



LGsuper

Looking after you
and your super

2012 Annual report to members

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LGsuper — a complying fund

During the 2011/12 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

On behalf of the LGsuper Board of Directors, it is my pleasure to present the 2012 member annual report.

Outperforming in a year of economic uncertainty

The 2011/12 financial year proved challenging for investors, as ongoing European debt issues and associated political instability across the region again marred global economic conditions. On the back of poorly performing sharemarkets and robust fixed interest markets, LGsuper's highly diversified and well-managed investment strategy has again delivered solid returns for members.

In fact, SuperRatings recently announced we had Australia's best performing Balanced investment option for the 2011/12 year, ahead of 49 of our peers.* Our Stable and Defensive options also outperformed all other Australian funds to achieve the coveted national number 1 ranking over the same period.^

At LGsuper, we recognise it's the long-term results that count and that's why it's particularly pleasing for our Board to have all of our ready-made investment options, including Balanced and Diversified Growth, awarded top 10 national rankings by SuperRatings for the 5 year period to 30 June 2012.

That said, making headlines isn't what LGsuper's about. Every day, LGsuper strives to find better ways to look after you and your super.

We're a little bit bigger, and a whole lot better

LGsuper and City Super successfully merged on 1 July 2011 to become one fund for all current and former Queensland local government employees and spouses. Management, staff and the Board of Directors of both super funds worked extremely hard to develop and launch a combined fund that now offers all members better products at a lower cost. While the transition was at times challenging for some members and our staff, just over one year on it's rewarding to reflect on the benefits the merger has already delivered.

* SuperRatings' media release, 26 July 2012, Official super fund results for 2011-12 year.
^ SuperRatings Fund Crediting Rate Survey, June 2012 (includes all fund results).

Low fees

All LGsuper members have gained from lower administration and investment management fees as a direct result of the merger.

Improved insurance

We used our size to negotiate a generous insurance package with improved benefits that comes at a lower cost for most LGsuper members.

Flexible products

Members now have more flexibility in how their account is invested following the launch of five new single asset class options and the SR Australian Shares option from July 2011 and an increase to 12 free investment switches each financial year.

By introducing binding death benefit nominations, LGsuper members now also have more control over who receives their super in the event of their death.

Enhanced services

During the year, LGsuper implemented a workflow management system that allows us to track and process transactions and answer members' questions a lot quicker than we have in the past. We also launched a brand new website with information tailored to members, retirees and employers, as well as calculators to help members plan for their retirement and work out the advantages of adding salary sacrifice or after-tax contributions to their super.

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



Investment options and returns*

Aggressive

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

Risk high

Returns

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2012	-1.28	-1.35
2011	12.77	13.94
2010	7.63	8.44
2009	-16.66	-19.36
2008	-5.72	-6.66
5-yr avge (%p.a.)	-1.20	-1.71
% p.a. over CPI	-4.03	-4.54

Strategic asset allocation and ranges

At 30 June	2012 (%)	Ranges (%)
Return-seeking	100	100
Australian shares	34.0	26.5-41.5
International shares	34.0	26.5-41.5
Property	15.0	7.5-22.5
Alternatives	17.0	9.5-24.5
Risk-controlling	0	0
Fixed interest	0	0
Cash	0	0

Actual asset allocation

At 30 June	2012 (%)	2011 (%)
Return-seeking	96.3	96.7
Australian shares	33.5	33.7
International shares	35.0	33.5
Property	14.3	13.5
Alternatives	13.5	16.0
Risk-controlling	3.7	3.3
Fixed interest	0	0
Cash	3.7	3.3

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

Diversified Growth

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

Risk medium to high

Returns

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2012	1.62	1.82
2011	11.59	12.80
2010	9.43	10.43
2009	-14.17	-16.46
2008	-5.04	-5.84
5-yr avge (%p.a.)	0.23	-0.05
% p.a. over CPI	-2.60	-2.88

Strategic asset allocation and ranges

At 30 June	2012 (%)	Ranges (%)
Return-seeking	88.5	81.0-96.0
Australian shares	23.9	16.4-31.4
International shares	23.9	16.4-31.4
Property	15.0	7.5-22.5
Alternatives	25.7	18.2-33.2
Risk-controlling	11.5	4.0-19.0
Fixed interest	11.5	4.0-19.0
Cash	0	0

Actual asset allocation

At 30 June	2012 (%)	2011 (%)
Return-seeking	82.8	82.6
Australian shares	23.5	24.7
International shares	24.6	24.5
Property	14.3	13.5
Alternatives	20.4	19.9
Risk-controlling	17.2	17.4
Fixed interest	13.6	15.3
Cash	3.6	2.1

Diversified Growth plus Reserves

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

Risk medium to high

Returns

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2012	6.14	6.30
2011	9.32	10.05
2010	6.26	6.86
2009	-14.10	-16.39
2008	2.25	2.16
5-yr avge (%p.a.)	1.61	1.32
% p.a. over CPI	-1.22	-1.51

Strategic asset allocation and ranges

At 30 June	2012 (%)	Ranges (%)
Return-seeking	88.5	81.0-96.0
Australian shares	23.9	16.4-31.4
International shares	23.9	16.4-31.4
Property	15.0	7.5-22.5
Alternatives	25.7	18.2-33.2
Risk-controlling	11.5	4.0-19.0
Fixed interest	11.5	4.0-19.0
Cash	0	0

Actual asset allocation

At 30 June	2012 (%)	2011 (%)
Return-seeking	82.8	82.6
Australian shares	23.5	24.7
International shares	24.6	24.5
Property	14.3	13.5
Alternatives	20.4	19.9
Risk-controlling	17.2	17.4
Fixed interest	13.6	15.3
Cash	3.6	2.1

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.

Investment options and returns* (cont.)

Balanced

Aim To achieve returns of 3.5% p.a. above inflation over 5-year periods

Risk medium

Returns

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2012	5.07	5.71
2011	9.68	10.89
2010	10.02	11.21
2009	-9.03	-10.33
2008	-1.46	-1.67
5-yr avge (%p.a.)	2.59	2.82
% p.a. over CPI	-0.24	-0.00

Strategic asset allocation and ranges

At 30 June	2012 (%)	Ranges (%)
Return-seeking	62.8	55.3-70.3
Australian shares	15.1	7.6-22.6
International shares	15.1	7.6-22.6
Property	15.0	7.5-22.5
Alternatives	17.6	10.1-25.1
Risk-controlling	37.2	29.7-44.7
Fixed interest	37.2	29.7-44.7
Cash	0	0

Actual asset allocation

At 30 June	2012 (%)	2011 (%)
Return-seeking	58.7	58.0
Australian shares	14.9	15.9
International shares	15.5	15.8
Property	14.3	13.5
Alternatives	14.0	12.8
Risk-controlling	41.3	42.0
Fixed interest	41.3	40.6
Cash	0	1.4

Stable

Aim To achieve returns of 2.5% p.a. above inflation over 5-year periods

Risk medium to low

Returns

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2012	6.24	7.10
2011	7.90	9.00
2010	8.53	9.64
2009	-4.79	-5.34
2008	1.22	1.46
5-yr avge (%p.a.)	3.70	4.21
% p.a. over CPI	0.87	1.38

Strategic asset allocation and ranges

At 30 June	2012 (%)	Ranges (%)
Return-seeking	42.2	34.7-49.7
Australian shares	8.1	0.6-15.6
International shares	8.1	0.6-15.6
Property	15.0	7.5-22.5
Alternatives	11.0	3.6-22.5
Risk-controlling	57.8	50.3-65.3
Fixed interest	37.8	30.3-45.3
Cash	20.0	12.5-27.5

Actual asset allocation

At 30 June	2012 (%)	2011 (%)
Return-seeking	39.3	38.2
Australian shares	7.9	8.8
International shares	8.3	8.8
Property	14.3	13.5
Alternatives	8.8	7.1
Risk-controlling	60.7	61.8
Fixed interest	44.7	40.6
Cash	16.0	21.2

Defensive

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

Risk very low

Returns

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2012	7.27	8.63
2011	6.27	7.45
2010	8.68	9.88
2009	-0.59	-0.64
2008	3.34	3.92
5-yr avge (%p.a.)	4.94	5.78
% p.a. over CPI	2.11	2.95

Strategic asset allocation and ranges

At 30 June	2012 (%)	Ranges (%)
Return-seeking	21.6	14.1-29.1
Australian shares	3.8	0-11.3
International shares	3.8	0-11.3
Property	7.5	0-15.0
Alternatives	6.5	0-14.0
Risk-controlling	78.4	70.9-85.9
Fixed interest	48.4	40.9-55.9
Cash	30.0	22.5-37.5

Actual asset allocation

At 30 June	2012 (%)	2011 (%)
Return-seeking	19.9	19.1
Australian shares	3.7	4.4
International shares	3.9	4.4
Property	7.1	6.8
Alternatives	5.2	3.5
Risk-controlling	80.1	80.9
Fixed interest	57.2**	50.8
Cash	22.9	30.1

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

** Temporary overweight allocation to Fixed interest pending funding of investment in Alternatives.

Investment options and returns* (cont.)

SR Balanced

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

Risk high

Returns

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2012	-0.83	-0.81
2011	7.65	8.61
2010	8.03	9.23
2009	-10.03	-11.63
2008	-9.95	-10.15
5-yr avge (%p.a.)	-1.35	-1.35
% p.a. over CPI	-4.18	-4.18

Strategic asset allocation and ranges

At 30 June	2012 (%)	Ranges (%)
Return-seeking	69.0	
Australian shares	33.0	26-40
International shares	24.5	15-35
Property	10.0	0-15
Alternatives	1.5	0-6
Risk-controlling	31.0	
Fixed interest	25.0	15-30
Cash	6.0	0-16

Actual asset allocation

At 30 June	2012 (%)	2011 (%)
Return-seeking	75.5	72.6
Australian shares	35.0	34.8
International shares	26.3	24.6
Property	13.1	13.2
Alternatives	1.1	0
Risk-controlling	24.5	27.4
Fixed interest	22.0	24.5
Cash	2.5	2.9

SR Australian Shares

Aim Outperform the S&P ASX300 Accumulation Index over 5-year periods

Risk very high

Earning rates

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2012	-1.49	-1.55
2011	n/a	n/a
2010	n/a	n/a
2009	n/a	n/a
2008	n/a	n/a
Avge since inception (%p.a.)	-1.49	-1.55

Strategic asset allocation

At 30 June 2012 (%)	
Return-seeking	100
Australian shares	100
International shares	0
Property	0
Alternatives	0
Risk-controlling	0
Fixed interest	0
Cash	0

Actual asset allocation

At 30 June	2012 (%)
Return-seeking	100
Australian shares	100
International shares	0
Property	0
Alternatives	0
Risk-controlling	0
Fixed interest	0
Cash	0

International Shares

Aim To outperform a composite index of international shares over 5-year periods

Risk high

Returns

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2012	0.27	0.36
2011	n/a	n/a
2010	n/a	n/a
2009	n/a	n/a
2008	n/a	n/a
Avge since inception (%p.a.)	0.27	0.36

Strategic asset allocation

At 30 June	2012 (%)
Return-seeking	100
Australian shares	0
International shares	100
Property	0
Alternatives	0
Risk-controlling	0
Fixed interest	0
Cash	0

Actual asset allocation

At 30 June	2012 (%)
Return-seeking	100
Australian shares	0
International shares	100
Property	0
Alternatives	0
Risk-controlling	0
Fixed interest	0
Cash	0

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

Investment options and returns* (cont.)

Australian Shares

Aim To outperform a composite index of Australian shares over 5-year periods

Risk very high

Returns

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2012	-9.56	-10.54
2011	n/a	n/a
2010	n/a	n/a
2009	n/a	n/a
2008	n/a	n/a
Avg since inception (%p.a.)	-9.56	-10.54

Strategic asset allocation

At 30 June	2012 (%)
Return-seeking	100
Australian shares	100
International shares	0
Property	0
Alternatives	0
Risk-controlling	0
Fixed interest	0
Cash	0

Actual asset allocation

At 30 June	2012 (%)
Return-seeking	100
Australian shares	100
International shares	0
Property	0
Alternatives	0
Risk-controlling	0
Fixed interest	0
Cash	0

Property

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

Risk medium to high

Returns

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2012	6.80	7.59
2011	n/a	n/a
2010	n/a	n/a
2009	n/a	n/a
2008	n/a	n/a
Avg since inception (%p.a.)	6.80	7.59

Strategic asset allocation

At 30 June	2012 (%)
Return-seeking	100
Australian shares	0
International shares	0
Property	100
Alternatives	0
Risk-controlling	0
Fixed interest	0
Cash	0

Actual asset allocation

At 30 June	2012 (%)
Return-seeking	100
Australian shares	0
International shares	0
Property	100
Alternatives	0
Risk-controlling	0
Fixed interest	0
Cash	0

Diversified Fixed Interest

Aim To outperform a composite index of Australian and international fixed interest over 5-year periods

Risk very low

Returns

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2012	10.13	11.99
2011	n/a	n/a
2010	n/a	n/a
2009	n/a	n/a
2008	n/a	n/a
Avg since inception (%p.a.)	10.13	11.99

Strategic asset allocation

At 30 June	2012 (%)
Return-seeking	0
Australian shares	0
International shares	0
Property	0
Alternatives	0
Risk-controlling	100
Fixed interest	100
Cash	0

Actual asset allocation

At 30 June	2012 (%)
Return-seeking	0
Australian shares	0
International shares	0
Property	0
Alternatives	0
Risk-controlling	100
Fixed interest	100
Cash	0

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

Investment options and returns* (cont.)

Cash

Aim To protect capital over any 1-year period

Risk low

Returns

Year ending 30 June	Accumulation accounts (%)	Pension accounts (%)
2012	4.18	4.96
2011	4.05	4.81
2010	2.93	3.52
2009	3.77	4.27
2008	4.87	5.70
5-yr avge (%p.a.)	3.96	4.65
% p.a. over CPI	1.13	1.82

Strategic asset allocation

At 30 June	2012 (%)
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	2012 (%)	2011 (%)
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 period

Returns

Year ending 30 June	Investment return (%)	Accumulation comparison rate (%)
2012	5.07	6.43
2011	9.68	8.43
2010	10.02	6.55
2009	-9.03	-19.00
2008	-1.46	0.62
3-yr avge (%p.a.)	8.23	7.13
% p.a. over AWOTE*	3.57	

* Proxy for salary growth

Strategic asset allocation

At 30 June	2012 (%)
Return-seeking	60.0
Australian shares	16.5
International shares	16.5
Property	15.0
Alternatives	12.0
Risk-controlling	40.0
Fixed interest	40.0
Cash	0

Actual asset allocation

At 30 June	2012 (%)	2011 (%)
Return-seeking	58.7	58.0
Australian shares	14.9	15.9
International shares	15.5	15.8
Property	14.3	13.5
Alternatives	14.0	12.8
Risk-controlling	41.3	42.0
Fixed interest	41.3	40.6
Cash	0	1.4

Defined Benefits Fund (former City Super)

Aim To ensure there are sufficient funds available to pay benefits for all members

Returns

Year ending 30 June	Investment return (%)	Crediting rate (%)
2012	2.03	6.77
2011	8.31	1.50
2010	9.93	-3.88
2009	-12.63	-2.31
2008	-8.05	7.34
3-yr avge (%p.a.)	6.70	1.37
% p.a. over AWOTE*	2.37	

* Proxy for salary growth

Strategic asset allocation

At 30 June	2012 (%)
Return-seeking	80.0
Australian shares	21.0
International shares	21.0
Property	15.0
Alternatives	23.0
Risk-controlling	20.0
Fixed interest	20.0
Cash	0

Actual asset allocation

At 30 June	2012 (%)
Return-seeking	74.8
Australian shares	20.6
International shares	21.6
Property	14.3
Alternatives	18.3
Risk-controlling	25.2
Fixed interest	23.7
Cash	1.5

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

Market update

LGsuper's highly diversified and well-managed investment strategy has again delivered solid returns for members during a financial year rocked by economic uncertainty and volatility. Let's take a closer look at how the different asset classes performed and the outlook for 2012/13.

International shares

Global sharemarkets were a medley this past financial year, with the US finishing on a reasonably high note, up 3.1% while most other developed markets, including France (-19.7%), China (-19.4%) and Germany (-13%) ended the year on a low one recording negative returns.

Despite the overall weakness, markets recovered in late June following a perceived breakthrough on the European debt issue when leaders at the EU summit delivered an agreement to support the financial stability of the single Euro currency, ease repayment rules for emergency loans to Spain and relax conditions for assistance to Italy.

While the US sharemarket ended the year on a positive, its economy remained sluggish with low consumer sentiment, weak retail spending and disappointing jobs growth contributing to poor economic growth throughout 2011/12. There was some respite though as the US housing market started to show signs of what is expected to be a long, slow recovery.

In contrast, the Chinese contraction in growth was a deliberate result of its government's intervention to cool its housing market and contain price inflation. China's economic easing has reduced demand for the world's resources and impacted on many exporting countries, including Australia. These short-term impacts will be offset by long-term benefits as these government policy actions aim to provide more sustainable growth for the world's second largest economy.

Where your money is invested

Top 10 Australian shares at 30 June 2012

- 1 **BHP Billiton**
MINING
- 2 **Westpac**
FINANCE
- 3 **Rio Tinto**
MINING
- 4 **CBA**
FINANCE
- 5 **ANZ**
FINANCE
- 6 **QBE Insurance**
INSURANCE
- 7 **NAB**
FINANCE
- 8 **Suncorp Group**
FINANCE/INSURANCE
- 9 **Newcrest Mining**
MINING
- 10 **News Corp**
MEDIA

Top 10 International shares at 30 June 2012

- 1 **Microsoft**
SOFTWARE
- 2 **British American Tobacco**
TOBACCO
- 3 **Phillip Morris**
TOBACCO
- 4 **Coca Cola**
BEVERAGES
- 5 **HDFC Bank**
FINANCE
- 6 **Mastercard**
FINANCE
- 7 **IBM**
COMPUTING TECHNOLOGY
- 8 **BP**
ENERGY
- 9 **Merck & Co**
HEALTHCARE
- 10 **JP Morgan Chase**
FINANCE

Market update (cont.)

Australian shares

Domestically Australia's economic position remains relatively good, with the IMF describing Australia's economy as 'the best in the world'. Unemployment is low, our investment pipeline is at record highs, inflation is under control and with official interest rates at 3.50% (down 1.25% throughout the year in an effort to lift consumption and stimulate our economy) the RBA still has some room to move if global markets worsen.

In what turned out to be a mixed year for shares, the ASX200 Accumulation Index lost 6.7%, while the Small Ordinaries Accumulation Index lost 14.6%. The major drag on performance was the struggling resources sector with the impacts of a slowing China and fears of a hard landing taking its toll as the Resources index lost 28.5%. Investors naturally sought protection in such an environment and armoured themselves with defensive shares—a move that drove Industrials up 3.5% at year's end. Telecommunications shares soared 38% during this period.

While it was a difficult year for all Australian share managers, particularly those overexposed to the resources sector, our small companies manager Paradise managed to produce a positive return of 0.60% and outperformed its benchmark by 16%.

2011/12 LGsuper portfolio returns by asset class

Returns shown are before fees and tax.

Asset class	Gross return % p.a.
Australian shares	-9.9
International shares	0.8
Property	7.9
Alternatives	7.3
Fixed interest	12.4
Cash	5.2

Property

LGsuper's relatively high allocation to property provided real diversification benefits in the current economic environment, returning 7.9% before tax and fees.

The property portfolio consists of high quality office buildings, retail shopping centres and industrial properties both in Australia and abroad. With low gearing and low vacancy rates, these investments provide consistent rental income streams and strong capital growth. LGsuper's overseas property investments saw our logistics fund in Hong Kong return 34% for the year, while overall global listed property securities were up 6%.

Alternatives

Our investments in alternatives returned an impressive 7.3% for 2011/12 before tax and fees. Within this sector we invest across three broad themes—infrastructure, hedge funds and emerging market/high-yield debt to reduce risk and smooth investment returns. Bridgewater, our main hedge fund manager, has consistently performed over the past 5 years, returning 15% annually before fees and tax. Our infrastructure managers including AMP Capital Investors, Palisade Investment Partners and EQT have also performed exceptionally well in recent years by focusing on positive-cashflow generating companies with no exposure to sharemarket volatility to provide solid income returns and long term capital growth.

Market update (cont.)

Fixed interest and cash

Fears of sovereign default risk continued throughout 2011/12 as investor attention moved away from Greece and towards Spain and Italy. As interest rate spreads widened in both countries investors looked to 'safe-haven' countries for refuge. With low levels of unemployment, inflation and government debt, Australia has a relatively strong economy and has raised its profile as a 'safe haven' for investors, particularly among central banks in Germany and Switzerland who are buying more and more Australian Government bonds.

LGsuper's fixed interest investments produced an excellent 12.4% return before fees and tax. All managers performed well during the year, with both sovereign and corporate debt producing double-digit returns. In Australia, the best performing sector was inflation-linked bonds, which returned a massive 19%.

The RBA's interest rate reductions over the year (down 1.25% to 3.50%) were necessary to stimulate the economy and protect it from the effects of global economic volatility.

Looking forward

A continued backdrop of global economic uncertainty and sharemarket volatility has become the new norm.

Revised IMF growth forecasts indicate global recovery is weak and expected to remain subdued until Europe firmly grapples with its problems and the US resolves its policy issues surrounding its budget and debt ceiling. Europe is central to global recovery. And while the Eurozone's problems are far from resolved, the Greek election results in favour of the Euro combined with the Euro summit have created a silver lining in the form of the injection of bailout funds directly into the Eurozone's troubled banks.

The US still remains a potential concern and even though it is showing signs of a slow-paced recovery, its expected 2% growth is unlikely to improve employment levels in the short term. Emerging economies like China also pose a risk as their growth rates slow to levels not seen for about a decade. Australia will look to China for an improvement in our resources sector as demand for our raw materials is very much reliant on their economy's continued growth.

We understand that as a member who relies or will in future rely on your super to provide you with a regular income you may feel a little anxious when markets take a downward turn. But it is important to remember it is normal for markets to do just that at times.

While we can't predict the future we do know that superannuation is a long-term investment and will experience periods of ups and downs. In the past, periods of negative returns are usually followed by periods of strong positive growth, which is why it is important to achieve a balance between your attitude to risk and long-term investment objectives, especially during periods of uncertainty.

In a world of uncertainty there's one thing we know for sure — you're with one of Australia's top performing super funds and we're prepared for any potential challenges ahead. Our Board of Directors and team of professional, disciplined and well-regarded investment managers invest your money to achieve solid returns over the long term.

We diversify investments across a broad range of non-traditional and traditional asset classes to reduce the fund's exposure to risk and volatility. Our external managers also actively seek new investment opportunities in quality companies when share prices are low, to benefit from the gains to be made when markets return to higher levels.

Fees and costs

Members benefited from lower fees during the 2011/12 financial year following the merger of City Super and LGsuper. You can find our fees below.

Type of fee or cost	Amount	How and when paid
Fees when your money moves in or out of the fund		
Establishment fee The fee to open your investment.	Nil	Not applicable
Contribution fee The fee on each amount contributed to your investment – either by you or your employer.	Nil	Not applicable
Withdrawal fee The fee on each amount you take out of your investment.	Nil	Not applicable
Termination fee The fee to close your investment.	Nil	Not applicable

Management costs

The fees and costs for managing your investment. Actual charged to LGsuper members in 2011/12.

Investment option	Administration fee % p.a.	Investment management fee % p.a. ¹	Total fee % p.a.
Aggressive	0.18	0.50	0.68
Diversified Growth	0.18	0.49	0.67
Diversified Growth plus Reserves	0.18	0.49	0.67
Balanced	0.18	0.44	0.62
Stable	0.18	0.35	0.53
Defensive	0.18	0.27	0.45
SR Balanced	0.18	0.85	1.03
SR Australian Shares	0.18	0.82	1.00
International Shares	0.18	0.43	0.61
Australian Shares	0.18	0.51	0.69
Property	0.18	0.58	0.76
Diversified Fixed Interest	0.18	0.26	0.44
Cash	0.18	0.05	0.23

Administration and investment management fees are subtracted from investment earnings to determine the earning rate applied to your account each year. The investment management fee includes fees for investment trusts. Trust fees are taken out before LGsuper receives investment returns.

Fees and costs (cont.)

Service fees²

Investment switching fee

The fee for changing investment options.

Nil

Not applicable

Management costs

Estimated for 2012/13.

Investment option	Administration fee % p.a.	Investment management fee % p.a. ¹	Total fee % p.a.	
Aggressive	0.21	0.51	0.72	Administration and investment management fees are subtracted from investment earnings to determine the earning rate applied to your account each year. The investment management fee includes fees for investment trusts. Trust fees are taken out before LGsuper receives investment returns.
Diversified Growth	0.21	0.52	0.73	
Diversified Growth plus Reserves	0.21	0.52	0.73	
Balanced	0.21	0.45	0.66	
Stable	0.21	0.36	0.57	
Defensive	0.21	0.27	0.48	
SR Balanced	0.21	0.85	1.06	
SR Australian Shares	0.21	0.84	1.05	
International Shares	0.21	0.40	0.61	
Australian Shares	0.21	0.41	0.62	
Property	0.21	0.66	0.87	
Diversified Fixed Interest	0.21	0.23	0.44	
Cash	0.21	0.09	0.30	

¹ These costs include investment management fees, master custodian fees, investment consultants' fees (e.g. asset consultant, legal fees) as well as a fee for the ongoing administration of investments.

² See Additional explanation of fees and costs following for more information on insurance administration and financial advice fees.

The information in the above table can be used to compare fees and costs between different funds.

Fees and costs (cont.)

Fee changes

Management fees only cover the actual costs of administration and investment management, and as such, may vary from year to year. We report the actual fees in this *Annual report to members* each year. Before the start of each financial year the LGsuper Board of Directors estimates fees for the year ahead. These estimates only change where necessary to ensure costs are covered.

Performance fees

Performance fees are paid to some investment managers when they outperform a set benchmark. These fees are calculated by comparing the difference between the benchmark and actual performance for each investment, and multiplying the outperformance by the performance bonus rate payable. Performance fees of approximately \$1.5 million are included in the management costs for 2011/12 % p.a.

Due to the difficulty in predicting performance fees for future years, performance fees have not been included in the estimated management costs for 2012/13.

Transactional and operational costs

Net returns declared by investment managers reflect the transactional and operational expenses of investing, such as brokerage, stamp duty, direct property repair and maintenance costs and buy-sell spreads where applicable. These net returns are, in turn, reflected in the final earning rates determined each year. No brokerage or buy-sell spreads are charged directly on your money.

Incidental fees

Insurance administration fee

An Insurance administration fee of 1.087% plus GST is included in all Death, Total and Permanent Disablement and Income Protection premiums. This fee is used to partially offset the administration cost of managing LGsuper's insurance arrangements.

Financial advice fees

Financial advice fees apply when current and former Brisbane City Council, Queensland Urban Utilities and associated employers' employees and their spouses receive limited personal financial planning advice from LGsuper's Manager Member Advice or Member Advice Representative. There is no fee charged for the initial meeting. If a Statement of Advice is required, a fee of \$220 per hour will be charged for an in person meeting plus \$130 per hour for the preparation of a Statement of Advice. The total fee charged will depend on the type of advice you require and the time it takes our advisers to prepare your Statement of Advice (if required). The portion of the financial advice fee charged for advice directly related to your LGsuper account may be deducted from your LGsuper account on request. The fees will be explained to you in detail if you ask for this advice. Other LGsuper members cannot access this service, but can receive limited superannuation advice from an LGsuper representative at no extra cost.

The LGsuper Board of Directors

The Queensland Local Government Superannuation Board (ABN 94 085 088 484) is responsible for managing LGsuper in the best interests of members. For the period since merging with City Super on 1 July 2011 until 30 June 2014, a transitional Board of Directors is in place. 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, three of which were elected by LGsuper members in 2008 and one previous City Super member representative nominated by the Trustee of City Super
- four employer representative Directors, three of which were nominated by the Local Government Association of Queensland (LGAQ) in 2008 and 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.

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

The LGsuper Board of Directors (cont.)

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.



Ron Curtis
Director

Ron Curtis has been an LGsuper director since 1 July 2011, and was previously a Member Trustee of City Super from 2005. He served as Chair of City Super from 2009 to 2011, and also served on numerous City Super committees. Ron's experience as a representative on superannuation fund boards spans back to 1988, and he has been a Brisbane City Council employee in the Industrial Relations section since 2002.



Peter Smith
Director

Peter Smith has been a director since 2008, and was LGsuper's Chief Executive Officer from 1988 to 2006. Peter previously held chief executive officer and other senior positions with superannuation funds for public utilities, global mining companies and pharmaceutical companies. 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.

The LGsuper Board of Directors (cont.)

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 a past President of the Australian Local Government Association (ALGA). Paul is currently a Councillor for 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).



Louise Dudley
Director
Member, Audit and Risk Management Committee

Louise Dudley has been an LGsuper director since 1 July 2011, and was an Employer Trustee of City Super from 2007. Louise is currently Chief Executive Officer at Queensland Urban Utilities (QUU), and previously held senior executive roles with Brisbane City Council, including Executive Manager, Water Retail, and Director, Finance and Legal Water Transition Program. Louise is a Chartered Accountant with 27 years' experience, and holds a BCom and Certificate of Superannuation Management. She is a graduate member of the Australian Institute of Company Directors and an Associate Member of the Institute of Chartered Accountants.



Peter Taylor
Director

Peter Taylor has been a director since 1998, and is the former Mayor of Toowoomba Regional Council. He was previously Mayor (1994 to 2008) and Councillor (1976 to 1994) of Jondaryan Shire Council. After 30 years, Peter 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 the former 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.

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, we strive for 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 2012	
	\$M	%
Australian shares	1,212.0	19
Acorn	58.8	1
AMP Capital Investors	106.4	2
Eley Griffiths	60.2	1
Independent	157.5	2
JCP Investment Partners	195.4	3
Macquarie Bank Pure Index Trust	283.5	4
Merlon Capital	136.0	2
Northcape Capital	172.3	3
Paradise Small Caps	41.9	1

Investment manager	As at 30 June 2012	
	\$M	%
International shares	1,259.0	21
Arrowstreet Emerging Markets Fund	76.0	1
Artisan Emerging Markets	47.7	1
BlackRock	494.1	8
Brandes Investment Partners	111.5	2
Colonial First State Emerging Markets	41.8	1
Lazard Thematic	129.0	2
MFS Global Equity	119.6	2
Sanders Capital	106.7	2
Vontobel	132.6	2
Property	839.9	13
Altis AREEP	19.9	0
AMP Capital Investors	354.0	4
Dexus Wholesale Property Fund	72.0	1
Domaine SEQ	10.1	0
Goodman Australia Industrial Fund	49.9	1
Goodman HK Logistics Fund	23.9	0
GPT Wholesale Office Fund	25.5	0
Invesco Global	59.1	1
Lend Lease APPF Retail	77.7	1
Perennial Global	33.3	1
Principal Healthcare Trust	20.8	0
QIC Shopping Centre Fund	59.3	1
Retirement Villages Group	12.3	0
Rockspring	22.1	0

Investing your money (cont.)

Investment manager	As at 30 June 2012	
	\$M	%
Alternatives	1,024.0	16
AMP Infrastructure	41.7	1
Bridgewater	128.1	2
BT Grosvenor	6.8	0
EQT Infrastructure	9.3	0
Hastings Infrastructure	59.4	1
K2 Advisors	180.0	3
Macquarie Bank RMBS	73.4	1
Members Equity	1.4	0
Morgan Stanley Infrastructure	19.7	0
Palisade	132.5	2
Rogge	84.1	1
Stone Harbor	225.1	4
Westbourne Capital	62.5	1
Socially Responsible	13.8	0
AMP RIL Balanced Fund	13.8	0
Socially Responsible Australian shares	61.5	1
AMP Sustainable Share Fund	27.5	0.5
Perpetual Ethical SRI Fund	34.0	0.5

Investment manager	As at 30 June 2012	
	\$M	%
Diversified fixed interest	1,565.7	25
Ardea ILB	102.9	2
Colonial First State - Australia ILB	179.3	3
PIMCO Global Credit	222.7	4
QIC - Australia Government	236.9	4
QIC - Australia Diversified	232.8	4
QIC - Inflation Plus	111.2	2
QIC - Passive Australia ILB	85.3	1
QIC - Global Sovereign G7	154.7	2
Vianova - Australia	159.6	3
Wellington Global	80.3	1
Cash	334.0	5
TOTAL	6,309.9	100

Note: Percentages may not add up to totals due to rounding.

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.

Investing your money (cont.)

Defined Benefits Fund

LGsuper has two Defined Benefits Funds that are separately managed and regularly reviewed through actuarial valuations to determine if there are sufficient funds to pay members' benefits. The next actuarial valuations for both funds will be undertaken as at 1 July 2012.

Regional Defined Benefits Fund

The last actuarial valuation of the regional Defined Benefits Fund was conducted as at 1 July 2009. The actuary concluded from the review that the regional Defined Benefits Fund was in a satisfactory but modest financial position.

Former City Super Defined Benefit Fund

The former City Super Defined Benefit Fund was transferred to LGsuper on 1 July 2011 as part of the LGsuper and City Super merger. The last full actuarial valuation was conducted prior to the merger.

Vested Benefits Index

The Vested Benefits Indexes below show the ratio of fund assets to the amount of members' vested benefits at 30 June.

Fund	2012	2011	2010
Regional Defined Benefits Fund	104%*	104.9%	103.7%
Former City Super Defined Benefit Fund	104%*	n/a	n/a

*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.

Allocation of earnings

The earning rate is the net investment return that applies to your account, after fees and tax, at the end of each financial year. It can be positive or negative, and is a reflection of how your investment performs.

LGsuper publishes a daily indication of performance of each of LGsuper's investment options — a daily movement percentage and a year to date performance percentage. This reflects the performance of appropriate market benchmarks from 2 business days earlier. If you make withdrawals or switch investment options during the month we use this rate in our calculation of your current balance.

After the end of each month, the earning rates are adjusted to reflect the actual investment returns achieved for that month (net of any tax and fees).

After the end of each financial year, an annual earning rate is declared by the LGsuper Board of Directors for each investment option and is based on the investment return achieved on the underlying assets for that option for the year.

During periods of significant market volatility, or other conditions which prevent LGsuper from determining daily and/or weekly benchmark rates, processing of claims and/or switches may be suspended for up to 7 days or longer, as dictated by market conditions.

Abridged financial statements

The abridged financial statements below are at a total fund level. They 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 early 2013.

Preliminary statement of net assets

		2012 \$M	2011 \$M
Investments	Cash and cash equivalents	493.0	280.2
	Fixed interest securities	1,578.1	1,308.8
	Equity investments and unlisted trusts	4,142.2	2,790.8
	Derivatives	26.5	23.9
	Direct property	68.1	63.8
Other assets		176.6	70.1
Total assets		6,484.5	4,537.6
Liabilities	Tax provision	30.0	36.9
	Other	94.9	26.7
Total liabilities		124.9	63.6
Net assets to pay benefits as at 30 June		6,359.6	4,474.0

Preliminary statement of changes in net assets (total funds)

	2012 \$M	2011 \$M
Net assets to pay benefits at 1 July 2011	4,474.0	3,875.9
Plus: income		
Contributions	544.8	383.2
Benefits retained	355.1	235.5
Transfers from other funds	82.0	63.0
Insurance claim proceeds	15.4	8.1
Transfer from City Super	1,532.4	0.0
Net investment income	183.5	459.0
Total income	2,713.2	1,148.8
Less: expenses		
Benefits paid	726.6	450.7
Administration expenses	9.2	7.3
Insurance premiums	19.2	13.6
Tax	70.7	78.1
Other	1.9	1.0
Total expenses	827.6	550.7
Net assets available to pay benefits at 30 June 2012*	6,359.6	4,474.0

*Total includes insurance fund, operational risk reserve, and Accumulation and Defined Benefit funds.

Abridged financial statements (cont.)

Reserves

Reserves are maintained for insurance, operational risk, the Diversified Growth plus Reserves investment option, and to further secure the Defined Benefits Funds.

Insurance Fund reserve

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.

	2012 \$M	2011 \$M	2010 \$M
Balance at 1 July	2.3	6.2	16.4
Plus/minus intra-scheme transfers	-1.5	-3.7	-10.0
Insurance premiums	0.0	0.0	0.0
Investment income	0.1	0.3	0.7
Claims paid	0.0	-0.5	-0.9
Administration expenses	0.0	0.0	0.0
Balance at 30 June	0.8*	2.3	6.2

* Difference due to rounding

Smoothing reserve

The Smoothing Reserve is maintained to support smoothing of investment returns for the Accumulation Benefits Fund Diversified Growth plus Reserves investment option. The Reserve is invested in the Accumulation Benefits Fund Diversified Growth plus Reserves investment option.

From 1 July 2011 the Diversified Growth plus Reserves investment option closed to new funds. Over the following 2 years the reserve will be distributed to members invested in the Diversified Growth plus Reserves option, and by 30 June 2013, the reserve will have been fully returned to members.

	2012 \$M	2011 \$M	2010 \$M
Balance at 1 July	102.7	62.1	15.2
Adjustments prior years	0.0	0.0	0.0
Transfer to/from investment income	-74.7	40.6	46.9
Balance at 30 June	28.0	102.7	62.1
% of member balances	1.64%	6.10%	4.09%

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 in the Accumulation Benefits Fund.

	2012 \$M	2011 \$M	2010 \$M
Balance at 1 July	9.1	5.6	5.3
Plus City Super transfer	4.9	0.0	0.0
Plus/minus intra-scheme transfers	2.4	3.0	0.0
Allocation to scheme earnings	-11.0	0.0	0.0
Investment income	0.6	0.5	0.3
Balance at 30 June	6.0	9.1	5.6

Trust deed amendments

The Trust Deed was amended during 2011/12 in order to:

- bring together the separate accumulation funds for former City Super members and regional council members into one accumulation fund for all.
- extend the Failure of Health benefit to former City Super members.
- reflect changes made to the Local Government Act allowing members to reduce their employer and standard/ compulsory member contributions to the concessional contribution cap each financial year.
- reflect changes made to the Local Government Act enabling former City Super members to reduce their compulsory member contributions due to financial hardship.
- limit the time period that members must lodge a disability claim within to 6 years.
- provide for new insurance benefits from 1 July 2012.

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

Ernst & Young, Brisbane

Banking

Commonwealth Bank of Australia, Brisbane

Information services

Bravura, Sydney

Investment management

See page 19 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 insurers

AIA Australia Limited
OnePath Life 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 complaints@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.

Temporary residents

Temporary residents who permanently leave Australia may be able to access their superannuation money.

If you are eligible, you can claim your money directly from LGsuper within 6 months of leaving Australia. Once 6 months have passed, LGsuper will be required to transfer your money to the Australian Taxation Office (ATO) if they request us to do so. Once transferred to the ATO, your money will not earn any interest and you will have to apply directly to the ATO to get it.

LGsuper relies on the ASIC class order relief (CO 09/437), which means we do not have to let you know if your benefit has been transferred to the ATO.

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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