sri Lanka (up 48%), Russia (up 43%). Asian economies generally performed better than North America and Europe.

The strong Australian dollar had a large impact on international share portfolio returns for super fund members last financial year. LGsuper generally takes 50% of the currency risk out of its investment portfolio through hedging, however due to concerns about overvaluation of the Australian dollar, a portion of the currency hedges against the US dollar and Pound Sterling were removed late in the year. Subsequently a 15.2% gross return was produced by the portfolio over the year.

## Where your money is invested

### Top 10 Australian shares at 30 June 2011

- 1 **BHP Billiton**  
MINING
- 2 **NAB**  
FINANCE
- 3 **Westpac**  
FINANCE
- 4 **CBA**  
FINANCE
- 5 **Newcrest Mining**  
MINING
- 6 **Suncorp Group**  
FINANCE
- 7 **ANZ**  
FINANCE
- 8 **QBE Insurance**  
INSURANCE
- 9 **Telstra Corporation**  
TELECOMMUNICATIONS
- 10 **Origin Energy**  
ENERGY

### Top 10 International shares at 30 June 2011

- 1 **British American Tobacco**  
TOBACCO
- 2 **IBM**  
COMPUTER TECHNOLOGY
- 3 **HDFC Bank**  
FINANCE
- 4 **Phillip Morris International**  
TOBACCO
- 5 **Chevron Corporation**  
MINING
- 6 **Imperial Tobacco Corporation**  
TOBACCO
- 7 **Coca Cola**  
BEVERAGES
- 8 **McDonalds Corporation**  
FOOD SERVICES
- 9 **Apache Corporation**  
MINING
- 10 **CDN Natural Resources**  
MINING

## Investment market performance (cont.)

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### Australian shares

The Australian sharemarket (ASX200) rose 11.7% to end the year at 34,200.68 points, down from the highs posted in February when a revival of the Greek debt crisis dragged the market lower again. Small companies performed the best over the year, up 16.4%, mostly concentrated in the resources sector, with the Small Resources index up 23%.

LGsuper uses a host of investment managers to invest its Australian shares portfolio. Last financial year saw particularly strong returns from our micro cap manager, Acorn, who returned 35% gross for the year by investing in very small companies outside the ASX300. Independent, a manager selected for its 'growth at a reasonable price' style, also returned 21.4% through its stock selections. Both of these investment managers are now closed to investments from other superannuation funds.

### Property

LGsuper has a high quality, low geared and well diversified property portfolio that provided a return of 13.5% before tax and fees over the 2010/11 financial year. The fund mainly invests in unlisted wholesale and direct property, with a 25% target allocation to overseas listed property trusts.

Standout performers in the LGsuper portfolio were global listed property securities (up 30.2%) with wholesale funds in Australia (up 10%) and overseas (up 13.7%) also delivering solid returns. The fund invests around 5% of its property investments in retirement villages, which performed poorly over the year (earning 0%).

### Alternatives

LGsuper invests in alternative assets such as infrastructure, hedge funds and emerging market/high-yield debt to reduce risk and smooth investment returns. The alternatives portfolio returned a very strong 15.0% over the year.

Infrastructure investments is an area LGsuper is seeking to allocate more funds to. Some examples of infrastructure investments you hold, along with other investors, include:

- regional livestock exchanges in Central Queensland, New South Wales and Victoria
- an Australian company turning solid waste into fertiliser and renewable energy from biogas
- a gas pipeline from Victoria to Tasmania
- the Gold Coast Rapid Transport project
- Defence force accommodation at a number of bases including Amberley and Enoggera, Queensland
- parking meters and car parks in Chicago
- hydropower, highways and bridges in India
- hazardous waste management in Denmark
- British rail fleet
- Venice and Treviso airports in Italy

These investments are attractive for diversification, as they are generally unaffected by sharemarket movements, are monopolistic, hedge inflation and are long-term by nature.

## Investment market performance (cont.)

### Fixed interest and cash

Despite the positive news on the global economy in late 2010, sovereign default risk remained at the forefront of investors' minds, with the resolution of the Greek fiscal crisis promptly followed by the need to address the deterioration in Irish public finances after the Irish government took control of Anglo Irish Bank Plc. June saw these fears over sovereign default in Europe continue to escalate as the Greek government looked likely to default, leading to a further widening in interest rate spreads in the peripheral European markets. As risk aversion rose and global growth expectations were revised lower, equity markets halted their upward trend and bond yields declined with the US 10-year bond yield down by 31 basis points in June to 3.16%. A negative watch assessment was placed on US sovereign debt by Standard and Poors' due to the risk that the US fiscal position would "fail to consolidate".

Back home, after raising the official cash rate by 1.5% in 2009/10, the Reserve Bank of Australia (RBA) increased rates by 0.25% just once (to 4.75%) in the 2010/11 financial year at its November meeting. Previous rate hikes had taken a toll on household spending, while the Australian economy remained in a strong position, supported by robust growth in the Asian economies and rising prices of commodity exports.

### 2010/11 LGsuper portfolio returns by asset class

Returns shown are before fees and tax.

Asset class	Gross return % p.a.
Australian shares	14.8
International shares	15.2
Property	13.5
Alternatives	15.0
Fixed interest	7.2
Cash	5.2

### Looking forward

The weakness in global growth during mid-2011 was exacerbated by natural disasters, such as the Japanese earthquake, the impacts of which now appear to be passing. In addition, commodity prices whose rise dampened global household spending, appear to have peaked in April, with energy prices now falling and food prices stabilising. Developed world consumers remain generally over indebted although falling rates of commodity price inflation should help restore some purchasing power of households.

The global economy should return to the recovery path that was evident before early 2011. Improvement in the outlook for the second half of 2011 is expected, with global growth recovering to levels slightly above trend. Sharemarkets will respond positively as a rebound in global growth boosts market sentiment in an environment where current valuation levels are supportive of a rally. A rise in global bond yields from current levels is also anticipated if the downside risks to global growth decline.

Nonetheless, sovereign debt issues and heavily indebted developed world households remain a key risk to the outlook and will continue to constrain growth in the US and Europe and limit the pace of recovery in these two major developed economies. Despite the modest outlook for developed economies, the outlook for the Asian region is boosted by ongoing strength in Chinese and Indian economies. This is particularly beneficial for Australia, where households are currently behaving cautiously, raising their rate of saving in response to global uncertainty, domestic fiscal policy announcements such as the carbon tax, and as the housing market adjusts to higher interest rates. Going forward, we expect less cautious behaviour from households as firms raise investment and hiring to satisfy capital expenditure of the mining sector. As a result, tight labour markets are expected to generate rising wage and cost pressures throughout the economy. In this environment, the RBA would need to raise interest rates, though at a careful and measured pace. Higher interest rates would continue to support the Australian dollar.

# Investing your money

The LGsuper Board of Directors is responsible for investing your money to achieve sound returns above inflation over the long term. To do this, the Board uses an expert asset consultant who assists it in selecting well known and trusted professional investment managers who each have a specific area of investment expertise. By combining the skills of these managers, you 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 2011	
	\$M	%
<b>Australian shares</b>	<b>888.0</b>	<b>20</b>
Acorn	65.4	1
AMP Capital Investors	113.4	3
Eley Griffiths	63.5	1
Independent	86.6	2
JCP Investment Partners	165.7	4
Macquarie Bank Pure Index Trust	205.6	5
Merlon Capital	78.0	2
Northcape Capital	109.8	2

Investment manager	As at 30 June 2011	
	\$M	%
<b>International shares</b>	<b>877.0</b>	<b>20</b>
Arrowstreet Fund	73.9	1
BlackRock	385.9	9
Lazard Thematic	183.2	4
Sanders Capital	115.5	3
Vontobel	118.5	3
<b>Property</b>	<b>588.8</b>	<b>13</b>
AMP Capital Investors	588.8	13
<b>Alternatives</b>	<b>724.2</b>	<b>16</b>
Bridgewater	167.8	4
BT Grosvenor	9.1	0
EQT Infrastructure	9.0	0
K2 Advisors	112.5	3
Macquarie Bank RMBS	70.3	2
Morgan Stanley Infrastructure	25.0	1
Palisade	54.1	1
Rogge	83.7	2
Stone Harbor	156.2	3
Westbourne Capital	36.5	0
<b>Socially Responsible</b>	<b>13.9</b>	<b>0</b>
AMP RIL Balanced Fund	13.9	0
<b>Diversified fixed interest</b>	<b>1,195.6</b>	<b>27</b>
Colonial First State - Australia ILB	120.6	3
PIMCO Global Credit	183.3	4
QIC - Australia Diversified	248.5	6
QIC - Australia ILB	61.9	1
QIC - Australia Sovereign	208.7	5
QIC - Global ILB	58.6	1
QIC - Global Sovereign G7	190.5	4
Vianova - Australia	123.5	3
<b>Cash</b>	<b>186.3</b>	<b>4</b>
<b>TOTAL</b>	<b>4,473.8</b>	<b>100</b>

## Investing your money (cont.)

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### 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 Risks Statement.

### 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	2011	2010	2009
Vested Benefits Index	104-105%*	103.7%	104%

\*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 have 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 2011.

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

Fund	2011 balance \$M	2010 balance \$M
Accumulation Benefits Fund	3,358.8	2,809.4
Defined Benefits Fund	1,105.4	1,060.3
Insurance Fund	2.3	6.2
<b>Total</b>	<b>4,466.5</b>	<b>3,875.9</b>

### Preliminary statement of changes in net assets

	Total funds \$M*		Accumulation \$M		Defined Benefit \$M	
	2011	2010	2011	2010	2011	2010
<b>Net assets to pay benefits at 1 July</b>	<b>3,875.9</b>	<b>3,353.4</b>	<b>2,809.4</b>	<b>2,354.3</b>	<b>1,060.3</b>	<b>982.7</b>
Adjustments prior years	0.0	0.0	3.2	0.0	0.4	0.0
<b>Amended opening balance</b>	<b>3,875.9</b>	<b>3,353.4</b>	<b>2,812.6</b>	<b>2,354.3</b>	<b>1,060.7</b>	<b>982.7</b>
Plus/minus intra-scheme transfers	0.0	0.0	0.7	0.0	-0.7	10.0
<b>Plus income</b>						
Contributions revenue	382.9	364.9	331.2	311.3	51.7	53.6
Benefits retained	235.4	168.2	235.5	168.2	0.0	0.0
Transfers from other super funds	63.0	48.0	63.0	48.0	0.0	0.0
Insurance claim proceeds	8.1	10.1	7.8	9.5	0.8	1.5
Net investment income	416.3	334.3	311.8	229.7	104.2	104.0
<b>Less expenses</b>						
Benefits paid	451.5	341.7	356.2	267.7	95.3	74.0
Administration expenses	8.5	7.4	0.0	0.0	8.5	7.4
Insurance premium	13.6	12.7	9.9	9.1	3.7	3.6
Tax provision	41.5	41.2	37.7	34.8	3.8	6.5
<b>Net assets to pay benefits at 30 June</b>	<b>4,466.5</b>	<b>3,875.9</b>	<b>3,358.8</b>	<b>2,809.4</b>	<b>1,105.4</b>	<b>1,060.3</b>

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

### Preliminary statement of net assets

		2011 \$M	2010 \$M
Investments	Australian shares	1,381.1	1,257.7
	International shares	854.5	692.3
	Alternatives	597.2	449.3
	Direct property	63.8	66.7
	Fixed interest	1,290.7	1,088.1
	Short term	190.6	223.2
	Cash	89.5	97.0
Other assets	22.3	30.2	
<b>Total assets</b>		<b>4,489.7</b>	<b>3,904.5</b>
Liabilities	Tax liabilities	-3.3	-27.8
	Other	26.5	56.4
<b>Total liabilities</b>		<b>23.2</b>	<b>28.6</b>
<b>Net assets to pay benefits as at 30 June</b>		<b>4,466.5</b>	<b>3,875.9</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 2009. The Insurance Fund invests 60% in cash and 40% in the same asset allocation as the Balanced investment option.

	2011 \$M	2010 \$M	2009 \$M
<b>Balance at 1 July</b>	<b>6.2</b>	<b>16.4</b>	<b>23.4</b>
Plus/minus intra-scheme transfers	-3.7	-10.0	-5.4
Insurance premiums	0.0	0.0	0.0
Investment income	0.3	0.7	-0.2
Claims paid	-0.5	-0.9	-1.2
Administration expenses	0.0	0.0	-0.2
<b>Balance at 30 June</b>	<b>2.3</b>	<b>6.2</b>	<b>16.4</b>

## 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.

From 1 July 2011 the Growth Smoothed investment option was closed to new monies. Over the next 2 years the reserve will be distributed to members invested in the Growth Smoothed option (renamed the Diversified Growth plus Reserves option), and by 30 June 2013, the reserve will be fully depleted.

	2011 \$M	2010 \$M	2009 \$M
<b>Balance at 1 July</b>	<b>62.1</b>	<b>15.2</b>	<b>18.8</b>
Adjustments prior years	0.0	0.0	0.0
Transfer to/from investment income	39.1	46.9	-3.6
<b>Balance at 30 June</b>	<b>101.2</b>	<b>62.1</b>	<b>15.2</b>
<b>% of member balances</b>	<b>6.01%</b>	<b>4.09%</b>	<b>1.13%</b>

## 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.

	2011 \$M	2010 \$M	2009 \$M
<b>Balance at 1 July</b>	<b>5.6</b>	<b>5.3</b>	<b>0.0</b>
Plus/minus intra-scheme transfers	3.0	0.0	5.4
Investment income	0.5	0.3	-0.1
<b>Balance at 30 June</b>	<b>9.1</b>	<b>5.6</b>	<b>5.3</b>



# Trust deed amendments

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The Trust Deed was amended to facilitate the merger of LGsuper with City Super. The changes were effective from the date of the merger which was 1 July 2011.

The key changes to the Trust Deed were as follows:

**The Trust Deed was divided into five chapters to cover the following:**

- **Chapter 1** – Administrative provisions for the Scheme generally e.g. Board membership, powers of the Board, eligible members and investments.
- **Chapter 2** – Contribution and benefit provisions for members generally e.g. voluntary contributions, insurance, death benefit nominations and pensions.
- **Chapter 3** – Contribution and benefit provisions for LGsuper members – provisions from the previous Trust Deed applicable to LGsuper members to ensure they maintain the same benefits.
- **Chapter 4** – Contribution and benefit provisions for City Super members – provisions from the City Super Trust Deed applicable to City Super members to ensure they maintain equivalent benefits on the merger.
- **Chapter 5** – Transitional provisions for the merger e.g. transitional Board of Directors, provisions to ensure existing member entitlements are not affected.

**New provisions inserted into the Trust Deed which affected LGsuper members include:**

- Expansion of the Board of Directors to include two directors from City Super giving a Board of nine Directors.
- Provision to appoint more than one independent director (previously limited to one independent director).
- Provision for members to give binding death benefit nominations to the Board, previously only available to City Super members.
- Closure of the Growth Smoothed option and the distribution of the reserves to members.
- Provision for the Board to select one or more investment strategies to act as the Scheme's default strategies.
- Provision to clarify the Board's power to enter into currency hedges to protect overseas investments from adverse currency movements.

# 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  
Corrs Chambers Westgarth  
Ms J. Dwyer, Special Counsel, Brisbane

## **Taxation advice**

PricewaterhouseCoopers, Brisbane

## **Group Life Insurer**

AIA Australia Limited

## Complaints

We hope you are happy with LGsuper and the service we provide. If you do have a complaint it should be put in writing and sent to:

Complaints Officer  
Queensland Local Government Superannuation Board  
GPO Box 264  
Brisbane QLD 4001

If you prefer, you can email the Complaints Officer at [info@lgsuper.org](mailto:info@lgsuper.org) or send a fax to 07 3244 4344.

## 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 statement from our website or by phoning us on 1800 444 396 .

## Disclaimer

This member annual report has been produced by the Queensland Local Government Superannuation Board (ABN 94 085 088 484 AFSL 230511) (LGsuper) as Trustee of the Local Government Superannuation Scheme (ABN 23 053 121 564) and provides general information for LGsuper members.

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.

The information in this document is up to date at the date of preparation of the document. Some of the information may change following its release. If the change is not significant we may not update the document immediately. Current information about investment performance and other issues will be published on our website and in our newsletters. We will send you a free printed copy at your request.

Where there is an inconsistency between this document and the Fund's rules as per the LGsuper Trust Deed and Government regulations, the rules in the Trust Deed and Government regulations shall prevail.



# LGsuper

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and your super

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