



**LGsuper**

Looking after you  
and your super

# 2013 Annual report

Queensland Local Government  
Superannuation Board

# Contents

<b>LGsuper snapshot</b>	<b>1</b>
<b>Chairman and CEO's report</b>	<b>2</b>
<b>Governance statement</b>	<b>4</b>
<b>Trust Deed</b>	<b>6</b>
<b>Board of Directors</b>	<b>7</b>
<b>Management and staff</b>	<b>11</b>
<b>Organisational structure</b>	<b>12</b>
<b>Investments</b>	<b>13</b>
<b>Accumulation Benefits Fund</b>	<b>14</b>
<b>Defined Benefits Funds</b>	<b>19</b>
<b>Market update</b>	<b>20</b>
<b>Fees and costs</b>	<b>22</b>
<b>Investment managers</b>	<b>24</b>
<b>Other important information</b>	<b>26</b>
<b>Specialist consultants and advisors</b>	<b>27</b>
<b>Financial statements</b>	<b>28</b>

## Contact

Level 17, 333 Ann Street  
Brisbane Qld 4000  
GPO Box 264  
Brisbane Qld 4001  
**Toll free 1800 444 396**  
**Facsimile 07 3244 4344**  
**info@lgsuper.org**  
**www.lgsuper.org**

The Queensland Local Government  
Superannuation Board  
ABN 94 085 088 484  
AFSL Licence No. 230511  
Local Government  
Superannuation Scheme  
ABN 23 053 121 564

## LGsuper - a complying fund

LGsuper was a complying super fund at all times during the 2012/13 financial year. As a complying fund, LGsuper members receive concessional tax treatment.

Disclaimer: This 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.

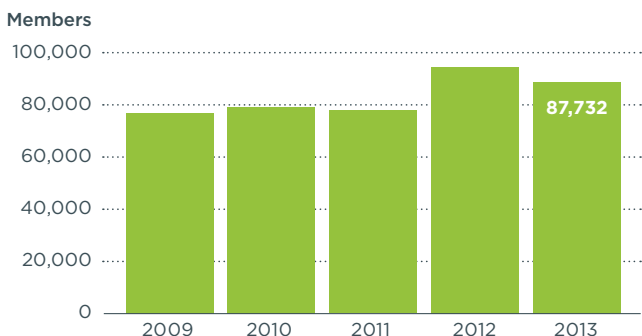
The information in this document is up to date at the date of preparation. Some of the information may change following its release. If the change is not significant we may not update the document immediately. Current information about investment performance and other issues will be published on our 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 snapshot

## Membership

There were 87,732 LGsuper members at 30 June 2013.



## Account types

The membership comprised:

<b>Accumulation Benefits Fund members</b>			<b>83,848</b>
<b>Council employees</b>			
Contributory	33,683		
Non-contributory	8,401		
Councillors	276	42,360	
<b>Former council employees and spouses</b>			
Retained Benefit	37,462		
Spouses	1,229		
Pensioners	2,797	41,488	
<b>Defined Benefits Fund members</b>			<b>3,884</b>
<b>Total members</b>			<b>87,732</b>

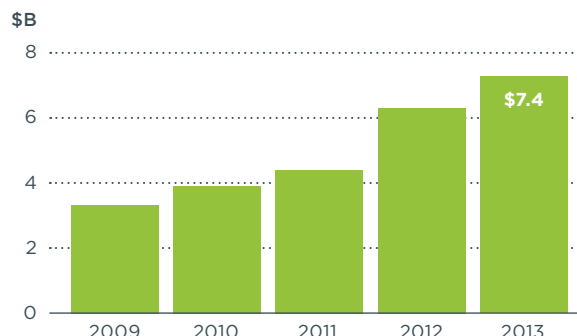
## Employers

LGsuper was receiving contributions from 94 local government employers at 30 June 2013.

During 2012/13, 5,874 non-local government employers paid into LGsuper.

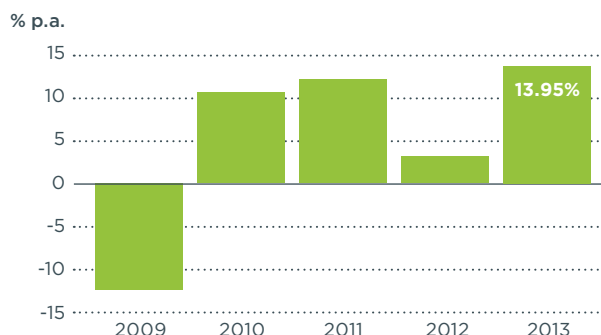
## Funds under management

LGsuper invested \$7.4 billion in funds under management at 30 June 2013.



## Investment performance

The total investment return for LGsuper was 13.95% before tax and fees for 2012/13.



## Administration expenses

Administration expenses for running LGsuper were 0.21% in 2012/13.



# Chairman and CEO's report

On behalf of the LGsuper Board of Directors, it is our pleasure to present the 2013 annual report.

Improved economic and sharemarket conditions signalled a return to double-digit earning rates for most members. Yet while the strain on markets eased pressure on fees grew. To help cover the \$2 million (approximately) levy imposed by APRA and the costs associated with implementing the Australian Government's Stronger Super measures the fund reluctantly raised the administration fee by 0.03%. Despite the slight increase LGsuper continues to deliver members genuine value-for-money products and services, solid and competitive investment returns and keeps fees low – lower than most other major super funds in Australia.

## Strong returns as global conditions improve

The 2012/13 year saw a pleasing return to strong, double digit earning rates for most LGsuper members. Australian and overseas sharemarkets made robust gains despite declining in May and June. The Australian economy slowed as the mining investment boom ended, with the RBA cutting rates to a record low in May in an attempt to stimulate growth. Overseas, the Eurozone remained intact, with post-GFC problems seemingly contained despite the underlying issues remaining unresolved, while a severe fiscal contraction in the US was avoided. China faces its own challenges as it attempts to reign in credit growth while continuing to grow its economy.

Against this backdrop it's reassuring to know LGsuper has, according to asset consultant Towers Watson, a very well-diversified and efficient portfolio. This means we are maximising investment returns for the level of investment risk taken, and in the search for further efficiency, we continue to seek investments that produce returns independently of sharemarkets.

Members with money invested in LGsuper's Balanced and Diversified Growth options will also be pleased to know returns continue to outpace inflation by their set percentages, with both default options exceeding their investment objectives over rolling 1, 3 and 10 year periods. This is in line with our highly diversified investment strategy that aims to protect your account balances when sharemarkets take a downward turn and deliver solid returns in the long run.

## Keeping fees low

LGsuper has always been committed to keeping administration fees low so our members have more money for retirement. The past year has seen the fund experience significant cost pressures as higher APRA levies and expenses associated with implementing Stronger Super measures introduced by the Australian Government made an impact. The Board increased the administration fee slightly (by 0.03%) for the 2012/13 year to cover the additional costs of running the fund. Even after this very small increase, LGsuper remains one of the lowest cost funds in Australia.

## Better services for members

In addition to low fees, we seek to help members understand their super so they can make better decisions about their financial future. For the first time, our annual benefit statements show most members an estimate of what their retirement benefit could look like, allowing them to gauge if they are on track and if necessary, make changes to improve their future financial situation. In April 2013 we also introduced an online Knowledge centre to allow members to work their way through articles, learning modules, quizzes, videos and calculators on a range of finance-related topics at their own pace. And our flagship seminar programme went from strength to strength when we introduced a new suite of seminars throughout the year. In fact almost 4,000 members attended 228 seminars across the state in 2012/13 to find out ways to plan a better future.

We've also listened to member feedback on our website, and recently rolled out a new-look, tailored topics and improved functionality so members and employers can find the information they need faster and easier than before.

## LGsuper is MySuper authorised

LGsuper is authorised to launch a MySuper product for members from 1 January 2014. The timing coincides with Australian Government requirements for employers to pay default superannuation contributions to a MySuper product which must be a diversified and low cost investment option that represents good value for money.

Because we already offer members genuine value for money products, deliver solid investment returns and keep our fees lower than most other major super funds we are in a unique position to offer members a MySuper product that is an extension of our existing default options. The success of our application demonstrates APRA's confidence in our fund, its strong governance and quality and cost-effective product and service offerings.

## Farewell to long-serving directors Peter Taylor and Les Tyrell

Lastly, we would like to take this opportunity to thank outgoing directors Peter Taylor and Les Tyrell, who left the LGsuper Board of Directors in 2012/13 after many years of dedicated service. We thank them for their loyalty and commitment to building a better, stronger fund for members during their time with us.

Taking their place, Cr Paul Pisasale and Cr Margaret de Wit were appointed to the Board during the year, and we extend to them a warm welcome.

We 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.



**Brian Roebig OAM**  
Chairman



**David Todd**  
Chief Executive Officer

## Looking ahead

Meeting the challenges of implementing Australian Government legislative and regulatory reforms, while maintaining a clear focus on our members and improving the services we offer will dominate our priorities in 2013/14.

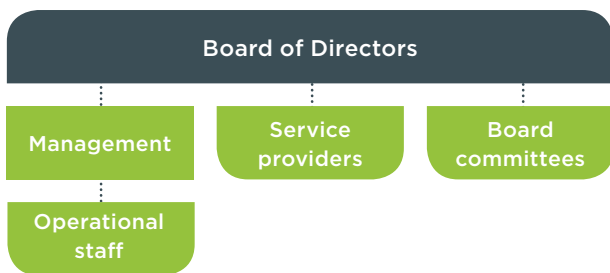
Key deliverables include:

- Putting in place systems and processes needed to implement the Australian Government's Stronger Super reforms, including introducing a MySuper product and streamlining the administration of member accounts in line with SuperStream obligations.
- Enhancing our website to allow members to change investment options online, view video content and more.
- Maintaining our low-cost position for members.



# Governance statement

The Queensland Local Government Superannuation Board (Board) is established under section 208 of the *Local Government Act 2009* (LGA) as a body corporate. Its function under section 209 of the LGA is to act as trustee of the Local Government Superannuation Scheme (LGsuper).



## Governance structure

The Board functions through a Board of Directors as provided under section 210 of the LGA which further provides that the Board of Directors:

1. is responsible for how the Board performs its responsibilities
2. must ensure that the Board performs its responsibilities in a proper, effective and efficient way.

The Board's functions, responsibilities and powers are further defined through:

- LGsuper's Trust Deed
- the Board's Charter
- the Board's Fit and Proper policy.

Under the Trust Deed, the composition of the Board of Directors shall be:

- a. three persons appointed on nomination of LGAQ Ltd
- b. one person appointed on the nomination of Brisbane City Council
- c. four persons appointed on the nomination of members of LGsuper and
- d. one or more independent directors.

The methodology for the appointment of the directors is given in the Trust Deed, in particular:

- employer and member representative directors are appointed for four-year terms
- member representative directors are appointed following an election by LGsuper members
- independent directors are appointed by the Board with the term of appointment being determined by the Board up to a maximum of four years
- a director can be removed in the same way they were appointed or if they fail to meet strict requirements under superannuation legislation.

## Trustee liability insurance

Like most trustees, the Board has obtained trustee liability insurance. This insurance protects LGsuper from losses that might result from wrongful acts of the Board, its directors or its staff.

## Board remuneration policy

### Goals

LGsuper's goal is to provide members with high quality, low cost superannuation services. To provide exceptional, professional services the Board must attract and maintain quality staff. The Board's remuneration policy aims to achieve this.

The Board considers that paying remuneration at market rates, providing challenging work and opportunities for staff to develop personally to be 'the best they can be' will achieve this goal. Incentive payments are only utilised to recognise exceptional performance of staff below manager level.

The Board undertakes annual assessments of itself and its staff to determine:

- whether it has the skills necessary to continue to manage members' retirement savings
- whether it is providing exceptional service to members, through the comparison of performance against key performance indicators
- the professional development needs of its directors and staff.

**Independent remuneration consultant**

The Board utilises the services of an independent consultant, McGuirk Management Consultants (McGuirk), to provide surveys of market salary rates and advice on remuneration practices. McGuirk specialises in remuneration for super funds and financial services organisations in Australia.

**Director and management remuneration**

Director and management remuneration is reviewed against market rates every 2 years with salaries being indexed to AWOTE for intervening years.

**Staff remuneration**

Staff remuneration is reviewed against market rates each year to ensure they are being paid at competitive rates. An incentive scheme is paid annually, subject to a review of performance against team and organisation key performance indicators.

# Trust Deed

**A number of amendments were made to the Trust Deed during the 2012/13 financial year to allow LGsuper to offer a MySuper product from 1 January 2014 and reflect changes related to the Local Government Act.**

The amendments required for MySuper were to:

- offer a single diversified investment strategy for the MySuper product.
- allow different earning rates for that strategy based on the members' age, making the investment strategy a lifecycle investment strategy.
- require insurance benefits for MySuper members unless they opt out.
- only allow transfers out of MySuper accounts where the member consents.
- require members to choose an investment option/s when opening their Pension account.

Other Trust Deed amendments related to changes to the Local Government Act, were to:

- specify the number of employer representatives (four) and member representatives (four) in the Trust Deed, rather than the Local Government Act.
- give the Board the power to delegate its powers to a committee of directors or an employee of the Board.
- remove the requirement for the Auditor-General of Queensland to be appointed as the auditor and insert the requirement to appoint an auditor in accordance with superannuation legislation.
- allow the Board to excuse a member from making the contribution required under the Local Government Act for up to a year where the member is in financial hardship and the employer and member agree in writing.



# Board of Directors

2012/13

## Transitional Board of Directors

On 1 July 2011 the Local Government Superannuation Scheme (LGsuper) merged with the Brisbane City Council Superannuation Plan (City Super). For the period since merging with City Super 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.

## Independent Director and Chairman



### Brian Roebig OAM

*Member, Audit and Risk Management Committee*

Brian Roebig has been independent director and chairman since 1 August 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.

## Board of Directors cont.

### Member representatives

#### Noel Cass Director



Noel Cass has been a director since 1 July 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. He has qualifications in local government administration, accounting and environmental health.

#### Ron Curtis Director



Ron Curtis has been an LGsuper director since 1 July 2011, and was a member representative director 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 area since 2002.

#### Fiona Connor Director



*Member, Audit and Risk Management Committee*

Fiona Connor has been a director since 1 July 2001 and was previously 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 the Governance Institute of Australia.

#### Peter Smith Director



Peter Smith has been a director since 1 July 2008 and was LGsuper's Chief Executive Officer from 1988 to 2006. Peter previously held chief executive and other senior positions with superannuation funds for public utilities, global mining and pharmaceutical companies. Peter holds a Diploma of Financial Services and is a Fellow of the Association of Superannuation Funds of Australia (ASFA). He is a retired member of the National Institute of Accountants and a retired member and Senior Associate of the Australian Insurance Institute.

## Employer representatives

### Cr Paul Bell AM Director



#### *Chairman, Audit and Risk Management Committee*

Cr Paul Bell has been a director since 1 July 2004 and is a past President of the Local Government Association of Queensland (LGAQ) and 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).

### Cr Margaret de Wit Director



Cr Margaret de Wit became an LGsuper director on 1 June 2013 and is President of the Local Government Association of Queensland (LGAQ). She has been a Councillor with Brisbane City Council since 1997, and has held several positions there, including her current role as Chairman. Margaret is also on the Board of the Australian Local Government Association (ALGA). Margaret's career also includes 20 years at Telecom Australia (now Telstra) and several years in the not-for-profit sector. She holds a Graduate Diploma of Business Administration and a Diploma of Financial Planning, and is a Graduate of the Australian Institute of Company Directors.

### Louise Dudley Director



#### *Member, Audit and Risk Management Committee*

Louise Dudley has been an LGsuper director since 1 July 2011 and was an employer representative director of City Super from 2007. Louise is currently Chief Executive Officer of 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 Bachelor of Commerce and a 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.

### Cr Paul Pisasale Director



Cr Paul Pisasale became an LGsuper director on 1 September 2012. He has represented the City of Ipswich for 20 years, and was first elected Mayor in March 2004. Among other positions held, Paul is currently Chair of the National Growth Areas Alliance, Director of Events Queensland, Director of Ipswich City Properties Pty Ltd, Ipswich City Developments Pty Ltd, Ipswich City Enterprises Pty Ltd and Ipswich City Enterprises Investments Pty Ltd. Paul is a Fellow of the Australian Institute of Company Directors.

## Board of Directors cont.

### Directors who ceased in 2012/13

#### Peter Taylor

##### Director



Peter Taylor was a director from 1998 to 31 May 2013 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 and ran his own agricultural business on the Darling Downs for 30 years. He is a Fellow of the Australian Institute of Company Directors, holds a Certificate of Development Practice and is currently studying for a Masters of Development Practice.

#### Cr Les Tyrell OAM

##### Director



Cr Les Tyrell was a director from 1 July 2008 to 31 August 2012 and was previously an LGsuper director from 1995 to 2004. Les is the former Mayor of Townsville City Council. 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. Les has a background in accounting and management.

# Management and staff

The Chief Executive Officer reports to the Board of Directors on delegated responsibilities for the administration and operation of LGsuper. The Scheme Secretary and Deputy Chief Executive Officer, General Manager Operations and Chief Financial Officer assist him in this role.

At 30 June 2013 LGsuper had 60 staff.

## Chief Executive Officer



### David Todd

David Todd has been the CEO since 2006 and prior to this he was the Chief Manager Investments from 2005. David's previous roles include General Manager Investments for Reinsurance Australia/Calliden (1994 to 2004), General Manager Treasury for TNT (1983 to 1994) and various accounting positions in Australian companies. David has a Bachelor of Commerce (Accounting, Finance and Systems), is a member of CPA Australia and is a Certified Senior Treasury Professional (Finance and Treasury Association). David is a Responsible Manager under the Board's Australian Financial Services (AFS) licence and a Responsible Officer under the Registrable Superannuation Entity (RSE) licence.

## Scheme Secretary and Deputy Chief Executive Officer



### Ian Harcla

Ian Harcla has been the Scheme Secretary and Deputy CEO since 2006. Ian's previous roles include General Manager of the Queensland Coal and Oil Shale Mining Industry Superannuation Fund (1989 to 2005) and various audit positions with the Queensland Audit Office. He has a Bachelor of Business (Accounting), a Graduate Diploma in Management and a Graduate Diploma in Applied Finance and Investment. Ian is a Fellow of the Association of Superannuation Funds of Australia (ASFA), a member of CPA Australia and a Graduate Member of the Australian Institute of Company Directors. He is a Responsible Manager under the Board's AFS licence and a Responsible Officer under the RSE licence.

## General Manager Operations



### Timothy Willmington

Timothy Willmington has been the General Manager Operations since 2006 and has held various positions with LGsuper since 1989. Previously, he was employed by QSuper (1986 to 1989). Tim has a Bachelor of Business (Management and HRM), a Diploma of Financial Services (Superannuation), an Associate Diploma of Superannuation Management and is a Fellow of ASFA. He is a Responsible Manager under the Board's AFS licence and a Responsible Officer under the RSE licence.

## Chief Financial Officer



### Peter Gamin

Peter Gamin was appointed Chief Financial Officer in 2013. His key responsibility is to manage the financial operations of the Board and LGsuper. Peter's previous roles include Head of Corporate Finance, Head of Fund Finance and other senior finance positions at QIC (2003 to 2012), Group Financial Accountant at Queensland Cement Limited (1995 to 2003) and Manager at KPMG (1988 to 1995). Peter has a Bachelor of Business and a Master of Commerce. He is a Fellow of the Institute of Chartered Accountants, an Associate of the Governance Institute of Australia and a Certified Finance and Treasury Professional. Peter is a Responsible Officer under the Board's RSE licence.

# Organisational structure

## Chief Executive Officer

**David Todd**<sup>1, 2, 3 (8)</sup>

Oversees and reports to the Board of Directors on all aspects of the administration and operation of LGsuper. Responsible for the development and implementation of investment strategy.

**Scheme Secretary and Deputy Chief Executive Officer**  
**Ian Harcla**<sup>1, 2, 3 (7)</sup>  
 Undertakes scheme secretarial duties and responsible for corporate governance. Oversees the risk and compliance functions, including the handling of member complaints.

**General Manager Operations**  
**Timothy Willmington**<sup>1, 2, 3 (23)</sup>  
 Responsible for administration, marketing and communications, information technology, insurance and member services and advice functions.

**Chief Financial Officer**  
**Peter Gamin**<sup>3 (0)</sup>  
 Manages the financial operations of the Board and LGsuper.

**Manager Compliance**  
**Stuart Meekin**<sup>(2)</sup>

**Manager Scheme Administration**  
**David Sleeman**<sup>1 (5)</sup>

**Manager Finance**  
**Patrick Rochford**<sup>(23)</sup>

**Investment Manager**  
**Guy Rundle**<sup>(2)</sup>

**Project Manager**  
**Barbara Matthews**<sup>1 (26)</sup>

**Manager Marketing and Communications**  
**Lyndal Ferrari**<sup>1 (7)</sup>

**Manager Member Services and Advice**  
**Rhonda Maden**<sup>1, 2 (2)</sup>

**Manager Information Technology**  
**Rob Fox**<sup>(6)</sup>

**Insurance Manager**  
**Robert Paré**<sup>(2)</sup>

1 Authorised representative under Australian Financial Services Licence No. 230511

2 Responsible Manager under Australian Financial Services Licence No. 230511

3 Responsible Officer under RSE Licence

Figures in brackets indicate number of completed years of service at 30 June 2013.

# Investments

The Board of Directors' general investment objectives for LGsuper assets are:

- to invest the assets as permitted by the Trust Deed or by law
- to prudently manage all aspects of risk in relation to LGsuper assets, by ensuring:
  - assets are adequately diversified
  - assets have an appropriate level of liquidity
  - assets are sufficient to meet benefit payments when they fall due
  - any third party to whom investment decision-making is delegated exercises integrity, prudence and professional skill in fulfilling the investment tasks delegated to them, and the actions of the third party are fully accountable to the Board.
- Strategic asset allocation is the primary determinant of LGsuper returns. It is set with reference to an asset model that factors in long-term expected return and risk characteristics.
- Other things being equal, a strategy that comprises a more diverse exposure to asset class and manager risks is preferable to one with concentrated risk exposures.
- For asset classes for which assumptions are expected to be less robust, or for which there are additional important considerations such as illiquidity, a practical limit is imposed.
- For the introduction of a new asset class into the strategy to be worthwhile in terms of risk and/or return, and taking into account the overall governance, it must be awarded an allocation sufficiently large so as to have a meaningful impact on the total fund or option's expected characteristics.

The Board of Directors holds the following beliefs:

- Our primary objective is to provide a secure source of retirement income for LGsuper members. The Board adheres to the principles of capital market theory which maintain that over the long term, prudent investment risk-taking is rewarded with incremental returns. So, while capital preservation is important, the Board regards prudent risk-taking as justifiable.
- Our main goal is to set an appropriate level of investment risk, and then subject to this, create value by maximising the return per unit of risk. For the accumulation section, the primary risk measure is defined as the volatility of returns. Peer group risk (i.e. the risk of underperforming other superannuation funds of a similar nature) is assessed as a secondary measure. For the defined benefit section, risk is defined relative to the liabilities.
- Our investment objectives are long-term in nature, and the Board does not believe it has the capability to tactically adjust the strategic allocations to asset classes or currencies to exploit short-term changes in market conditions. However, the strategic asset allocation is expected to be reviewed periodically (typically annually) to allow for significant changes to market conditions and/or long-term asset class assumptions.
- The Board recognises that markets can move outside long-term fair value ranges and will implement medium-term tilts to strategic allocation to add return/reduce risk. This dynamic approach to strategic allocation is typically over a 3 year+ time horizon.

## Allocation of earnings

Earning rates on the following pages are 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 two 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).

Following 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.

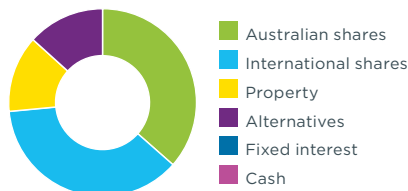
During periods of significant market volatility, or other conditions which prevent LGsuper from determining daily and/or weekly benchmark rates, processing of claims and/or switches may be suspended for up to 7 days or longer, as dictated by market conditions.

# Accumulation Benefits Fund

Accumulation accounts, Retained Benefit accounts, Spouse accounts and Pension accounts

## Aggressive

Actual asset allocation at 30 June 2013



**Investment objective** 4.5% p.a. above inflation over rolling 5-year periods

**Risk** High

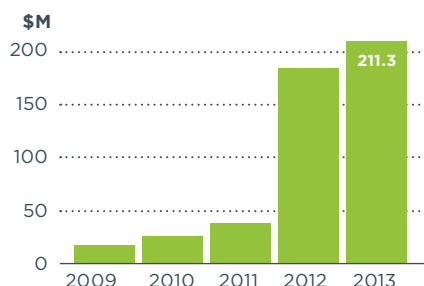
**Returns**<sup>1</sup>

30 June	Accumulation accounts %	Pension accounts %
2013	17.86	19.35
2012	-1.28	-1.35
2011	12.77	13.94
2010	7.63	8.44
2009	-16.66	-19.36
5-yr avge (% p.a.)	3.31	3.24
% p.a. over CPI	0.92	0.85

### Strategic asset allocation and ranges

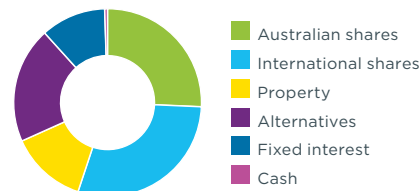
At 30 June	2013 %	Ranges %
<b>Return-seeking</b>	<b>100</b>	<b>100</b>
Australian shares	34.0	26.5-41.5
International shares	34.0	26.5-41.5
Property	15.0	7.5-22.5
Alternatives	17.0	9.5-24.5
<b>Risk-controlling</b>	<b>0</b>	<b>0</b>
Fixed interest	0	0
Cash	0	0

### Member funds invested



## Diversified Growth

Actual asset allocation at 30 June 2013



**Investment objective** 4% p.a. above inflation over rolling 5-year periods

**Risk** Medium to high

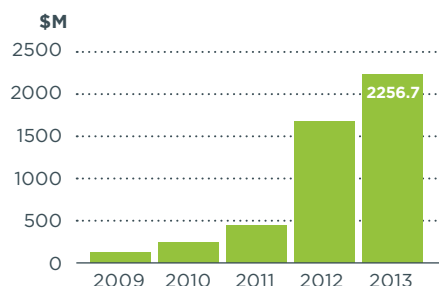
**Returns**<sup>1</sup>

30 June	Accumulation accounts %	Pension accounts %
2013	13.95	15.21
2012	1.62	1.82
2011	11.59	12.80
2010	9.43	10.43
2009	-14.17	-16.46
5-yr avge (% p.a.)	3.95	4.07
% p.a. over CPI	1.56	1.68

### Strategic asset allocation and ranges

At 30 June	2013 %	Ranges %
<b>Return-seeking</b>	<b>88.5</b>	<b>81.0-96.0</b>
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
<b>Risk-controlling</b>	<b>11.5</b>	<b>4.0-19.0</b>
Fixed interest	11.5	4.0-19.0
Cash	0	0

### Member funds invested



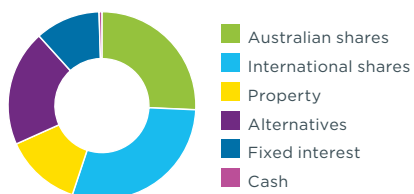
<sup>1</sup> Past performance is not an indicator of future performance



# Accumulation Benefits Fund cont.

## Diversified Growth plus Reserves (closed)

Actual asset allocation at 30 June 2013



**Investment objective** 4% p.a. above inflation over rolling 5-year periods

**Risk** Medium to high

### Returns<sup>1</sup>

30 June	Accumulation accounts %	Pension accounts %
2013	15.83	17.09
2012	6.14	6.30
2011	9.32	10.05
2010	6.26	6.86
2009	-14.10	-16.39
5-yr avge (% p.a.)	4.17	4.12
% p.a. over CPI	1.78	1.73

### Strategic asset allocation and ranges

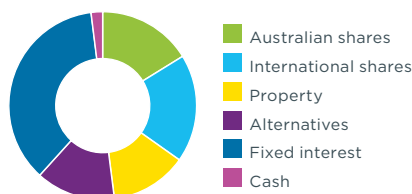
At 30 June	2013 %	Ranges %
<b>Return-seeking</b>	<b>88.5</b>	<b>81.0-96.0</b>
Australian shares	23.9	16.4-31.4
International shares	23.9	16.4-31.4
Property	15.0	7.5-22.5
Alternatives	25.7	18.2-33.2
<b>Risk-controlling</b>	<b>11.5</b>	<b>4.0-19.0</b>
Fixed interest	11.5	4.0-19.0
Cash	0	0

### Member funds invested



## Balanced

Actual asset allocation at 30 June 2013



**Investment objective** 3.5% p.a. above inflation over rolling 5-year periods

**Risk** Medium

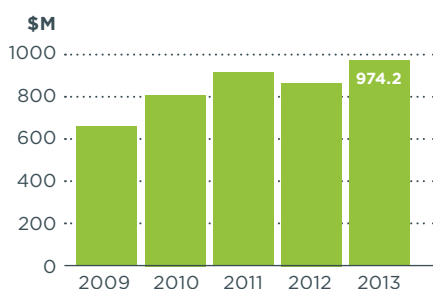
### Returns<sup>1</sup>

30 June	Accumulation accounts %	Pension accounts %
2013	10.08	11.12
2012	5.07	5.71
2011	9.68	10.89
2010	10.02	11.21
2009	-9.03	-10.33
5-yr avge (% p.a.)	4.89	5.37
% p.a. over CPI	2.50	2.98

### Strategic asset allocation and ranges

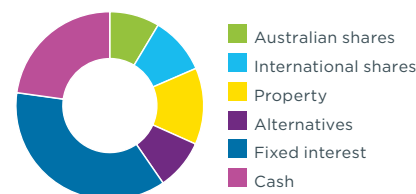
At 30 June	2013 %	Ranges %
<b>Return-seeking</b>	<b>62.8</b>	<b>55.3-70.3</b>
Australian shares	15.1	7.6-22.6
International shares	15.1	7.6-22.6
Property	15.0	7.5-22.5
Alternatives	17.6	10.1-25.1
<b>Risk-controlling</b>	<b>37.2</b>	<b>29.7-44.7</b>
Fixed interest	37.2	29.7-44.7
Cash	0	0

### Member funds invested



## Stable

Actual asset allocation at 30 June 2013



**Investment objective** 2.5% p.a. above inflation over rolling 5-year periods

**Risk** Low to medium

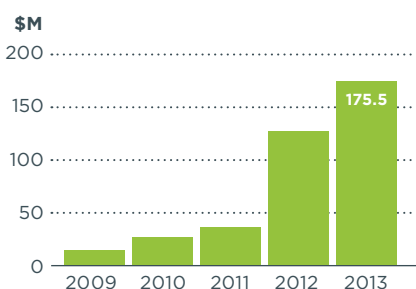
### Returns<sup>1</sup>

30 June	Accumulation accounts %	Pension accounts %
2013	7.16	8.05
2012	6.24	7.10
2011	7.90	9.00
2010	8.53	9.64
2009	-4.79	-5.34
5-yr avge (% p.a.)	4.88	5.53
% p.a. over CPI	2.49	3.14

### Strategic asset allocation and ranges

At 30 June	2013 %	Ranges %
<b>Return-seeking</b>	<b>42.2</b>	<b>34.7-49.7</b>
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	3.5-18.5
<b>Risk-controlling</b>	<b>57.8</b>	<b>50.3-65.3</b>
Fixed interest	37.8	30.3-45.3
Cash	20.0	12.5-27.5

### Member funds invested

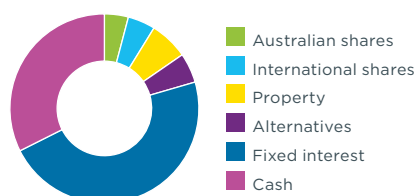


<sup>1</sup> Past performance is not an indicator of future performance

## Accumulation Benefits Fund cont.

### Defensive

Actual asset allocation at 30 June 2013



**Investment objective** 2% p.a. above inflation over rolling 5-year periods

**Risk** Very low

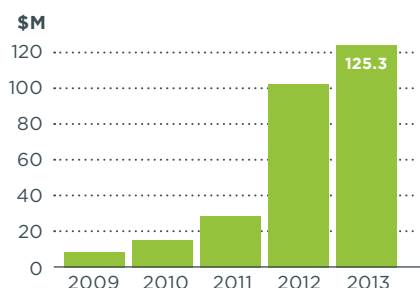
**Returns**<sup>1</sup>

30 June	Accumulation accounts %	Pension accounts %
2013	4.86	5.61
2012	7.27	8.63
2011	6.27	7.45
2010	8.68	9.88
2009	-0.59	-0.64
5-yr avge (% p.a.)	5.25	6.12
% p.a. over CPI	2.86	3.73

#### Strategic asset allocation and ranges

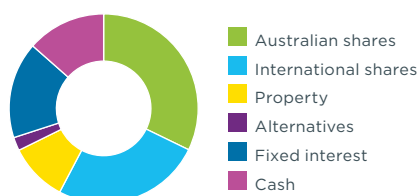
At 30 June	2013 %	Ranges %
<b>Return-seeking</b>	<b>21.6</b>	<b>14.1-29.1</b>
Australian shares	3.8	0-11.3
International shares	3.8	0-11.3
Property	7.5	0-15.0
Alternatives	6.5	0-14.0
<b>Risk-controlling</b>	<b>78.4</b>	<b>70.9-85.9</b>
Fixed interest	48.4	40.9-55.9
Cash	30.0	22.5-37.5

#### Member funds invested



### SR Balanced

Actual asset allocation at 30 June 2013



**Investment objective** 4% p.a. above inflation over rolling 5-year periods

**Risk** High

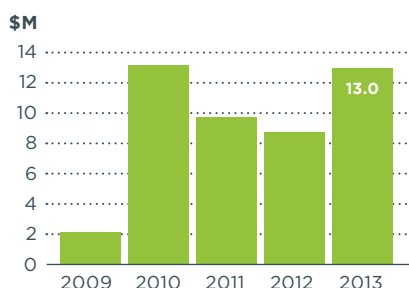
**Returns**<sup>1</sup>

30 June	Accumulation accounts %	Pension accounts %
2013	16.73	18.50
2012	-0.83	-0.81
2011	7.65	8.61
2010	8.03	9.23
2009	-10.03	-11.63
5-yr avge (% p.a.)	3.91	4.27
% p.a. over CPI	1.52	1.88

#### Strategic asset allocation and ranges

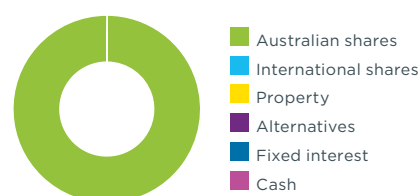
At 30 June	2013 %	Ranges %
<b>Return-seeking</b>	<b>69.0</b>	
Australian shares	33.0	26-40
International shares	24.5	15-35
Property	10.0	0-15
Alternatives	1.5	0-6
<b>Risk-controlling</b>	<b>31.0</b>	
Fixed interest	25.0	15-30
Cash	6.0	0-16

#### Member funds invested



### SR Australian Shares

Actual asset allocation at 30 June 2013



**Investment objective** outperform S&P ASX300 Accumulation Index over rolling 5-year periods

**Risk** Very high

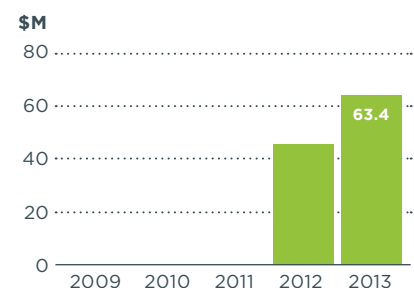
**Returns**<sup>1</sup>

30 June	Accumulation accounts %	Pension accounts %
2013	28.86	30.39
2012	-1.49	-1.55
Avg since inception (% p.a.)	12.67	13.30

#### Strategic asset allocation

At 30 June	2013 %
<b>Return-seeking</b>	<b>100</b>
Australian shares	100
International shares	0
Property	0
Alternatives	0
<b>Risk-controlling</b>	<b>0</b>
Fixed interest	0
Cash	0

#### Member funds invested

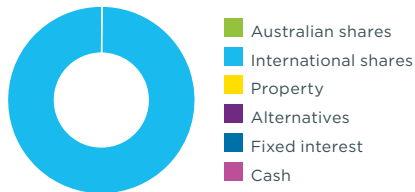


<sup>1</sup> Past performance is not an indicator of future performance

# Accumulation Benefits Fund cont.

## International Shares

Actual asset allocation at 30 June 2013



**Investment objective** outperform a composite index of international shares over rolling 5-year periods

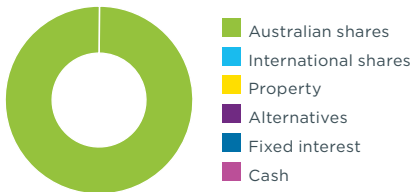
**Risk** High

**Returns<sup>1</sup>**

30 June	Accumulation accounts %	Pension accounts %
2013	26.57	29.91
2012	0.27	0.36
Avg since inception (% p.a.)	12.66	14.19

## Australian Shares

Actual asset allocation at 30 June 2013



**Investment objective** outperform a composite index of Australian shares over rolling 5-year periods

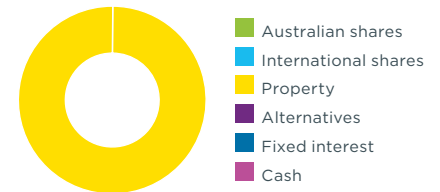
**Risk** Very high

**Returns<sup>1</sup>**

30 June	Accumulation accounts %	Pension accounts %
2013	15.82	16.69
2012	-9.56	-10.54
Avg since inception (% p.a.)	2.35	2.17

## Property

Actual asset allocation at 30 June 2013



**Investment objective** 5% p.a. above inflation over rolling 5-year periods

**Risk** Medium to high

**Returns<sup>1</sup>**

30 June	Accumulation accounts %	Pension accounts %
2013	10.47	11.69
2012	6.80	7.59
Avg since inception (% p.a.)	8.62	9.62

## Strategic asset allocation

At 30 June	2013 %
<b>Return-seeking</b>	<b>100</b>
Australian shares	0
International shares	100
Property	0
Alternatives	0
<b>Risk-controlling</b>	<b>0</b>
Fixed interest	0
Cash	0

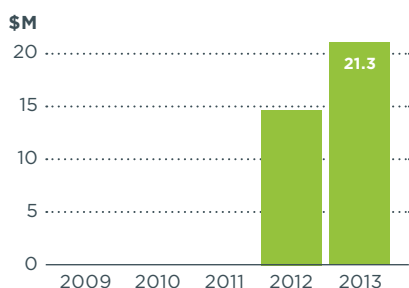
## Strategic asset allocation

At 30 June	2013 %
<b>Return-seeking</b>	<b>100</b>
Australian shares	100
International shares	0
Property	0
Alternatives	0
<b>Risk-controlling</b>	<b>0</b>
Fixed interest	0
Cash	0

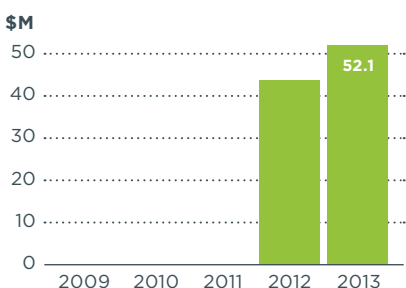
## Strategic asset allocation

At 30 June	2013 %
<b>Return-seeking</b>	<b>100</b>
Australian shares	0
International shares	0
Property	100
Alternatives	0
<b>Risk-controlling</b>	<b>0</b>
Fixed interest	0
Cash	0

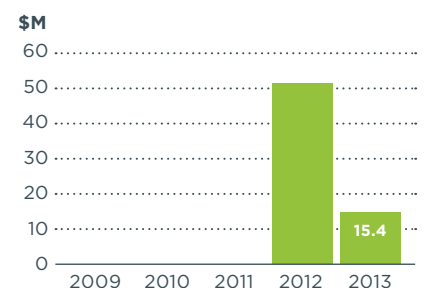
## Member funds invested



## Member funds invested



## Member funds invested

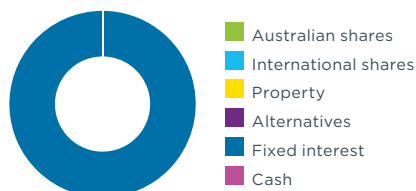


<sup>1</sup> Past performance is not an indicator of future performance

## Accumulation Benefits Fund cont.

### Diversified Fixed Interest

Actual asset allocation at 30 June 2013



**Investment objective** outperform a composite index of Australian and international fixed interest over rolling 5-year periods

**Risk** Very low

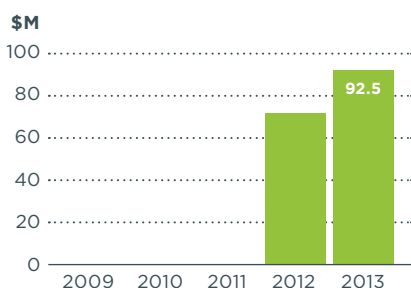
#### Returns<sup>1</sup>

30 June	Accumulation accounts %	Pension accounts %
2013	2.35	2.83
2012	10.13	11.99
Avg since inception (% p.a.)	6.17	7.31

#### Strategic asset allocation

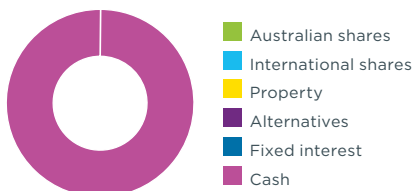
At 30 June	2013 %
<b>Return-seeking</b>	<b>0</b>
Australian shares	0
International shares	0
Property	0
Alternatives	0
<b>Risk-controlling</b>	<b>100</b>
Fixed interest	100
Cash	0

#### Member funds invested



### Cash

Actual asset allocation at 30 June 2013



**Investment objective** RBA official cash rate over rolling 5-year periods

**Risk** Very low

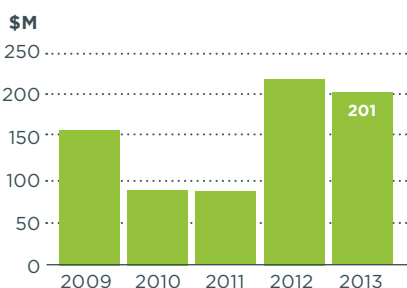
#### Returns<sup>1</sup>

30 June	Accumulation accounts %	Pension accounts %
2013	3.18	3.78
2012	4.18	4.96
2011	4.05	4.81
2010	2.93	3.52
2009	3.77	4.27
5-yr avge (% p.a.)	3.62	4.27
% p.a. over CPI	1.23	1.88

#### Strategic asset allocation

At 30 June	2013 %
<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

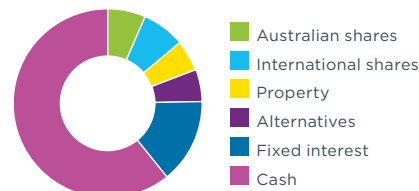
#### Member funds invested



## Insurance Fund

### Insurance Fund

Actual asset allocation at 30 June 2013



**Investment objective** RBA official cash rate over rolling 5-year periods

**Risk** Very low

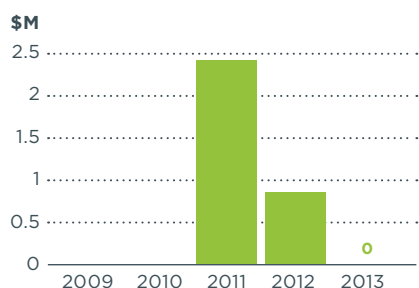
#### Returns<sup>1</sup>

30 June	%
2013	5.94
2012	4.54
2011	6.51
2010	5.96
2009	-0.98
5-yr avge (% p.a.)	4.36

#### Strategic asset allocation

At 30 June	2013 %
<b>Return-seeking</b>	<b>25.0</b>
Australian shares	6.0
International shares	6.0
Property	6.0
Alternatives	7.0
<b>Risk-controlling</b>	<b>75.0</b>
Fixed interest	15.0
Cash	60.0

#### Fund balance

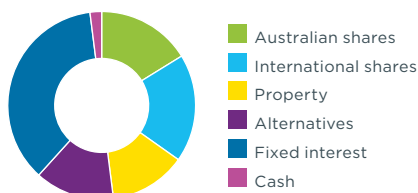


<sup>1</sup> Past performance is not an indicator of future performance

# Defined Benefits Funds

## Defined Benefits Fund

### Actual asset allocation at 30 June 2013



**Investment objective** achieve returns in excess of salary inflation plus 1.5% p.a. over rolling 3-year periods

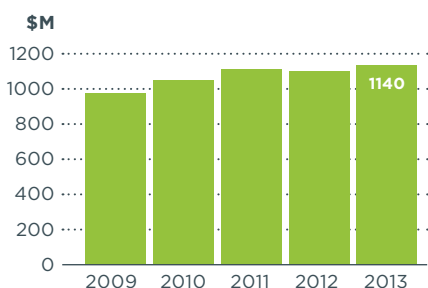
### Returns<sup>1</sup>

30 June	Investment return %	Accumulation comparison rate %
2013	10.08	8.60
2012	5.07	6.43
2011	9.68	8.43
2010	10.02	6.55
2009	-9.03	-19.00
3-yr avge (% p.a.)	8.25	7.82
% p.a. over AWOTE <sup>2</sup>	3.89	

### Strategic asset allocation

At 30 June	2013 %
<b>Return-seeking</b>	<b>62.8</b>
Australian shares	15.1
International shares	15.1
Property	15.0
Alternatives	17.6
<b>Risk-controlling</b>	<b>37.2</b>
Fixed interest	37.2
Cash	0.0

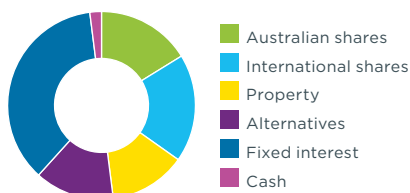
### Fund balance



## Defined Benefit account

(former City Super)

### Actual asset allocation at 30 June 2013



**Investment objective** achieve returns in excess of salary inflation plus 1.5% p.a. over rolling 3-year periods

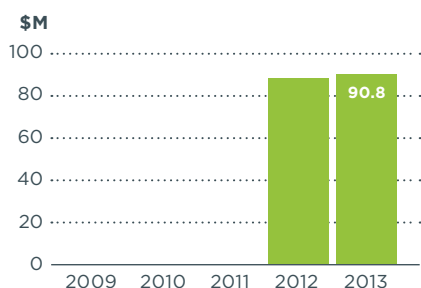
### Returns<sup>1</sup>

30 June	Investment return %	Crediting rate %
2013	10.84	7.00
2012	2.03	6.77
2011	8.31	1.50
2010	9.93	-3.88
2009	-12.63	-2.31
3-yr avge (% p.a.)	7.00	5.06
% p.a. over AWOTE <sup>2</sup>	2.64	

### Strategic asset allocation

At 30 June	2013 %
<b>Return-seeking</b>	<b>62.8</b>
Australian shares	15.1
International shares	15.1
Property	15.0
Alternatives	17.6
<b>Risk-controlling</b>	<b>37.2</b>
Fixed interest	37.2
Cash	0.0

### Fund balance



## Actuarial valuations

LGsuper has two Defined Benefit 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 at 1 July 2015.

### Regional Defined Benefits Fund

The last actuarial valuation of the regional Defined Benefits Fund was conducted at 1 July 2012. 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 at 1 July 2012.

### 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	2013 %	2012 %	2011 %
Regional Defined Benefits Fund	106-107 <sup>3</sup>	103.5	104.9
Former City Super Defined Benefit Fund	108 <sup>3</sup>	102.6	n/a

<sup>3</sup> Preliminary

<sup>1</sup> Past performance is not an indicator of future performance

<sup>2</sup> Proxy for salary growth

# Market update

LGsuper delivered strong, positive returns for 2012/13 as global conditions improved. The following market update explains.

## International shares

Global sharemarkets were again buffeted by macroeconomic events throughout the year. While Europe's post-GFC problems appear contained they remain unresolved with several southern countries still battling recession and austerity measures. China faces difficulties as its government attempts to simultaneously control credit growth and grow the economy at a sufficient rate to spur employment. And the withdrawal of Quantitative Easing in the US has caused uncertainty in financial markets globally.

Japan's Nikkei returned a huge 50.7%, while Germany's DAX ended up 28.3% and the US S&P500 up 21.1%. In contrast, the Chinese Shanghai Composite index fell by 11% over 2012/13, plagued by concerns over the growth outlook in China as data failed to show any expected improvement.

Our value-style managers performed particularly well in this environment with Sanders Capital (39.2%) and Brandes (36.6%) significantly outperforming their benchmarks.

## Australian shares

The S&P/ASX 200 Accumulation Index rose to its highest level in nearly 5 years in mid-May before giving up some of these gains in late May and June as global macroeconomic concerns, particularly from the US and China, affected sentiment.

Over the year, the ASX200 Accumulation Index climbed 22.7%, predominantly on the back of the healthcare sector (up 42.5%) while telecommunications and financial shares also experienced strong gains. The mining sector underperformed, returning -9.3% for the year, partly as a result of concerns over the future pace of economic growth in China and flow on effects to demand for Australian commodities.

While large-cap shares generally had a good year, the small caps sector performed poorly to return -5.3%. Industrials returned 11.4%, while the resources sector lost 48.7%. Small cap resource shares were impacted by a weaker Australian dollar and falling gold and iron ore prices.

## Property

LGsuper's 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. Stand-out performers were investments in the GPT Office Fund which returned 10.9% and QIC Property Fund 8.7%.

In addition to the solid performance of LGsuper's unlisted property holdings, our global listed shares performed exceptionally well to return 17.5%.

## Alternatives

Our investments in alternatives returned an impressive 8.1% for 2012/13 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. While all of our investments contributed to this positive performance, our infrastructure holdings were particularly strong.

Throughout the year LGsuper continued to invest in infrastructure assets, with significant allocations made to the renewable energy sector including wind farms in Australia, solar farms in Thailand and hydro-electric facilities in India. We will continue to expand investments in this sector over the coming years as new opportunities present themselves.

## Fixed interest and cash

Australia continued to attract the investment attention of global central banks, as our relatively strong economy, AAA credit rating and low inflation combined to highlight our safe-haven country status.

The RBA cut the official cash rate three times over the course of the year to a 53-year low of 2.75% p.a. With the peak in the mining boom now behind us, the RBA attempted to stimulate other sectors of the economy.

The Australian dollar (AUD) depreciated by 4.5% against the US dollar in June, ending the month at \$0.9138 US - its lowest level since October 2010 - and down 10.7% for the year.

## Looking forward

In the year ahead financial markets will continue to focus on macroeconomic themes, and in particular, the US Federal Reserve's tapering of their \$85 billion a month bond purchasing program. It's widely accepted that the Federal Reserve's open discussion on tapering is potentially an indication the US is back on track to grow its economy. Recent data confirms the US is recovering and will likely be a key driver of future global growth.

With the peak in mining investment now behind us, Australia will need to continue to stimulate other sectors of the economy to ensure growth is maintained.

## Where your money is invested

### Top 10 Australian shares at 30 June 2013

<b>1</b>	<b>BHP Billiton</b> MINING
<b>2</b>	<b>Westpac</b> FINANCE
<b>3</b>	<b>CBA</b> FINANCE
<b>4</b>	<b>QBE Insurance</b> INSURANCE
<b>5</b>	<b>ANZ</b> FINANCE
<b>6</b>	<b>Rio Tinto</b> MINING
<b>7</b>	<b>NAB</b> FINANCE
<b>8</b>	<b>Santos</b> ENERGY
<b>9</b>	<b>Telstra</b> TELECOMMUNICATIONS
<b>10</b>	<b>Woolworths</b> RETAIL

### Top 10 International shares at 30 June 2013

<b>1</b>	<b>Simon Property Group</b> PROPERTY
<b>2</b>	<b>Microsoft</b> SOFTWARE
<b>3</b>	<b>AvalonBay Communities</b> PROPERTY
<b>4</b>	<b>Wells Fargo</b> FINANCE
<b>5</b>	<b>British American Tobacco</b> TOBACCO
<b>6</b>	<b>Westfield Group</b> PROPERTY
<b>7</b>	<b>Philip Morris</b> TOBACCO
<b>8</b>	<b>Mastercard</b> FINANCE
<b>9</b>	<b>Coca-Cola</b> BEVERAGES
<b>10</b>	<b>Visa</b> FINANCE

## 2012/13 LGsuper portfolio returns by asset class

Returns shown are before fees and tax.

Asset class	Gross return % p.a.
Australian shares	17.68
International shares	30.61
Property	12.49
Alternatives	8.09
Fixed interest	3.52
Cash	4.26

# Fees and costs

Type of fee or cost	Amount	How and when paid	
<b>Fees when your money moves in or out of the fund</b>			
<b>Establishment fee</b> The fee to open your investment.	Nil	Not applicable	
<b>Contribution fee</b> The fee on each amount contributed to your investment — either by you or your employer.	Nil	Not applicable	
<b>Withdrawal fee</b> The fee on each amount you take out of your investment.	Nil	Not applicable	
<b>Termination fee</b> The fee to close your investment.	Nil	Not applicable	
<b>Management costs</b>			
The fees and costs for managing your investment. Actual charged to LGsuper members in 2012/13.		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.	
Investment option	Administration fee % p.a.	Investment management fee % p.a. <sup>1</sup>	Total fee % p.a.
Aggressive	0.21	0.51	0.72
Diversified Growth	0.21	0.49	0.70
Diversified Growth plus Reserves	0.21	0.49	0.70
Balanced	0.21	0.42	0.63
Stable	0.21	0.32	0.53
Defensive	0.21	0.23	0.44
SR Balanced	0.21	0.84	1.05
SR Australian Shares	0.21	0.80	1.01
International Shares	0.21	0.48	0.69
Australian Shares	0.21	0.48	0.69
Property	0.21	0.72	0.93
Diversified Fixed Interest	0.21	0.20	0.41
Cash	0.21	0.02	0.23
<b>Service fees<sup>2</sup></b>			
<b>Investment switching fee</b> The fee for changing investment options.	Nil	Not applicable	
<b>Management costs</b>			
Estimated for 2013/14.		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.	
Investment option	Administration fee % p.a.	Investment management fee % p.a. <sup>1</sup>	Total fee % p.a.
Aggressive	0.21	0.49	0.70
Diversified Growth	0.21	0.51	0.72
Balanced	0.21	0.43	0.64
Stable	0.21	0.35	0.56
Defensive	0.21	0.27	0.48
SR Balanced	0.21	0.90	1.11
SR Australian Shares	0.21	0.84	1.05
International Shares	0.21	0.41	0.62
Australian Shares	0.21	0.39	0.60
Property	0.21	0.61	0.82
Diversified Fixed Interest	0.21	0.23	0.44
Cash	0.21	0.09	0.30

<sup>1</sup> 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.

<sup>2</sup> See *Incidental fees* following for more information on insurance administration and financial advice fees.



## Fee changes

Management costs 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 LGsuper 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 \$1.2 million are included in the management costs for 2012/13.

Due to the difficulty in predicting performance fees for future years, performance fees have not been included in the estimated management costs for 2013/14.

## 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 to members.

## 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

LGsuper does not charge a fee for the provision of general advice, or for limited single issue personal advice (e.g. salary sacrifice, super co-contribution) where a limited Statement of Advice is provided following face-to-face or phone consultation with an LGsuper representative.

LGsuper members who receive more comprehensive personal advice and/or meet with an LGsuper advice representative will be charged on a fee-for-service basis. A fee of \$220 including GST will be charged for an in person or phone meeting and a fee of \$220 including GST will be charged for more comprehensive personal advice.

The 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.

LGsuper is committed to giving you solid returns over the long-term, low fees and quality service. The slight increase of 0.03% per annum from our 2011/12 administration fee was necessary to cover significant increases in the costs of running LGsuper. In particular, the levy superannuation funds like LGsuper pay to the Australian Prudential Regulation Authority (APRA) increased in 2012/13 to cover Australian Government expenses relating to implementing the Stronger Super reforms. What's more, to deliver the back-office payments and processing efficiencies that Stronger Super initiatives like SuperStream are designed to achieve, LGsuper has also needed to invest in new technology and infrastructure, which comes at an additional cost to the fund.

# Investment managers

The Board is responsible for investing members' 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.

The Board regularly reviews investment manager performance and contribution to overall objectives. In addition, the Board ensures external managers comply with the guidelines, requirements and objectives specified in their Investment Management Agreements. LGsuper allows managers to use derivatives in order to hedge risk and/or increase transactional efficiency. Investment managers who use derivatives must adopt an acceptable Derivative Risk Statement that specifies how derivatives are used and what controls are in place.

The Board also has an Investment Policy Statement that details its investment policies and procedures.

## Total Scheme investment returns

At 30 June 2013	1 yr	3 yrs	5 yrs	7 yrs	10 yrs
Total return (before tax and fees)	13.95	9.73	5.11	5.34	8.35
Composite benchmark	13.09	8.73	6.06	5.90	8.36
% p.a. above/below benchmark	0.86	1.00	-0.95	-0.56	-0.01

## Administration and investment management expenses

Year ending 30 June	Administration expenses as % of FUM <sup>1</sup>	Investment management expenses as % of FUM	Average FUM \$M
2013	0.21	0.27	6,377.7
2012	0.18	0.28	6,066.7
2011	0.18	0.39	4,161.7
2010	0.18	0.31	3,577.8
2009	0.17	0.26	3,484.5

## Investment manager mandates

	Australian shares	International shares	Property	Alternatives	Socially Responsible	Fixed interest	Cash	\$M
Acorn Capital	1							64.5
Altis			2					54.9
AMP Capital Investors	1	5	2	2				648.0
Ardea						1		109.0
Arrowstreet Fund		1						87.5
Artisan Emerging Markets		1						53.3
BlackRock		1				1		931.5
Brandes		1						151.5
Bridgewater				1				135.6
Colonial First State		1				1		194.1
Dexus			1					78.1
Eley Griffiths	1							65.5
EQT				2				18.9
Equis				1				13.5
GPT			1					81.8
Hastings				1				63.9
Independent	1							180.4
JCP Investment Partners	1							234.7
K2 Advisors				1				215.9
Lazard Thematic		1						164.8
LGsuper (internal)						1		283.9
Lend Lease			1					83.0
Macquarie Funds Management	1			1				476.2
Merlon Capital	1							195.6
MFS		1						165.9
Morgan Stanley Investment Mgt				1				25.7
Northcape Capital	1							225.7
Palisade Investment Partners				1				181.6
Paradice	1							44.5
Perpetual					1			46.4
PIMCO						1		223.2
Principal Healthcare			1					17.8
QIC			1			4	1	785.7
Resolution Capital			1					99.6
Retirement Villages Group			1					8.4
Rockspring			2					24.0
Rogge Global Partners				1				90.1
Sanders Capital		1						148.1
Stone Harbor				1				244.3
Vontobel		1						172.9
Wellington						1		151.9
Westbourne Capital				1				108.9
<b>Total</b>								<b>7,350.8</b>

<sup>1</sup> After the deduction of administration expenses relating to investment and insurance.

## Investment managers by asset class

As at 30 June 2013			As at 30 June 2013		
Investment manager	\$M	%	Investment manager	\$M	%
<b>Australian shares</b>	<b>1,553.1</b>	<b>21.1</b>	Morgan Stanley Infrastructure	25.7	0.3
Acorn Capital	64.5	0.9	Palisade Investment Partners	181.7	2.5
AMP Capital Investors	143.3	1.9	Rogge	90.1	1.2
Eley Griffiths	65.5	0.9	Stone Harbor	244.3	3.3
Independent	180.5	2.5	Westbourne Capital	108.9	1.5
JCP Investment Partners	234.7	3.2	<b>Socially responsible Balanced</b>	<b>16.4</b>	<b>0.2</b>
Macquarie Passive Index	398.8	5.4	AMP RIL Balanced Fund	16.4	0.2
Merlon Capital	195.6	2.7	<b>Socially responsible Australian shares</b>	<b>80.8</b>	<b>1.1</b>
Northcape Capital	225.7	3.1	AMP Sustainable Share Fund	34.4	0.5
Paradise Small Caps	44.6	0.6	Perpetual Ethical SRI Fund	46.4	0.6
<b>International shares</b>	<b>1,770.9</b>	<b>24.1</b>	<b>Diversified fixed interest</b>	<b>1,485.8</b>	<b>20.2</b>
Arrowstreet Fund	87.5	1.2	Ardea ILB	109.0	1.5
Artisan Emerging Markets	53.3	0.7	Blackrock Global	157.0	2.1
BlackRock	774.9	10.5	Colonial First State – Australia ILB	142.9	1.9
Brandes Investment Partners	151.5	2.1	PIMCO Global Credit	223.1	3.0
Colonial First State Emerging Markets	52.0	0.7	QIC – Australian Government	259.1	3.5
Lazard Thematic	164.8	2.2	QIC – Australian Diversified	262.5	3.6
MFS Global Equity	165.9	2.3	QIC – Inflation Plus	110.8	1.5
Sanders Capital	148.1	2.0	QIC – Passive Australian ILB	69.5	0.9
Vontobel	172.9	2.4	Wellington Global	151.9	2.1
<b>Property</b>	<b>921.6</b>	<b>12.5</b>	<b>Cash</b>	<b>300.6</b>	<b>4.1</b>
Altis AREEP	54.9	0.7	<b>Total</b>	<b>7,350.8</b>	<b>100</b>
AMP Property	409.5	5.6			
Dexus Wholesale Property Fund	78.1	1.1			
GPT Wholesale Office Fund	81.9	1.1			
Lend Lease APPF Retail	83.0	1.1			
Principal Healthcare Trust	17.8	0.2			
QIC Property Fund	64.5	0.9			
Resolution Global REIT	99.6	1.4			
Retirement Villages Group	8.4	0.1			
Rockspring Pan European Fund	24.0	0.3			
<b>Alternatives</b>	<b>1,221.5</b>	<b>16.6</b>			
AMP Infrastructure	44.4	0.6			
Bridgewater	135.6	1.8			
EQT Infrastructure	18.9	0.3			
Equis Infrastructure	13.5	0.2			
Hastings Infrastructure	64.0	0.9			
K2 Advisors	215.9	2.9			
Macquarie Bank RMBS	77.3	1.1			
Members Equity	1.2	0.0			

# Other important information

## 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 receive a 15% tax deduction on the premiums.

## 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.

## 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.

## Complaints

We hope you are happy with LGsuper and the service we provide. If you are unhappy we have a complaints handling process. You can contact our Complaints Officer as follows:

**Post** Complaints Officer  
LGsuper  
GPO Box 264  
Brisbane Qld 4001

**Email** [complaints@lgsuper.org](mailto:complaints@lgsuper.org)

**Phone** 1800 444 396

**Fax** (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.

# Specialist consultants and advisors

**Actuarial advice**

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

**Asset consultants**

Towers Watson

**Auditors**

Auditor General of Queensland, Brisbane (external)  
Ernst & Young, Brisbane (internal)

**Bank**

Commonwealth Bank of Australia, Brisbane

**Information services**

Bravura, Sydney

**Master custodian**

JP Morgan Investor Services, Sydney

**Senior Medical Officer**

Dr E Pollard MBBS FRACP, Brisbane

**Solicitors**

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

**Tax consultant**

PricewaterhouseCoopers, Brisbane

**Group Life Insurers**

AIA Australia Limited  
One Path Life Limited

# Local Government Superannuation Scheme

ABN 23 053 121 564

## Financial statements

for the year ended 30 June 2013

# Contents

Statement of changes in net assets	30
Statement of net assets	31
Notes to and forming part of the Financial statements	32
Note 1. General information	32
Note 2. Statement of significant accounting policies	32
Note 3. Operation of the Scheme	38
Note 4. Division of Scheme	39
Note 5. Investments and derivatives	42
Note 6. Changes in net market value	46
Note 7. Other investment income	47
Note 8. Property plant and equipment	47
Note 9. Direct investment expenses	47
Note 10. Scheme administration expenses	48
Note 11. Related parties	49
Note 12. Benefits paid	51
Note 13. Benefits due and unpaid	51
Note 14. Auditor's remuneration	51
Note 15. Income tax	52
Note 16. Receivables/unsettled trades	53
Note 17. Payables/unsettled trades	53
Note 18. Accrued benefits	54
Note 19. Controlled and associated entities	55
Note 20. Vested benefits - Defined Benefits Funds	56
Note 21. Guaranteed benefits	56
Note 22. Funding arrangements	56
Note 23. Actuarial investigation	57
Note 24. Commitments and contingent liabilities	57
Note 25. Successor fund transfer from City Super	58
Note 26. Significant post-balance date events	58
Note 27. Financial instruments	59
Trustee's declaration	67
Independent report by approved auditor to the Trustee of the Local Government Superannuation Scheme	68
Attachment A - Summary of actuarial report 2012	69

## Statement of changes in net assets for the year ended 30 June 2013

	Notes	2013	2012
		\$'000	\$'000
NET ASSETS AVAILABLE TO PAY BENEFITS AT THE BEGINNING OF THE FINANCIAL YEAR		6,360,607	4,474,026
<b>Plus income received</b>			
<b>Net investment income</b>			
Interest		77,035	80,822
Dividends and trust distributions		168,193	209,744
Real estate property rentals		6,491	6,609
Changes in net market value of investments	6 (a)	637,860	(96,847)
Other investment income	7	1,772	1,724
		<b>891,351</b>	<b>202,052</b>
<b>Direct investment expenses</b>	9	(20,929)	(18,537)
		<b>870,422</b>	<b>183,515</b>
<b>Contribution revenue</b>			
Member contributions		108,545	102,531
Employer contributions		429,862	435,818
Australian Government co-contributions		5,889	6,501
		<b>544,296</b>	<b>544,850</b>
<b>Other revenue</b>			
Transfers from other funds		111,734	82,029
Sundry income		661	315
Changes in net market value of other assets	6 (b)	(883)	(901)
Proceeds group life policy		14,870	15,418
		<b>126,382</b>	<b>96,861</b>
<b>TOTAL INCOME FROM ORDINARY ACTIVITIES</b>		<b>1,541,100</b>	<b>825,226</b>
<b>Less: Expenses incurred</b>			
Scheme administration expenses	10	11,592	9,181
Benefits paid	12	393,288	371,518
Contribution split payments		990	1,372
Superannuation surcharge	2 (r)	-	4
Group life insurance premiums		26,453	19,241
<b>TOTAL EXPENSES FROM ORDINARY ACTIVITIES</b>		<b>432,323</b>	<b>401,316</b>
CHANGES IN NET ASSETS BEFORE INCOME TAX		1,108,777	423,910
INCOME TAX EXPENSE (BENEFIT)	15	112,504	69,953
CHANGES IN NET ASSETS AFTER INCOME TAX		996,273	353,957
<b>Assets transferred from City Super</b>	26	-	1,532,624
NET ASSETS AVAILABLE TO PAY BENEFITS AT THE END OF THE FINANCIAL YEAR		<b>7,356,880</b>	<b>6,360,607</b>

The above *Statement of changes in net assets* should be read in conjunction with the accompanying notes.



## Statement of net assets

as at 30 June 2013

	Notes	2013	2012
		\$'000	\$'000
<b>Investments</b>			
Cash and cash equivalents		305,756	263,007
Fixed interest securities		1,684,013	1,808,110
Equity investments and listed property trusts		1,900,740	1,361,382
Unlisted trusts		3,562,252	2,780,802
Derivatives		(125,694)	26,478
Direct property investments		67,490	68,125
<b>TOTAL INVESTMENTS</b>	<b>5</b>	<b>7,394,557</b>	<b>6,307,904</b>
<b>Other assets</b>			
Cash at bank		(1,059)	(2,281)
Contributions receivable		12,667	11,363
Prepaid expenses		275	181
Receivables/unsettled trades	16	50,790	84,475
Plant & equipment	8	1,557	1,417
Capitalised merger costs		1,240	1,654
Deferred tax asset	15	28,065	80,762
<b>TOTAL OTHER ASSETS</b>		<b>93,535</b>	<b>177,571</b>
<b>TOTAL ASSETS</b>		<b>7,488,092</b>	<b>6,485,475</b>
<b>LESS:</b>			
<b>Liabilities</b>			
Benefits due and unpaid	13	2,328	1,804
Payables/unsettled trades	17	109,309	91,909
Accrued employee entitlements	2(h)(ii)	1,321	1,210
Income tax payable		18,254	29,945
<b>TOTAL LIABILITIES</b>		<b>131,212</b>	<b>124,868</b>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS</b>		<b>7,356,880</b>	<b>6,360,607</b>

The above *Statement of net assets* should be read in conjunction with the accompanying notes.

## Notes to and forming part of the Financial statements for the year ended 30 June 2013

### Note 1 General information

The Local Government Superannuation Scheme (the 'Scheme') is a superannuation fund domiciled in Australia. The Scheme is constituted by a Trust Deed dated 5 April 1995, as amended, which established the Scheme with effect from 1 July 1995 and provides retirement benefits to its members. The Scheme comprises an accumulation fund, defined benefit sub-plans and a pension division.

The trustee of the Scheme is the Queensland Local Government Superannuation Board (the 'Trustee') and the registered office is Level 17, 333 Ann Street, Brisbane, Queensland.

The financial statements were approved by the Board of Directors of the Trustee on 2 October 2013.

The Scheme accepts contributions from employers. In relation to defined benefit members, the contribution rate is the rate agreed by the actuary and the employer. Member contributions are compulsory for permanent employee members in most cases and members may also make voluntary pre and post-tax contributions. The Fund also receives transfers in from other super funds. The Scheme obtained its RSE licence from the Australian Prudential and Regulatory Authority (APRA) on 5 September 2005 and its registration number is R1000160.

### Note 2 Statement of significant accounting policies

#### (a) Basis of preparation

The financial statements are general purpose reports which have been prepared in accordance with Australian Accounting Standards including *Financial Reporting by Superannuation Plans (AAS 25)* as amended by *AA SB 2005-2013 Amendments to Australian Accounting Standards [AAS 25]*, the *Superannuation Industry (Supervision) Act 1993* and regulations and the provisions of the Trust Deed of the Scheme.

The financial statements have been presented under the historical cost convention, except for the valuation of investments, which are measured at net market value.

#### (b) Statement of compliance

This financial report is prepared based on applicable Australian Accounting Standards. Since AAS 25 is the principal standard that applies to the financial statements, other standards are also applied where necessary except to the extent that they differ from AAS 25.

#### *Rounding and functional currency*

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars except where otherwise stated.

#### *Application of Accounting Standards*

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Board for the annual reporting period ending 30 June 2013. These are outlined in the table below.

AASB Amendment / Standard	Title	Nature of change to accounting policy	Application date of standard	Application date for LGsuper
AASB 9	Financial instruments	Addresses the classification and measurement of financial assets	1 Jan 2015	1 Jul 2015
AASB 10	Consolidated Financial Statements	Specifies principles of control, basis for consolidation	1 Jan 2013	1 Jan 2013
AASB 11	Joint Arrangements	Approach for determining whether parties are a joint arrangement and should partially consolidate or whether they are a joint venture and use the equity method for accounting for their interest.	1 Jan 2013	1 Jul 2013
AASB 12	Disclosure of Interests in Other Entities	Disclosure requirements for entities that hold interests in subsidiaries, joint arrangements and associates.	1 Jan 2013	1 Jul 2013

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 2 Statement of significant accounting policies (continued)

AASB Amendment / Standard	Title	Nature of change to accounting policy	Application date of standard	Application date for LGsuper
AASB 13	Fair Value Measurement	Explains how to measure Fair Value.	1 Jan 2013	1 Jan 2013
AASB 119	Employee Benefits	Details accounting and disclosure requirements for Defined Benefit plans.	1 Jan 2013	1 Jul 2013
AASB 1053	Application of Tiers of Australian Accounting Standards	Details some reduced disclosure requirements for entities that do not have public accountability.	1 Jul 2013	1 Jul 2013
AASB 2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets	Makes amendments to AASB 112 Income Taxes as a consequence of Deferred Tax: Recovery of Underlying Assets.	1 Jan 2013	1 Jul 2013
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income	Details amendments for entities to group items presented in other comprehensive income.	1 Jul 2013	1 Jul 2013
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	Provides clarification of Key Management Personnel disclosure requirements.	1 Jul 2013	1 Jul 2013
AASB 2013-5	Amendments to Australian Accounting Standards – Investment Entities	Provides exemptions in limited circumstances for investment entities from the requirements of consolidation where controlled entities are held for investment purposes.	1 Jan 2014	1 Jan 2014

In addition to the above, a significant change in accounting policy may potentially arise from Exposure Draft 223 *Superannuation Entities* (ED 223).

The Australian Accounting Standards Board (AASB) approved its Exposure Draft (ED) on superannuation plans and released it for public comment in December 2011. ED 223 is the second exposure draft to be issued by the AASB in response to its comprehensive review of the general purpose financial reporting requirements applicable to superannuation entities. In May 2009 the AASB issued ED 179 and, upon receiving feedback from industry constituents, has released ED 223 back into the public domain for comment. It is proposed that the ED will replace AAS 25 and will bring disclosures by superannuation funds more in line with similar entities such as managed investment schemes. The AASB work program has targeted the issue of the Standard for the third quarter of 2013. Application of the proposed new standard will be 2 years after the date of issue.

The ED includes a number of significant changes that will affect how superannuation funds prepare their financial statements. These changes potentially include the following:

- broadly applying presentation principles and requirements of applicable Australian Accounting Standards as opposed to the requirements of AAS 25 that override certain requirements;
- calculating defined benefit liabilities based on accrued rather than vested benefits;
- the proposal of five financial statements including a statement of changes in member benefits, statement of changes in equity, and statement of cash flows;
- accounting for insurance contracts as if they were life insurance contracts; and
- disclosing additional information about the nature, extent, and management of financial risks and funding strategies.

Standards and interpretations that are not expected to have a material impact on LGsuper have not been referred to above.

If these accounting standards had been adopted, the Board does not believe that there would have been a material impact to either the *Statement of changes in net assets* for the year ended 30 June 2013 or the *Statement of net assets* as at 30 June 2013.

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 2 Statement of significant accounting policies (continued)

#### (c) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Scheme and the revenue can be reliably measured. The following specific recognition criteria will also be met before revenue is recognised:

##### *Changes in net market values*

Changes in the net market value of investments and derivatives are calculated as the difference between the net market value at sale, or at balance date, and the net market value at the previous valuation point and recognised in the *Statement of changes in net assets*.

##### *Contributions and transfers*

Contributions and transfers are recognised when they are recorded, gross of any tax, in the period to which they relate.

##### *Interest*

Revenue is recognised as interest accrues using the effective interest method, which is the rate that discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

##### *Dividends and distributions*

Revenue is recognised when the right to receive payment is established.

##### *Rental income*

Rental income from investment properties is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned. Lease incentives are recognised as an integral part of total rental income.

##### *Group life insurance proceeds*

Insurance claim amounts are recognised where the insurer has agreed to pay the claim lodged and has transferred the claim amount to the Scheme.

#### (d) Significant accounting judgements, estimates and assumptions

##### (i) Significant accounting judgements

###### *Operating lease commitments*

The Board has entered into commercial property leases on its investment property portfolio and has determined that since all the significant risks and rewards of ownership are retained, the leases are to be classified as operating leases.

##### (ii) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting periods are:

###### *Valuation of accrued benefits*

The amount of accrued benefits has been actuarially determined. The key assumptions are discussed in Note 18.

###### *Valuation of investments and derivatives*

The key assumptions are set out in the following Note 2 (e).

#### (e) Investments (including derivatives)

Investments (including derivatives) of the Scheme are initially recognised at cost, being the best estimation of fair value.

After initial recognition, investments (including derivatives) are measured at net market value. Gains or losses on investments (including derivatives) are recognised in the *Statement of changes in net assets*.

The net market value of investments (including derivatives) has been determined as follows:

- Shares in listed entities: at last sale price quoted by the stock exchange at close of business on the balance date;
- Government and other fixed interest securities: at last market sale price quoted;
- Unit trusts: at redemption price at balance date as quoted by the investment manager;
- Derivative financial instruments: derivative financial instruments including forward exchange contracts and fixed interest rate futures are recorded at market rates at close of business on the balance date;
- Investment properties – real estate: at independent valuations conducted periodically throughout the year performed by a qualified valuer; and
- Fixed assets: The Board's valuation as at 30 June 2013.

Estimated costs of realisation have been deducted in determining net market value. Net market value is considered a reasonable approximation of fair value.

Purchases and sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place are recognised on the trade date i.e. the date that the Board commits to purchase or sell the asset.

The Board has concluded that the above measurement bases are appropriate. Due to the nature of the assets and liabilities the measurement amounts may change over time.

## Notes to and forming part of the Financial Statements

for the year ended 30 June 2013

### Note 2 Statement of significant accounting policies (continued)

#### (f) Income tax

The Scheme is a complying superannuation fund for the purposes of the provisions of the Income Tax Assessment Act. Accordingly, the concessional tax rate of 15% has been applied to the Scheme's taxable income.

Income tax in the *Statement of net assets* for the year comprises current and deferred tax. Income tax is reflected in the *Statement of changes in net assets*.

Current income tax expense is the expected tax payable on the taxable income for the year using the concessional tax rate of 15% for Scheme income and any adjustment to tax payable in respect of previous years.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised, except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

#### (g) Liability for accrued benefits

The liabilities for accrued benefits for both the Regional Defined Benefits Fund and City Defined Benefits Fund are not included in the *Statement of net assets*, but their respective liabilities at the latest measurement date is reported by way of note.

The liability for accrued benefits is actuarially measured on at least a triennial basis, and represents the value of the Scheme's present obligations to pay benefits to members and other beneficiaries at the date of measurement. The liability is determined as the present value of expected future payments, which arise from membership of the Regional Defined Benefits Fund and City Defined Benefits Fund up to the date of measurement. The present value reported in the note is determined by reference to expected future salary levels and by application of a current market-based, risk-adjusted discount rate in conjunction with appropriate actuarial assumptions.

The report on the most recent actuarial investigation of the Scheme, as at 1 July 2012, contains details of the accrued benefit liability at that date. The report also provides details of the basis used to calculate the accrued benefit liability (refer to Note 18 and the attachments to the Financial statements).

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 2 Statement of significant accounting policies (continued)

#### (h) Employee and director entitlements

##### (i) Superannuation

Employees and certain Directors of the Superannuation Board are members of the Scheme.

Contributions to the Scheme (or in the case of a number of Directors, to external superannuation funds) made by the Board are represented as a charge against income.

##### (ii) Accrued leave

Provisions for employee annual leave and long service leave entitlements are disclosed under liabilities in the Financial Statements and have been determined in accordance with the provisions of Australian Accounting Standard *Employee Benefits* (AASB 119).

##### (i) Currency fluctuations

Transactions in foreign exchange are recorded at the rate of exchange applicable at the date of each transaction. At balance date, investments and amounts payable and receivable in overseas currencies are converted to Australian dollars at the rate of exchange applying at that date. Any exchange differences relating to foreign currency monetary items are brought to account in the *Statement of changes in net assets*.

##### (j) Payment of benefits

Benefits paid (refer Note 12) recognise all benefits due and payable from the Scheme. Benefits payable are settled in accordance with the Scheme's Trust Deed.

##### (k) Accounting for Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the item of expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from the ATO is included as a current asset in the balance sheet.

##### (l) Receivables

Receivables are carried at nominal amounts due which approximate net market value. Receivables are normally settled within 30 days. An allowance for uncollectible amounts is only made where there is evidence that the debt will not be collected.

##### (m) Payables

Payables are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Scheme and are carried at nominal amounts which approximate net market value. Payables are normally settled on 30 day terms.

#### (n) Derecognition of financial assets and financial liabilities

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Scheme has transferred substantially all the risks and rewards of ownership of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

#### (o) Cash

Cash and cash equivalents in the *Statement of net assets* comprise cash held in investment accounts and at call. Cash at bank is cash held to meet operational needs of the Scheme.

#### (p) Leased assets

Operating lease assets are not capitalised and rental payments are recognised as an expense on a straight-line basis over the lease term.

#### (q) Comparative figures

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

#### (r) Superannuation contribution surcharge

The *Superannuation Laws Amendment (Abolition of Surcharge) Act 2005* abolished both the superannuation contributions surcharge and the termination payments surcharge in respect of superannuation contributions and certain termination payments made or received on or after 1 July 2005. Assessments for surcharge in respect of contributions and payments for the year ended 30 June 2005 and prior years will continue to be issued and remain payable.

The Superannuation Contribution Surcharge is levied on surchargeable contributions for a relevant year on the basis of the individual member's adjusted taxable income for that year. This liability is recognised when the assessment is received from the Australian Taxation Office (ATO), as the Trustee considers this is when it can be reliably measured.

The superannuation surcharge liability recognised by the Scheme has been charged to the relevant member's accounts.

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 2 Statement of significant accounting policies (continued)

#### (s) Excess contributions tax

The Australian Taxation Office (ATO) may issue release authorities to members of the Scheme relating to the relevant member's excess contribution tax that is payable in respect of the member's concessional and/or non-concessional contributions for a particular year. Where a member receives an excess contributions tax release authority, the member:

- may give the release authority relating to the member's concessional contributions to a superannuation fund for payment; and
- must give the release authority relating to the member's non-concessional contributions to a superannuation fund for payment.

Release authorities may be issued by the ATO from 1 July 2007 in relation to transitional non-concessional contributions received by the Scheme between 9 May 2006 and 30 June 2007. Release authorities in relation to concessional and/or non-concessional contributions received from 1 July 2007 may be issued from the Australian Tax Office from 1 July 2008.

The liability for the excess contribution tax will be recognised when the relevant release authorities are received from the members, as the Board considers this is when it can be reliably measured.

The excess contributions tax liability recognised by the Scheme will be charged to the relevant members' account.

#### (t) No-TFN contributions tax

Where a member does not provide their tax file number to the Scheme, the Scheme may be required to pay No-TFN contributions tax at a rate of 31.5%, which is in addition to the concessional tax rate of 15% which applies to the Scheme's taxable income.

The No-TFN contributions tax liability recognised by the Scheme will be charged to the relevant member's account. Where a tax offset is obtained by the Scheme in relation to the member's No-TFN contributions tax, the tax offset will be included in the relevant member's account.

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 3 Operation of the Scheme

The Local Government Superannuation Scheme continues in existence under the *Local Government Act (2009)*. The Scheme is a hybrid scheme which incorporates both a Defined Benefits Fund (DBF) and an Accumulation Benefits Fund. Effective 1 July 2011, the Brisbane City Council Superannuation Plan (City Super) merged with the Local Government Superannuation Scheme (LGsuper) to form a consolidated fund under the name of the Local Government Superannuation Scheme (LGsuper).

The merged fund consists of two separate defined benefits funds, namely, the Regional Defined Benefits Fund (pertaining to LGsuper members) and the City Defined Benefits Fund (relating to previous City Super members), and a combined Accumulation Benefits Fund.

The Regional Defined Benefits Fund was closed to new entrants from 1 July 1998, with all new entrants since then joining the Accumulation Benefits Fund. The City Defined Benefits Fund was closed to new entrants from 30 October 1994, with all new entrants since then joining the Accumulation Benefits Fund.

Local Government employers contribute to the Scheme in respect of certain of their employees, for defined benefit arrangements; and certain of their employees (including councillors and contractors) for defined contribution superannuation arrangements, in accordance with the Trust Deed and relevant statutory requirements.

From 12 June 2009, the *Local Government Act (1993)* was amended to allow the Board to specify in the Trust Deed the rate of DBF contributions paid into the Scheme by local government employers. The level of DBF contributions must be in accordance with advice received from an actuary. This amendment enables the Board to vary the rate of employer contributions where the actuary has concerns as to the ongoing solvency of the Defined Benefits Funds.

Benefits of members in the Defined Benefits Funds are calculated by way of formula as defined in the Trust Deed. Benefits of members of the Accumulation Benefits Fund are equal to the member's account balance, which is credited each year with contributions and a proportionate share of net investment earnings (positive or negative), expenses, insurance premium and income tax expense of the Scheme.

In accordance with amendments to the *Superannuation Industry (Supervision) Act 1993* the Scheme was registered with the Australian Prudential Regulation Authority on 5 September 2005 (RSE Registration No. R1000160).

The Trust Deed of the Scheme: (Refer Note 4)

- A. incorporates a declaration by the Board that it holds:
- I. the **Accumulation Benefits Fund** on trust to provide for the payment of benefits to persons who are or may become entitled to the payment of accumulation benefits;
  - II. the **Regional Defined Benefits Fund** on trust to provide for the payment of benefits to persons who are or may become entitled to the payment of defined benefits under Chapter 3 of the Trust Deed;
  - III. the **City Defined Benefits Fund** on trust to provide for the payment of benefits to persons who are or may become entitled to the payment of defined benefits under Chapter 4 of the Trust Deed; and
  - IV. the **Insurance Fund** on trust to provide for:
    - > the payment of insurance benefits to members under Chapter 3 of the Trust Deed in respect of which the Board is not indemnified by external insurance;
    - > in respect of amounts which the Board determines, after considering advice from the actuary and having regard to the level and extent of external insurance or reinsurance, to be surplus to requirements for that purpose, such other purposes benefiting members as the Board determines.
- B. provides that the Board must establish and maintain separate accounting records within the books of account of the Scheme:
- I. to record the ongoing accumulation entitlements standing to the credit of members in the following accounts:
    - > accumulation accounts; and
    - > retained benefit accounts.
  - II. to record the ongoing dealings with and balances of:
    - > the Accumulation Benefits Fund;
    - > the Regional Defined Benefits Fund;
    - > the City Defined Benefits Fund; and
    - > the Insurance Fund.
- C. provides that the Board must in respect of each year prepare from the accounting records:
- I. such accounts and statements as are required by superannuation law; and
  - II. if necessary, such other accounts and statements as are necessary to show the results of operations during the year and the financial position of the Scheme and each fund mentioned in sub clause 44(c) at the end of each year.



## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 4 Division of Scheme

The Scheme comprises four funds:

- the Regional Defined Benefits Fund (which was closed to new entrants from 1 July 1998);
- the City Defined Benefits Fund (which was transferred from City Super on 1 July 2011);
- the Accumulation Benefits Fund; and
- the Insurance Fund (Refer Note 4 (a))

Throughout the year the Scheme is managed on a single-entity basis. At the close of each year Scheme movements throughout the year (refer *Statement of changes in net assets*) are apportioned to each of the four funds of the Scheme.

The Defined Benefits Funds and the Insurance Fund are subject to periodic actuarial investigation as to their state and sufficiency to meet emerging benefit liabilities of the Scheme (refer Note 23).

The Trust Deed provides for dealings between the funds of the Scheme by the Board. Such dealings are as shown in the following schedule. Note, the movements in the Insurance Fund are included in the Accumulation Benefits Fund and shown separately in Note 4 (a).

	Regional DB Fund		City DB Fund		Accum. Benefits Fund		Total Scheme	
	2013	2012	2013	2012	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Opening balance 1 July</b>	1,102,294	1,111,415	88,687	-	5,169,626	3,362,611	6,360,607	4,474,026
Adjustments prior year	-	(209)	-	-	-	209	-	-
Amended opening balance	1,102,294	1,111,206	88,687	-	5,169,626	3,362,820	6,360,607	4,474,026
Transfer from BCC superannuation plan (Note 26)	-	-	-	89,262	-	1,443,183	-	1,532,445
Interfund transfers	(705)	(1,214)	(197)	-	902	1,214	-	-
<b>Income</b>								
Contribution revenue	46,278	49,040	3,840	5,955	492,874	486,035	542,992	541,030
Benefits retained	-	-	-	-	429,807	355,961	429,807	355,961
Transfers from other funds	-	-	-	-	111,734	82,029	111,734	82,029
Insurance claim proceeds (a)	666	586	428	180	13,776	14,652	14,870	15,418
Net investment income (b)	109,746	53,941	9,465	1,750	700,817	125,835	820,028	181,526
	156,690	103,567	13,733	7,885	1,749,008	1,064,512	1,919,431	1,175,964
<b>Expenses</b>								
Benefits paid	111,183	103,597	10,707	7,485	702,195	617,769	824,085	728,851
Scheme administration expenses (c)	-	-	-	-	13,267	10,736	13,267	10,736
Premiums paid to external insurer	1,703	1,653	225	164	19,107	15,024	21,035	16,841
Financial planning fees	-	-	-	-	2	9	2	9
Income tax expense (d)	5,687	6,015	465	811	58,617	58,562	64,769	65,388
Superannuation contributions surcharge tax (e)	-	-	-	-	-	3	-	3
	118,573	111,265	11,397	8,460	793,188	702,103	923,158	821,828
<b>Closing balance 30 June</b>	1,139,706	1,102,294	90,826	88,687	6,126,348	5,169,626	7,356,880	6,360,607

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 4 Division of Scheme (continued)

#### Notes:

#### (a) Insurance Fund

From 3 July 2007 the Board commenced to externally insure all of the Scheme's death and disability insurance risks. Claims applicable to the period prior to 3 July 2007 continued to be paid from the Insurance Fund. Following transfers from the Insurance Fund to the Regional Defined Benefits Fund during 2010/11 all death and disability claims for members in the Regional Defined Benefits Fund are payable from that Fund. Only claims applicable to Accumulation Benefits Fund members are payable from the Insurance Fund. As the potential for benefits payable from the Insurance Fund is low, the Fund has closed and the balance transferred to the Operational Risk reserve. Any subsequent liabilities will be payable from the Operational Risk reserve. The movement of the Insurance Fund during the year was as follows:

#### Insurance Fund

	2013	2012
	\$'000	\$'000
<b>Opening balance 1 July</b>	828	2,257
Adjustments prior year	-	-
	<b>828</b>	<b>2,257</b>
Plus/(less):		
Transfer to reserves	(858)	(1,500)
Net investment income	30	71
Benefits paid	-	-
<b>Closing balance 30 June</b>	<b>-</b>	<b>828</b>

#### (b) Net investment income

Net investment income is apportioned to members' Accumulation Benefits Fund accounts according to the investment strategy applicable to each member.

The amount apportioned to the Accumulation Benefits Fund includes interest credited to the Accumulation Benefits Fund - Investment reserve account for 2012/13.

Net investment income apportioned to the Insurance Fund and the Operational Risk reserve was based upon a 60% cash investment strategy and 40% balanced investment strategy.

#### (c) Scheme administration expenses

Allowance for Scheme administration expenses for Accumulation Benefits Fund members is made by way of deduction of 0.21% from the net earning rate for each available member investment strategy.

#### (d) Income tax expense

Allowance for income tax expense in relation to Scheme investment income for the Accumulation Benefits Fund is made by way of a deduction from the earning rate for each investment strategy available for nomination by Accumulation Benefits Fund members.

The amount of \$64.8 million represents tax on employer contributions at the rate of 15%.

#### (e) Superannuation contributions surcharge tax

A debit account upon which interest accrues is maintained in respect of each Defined Benefits Fund member to whom a superannuation contribution surcharge tax applies.

The balance of the account is deducted from the amount of Defined Benefits Fund benefits when payable and forms a deduction from Accumulation Benefits Fund accounts.

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 4 Division of Scheme (continued)

Within the Accumulation Benefits Fund (ABF) an investment reserve account was maintained to support the provision of 'smoothing' in the ABF. This investment choice was closed to new funds from 1 July 2011 and the reserve fully returned to members by 30 June 2013. The movement of the investment reserve account during the year was as follows:

#### Accumulation Benefits Fund - Smoothing reserve

	2013	2012
	\$'000	\$'000
<b>Opening balance 1 July</b>	27,964	102,679
Amounts added (deducted) to support Accumulation Benefits Fund	(30,222)	(76,563)
Earnings credited	2,258	1,848
<b>Closing balance 30 June</b>	-	<b>27,964</b>

The closing balance of the reserve expressed as a percentage of members' accounts invested in the Diversified Growth plus Reserves investment option is nil (2012: 1.64%).

The Diversified Growth plus Reserves option was closed to new monies from 1 July 2011. The Smoothing reserve was progressively distributed to members with monies invested in the strategy over the 2 year period ended 30 June 2013.

The Operational Risk reserve was established by the Board in 2008/09 to offset losses incurred by Scheme Accumulation Benefits Fund members due to operational errors. The Reserve can also be used to minimise the solvency risk in the Accumulation Benefits Fund.

Movement of the Operational Risk reserve during the year was as follows:

#### Accumulation Benefits Fund - Operational Risk reserve

	2013	2012
	\$'000	\$'000
<b>Opening balance 1 July</b>	7,277	9,076
Interfund transfer	9	(8)
Transfers from: Insurance Fund	858	1,500
City Super	-	4,900
Amounts added (deducted) to support Accumulation Benefits Fund	18,114	(8,774)
Earnings credited	954	583
<b>Closing balance 30 June</b>	<b>27,212</b>	<b>7,277</b>

Movement of the Defined Benefits Fund Operational Risk reserve during the year was as follows:

#### Defined Benefits Fund - Operational Risk reserve

<b>Opening balance 1 July</b>	-	-
Transfers from DBF assets	3,680	-
<b>Closing balance 30 June</b>	<b>3,680</b>	-

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 5 Investments and derivatives

Details of the investments and derivatives held by the Scheme are as follows:

Notes	2013	2012
	\$'000	\$'000
<b>Cash and cash equivalents</b>		
Cash accounts	223,466	156,074
Short-term money market accounts	77,100	100,720
Futures deposit accounts	5,190	6,213
	<b>305,756</b>	<b>263,007</b>
<b>Fixed interest securities</b>		
Discount securities	118,519	163,539
Term deposits	225,000	250,431
Convertible notes	-	3,297
Corporate bonds	241,592	286,634
Floating rate notes	72,400	35,415
Government and semi-government bonds	914,163	979,857
Other fixed interest securities	112,339	88,937
	<b>1,684,013</b>	<b>1,808,110</b>
<b>Listed equity investments and property trusts</b>		
Listed equity investments	1,686,573	1,347,803
Listed property trusts	214,167	13,579
	<b>1,900,740</b>	<b>1,361,382</b>
<b>Unlisted trusts</b>		
Equity investments	1,606,924	1,068,224
Alternatives	1,054,105	798,492
Property	652,089	758,383
Diversified fixed interest	151,899	80,352
Socially responsible investments	97,235	75,351
	<b>3,562,252</b>	<b>2,780,802</b>
<b>Derivatives</b>		
<b>Options</b>		
Equity options	10,948	8,680
Fixed interest options	1,507	915
	<b>12,455</b>	<b>9,595</b>
<b>Futures</b>		
Equity futures	51	5
Fixed interest futures	742	(125)
Money market futures	237	517
	<b>1,030</b>	<b>397</b>
<b>Swaps</b>		
Swaps floating	(818)	(4,981)
Swaps fixed	(3,175)	1,520
Swaps non-interest bearing	-	417
	<b>(3,993)</b>	<b>(3,044)</b>
<b>Forward foreign exchange</b>		
	(135,186)	19,530
	<b>(125,694)</b>	<b>26,478</b>

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 5 Investments and derivatives (continued)

Notes	2013	2012
	\$'000	\$'000
<b>Direct property investments</b>		
200 Coward St, Mascot NSW	46,456	18,824
Wattle Grove Shopping Centre, Wattle Grove NSW	21,034	18,839
162 Blues Point Rd, McMahons Point NSW	-	19,572
22 Salmon St, Melbourne Vic	-	10,890
	<b>67,490</b>	<b>68,125</b>
<b>Total investments</b>	<b>7,394,557</b>	<b>6,307,904</b>
<b>Adjust for:</b>		
<b>Other investment assets</b>		
Investment income receivable	26,674	19,455
Other receivables and unsettled trades	23,056	63,958
	<b>49,730</b>	<b>83,413</b>
<b>Other investment liabilities</b>		
Unsettled trades	(101,587)	(87,139)
	<b>7,342,700</b>	<b>6,304,178</b>

#### (a) Classification of financial instruments under the fair value hierarchy

The Scheme's financial instruments have been grouped into the following fair value hierarchy. Financial instruments have been valued using net market value, which is considered a reasonable approximation of fair value.

- Level 1 - quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

30 June 2013	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>				
Listed equity investments	1,686,451	-	122	1,686,573
Listed property trusts	214,167	-	-	214,167
Unlisted trusts	-	3,562,252	-	3,562,252
Fixed interest securities	16,714	1,442,299	-	1,459,013
Derivatives	3,974	24,199	-	28,173
<b>Financial liabilities</b>				
Derivatives	(2,944)	(150,923)	-	(153,867)
<b>Total</b>	<b>1,918,362</b>	<b>4,877,827</b>	<b>122</b>	<b>6,796,311</b>

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 5 Investments and derivatives (continued)

30 June 2012	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>				
Listed equity investments	1,347,763	-	39	1,347,802
Listed property trusts	13,580	-	-	13,580
Unlisted trusts	-	2,780,802	-	2,780,802
Fixed interest securities	67,082	1,485,872	4,735	1,557,679
Derivatives	986	41,446	-	42,432
	<b>1,428,812</b>	<b>4,308,120</b>	<b>4,774</b>	<b>5,742,295</b>
<b>Financial liabilities</b>				
Derivatives	(589)	(15,365)	-	(15,954)
<b>Total</b>	<b>1,428,812</b>	<b>4,292,755</b>	<b>4,774</b>	<b>5,726,341</b>

(b) A reconciliation of movements in Level 3 of the fair value hierarchy between the beginning and end of the reporting period is disclosed in the following table:

2013 financial year	Equity securities	Unlisted unit trusts	Fixed interest securities	Derivatives	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2012	39	-	4,735	-	4,774
Sales	-	-	(3,297)	-	(3,297)
Transfers into Level 3	83	-	-	-	83
Transfers out of Level 3	-	-	(1,438)	-	(1,438)
<b>Balance at 30 June 2013</b>	<b>122</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>122</b>
2012 financial year	Equity securities	Unlisted unit trusts	Fixed interest securities	Derivatives	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2011	2,496	-	65,764	6,540	74,800
Purchases	-	-	2,026	-	2,026
Sales	(47)	-	(26,876)	(782)	(27,705)
Transfers out of Level 3	(2,410)	-	(36,147)	(5,758)	(44,315)
Total unrealised gain/(loss)	-	-	(32)	-	(32)
<b>Balance at 30 June 2012</b>	<b>39</b>	<b>-</b>	<b>4,735</b>	<b>-</b>	<b>4,774</b>

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 5 Investments and derivatives (continued)

(c) Gains or losses recognised in the *Statement of changes in net assets* for Level 3 transactions are as follows:

2013 Financial Year	Equity securities	Unlisted unit trusts	Fixed interest securities	Derivatives	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Total realised gains (losses)</b>					
Trading income	-	-	-	-	-
<b>Total unrealised gains (losses)</b>					
Trading income	-	-	-	-	-
2012 financial year	Equity securities	Unlisted unit trusts	Fixed interest securities	Derivatives	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Total realised gains (losses)</b>					
Trading income	(47)	-	1,102	(105)	950
<b>Total unrealised gains (losses)</b>					
Trading income	-	-	(32)	-	(32)

(d) Movements between levels in the fair value hierarchy are as follows:

2013 financial year	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Equity securities	(83)	-	83	-
Fixed interest securities	-	1,438	(1,438)	-
Derivatives	-	-	-	-
<b>Total</b>	<b>(83)</b>	<b>1,438</b>	<b>(1,355)</b>	<b>-</b>
2012 financial year	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Equity securities	2,399	11	(2,410)	-
Fixed interest securities	-	36,146	(36,146)	-
Derivatives	-	5,759	(5,759)	-
<b>Total</b>	<b>2,399</b>	<b>41,916</b>	<b>(44,315)</b>	<b>-</b>

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 6 Changes in net market value

	2013	2012
	\$'000	\$'000
<b>(a) Changes in net market value of investments</b>		
<b>Investments held at reporting date:</b>		
Fixed interest securities	(20,370)	72,940
Equity investments and unlisted trusts	611,311	(181,044)
Derivatives	(113,227)	(2,665)
Direct property investments	29,644	3,743
	<b>507,358</b>	<b>(107,026)</b>
<b>Investments realised during period:</b>		
Fixed interest securities	14,834	39,636
Equity investments and unlisted trusts	72,021	(45,749)
Derivatives	42,253	16,292
Direct property investments	1,394	-
	<b>130,502</b>	<b>10,179</b>
<b>Total</b>	<b>637,860</b>	<b>(96,847)</b>

The *Changes in net market value of investments* reflect investment market conditions prevailing as at balance date in respect of investments held at reporting date and during the year in respect of investments realised during the period.

<b>(b) Changes in net market value of other assets</b>		
<b>Assets held at reporting date:</b>		
Office furniture and equipment	(36)	(42)
Computer equipment	(99)	(91)
Computer software	(197)	(178)
Leasehold improvements	(92)	(128)
Motor vehicles	(42)	(44)
Capitalised merger costs	(413)	(413)
	<b>(879)</b>	<b>(896)</b>
<b>Assets sold during period:</b>		
Motor vehicles	(4)	(5)
	<b>(4)</b>	<b>(5)</b>
<b>Total</b>	<b>(883)</b>	<b>(901)</b>



## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 7 Other investment income

	2013	2012
	\$'000	\$'000
Management fee rebates	1,518	1,660
Other	195	62
Proceeds from class actions and compensation claims	59	2
<b>Total</b>	<b>1,772</b>	<b>1,724</b>

### Note 8 Plant and equipment

Office furniture and equipment	111	141
Computer hardware	227	172
Computer software	625	498
Leasehold improvements	367	458
Motor vehicles	227	148
<b>Total</b>	<b>1,557</b>	<b>1,417</b>

### Note 9 Direct investment expenses

External investment management fees	14,222	11,285
Master custodian fees	1,256	1,376
Administration expenses - Scheme investment operations	1,755	1,555
Other management fees and taxes	527	965
Asset consultant fees	1,060	935
Options/futures brokerage fees and other expenses	213	131
Direct property operating expenses	1,896	2,290
<b>Total</b>	<b>20,929</b>	<b>18,537</b>

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 10 Scheme administration expenses

	2013	2012
	\$'000	\$'000
Staff salaries and associated costs	6,560	6,195
Taxation and other government charges	2,594	575
Consultants fees	1,223	1,057
Occupancy expenses	744	841
Maintenance and service agreements	526	474
Communication expenses	370	431
Insurances	298	251
Printing expenses	263	328
Staff travel and business expenses	225	209
Marketing expenses	167	127
Other management expenses	377	248
<b>Total</b>	<b>13,347</b>	<b>10,736</b>
<b>Less:</b>		
Reallocation to direct investment expenses (refer Note 9)	(1,755)	(1,555)
<b>Total</b>	<b>11,592</b>	<b>9,181</b>

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 11 Related parties

(a) The Trustee of the Scheme is the Queensland Local Government Superannuation Board (the Board). The Directors of the Board and the meetings attended during the year were as follows:

	Number of meetings attended	Number of Audit and Risk Management Committee meetings attended
<i>Independent Director and Chairman</i>		
Mr B D Roebig*	11	6
<i>Employer representative directors</i>		
Cr P V Bell*	8	6
Cr M A de Wit (appointed 1 June 2013)	1	
Ms L M Dudley*	10	5
Cr P J Pisasale (appointed 1 Sept 2012)	9	
Mr P M Taylor (resigned 31 May 2013)	10	
Cr L R Tyrell (resigned 31 July 2012)	-	
<i>Member representative directors</i>		
Mr N P Cass	11	
Ms F Connor*	11	6
Mr R L Curtis	11	
Mr P J Smith	10	

\* Members of the Audit and Risk Management Committee

There were 11 meetings of the Board and 6 meetings of the Audit and Risk Management Committee held during the year (2011/12: 11 and 4).

### (b) Key management personnel

The following persons, employed by the Board, had authority and responsibility for planning, directing and controlling the activities of the Board, directly or indirectly, during the financial year:

Mr D J Todd	Chief Executive Officer
Mr I D Harcla	Deputy CEO and Scheme Secretary
Mr T J Willmington	General Manager Operations
Mr P C Gamin	Chief Financial Officer (appointed 21 Jan 2013)

### (c) Key management personnel compensation

#### *Remuneration of executives and employees*

Governance of remuneration arrangements occurs through the Board, which oversees all remuneration policies and their implementation.

Most of the Board's staff is employed under conditions consistent with the State clerical award. Executive management and senior managers are employed under individual employment contracts and are paid under packaging arrangements which are benchmarked with market rates for employees in the financial services industry. Except for a one-off merger bonus in 2012, executive management and senior managers are not entitled to performance payments.

An annual performance payment is potentially available for all other staff.

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 11 Related parties (continued)

#### Details of compensation

The aggregate compensation made to key management personnel of the Board, and Board members, is set out below:

Board members & other key management personnel		2013	2012
		\$'000	\$'000
Short-term employee benefits	(i)	1,545	1,770
Post-employment benefits	(ii)	218	335
Other long-term employee benefits	(iii)	26	22
<b>Total compensation</b>		<b>1,789</b>	<b>2,127</b>

- I. Short-term employee benefits includes salaries, directors fees, annual leave accrued, paid sick leave and any non-monetary benefits provided such as motor vehicles on a cost neutral basis to the Board.
- II. Post-employment benefits are defined as employee benefits which are payable after the completion of employment, and comprise contributions paid or payable to superannuation plans, including salary sacrifice contributions.
- III. Long-term employee benefits include long service leave accrued by key management personnel.

The compensation paid to Board members is disclosed below:

Board compensation	2013	2012
Under \$40,000	2	
\$40,000 to \$59,999	4	7
\$60,000 to \$79,999	4	1
\$80,000 to \$99,999		1
\$100,000 to \$119,999		
\$120,000 to \$140,000	1	
	<b>11</b>	<b>9</b>

The number of executives who received or were due to receive compensation:

Executive fixed compensation**		
Under \$130,000	1	
\$270,000 to \$299,999	1	1
\$300,000 to \$329,999	1	1
\$330,000 to \$360,000		
\$440,000 to \$469,999	1	
\$470,000 to \$499,999		2*
	<b>4</b>	<b>4</b>

\* Includes a former Executive whose compensation included a redundancy payment.

\*\* Includes short term employee benefits, post-employment benefits and a 2012 one-off merger bonus.

Remuneration paid to Directors is determined by resolution of the Board in accordance with the Trust Deed of the Scheme.

- (d) All directors (other than the independent director and one other director) are contributing members of the Scheme. Their membership terms and conditions are the same as those available to other members of the Scheme.**

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 12 Benefits paid

	2013	2012
	\$'000	\$'000
<b>Lump sum benefits</b>		
Resignation	54,365	64,961
Age retirement	340,707	291,233
Total and permanent disablement	13,240	16,603
Failure of health	244	347
Death	15,247	15,807
Withdrawals	306,223	241,179
	<b>730,026</b>	<b>630,130</b>
<b>Pension benefits</b>		
Allocated pension facility	92,995	97,277
Lifetime pensions	74	73
	<b>93,069</b>	<b>97,350</b>
<b>Total</b>	823,095	727,480
<b>Less:</b>		
Transfer of retained members benefits to new accounts	(429,807)	(355,962)
<b>Total</b>	<b>393,288</b>	<b>371,518</b>

### Note 13 Benefits due and unpaid

Benefits due and unpaid represent payments pending in respect of former active members who are deceased.

<b>Lump sum benefits</b>		
Death	2,328	1,804
<b>Total</b>	<b>2,328</b>	<b>1,804</b>

### Note 14 Auditors remuneration

	2013	2012
	\$	\$
<b>Audit services</b>		
Amount received or due and receivable by the Auditor-General of Queensland:		
Audit of financial statements	104,000	137,000
<b>Total</b>	<b>104,000</b>	<b>137,000</b>

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 15 Income tax

Major components of income tax expense for the years ended 30 June 2013 and 2012 were:

	2013	2012
	\$'000	\$'000
<b>Statement of changes in net assets</b>		
Current income tax expense	59,807	95,813
Deferred income tax expense	52,697	(25,860)
<b>Total</b>	<b>112,504</b>	<b>69,953</b>
A reconciliation between income tax expense and the accounting profit before income tax multiplied by the applicable tax rate is as follows:		
Change in net assets before income tax	1,108,777	423,910
Tax at the rate of 15%	166,317	63,587
Add - Tax effect of non-deductible:		
- benefits paid	58,203	55,094
- superannuation surcharge	-	1
- Insurance administration fees	40	-
- financial planning fees	-	1
- expenses relating to exempt pension income	3,750	2,877
	<b>61,993</b>	<b>57,973</b>
Less - Tax effect of non-assessable:		
- contributions	16,777	15,851
- transfers from other funds	16,760	12,304
- proceeds group life policy	2,231	2,313
- pension income	7,468	6,353
Dividend imputation and foreign tax credits (net)	16,167	11,786
	<b>59,403</b>	<b>48,607</b>
<b>Adjusted income tax expense</b>	<b>168,907</b>	<b>72,953</b>
- Underprovision (overprovision) for current income tax in prior year	(19,458)	(2,870)
- Underprovision (overprovision) for deferred income tax in prior year	11,798	7,652
- Other movements in deferred tax assets/deferred tax liabilities	(49,583)	(8,219)
- Recovery of anti-detriment payments from ATO	840	437
	<b>(56,403)</b>	<b>(3,000)</b>
<b>Income tax expense reported in Statement of changes in net assets</b>	<b>112,504</b>	<b>69,953</b>

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 15 Income tax (continued)

	2013	2012
	\$'000	\$'000
<b>Deferred income tax</b>		
Deferred income tax at 30 June relates to the following:		
<b>Deferred income tax liabilities</b>		
Taxable temporary differences – assets subject to CGT	57,937	1,840
Taxable temporary differences – other assets	12,845	15,223
	<b>70,782</b>	<b>17,063</b>
<b>Deferred income tax assets</b>		
Taxable temporary differences – assets subject to CGT	(76,570)	(96,095)
Taxable temporary differences – other assets	(22,277)	(1,730)
	<b>(98,847)</b>	<b>(97,825)</b>
	<b>(28,065)</b>	<b>(80,762)</b>

The above figures represent provisional information available at the time of preparing these Financial statements.

### Note 16 Receivables/unsettled trades

<b>Investment income receivable</b>		
Interest receivable	1,782	2,052
Dividends receivable	5,992	4,908
Trust distributions receivable	18,697	12,192
Property income receivable	203	303
	<b>26,674</b>	<b>19,455</b>
Sundry and other debtors	1,060	1,062
Other receivables/unsettled trades	23,056	63,958
	<b>50,790</b>	<b>84,475</b>

### Note 17 Payables/unsettled trades

Unsettled trades	101,587	87,139
Sundry creditors	7,679	4,667
PAYG tax payable	43	103
	<b>109,309</b>	<b>91,909</b>

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 18 Accrued benefits

The amount of accrued benefits in respect of the Regional and City Defined Benefits Funds members has been determined on the basis of the present value of expected future payments, which arise from membership of the Defined Benefits Funds up to the measurement date. The figure reported has been determined by reference to expected future salary levels and by application of a market-based, risk-adjusted discount rate and relevant actuarial assumptions.

The valuation of accrued benefits for the Regional Defined Benefits Fund was undertaken by the actuary as part of a comprehensive actuarial review as at 1 July 2012. Accrued benefits were previously valued as part of a comprehensive actuarial review undertaken as at 1 July 2009.

	2012	2009
	\$'000	\$'000
Accrued benefits as at 1 July	1,073,200	969,200
Accrued Benefits Reserve Index	104%	103%

The calculation of the Accrued Benefits Reserve Index at 1 July 2012 was as follows:

<b>NET ASSETS VALUE</b>	=	<b>\$1,111.1M</b>
<b>Accrued benefits</b>		<b>\$1,073.2M</b>
	=	<b>104%</b>

The valuation of accrued benefits for the City Defined Benefits Fund was undertaken by the City Super actuary as part of a comprehensive actuarial review as at 1 July 2012 (refer Note 23(b)). Accrued benefits were previously valued as part of a comprehensive actuarial review undertaken as at 1 July 2008.

	2012	2008
	\$'000	\$'000
Accrued benefits as at 1 July	85,100	82,973
Accrued Benefits Reserve Index	103%	94%

The calculation of the Accrued Benefits Reserve Index at 1 July 2012 was as follows:

<b>NET ASSETS VALUE</b>	=	<b>\$87.3M</b>
<b>Accrued Benefits</b>		<b>\$85.1M</b>
	=	<b>103%</b>



## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 19 Controlled and associated entities

Name of entity	Country of establishment	Ownership interest		Value	
		2013	2012	2013	2012
		%	%	\$'000	\$'000
<b>Controlled entities</b>					
Kosciusko LG Multi Strategy Fund No. 2	Australia	100%	100%	215,888	125,339
Westbourne Yield Fund No 4	Australia	100%	100%	108,900	62,499
Morgan Stanley Global Infrastructure Fund No. 3	Australia	100%	100%	25,697	19,653
LG Super Asian Infrastructure Investment Trust	Australia	100%	-	13,549	-
Eva Street Trust	Australia	100%	100%	11,791	13,737
Palisade (LG) Investment Trust	Australia	100%	100%	11,425	12,850
Palisade AWT Trust 1	Australia	100%	100%	12,733	14,465
<b>Associated entities</b>					
Palisade TGP Holdings Pty Ltd	Australia	28.6%	28.6%	35,714	32,857
Palisade Waterloo Holdings Pty Ltd	Australia	37.0%	-	29,160	-
RLMC Operating Company Pty Ltd and RLX Investment Trust	Australia	34.6%	34.6%	27,565	19,733
Palisade Ports Pty Ltd	Australia	31.0%	31.0%	23,808	22,785
Palisade Australian Social Infrastructure Investment Fund 1	Australia	43.4%	43.4%	40,835	29,509
Palisade Australian Social Infrastructure Investment Fund 2	Australia	43.4%	43.4%	412	298

It is not considered appropriate to consolidate or equity account the Scheme's controlled and associated entities as the effect of doing so is not material.

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 20 Vested benefits – Defined Benefits Funds

The amount of vested benefits is the value of defined benefits which would be due and payable if all members resigned or retired (where eligible) from the service of local government at balance date.

The Vested Benefits Index (i.e. the value of net assets expressed as a percentage of vested benefits) as at 30 June 2013 was as follows for the two defined benefits funds:

	Regional Defined Benefits	City Defined Benefits
	\$m	\$m
Net assets value	1,136.3	90.6
Vested benefits	1,070.0	83.5
Vested Benefits Index (VBI)	106.20%	108.50%
2012	103.55%	103.99%

The Vested Benefit Index for the total Scheme as at balance date was:

	\$m
Net assets value	7,356.8
Vested benefits	7,252.6
Vested Benefits Index	101.44%

### Note 21 Guaranteed benefits

To ensure the ongoing solvency of the Regional Defined Benefits Fund (DBF) which was closed to new entrants as from 1 July 1998, the *Local Government Act 1993* was amended in June 2009 to empower the Board to vary the rate of contributions paid into the Scheme by relevant local government employers subject to advice from the Scheme's actuary. As at reporting date no changes had been made to prescribed employer contributions which remain at 12% of employee salaries.

Employers of members in the City Defined Benefits Fund have given a formal guarantee and undertaking to fund the benefits of their employees in the Fund. As at the reporting date the prescribed employer contribution is 14% of employee salaries.

### Note 22 Funding arrangements

The funding policy adopted in respect of superannuation scheme defined benefits is directed at ensuring that the benefits accruing to members and beneficiaries are fully funded as they fall due.

Given the closure of the Regional Defined Benefits Fund to new entrants as from 1 July 1998, the actuary, in conducting future investigations of the Regional Defined Benefits Fund, adopted a valuation method known as 'Aggregate' Funding. In the conduct of actuarial investigations prior to 1 July 2000 the new entrant/entry age normal funding method was adopted. During 2013 employers contributed 12% of employees' salaries, while employees contributed 6% of their salaries.

For the City Defined Benefits Fund, during 2013 employers contributed 14% of employee salaries while employees contributed 5% of their salaries. For the period from 1 July 2011 to 29 February 2012 employers contributed an additional \$295,000 per month to improve the financial position of the Fund.

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 23 Actuarial investigation

#### (a) Regional Defined Benefits Fund

In compliance with the Superannuation Industry (Supervision) Regulations the Board must undertake an actuarial investigation of the Defined Benefits Funds no later than 3 years after the date as at which the last actuarial investigation was made.

The most recent actuarial investigation of the Scheme was conducted by Mr John Smith of the Heron Partnership, based on Scheme membership and asset data at 1 July 2012. The Board has determined that the next actuarial investigation of the Defined Benefits Funds will be undertaken as at 1 July 2015. (Refer Attachment A *Summary of actuarial report 2012*).

The liabilities of the Scheme's accumulation benefits members are matched by the assets supporting those liabilities and therefore do not explicitly require an actuarial evaluation of contribution sufficiency.

The net asset value of the Scheme at 30 June 2012 representing Defined benefits members' funds was used for the purpose of the 1 July 2012 actuarial valuation:

Defined benefits members' funds as at 1 July 2012	\$1,111.1m
---	------------

#### (b) City Defined Benefits Fund

The last full actuarial investigation of the City Defined Benefits Fund was conducted by Mr John Smith of the Heron Partnership, based on membership and asset data as at 1 July 2012. The Board has determined that the next actuarial investigation of the City Defined Benefits Fund will be undertaken as at 1 July 2015. (Refer Attachment A *Summary of actuarial report 2012*).

The net asset value of the fund at 30 June 2012 representing Defined benefits members' funds was used for the purpose of the 1 July 2012 actuarial valuation:

Defined benefits members' funds as at 1 July 2012	\$87.3m
---	---------

#### (c) Insurance Fund

The last actuarial investigation of the Insurance Fund was conducted as at 1 July 2010.

The investigation indicated that the Insurance Fund was in a sound financial position and Fund assets were in the opinion of the actuary sufficient to meet anticipated benefit liabilities. In 2011/12 \$1.5m of excess reserves was transferred from the Insurance Fund to the Operational Risk reserve. As outlined in Note 4(a), the Insurance Fund has now closed.

### Note 24 Commitments and contingent liabilities

- A. Except for the liability for accrued benefits (refer Note 2(g)) there were no material contingent assets or liabilities of a significant value at balance date.
- B. The Board's infrastructure investment program results in the Board entering into arrangements with investment managers which can result in undrawn commitments of less than a year.

Details of investment commitments are as follows:

	2013	2012
	\$'000	\$'000
Less than a year	155,992	126,372
<b>Total</b>	<b>155,992</b>	<b>126,372</b>

- C. Operating lease commitments exist for both the main office premises and the Disaster Recovery site. Contracted operating lease expenditure is payable as follows:

	2013	2012
	\$'000	\$'000
Less than a year	685	651
Between 1-5 years	762	1,425
<b>Total</b>	<b>1,447</b>	<b>2,076</b>

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 25 Successor fund transfer from City Super

The Board, and the Trustee of the Brisbane City Council Superannuation Plan (City Super), executed a Successor Fund Deed and Deed of Indemnity on 1 December 2010 effectively agreeing, subject to a number of conditions precedent, to a transfer of all the assets and liabilities of City Super into the Local Government Superannuation Scheme on a successor fund basis.

Following the agreement of both Boards that the conditions precedent had been satisfied, the assets and liabilities were transferred into the Scheme effective 1 July 2011. The Board assumed the liability for payment of benefits in respect of each transferred member and received net assets of \$1,533m to meet these liabilities. The City Super Defined Benefits Fund will continue to be managed by the Board as a separate fund within the Scheme.

Details of net assets transferred to LGsuper are as follows:

<b>Net assets transferred from City Super as at 1 July 2011</b>	<b>\$'000</b>
<b>Assets</b>	
<b>Cash assets</b>	
Cash and cash equivalents	13,084
<b>Receivables</b>	
GST receivable	64
Contributions receivable	1
<b>Investments</b>	
Money market accounts and term deposits	106,926
Managed portfolios	657,372
Units in unit trusts	747,096
<b>Other assets</b>	
Deferred tax assets	14,980
<b>Total assets</b>	<b>1,539,523</b>
<b>Liabilities</b>	
Benefits payable	2,086
Creditors and accruals	1,872
Current tax liabilities	4,937
Deferred tax liabilities	257
<b>Total liabilities</b>	<b>9,152</b>
<b>Total net assets transferred</b>	<b>1,530,371</b>
<b>Plus adjustments:</b>	
Residual cash received from former City Super Custodian (NAS)	170
Adjustments to City Super 2011 year end benefit accruals	2,083
<b>Adjusted take up amount</b>	<b>1,532,624</b>
Adjust for: City Super 2012 tax credit to be recovered from ATO	(179)
Assets allocated to member accounts (Note 4)	<b>1,532,445</b>

### Note 26 Significant post-balance date events

There have not been any other matters or circumstances not otherwise dealt with in the financial report that have significantly affected or may significantly affect the Scheme.

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 27 Financial instruments

#### (a) General financial instruments

The Scheme's assets are principally financial in nature comprising quoted and non-quoted equity investments, property (direct and indirect), fixed interest investments, units in listed and unlisted trusts, cash/short-term deposits and a variety of derivative financial instruments. These investment assets are managed by Board appointed investment managers in accordance with specific investment mandates and according to the Board's investment beliefs and long-term strategic objectives. The Board's general investment objectives are to ensure assets are adequately diverse, have appropriate levels of liquidity and are sufficient to meet benefit payments when due.

The allocation of funds to various asset classes is based on long-term achievement of stated objectives. Diversification is used to manage risk. The Board utilises the expertise of external asset consultants where necessary. Divergence from target asset allocations and the composition of portfolios is monitored by the Scheme's management monthly or more frequently during periods of volatility.

The Scheme's investment portfolio is exposed to the following risks:

- market risk (including currency risk, interest rate risk and asset price risk)
- liquidity risk
- credit risk

The nature, extent and sensitivity of exposures arising from the Board's investment portfolio are discussed and quantified below. This note presents information about the Board's exposure to each of the above risks, the Board's objectives, policies and processes for measuring and managing risk.

The Board has overall responsibility for the establishment and oversight of the Scheme's risk management framework.

The Board is responsible for developing and monitoring the Scheme's risk management policies, including those related to its investment activities. The Board's risk management policies are established to identify and analyse the risks faced by the Scheme, including those risks managed by the Board's investment managers, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Scheme's activities. To assist in carrying out its risk management responsibilities the Board receives monthly performance and risk management reports from its master custodian.

#### (b) Market risk

Market risk is the risk that the value or future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates, interest rates, asset prices and other prices and derivatives contracts related to these assets. Market risk is minimised by ensuring that all investment activities are undertaken in accordance with established mandate limits and investment strategies.

Share price and bond futures may be used by external managers engaged by the Board to hedge against adverse price movements in the value of financial assets. Further, these managers enter into derivative transactions, for example futures contracts, to further mitigate market risks.

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 27 Financial instruments (continued)

#### Currency risk

Currency risk is the risk that the value or future cash flows of an asset will fluctuate due to changes in foreign exchange rates.

As a result of significant investments held in foreign markets, the Scheme's financial position can be affected significantly by movements in overseas currency when translated into Australian dollars. The Board manages the Scheme's exposure to foreign currency risk and mitigates the effects of its foreign currency translation exposure by adhering to the Scheme's investment strategy and mandates, which limit the portion of the Scheme's assets which can be invested in foreign currencies in addition to taking out forward foreign exchange contracts to offset currency risk. This foreign exchange policy is monitored on an ongoing basis throughout the year.

The Scheme's total net exposure in Australian Dollars to foreign currency risk at the balance sheet date for both monetary and non-monetary financial instruments was as follows:

<b>30 June 2013</b>	<b>AUD</b>	<b>USD</b>	<b>JPY</b>	<b>EUR</b>	<b>GBP</b>	<b>Other</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Gross investment assets	4,036,788	1,996,454	252,391	559,913	324,163	308,166	7,477,885
Foreign exchange contracts	1,507,529	(825,905)	(107,314)	(270,262)	(189,095)	(114,953)	-
- Notional exposure value							
<b>Total</b>	<b>5,544,317</b>	<b>1,170,559</b>	<b>145,077</b>	<b>289,651</b>	<b>135,068</b>	<b>193,213</b>	<b>7,477,885</b>
Add back:							
Fair value of FX contracts							(135,186)
<b>Total investments - refer Note 5</b>							<b>7,342,699</b>

<b>30 June 2012</b>	<b>AUD</b>	<b>USD</b>	<b>JPY</b>	<b>EUR</b>	<b>GBP</b>	<b>Other</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Gross investment assets	4,300,826	1,149,102	156,746	271,026	174,872	232,076	6,284,648
Foreign exchange Contracts	1,161,007	(682,796)	(122,072)	(203,045)	(117,326)	(35,768)	-
- Notional exposure value							
<b>Total</b>	<b>5,461,833</b>	<b>466,306</b>	<b>34,674</b>	<b>67,981</b>	<b>57,546</b>	<b>196,308</b>	<b>6,284,647</b>
Add back:							
Fair value of FX contracts							19,530
<b>Total investments - refer Note 5</b>							<b>6,304,178</b>

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 27 Financial instruments (continued)

#### Sensitivity analysis

A potential strengthening of the AUD against the listed currencies (see table below) at 30 June would have decreased net assets available to pay benefits by the amounts shown below. In accordance with paragraph B23 of Appendix B of AASB 7, this analysis excludes the portion of currency risk included in the previous table that may arise from financial instruments that are non-monetary items, for example equity investments. The foreign currency exposure arising from investing in non-monetary financial instruments is reflected in the Asset Price Risk analysis shown below.

It should be noted that this sensitivity analysis excludes the impact of forward foreign exchange contracts which effectively hedge 100% of the currency exposure of the Scheme's overseas fixed interest and infrastructure investments and up to 50% of equity assets. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2012.

	Volatility factor	Volatility factor	Effect on net assets available to pay benefits	Effect on net assets available to pay benefits
	%	%	\$'000	\$'000
	Reflecting a stronger AUD	Reflecting a weaker AUD	Gain/(loss) on stronger AUD	Gain/(loss) on weaker AUD
<b>30 June 2013</b>				
US dollars	11.4%	(11.4%)	(66,656)	66,656
Japanese Yen	14.4%	(14.4%)	(14,260)	14,260
Euro	9.8%	(9.8%)	(17,323)	17,323
British Pounds	10.9%	(10.9%)	(15,199)	15,199
Other	9.7%	(9.7%)	(3,974)	3,974
			<b>(117,412)</b>	<b>117,412</b>
<b>30 June 2012</b>				
US dollars	11.4%	(11.4%)	(42,493)	42,493
Japanese Yen	14.5%	(14.5%)	(11,122)	11,122
Euro	9.4%	(9.4%)	(11,212)	11,212
British Pounds	10.5%	(10.5%)	(8,774)	8,774
Other	9.3%	(9.3%)	(2,949)	2,949
			<b>(76,550)</b>	<b>76,550</b>

#### Interest rate risk

Interest rate risk arises from changes in interest rates and the subsequent impact on the carrying value of the underlying asset.

A significant portion of the Scheme's financial assets are non-interest-bearing. Interest-bearing financial assets and interest-bearing financial liabilities mostly mature or reprice in the short-term. As a result, the Scheme is subject to limited exposure to interest rate risk resulting from fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents of the Scheme are invested in short-term commercial paper and deposits with a term to maturity of up to 4 months. Investments in debt securities can be fixed or variable rate with various terms to maturity.

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 27 Financial instruments (continued)

The interest rate profile of the Scheme's interest-bearing financial instruments as at 30 June 2013 was:

	Floating interest rate	Fixed interest rate	Non-interest bearing	Total
	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>				
Cash and cash equivalents	300,967	-	-	300,967
Deposits held with brokers	6,362	-	-	6,362
Floating rate notes	72,400	-	-	72,400
Swaps (floating)	1,550	-	-	1,550
Fixed interest investments	108,650	1,502,964	-	1,611,614
Derivatives	319	7,570	18,734	26,623
Equity and trust investments	-	-	5,462,991	5,462,991
Direct property investments	-	-	67,490	67,490
Receivables	-	-	49,778	49,778
<b>Liabilities</b>				
Variable rate instruments	(3,941)	-	-	(3,941)
Derivatives	(82)	(8,496)	(142,922)	(151,500)
Payables	-	-	(101,635)	(101,635)
<b>Total</b>	<b>486,225</b>	<b>1,502,038</b>	<b>5,354,436</b>	<b>7,342,699</b>

The interest rate profile of the Scheme's interest-bearing financial instruments as at 30 June 2012 was:

	Floating interest rate	Fixed interest rate	Non-interest bearing	Total
	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>				
Cash and cash equivalents	261,467	-	-	261,467
Deposits held with brokers	6,601	-	-	6,601
Floating rate notes	35,415	-	-	35,415
Swaps (floating)	344	-	-	344
Fixed interest investments	-	1,772,695	-	1,772,695
Derivatives	751	3,503	37,403	41,657
Equity and trust investments	-	-	4,142,615	4,142,615
Direct property investments	-	-	68,125	68,125
Receivables	-	-	83,413	83,413
	<b>304,578</b>	<b>1,776,198</b>	<b>4,331,556</b>	<b>6,412,332</b>
<b>Liabilities</b>				
Variable rate instruments	(10,386)	-	-	(10,386)
Derivatives	(235)	(1,192)	(9,202)	(10,629)
Payables	-	-	(87,139)	(87,139)
	(10,621)	(1,192)	(96,341)	(108,154)
<b>Total</b>	<b>293,957</b>	<b>1,775,006</b>	<b>4,235,215</b>	<b>6,304,178</b>



## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 27 Financial instruments (continued)

#### *Sensitivity analysis for fixed rate and variable rate instruments*

Potential increases in interest rates applying to fixed and variable rate instruments as at 30 June would have decreased net assets available to pay benefits by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis was performed on the same basis for 2012.

<b>Volatility factors</b>	<b>2013</b>	<b>2013</b>	<b>2012</b>	<b>2012</b>
	Reflects higher interest rates	Reflects lower interest rates	Reflects higher interest rates	Reflects lower interest rates
Australian sovereign bonds	1.4%	(1.4%)	1.2%	(1.2%)
Australian corporate bonds	1.7%	(1.7%)	1.4%	(1.4%)
International sovereign bonds	0.6%	(0.6%)	0.6%	(0.6%)
International corporate bonds	0.9%	(0.9%)	0.9%	(0.9%)
Australian real yields	0.7%	(0.7%)	0.6%	(0.6%)
International real yields	0.4%	(0.4%)	0.4%	(0.4%)
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Effect on net assets available to pay benefits</b>	<b>(20,027)</b>	<b>20,027</b>	<b>(18,626)</b>	<b>18,626</b>

The same percentage fall in interest rates as at 30 June would have had an equal but opposite effect on net assets available to pay benefits.

#### *Asset price risk*

Asset price risk is the risk that the value of investments will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to an individual investment, or factors affecting all instruments traded in the market. As changes in the value of investments are recognised in the *Statement of changes in net assets*, all changes in market conditions will directly affect net investment income.

To limit market price risk, the Board diversifies its investments in line with the Scheme's investment strategy which is reflected in the individual manager investment mandates. The majority of equity investments are of a high quality and are publicly traded on recognised, reputable domestic and international exchanges or through units in wholesale trusts. The Board monitors the Scheme's exposure to various asset classes on an ongoing basis throughout the year and ensures investment mandates comply with guidelines. In addition, price risk may be hedged by managers using derivative financial instruments such as options or futures.

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 27 Financial instruments (continued)

#### Sensitivity analysis

The effect on net assets available to pay benefits of potential changes in relevant market indices as at 30 June, are shown below.

Volatility factors - by asset class	2013		2012	
	Reflects higher asset prices	Reflects lower asset prices	Reflects higher asset prices	Reflects lower asset prices
Australian equities	23.6%	(23.6%)	25.7%	(25.7%)
International equities	19.5%	(19.5%)	22.3%	(22.3%)
Australian and global listed property	16.4%	(16.4%)	17.4%	(17.4%)
Asset-backed securities	8.5%	(8.5%)	9.3%	(9.3%)
Emerging markets cash	10.1%	(10.1%)	10.6%	(10.6%)
Emerging markets equities	24.6%	(24.6%)	27.5%	(27.5%)
High yield debt	12.9%	(12.9%)	13.8%	(13.8%)
Global infrastructure	21.1%	(21.1%)	16.7%	(16.7%)
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Effect on net assets available to pay benefits</b>	<b>1,192,517</b>	<b>(1,192,517)</b>	<b>950,886</b>	<b>(950,886)</b>

#### (c) Liquidity risk

Liquidity risk is the risk that the Scheme will not be able to meet its financial obligations as they fall due. The Scheme's most significant financial liability is the payment of benefits to eligible members. Other financial liabilities of the Scheme comprise trade and other payables as well as foreign exchange forward contracts.

The Board's approach to managing liquidity is to ensure, as far as possible, that under normal and abnormal stressed operating conditions, it will always have sufficient liquidity to meet its liabilities when due.

However, the Scheme's assets include investments in unlisted investments, direct property and infrastructure, which are not traded in an organised public market and which generally may be illiquid. As a result, the Board may not be able to liquidate some investments at an amount close to their fair value in order to meet immediate liquidity requirements.

The Scheme's listed securities are considered to be readily realisable as they are all listed on major stock exchanges.

The Scheme's liquidity risk is managed on a daily basis by senior management staff in accordance with specific risk management policies and procedures adopted by the Board. The Scheme's overall liquidity risks are also monitored on a regular basis by the Board.

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements.

The table summarises the maturity profile of the Scheme's financial liabilities and gross settlement derivative financial instruments, using nominal derivative amounts, into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 27 Financial instruments (continued)

As at 30 June 2013:

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
2013	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Non-derivatives</b>						
Unsettled purchases	(103,187)	-	-	-	-	(103,187)
Trade and other payables	(7,722)	-	-	-	-	(7,722)
Current tax liabilities	-	(18,110)	-	-	-	(18,110)
Benefits payable	-	(2,328)	-	-	-	(2,328)
<b>Total non-derivatives</b>	<b>(110,909)</b>	<b>(20,438)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(131,347)</b>

#### Derivatives

Gross settled (forward currency contracts, futures, options, swaps)

- inflow	3,050,334	2,757,185	3,616,281	529,998	314,737	10,268,535
- (outflow)	(3,170,341)	(2,730,987)	(3,345,176)	(546,204)	(317,064)	(10,109,772)
<b>Total derivatives</b>	<b>(120,007)</b>	<b>26,198</b>	<b>271,105</b>	<b>(16,206)</b>	<b>(2,327)</b>	<b>158,763</b>

As at 30 June 2012:

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
2012	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Non-derivatives</b>						
Unsettled purchases	(92,200)	-	-	-	-	(92,200)
Trade and other payables	(4,770)	-	-	-	-	(4,770)
Current tax liabilities	-	(30,123)	-	-	-	(30,123)
Benefits payable	-	(1,804)	-	-	-	(1,804)
<b>Total non-derivatives</b>	<b>(96,970)</b>	<b>(31,927)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(128,897)</b>

#### Derivatives

Gross settled (forward currency contracts, futures, options, swaps)

- inflow	962,814	747,107	1,238,761	308,395	120,239	3,377,316
- (outflow)	(881,927)	(619,181)	(1,026,587)	(398,315)	(120,800)	(3,046,810)
<b>Total derivatives</b>	<b>80,887</b>	<b>127,926</b>	<b>212,174</b>	<b>(89,920)</b>	<b>(561)</b>	<b>330,506</b>

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### Note 27 Financial instruments (continued)

#### (d) Credit risk

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitments in full and on time, or from losses arising from the change in value of a traded financial instrument as a result of changes in the credit risk of that instrument. The Scheme's investment managers have a credit policy in place in accordance with Board guidelines and the exposure to credit risk is monitored on an ongoing basis.

The Scheme's maximum exposure to credit risk at reporting date in relation to each class of recognised financial asset is the carrying amount of those assets as shown in the *Statement of net assets*.

At the reporting date, the Scheme's financial assets exposed to credit risk were as follows:

	2013	2012
	\$'000	\$'000
Cash and cash equivalents	305,756	263,007
Term deposits	225,000	250,431
Investments in debt instruments	1,459,013	1,557,679
Contributions receivable	12,667	11,363
Unsettled investment sales and income receivable	50,790	84,475
	<b>2,053,226</b>	<b>2,166,955</b>

Apart from cash held under custody by the Scheme's master custodian, all cash controlled directly by the Scheme was deposited in accounts with Australian domiciled banks. Bankruptcy or insolvency of these banks may cause the Scheme's rights with respect to the cash held with these banks to be delayed or limited. The Board monitors its risk by monitoring the credit rating of these banks, as reported by Standard & Poor's. If the credit quality or the financial position of any of these banks deteriorates below Board approved guidelines, the Board will reinvest the cash holdings in an alternative bank.

The credit quality of debt instruments is managed by the Board using commercial credit rating systems such as Standard & Poor's, in accordance with the investment strategy of the Scheme. The table below shows the credit quality of the debt instruments held by the Scheme as at balance date.

	AAA to AA-	A+ to A-	BBB+ to BB+	CCC+	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
2013	1,166,008	175,869	117,136	-	1,459,013
2012	1,298,659	171,970	87,050	-	1,557,679

Credit risk associated with contributions receivable from primary local government employers is considered low.

The credit risk relating to unsettled transactions is considered low due to the short settlement period involved. Substantially all of the assets of the Scheme are held in custody by JP Morgan Chase Bank. Bankruptcy or insolvency of the custodian may cause the Scheme's rights with respect to securities held by the custodian to be delayed or limited. The Board monitors its risk by monitoring the credit quality and financial position of the custodian.

# Trustee's declaration

The Queensland Local Government Superannuation Board has prepared the foregoing annual Financial statements of the Local Government Superannuation Scheme pursuant to the provisions of the Trust Deed of the Local Government Superannuation Scheme dated 5 April 1995, as amended and on behalf of the Superannuation Board we certify that:

In the opinion of the Board

- a. the financial statements set out on pages 30 to 66 are drawn up so as to present fairly the net assets of the Scheme as at 30 June 2013 and the changes in net assets for the year then ended;
- b. the financial statements have been prepared in accordance with the full provisions of Australian Accounting Standard AAS 25, Financial Reporting by Superannuation Plans, other applicable Australian equivalents to International Financial Reporting Standards, the provisions of the Trust Deed and relevant legislative requirements; and
- c. the Scheme has operated in accordance with the provisions of the Trust Deed and in compliance with the requirements of the *Superannuation Industry (Supervision) Act 1993* as amended and Regulations, the *Corporations Act 2001, Regulations and Guidelines and Financial Sector (Collection of Data) Act 2001* during the year ended 30 June 2013.



**Brian D Roebig**  
Chairman



**Paul V Bell**  
Director



**David J Todd**  
Chief Executive Officer

15 October 2013  
Brisbane

## Independent report by approved auditor to the Board of Trustees and members of the Local Government Superannuation Scheme

(ABN 23 053 121 564)

### Financial statements

I have audited the financial statements of the Local Government Superannuation Scheme for the year ended 30 June 2013 comprising the Statement of changes in net assets, the Statement of net assets, Summary of significant accounting policies, and other explanation notes as set out on pages 30 to 66 attached.

#### *Trustee's responsibility for the Financial statements*

The superannuation entity's trustee is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the requirements of the SIS Act and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee is also responsible for such internal control as the trustee determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's responsibility*

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted an independent audit of the financial statements in order to express an opinion on them to the trustee and members of the Local Government Superannuation Scheme.

My audit has been conducted in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the trustee's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the trustee's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustee, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### *Auditor's opinion*

In my opinion, the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), the net assets of the Local Government Superannuation Scheme as at 30 June 2013 and the changes in net assets for the year ended 30 June 2013.



**K Johnson FCA**  
Assistant Auditor-General

(as Delegate of the Auditor-General of Queensland)



Queensland Audit Office  
Brisbane

This auditor's report relates to the financial report of the Local Government Superannuation Scheme for the year ended 30 June 2013. Where the financial report is included on LGsuper's website the Board of Trustees is responsible for the integrity of the LGsuper website and I have not been engaged to report on the integrity of LGsuper's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or otherwise included with the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report. These matters also relate to the presentation of the audited financial report in other electronic media including CD Rom.

# Attachment A

## Summary of Actuarial report 2012

### Actuarial statement for the purpose of Australian Accounting Standard (AAS25)

This statement has been prepared at the request of the Trustee of the Scheme and sets out the value of accrued benefits and other actuarial information required under AAS 25 in respect of the Scheme and specifically the Defined Benefit Fund, for disclosure in the financial statements of the Scheme.

#### Results

For the disclosure purposes of AAS 25, the accrued benefits under the Scheme as at 30 June 2012 are determined to be:

Defined Benefits Fund (Regional and City):	\$1,158.3m, or \$1,149.5m (net of offset accounts)
Accumulation Benefits Fund:	\$5,169.6m

The aggregate amount of vested benefits at 30 June 2012 was:

Defined Benefits Fund:	\$1,158.3m, or \$1,149.5m (net of offset accounts)
Accumulation Benefits Fund:	\$5,169.6m

The market value of assets of the Scheme at 30 June 2012 was \$6,360.6m of which \$1,191.0m was attributable to defined benefits.

#### Method

Accrued benefits have been determined as the present value of expected future benefit payments that arise from membership of the Scheme up to the investigation date.

Projected benefits are determined as the benefits payable to defined benefit members under each of the possible contingencies provided under the rules of the Scheme at any future date, taking into account expected future salary increases.

*The proportion of projected benefits taken into account is determined as:*

$$\text{Projected benefit} \times \frac{\text{Completed service at measurement date}}{\text{Service at date of projected payment}}$$

The total accrued benefits calculated are then subject to a minimum of total vested benefits.

The method of determining accrued benefits has been applied in a manner consistent with Professional Standard 402 and Guidance Note 454 issued by The Institute of Actuaries of Australia.

### Data and assumptions

The assumptions and data used to calculate accrued benefits were the same as for the actuarial investigation of the Scheme as at 30 June 2012. The financial assumptions may be summarised as follows:

Discount rate (active defined benefit members): 7.0% p.a.

Future salary increases: 5.5% p.a.

The discount rates are considered to be a reasonable expectation of actual future Scheme returns over the average expected term of the benefit liabilities, in the light of the Scheme's present investment strategy and taxation position.

#### Summary of Actuarial report

AAS 23 also requires the notes to the Scheme's accounts to include a summary of the most recent actuarial report of Schemes. The attachment to this statement provides a summary of my report on the actuarial investigation of the Local Government Superannuation Scheme carried out as at 30 June 2009. The summary has been prepared in accordance with Professional Standard 401 issued by the Institute of Actuaries of Australia and contains information required under AAS 25.

John Smith BA (Maths)

Fellow of the Institute of Actuaries of Australia

21 March 2013

# Attachment to AAS 25 Statement

## Local Government Superannuation Scheme

### *Summary of actuarial report*

This attachment provides a summary of the report on actuarial investigation of the Local Government Superannuation Scheme as at 30 June 2012, including the actuary's opinion as to the financial condition of the Scheme.

### *Data*

The actuarial investigation was based on 4,245 defined benefit members. The net value of assets attributable to defined benefit members was taken as at 30 June 2012 to be \$1,198.4m (setting aside offset accounts for the purpose of the review).

### *Financing method and recommendations*

The financing method adopted is to target coverage of vested benefits.

Based on this financing method and the actuarial assumptions set out in the actuarial report, the actuary noted the prescribed employer contributions and made specific recommendation regarding financial management, including reserving and investment strategy.

The actuary also recommended that the next full actuarial investigation be made on or before 30 June 2015.

### *Financial condition*

The coverage of various measures of defined benefit liabilities by assets at 30 June 2012 was as follows (adjusted for offset accounts):

	<b>Assets</b>	<b>Benefits</b>	<b>Ratio*</b>
	\$	\$	%
Regional coverage of accrued and vested benefits	1,111.1	1,073.2	103.5
City coverage of accrued and vested benefits	87.3	87.1	102.6

\*These ratios consider only defined benefit liabilities for the Regional DBF but include additional accumulation accounts subject to smoothing for the City DBF.

These ratios are currently considered satisfactory.



# The Queensland Local Government Superannuation Board

ABN 94 085 088 484 AFS Licence No. 230511

## Financial statements

for the year ended 30 June 2013

# Contents

Directors' report	73
Auditor's independence declaration	75
Statement of comprehensive income	76
Statement of financial position	77
Statement of changes in equity	78
Statement of cash flows	79
Notes to and forming part of the financial statements	80
Directors' declaration	82
Independent auditor's report	83

# Directors' report

The directors submit their report on the financial statements of the Board for the financial year ended 30 June 2013.

## Directors

The names of the directors in office during the financial year and as at the date of this report are:

- Mr B D Roebig OAM
- Cr P V Bell AM
- Mr N P Cass
- Ms F Connor
- Mr R L Curtis
- Cr M A de Wit (appointed effective 1 June 2013)
- Ms L M Dudley
- Cr P J Pisasale (appointed effective 1 September 2012)
- Mr P J Smith
- Mr P M Taylor (resigned effective 31 May 2013)
- Cr L R Tyrell OAM (resigned effective 31 July 2012)

## Principal activity

The Board acts as trustee for the Local Government Superannuation Scheme. This trusteeship is the sole activity of the Board, and there was no change in this activity during the financial year.

## Operating result

The Board did not trade in its own right during the current or previous financial year.

## Review of operations

Throughout the year, the Board has continued to act as trustee for the Local Government Superannuation Scheme. The Scheme is a superannuation fund used to provide superannuation benefits for current and previous employees (and their member spouses) of Local Government employers in Queensland, Australia.

## Significant events after the balance date

There have been no significant events occurring after balance date which may affect either the Board's operations or results of those operations or the Board's state of affairs.

## Environmental regulation and performance

The Board is not subject to any particular or significant environmental regulation.

## Indemnification and insurance of directors

During or since the financial year, the Board has paid premiums from the Scheme in respect of a contract insuring all of the directors of the Queensland Local Government Superannuation Board against costs incurred in defending legal proceedings against them.

## Directors' report (continued)

### Directors' meetings

During the year ended 30 June 2013, directors' meetings were held. The number of meetings at which Directors were in attendance is as follows:

Name	Number of meetings held while in office	Meetings attended
Mr B D Roebig OAM	11	11
Cr P V Bell AM	11	8
Mr N P Cass	11	11
Ms F Connor	11	11
Mr R L Curtis	11	11
Cr M A de Wit	1	1
Ms L M Dudley	11	10
Mr P J Pisasale	9	9
Mr P J Smith	11	10
Mr P M Taylor	10	10
Cr L R Tyrell OAM	2	-

### Directors' benefits

During or since the financial year, no director of the Board has received or become entitled to receive a benefit, other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors shown in the accounts, by reason of a contract entered into by the Board or an entity that the Board controlled or a body corporate that was related to the Board when the contract was made, or when the director received, or became entitled to receive the benefit, with:

- a director, or
- a firm of which a director is a member, or
- an entity in which a director has a substantial financial interest.

### Auditor's independence declaration

The auditor's independence declaration is set out on page 75 and forms part of the director's report for the financial year ended 30 June 2013.

Signed in accordance with a resolution of directors



**Brian D Roebig**

Chairman



**Paul V Bell**

Director



**David J Todd**

Chief Executive Officer

15 October 2013  
Brisbane

# Auditor's independence declaration

To the directors of Queensland Local Government Superannuation Board

As lead auditor for the audit of the Queensland Local Government Superannuation Board for the year ended 30 June 2013. I declare that, to the best of my knowledge and belief, there have been no contraventions of any applicable code of professional conduct in relation to the conduct of the audit.



**K Johnson FCA**

Assistant Auditor-General

(as Delegate of the Auditor-General of Queensland)

Queensland Audit Office  
Brisbane

15 October 2013  
Brisbane

## Statement of comprehensive income

for the year ended 30 June 2013

	Note	2013	2012
		\$	\$
Income		-	-
Expenses		-	-
Profit before income tax expense	3	-	-
Net profit for the financial year		-	-

The above *Statement of comprehensive income* should be read in conjunction with the accompanying notes.

## Statement of financial position

as at 30 June 2013

	Note	2013	2012
		\$	\$
Assets		-	-
Total assets		-	-
Liabilities		-	-
Total liabilities		-	-
Net assets		-	-
<b>Equity</b>			
Contributed equity	4	-	-
Total equity		-	-

The above *Statement of financial position* should be read in conjunction with the accompanying notes.

## Statement of changes in equity

for the year ended 30 June 2013

	\$
<b>At 1 July 2011</b>	-
Profit for the year	-
At 30 June 2012	-
<b>At 1 July 2012</b>	-
Profit for the year	-
At June 30 2013	-

The above *Statement of changes in equity* should be read in conjunction with the accompanying notes.



## Statement of cash flows

for the year ended 30 June 2013

	2013	2012
	\$	\$
Cash flows from operating activities	-	-
Cash flows from investing activities	-	-
Increase/(decrease) in cash held	-	-
Cash at the beginning of the financial year	-	-
Cash at the end of the financial year	-	-

The above Statement of cash flows should be read in conjunction with the accompanying notes.

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### 1. Corporate information

The Queensland Local Government Superannuation Board is a statutory corporation formed under the *Local Government Act (Queensland) 2009* that is incorporated and domiciled in Australia. The registered address of the Board is Level 17, 333 Ann Street, Brisbane Queensland.

The Board acts solely as trustee of the Local Government Superannuation Scheme. The Board has no beneficially owned assets – all scheme assets are held for the benefit of members.

### 2. Statement of significant accounting policies

#### (a) Basis of accounting

This financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB). The accounting policies used in the preparation of this report, as described below, are consistent with previous years, and are, in the opinion of the directors, appropriate to meet the needs of ASIC and the directors. The financial report has been prepared on an accrual basis of accounting including the historical cost convention and the going concern assumption. The functional presentation currency for these statements is Australian dollars.

#### (b) Statement of Compliance

##### *Compliance with IFRS*

This financial report does not comply with International Financial Reporting Standards (IFRS).

#### (c) Change in accounting policies

The accounting policies adopted are consistent with those of the previous year.

#### (d) Trustee obligations

The Board in its capacity as trustee incurs liabilities on behalf of the Local Government Superannuation Scheme. During the year, all liabilities incurred by the Board have been in accordance with the Trust Deed. In respect of the Trustee liabilities, the Board has a right to be indemnified out of the assets of the Scheme.

These financial statements have been prepared for the Board and as such do not record the assets and liabilities of the Scheme. At balance date, the assets of the Scheme are sufficient to meet its liabilities. The assets of the Scheme are not available to meet any liabilities of the Board acting in its own right.

### 3. Profit from ordinary activities

All expenditure incurred in administering the Local Government Superannuation Scheme is reimbursed from the trust funds. Accordingly, there was no result for the financial year nor was there any information concerning profit and loss account items required to be disclosed.

### 4. Contributed equity

	2013	2012
	\$	\$
Issued and paid up capital	-	-

### 5. Directors' remuneration

No remuneration has been received, nor is due and receivable, by the directors from the Queensland Local Government Superannuation Board, instead, remuneration is paid from the Scheme and declared in the audited Scheme financial statements.

No amounts have been paid to superannuation funds from the Queensland Local Government Superannuation Board, in connection with the retirement of the directors of the Board. Instead, superannuation, as with remuneration is paid from Scheme funds.

## Notes to and forming part of the Financial statements

for the year ended 30 June 2013

### 6. Related party transactions

#### (a) Directors

The names of each person holding the position of Director of the Board during the financial year are:

- Mr B D Roebig OAM
- Cr P V Bell AM
- Mr N P Cass
- Ms F Connor
- Mr R L Curtis
- Cr M A de Wit (appointed effective 1 June 2013)
- Ms L M Dudley
- Cr P J Pisasale (appointed effective 1 September 2012)
- Mr P J Smith
- Mr P M Taylor (resigned 31 May 2013)
- Cr L R Tyrell OAM (resigned effective 31 July 2012)

The directors of the Board have received remuneration as a consequence of their position as directors and this is paid by the Scheme and declared in the audited Scheme financial statements.

#### (b) Other related party transactions

The Board acts solely as trustee for the Queensland Local Government Superannuation Scheme.

### 7. Segment information

The Board operates solely as trustee for the Queensland Local Government Superannuation Scheme and operates in Australia only.

### 8. Auditor's remuneration

The Board's auditor is the Auditor-General of Queensland. Audit fees are paid directly by the Board from the Local Government Superannuation Scheme.

# Directors' declaration

In accordance with a resolution of the directors of the Queensland Local Government Superannuation Board, we state that:

In the opinion of the directors the financial statements and notes thereto;

- i. give a true and fair view of the Board's financial position as at 30 June 2013 and of the Board's performance for the year ended on that date; and
- ii. comply with Australian Accounting Standards.

On behalf of the Board



**Brian D Roebig**

Chairman



**Paul V Bell**

Director



**David J Todd**

Chief Executive Officer

15 October 2013  
Brisbane

## Independent report by approved auditor to the members of the Queensland Local Government Superannuation Board

### Report on the financial report

I have audited the accompanying financial report, of the Queensland Local Government Superannuation Board which comprises the Statement of financial position as at 30 June 2013, and the Statement of comprehensive income, Statement of changes in equity and Statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

### Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report and have determined that the accounting policies described in Note 2 to the financial statements, which form part of the financial report, are appropriate to meet the requirements of the *Corporations Act 2001* and are appropriate to meet the needs of the members. The directors' responsibility also includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

My responsibility is to express an opinion on the financial report based on the audit. No opinion is expressed as to whether the accounting policies used, as described in Note 2, are appropriate to meet the needs of the members. The audit was conducted in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. These auditing standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance whether the financial report is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement in the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the application of accounting policies and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Independence

The *Auditor-General Act 2009* promotes the independence of the Auditor-General and all authorised auditors. The Auditor-General is the auditor of all Queensland public sector entities and can only be removed by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters, which in the Auditor-General's opinion are significant.

In conducting the audit the independence requirements of the *Corporations Act 2001* have been complied with. I confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of the Queensland Local Government Superannuation Board on 15 October 2013, would be in the same terms if provided to the directors, as at the date of this auditor's report.

### Auditor's Opinion

In my opinion -

- a. the financial report of the Queensland Local Government Superannuation Board is in accordance with the *Corporations Act 2001*, including -
  - i. giving a true and fair view of the company's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards and complying with the *Corporations Regulations 2001*.

*Karen Johnson*

**K Johnson FCA**  
Assistant Auditor-General

(as Delegate of the Auditor-General of Queensland)



Queensland Audit Office  
Brisbane

