



**LGsuper**

Looking after you  
and your super

# 2014 Annual report

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Queensland Local Government  
Superannuation Board

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The Queensland Local Government  
Superannuation Board  
ABN 94 085 088 484  
AFS 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 2013/14 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 86,207 LGsuper members at 30 June 2014.



## Account types

The membership comprised:

<b>Accumulation Benefits Fund members</b>			<b>82,755</b>
<b>Council employees</b>			
Contributory	33,812		
Non-contributory	6,542		
Councillors	293	40,647	
<b>Former council employees and spouses</b>			
Retained Benefit	37,734		
Spouses	1,278		
Pensioners	3,096	42,108	
<b>Defined Benefits Fund members</b>			<b>3,452</b>
<b>Total members</b>			<b>86,207</b>

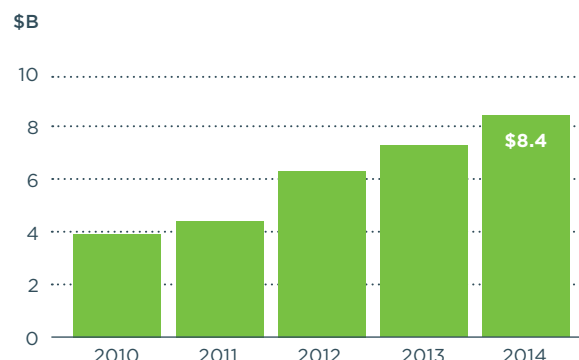
## Employers

LGsuper was receiving contributions from 100 local government employers at 30 June 2014.

During 2013/14, 6,482 non-local government employers paid into LGsuper.

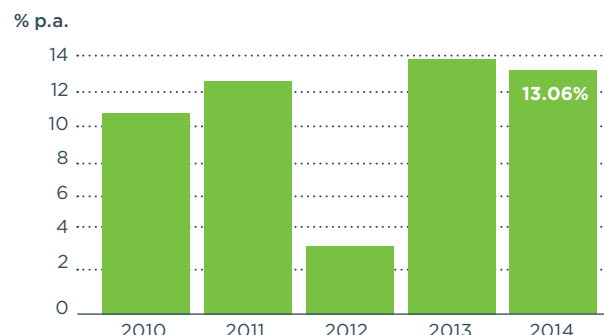
## Funds under management

LGsuper invested \$8.4 billion in funds under management at 30 June 2014.



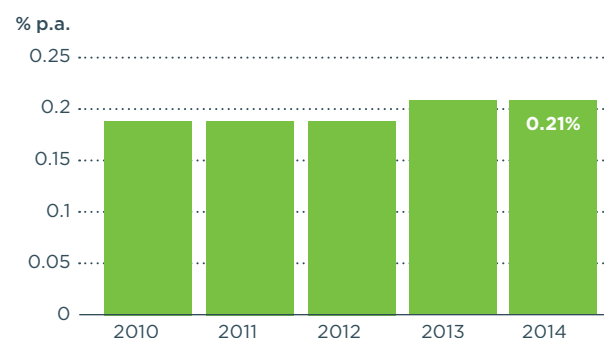
## Investment performance

The total investment return for LGsuper was 13.06% before tax and fees for 2013/14.



## Administration expenses

Administration expenses charged for running LGsuper were 0.21% in 2013/14.



# Chairman and CEO's report

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On behalf of the LGsuper Board of Directors, it is our pleasure to present the 2014 annual report.

## Solid returns as global markets continue to improve

The 2013/14 year saw consistently strong returns for most LGsuper members as solid earning rates were maintained. Despite geopolitical instability, a federal election, extreme winter weather in the northern hemisphere and the US government shutdown, Australian and global sharemarkets saw substantial gains for the second year in a row. The Australian sharemarket had its best back-to-back returns in 7 years, with the banking sector leading the way and the mining sector making a recovery from its poor performance last year. Overseas, the US housing sector improved with house prices, sales and construction increasing over the year. In contrast, at 30 June the latest Eurozone manufacturing data was at a 7-month low and unemployment still elevated at 11.6%. Europe's economy will rely on strong growth in Asia and the US to give it the boost it needs in the coming year.

As global conditions continue to improve, LGsuper has maintained a highly diversified investment strategy to produce solid returns even when the sharemarket takes a downward turn. This strategy consistently delivers in the long run, with leading independent ratings agency SuperRatings ranking our Balanced option returns in the top ten funds over the 7-year period to 30 June 2014.

## New products and better service for members

Over the past year we've changed for the better by introducing and improving products and services to help members get the most out of their super. We wanted to be able to offer more comprehensive superannuation and retirement planning advice to our members, so we expanded our Member Advice team to include two qualified professional financial planners and two advice representatives.

In line with Stronger Super reforms we launched our new MySuper Lifecycle investment option, which was awarded a SuperRatings platinum rating just 2 months after it became available. We also introduced our LGsuper clearing house service to help employers submit contributions for their employees while complying with the new SuperStream data and payment standards.

We produced a new-look website that features easier navigation, tailored information and enhanced functionality. As part of our online developments, non-pension members now also have the ability to switch investment options through LGsuper online. We made all of these improvements without increasing our administration and investment fees charged to members.

## Looking ahead

LGsuper is dedicated to the following priorities in 2014/15:

Assisting employers with complying with the new SuperStream data payment standards

Appointing an insurer for members' death and disability cover from 1 July 2015

Undertaking market research to gauge member satisfaction with LGsuper and identify any areas for improvement

Enhancing our website to allow all members to change investment options online, view informative videos and more

Maintaining our low-cost position for members.

## Board changes for strong and diverse governance

Significant changes to the LGsuper Board took place throughout the year as part of a renewal process that will diversify and strengthen our governance structure. From July 2014 the new board structure will consist of three member representative directors, three employer representative directors, three independent directors and an independent chairman.

Our member representative election gave members the chance to have a say in who they wanted representing them on LGsuper's Board. Following the election Noel Cass, Fiona Connor and Ron Curtis were re-elected as member representatives for the 4-year period from 1 July 2014. We also welcomed new independent directors Bronwyn Morris, John Smith and John Wilson on 1 December 2013.

Lastly, we would like to take this opportunity to thank outgoing directors Cr Paul Bell AM, Louise Dudley, Cr Paul Pisasale and Peter Smith. We thank them for their commitment and service to the fund during their time with us.

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



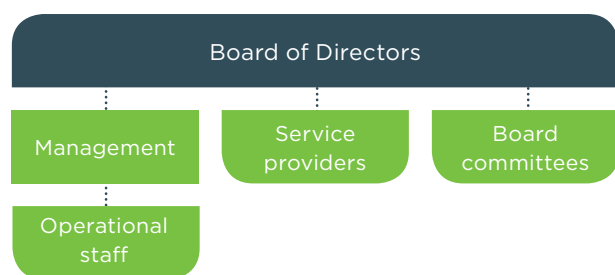
**David Todd**  
Chief Executive Officer

Brian Roebig will remain Chairman up until 30 September 2014, when he will retire after 19 years of dedicated service at the helm of LGsuper. Independent director Bronwyn Morris will be welcomed to the position of Chair from 1 October 2014.



# 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 until 30 June 2014 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 4-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 4 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

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## **A number of amendments were made to the Trust Deed during the 2013/14 financial year to improve the structure of the trustee board, including to:**

- specify that the Board shall comprise:
  - three employer representative directors nominated by LGAQ Ltd;
  - three member representative directors, and
  - three independent directors.
- allow existing directors (as at 1 July 2013) to continue on the Board up to 30 June 2014 and to allow the existing independent Chairman to continue on the Board up to 31 December 2014.
- limit directors to a maximum tenure of 20 years.
- require member representative directors to be members of LGsuper.
- provide that a director who no longer meets one or more of the fit and proper requirements under superannuation law must vacate their position as director. A procedure was also inserted into the Trust Deed to allow the director to show cause as to why they should not have to vacate their position.

## **Other Trust Deed amendments were to:**

- provide that the accumulation benefit calculation for defined benefit members can include an allowance for the cost of insurance.



# Board of Directors

2013/14

## 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 has been in place. This arrangement was designed to provide continuity of oversight during the merger transition period. The transitional Board of Directors consisted 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 acted as Chairman.

During the year the Board resolved to change its structure to:

- three member representatives to be elected by LGsuper members, effective from 1 July 2014
- three employer representatives to be appointed by the LGAQ, effective from 1 July 2014
- three independent directors appointed by the Board.

A member representative election was held in April 2014, resulting in three of four member representative directors being re-elected. The LGAQ re-appointed Cr Margaret de Wit as an employer representative director. After 30 June 2014, the LGAQ also appointed Cr Peter Matic and Ian Leckenby as two further employer representative directors.

## Independent Director and Chairman



**Brian Roebig OAM**

*Member, Audit and Risk Management Committee  
Member, Remuneration and Nominations 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.

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### Member representatives

#### Noel Cass Director

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*Member, Remuneration and Nominations Committee*

Noel Cass has been a director since 1 July 2008 and had previously been an LGsuper director from 1995 to 2004. Noel has more than 40 years' experience working in local government, including 36 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

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*Member, Remuneration and Nominations Committee*

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

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*Member, Audit and Risk Management Committee  
Member, Remuneration and Nominations 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 Chartered Secretaries Australia.

### Employer representative

#### Cr Margaret de Wit Director

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*Member, Remuneration and Nominations Committee*

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.

Independent directors

**Bronwyn Morris**  
Director



*Member, Audit and Risk Management Committee  
Member, Remuneration and Nominations Committee*

Bronwyn Morris became an LGsuper director in December 2013 and has 18 years' experience as a non-executive director, including roles as Chairman and Chair of various committees. She is a Chartered Accountant with 20 years' experience at KPMG and is the current Chairman of RACQ Limited's Governance and Remuneration Committee and Deputy Chairman and Chairman of Finance, Audit and Risk Committee at Children's Health Foundation Queensland. Bronwyn holds a Bachelor of Commerce (Accounting), is a Fellow of both the Institute of Chartered Accountants in Australia and the Australian Institute of Company Directors, and a Member of Chief Executive Women.

**John Wilson**  
Director



*Member, Remuneration and Nominations committee*

John Wilson was appointed as an LGsuper director in December 2013, and has over 20 years' investment management experience in Australia and overseas. He is a former Chairman and Managing Director of global investment solutions provider PIMCO Australia, and former Head of PIMCO's US Institutional Business Group and Global Consultant Relations Group. John holds a Bachelor of Arts (History), a Bachelor of Laws, a Masters in Laws, and is a Member of both the Australian Institute of Company Directors and the Financial Industry Regulatory Authority (USA).

**John Smith**  
Director



*Chairman, Remuneration and Nominations Committee*

John Smith commenced his role as an LGsuper director in December 2013. He is a qualified actuary with 30 years' experience providing technical and strategic advice to large superannuation funds and corporations. John is a former Director and Consulting Actuary with the Heron Partnership, and has served as Director, Executive Director and senior Consulting Actuary for other organisations within the finance industry. He was Chair of the Superannuation Policy Committee for a major international conglomerate, holds a Bachelor of Arts (Statistics) and is a Fellow of the Institute of Actuaries of Australia.

## Board of Directors cont.

### Directors who ceased on 30 June 2014

#### Employer representatives

#### Cr Paul Bell AM Director



*Chairman, Audit and Risk Management Committee  
Member, Remuneration and Nominations Committee*

Cr Paul Bell was a director from 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).

#### Louise Dudley Director



*Member, Audit and Risk Management Committee  
Member, Remuneration and Nominations Committee*

Louise Dudley was an LGsuper director from 1 July 2011 and 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



*Member, Remuneration and Nominations Committee*

Cr Paul Pisasale was an LGsuper director from 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.

#### Member representative

#### Peter Smith Director



*Member, Remuneration and Nominations Committee*

Peter Smith was a director from 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.

# 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 2014 LGsuper had 68 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 Senior Treasury Professional (Finance and Treasury Association). Peter is a Responsible Officer under the Board's RSE licence.

# Organisational structure



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 2014.

# 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.

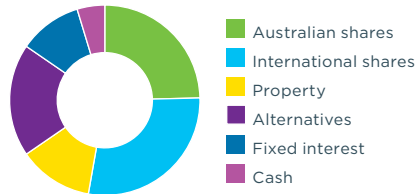
During periods of significant market volatility, or other conditions which prevent LGsuper from determining daily and/or weekly benchmark rates, processing of claims and/or switches may be suspended for up to 7 days or longer, as dictated by market conditions.

# Accumulation Benefits Fund

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

## LGsuper MySuper Lifecycle Under 75

Actual asset allocation at 30 June 2014



**Return target<sup>1</sup>** 4.0% per year above inflation after fees and taxes over the next ten financial years

**Risk** Medium to high

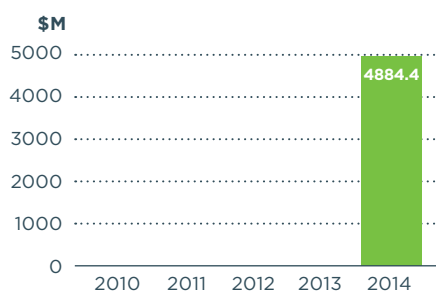
**Returns<sup>2</sup>**

At 30 June	Accumulation accounts % p.a.
2014	12.30
2013	13.95
2012	1.62
2011	11.59
2010	9.43
5-yr avg (% p.a.)	9.69
5-yr avg % p.a. over CPI	7.04

Strategic asset allocation and ranges

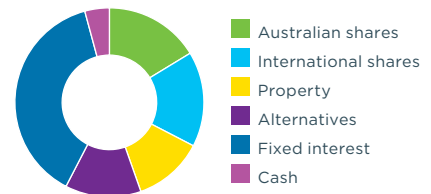
At 30 June	SAA %	Ranges %
<b>Return-seeking</b>	<b>88.5</b>	<b>81.0-96.0</b>
Australian shares	23.9	16.4-31.4
International shares	23.9	16.4-31.4
Property	15.0	7.5-22.5
Alternatives	25.7	18.2-33.2
<b>Risk-controlling</b>	<b>11.5</b>	<b>4.0-19.0</b>
Fixed interest	11.5	4.0-19.0
Cash	0.0	0-5.0

Member funds invested



## 75 plus

Actual asset allocation at 30 June 2014



**Return target<sup>1</sup>** 3.5% per year above inflation after fees and taxes over the next ten financial years.

**Risk** Medium

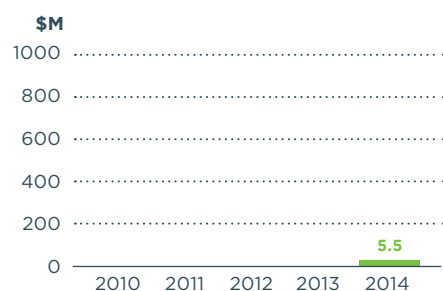
**Returns<sup>2</sup>**

At 30 June	Accumulation accounts % p.a.
2014	9.74
2013	10.08
2012	5.07
2011	9.68
2010	10.02
5-yr avg (% p.a.)	8.90
5-yr avg % p.a. over CPI	6.25

Strategic asset allocation and ranges

At 30 June	SAA %	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	10.0-25.1
<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	0-5.0

Member funds invested



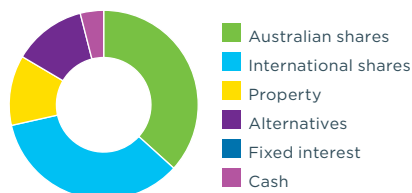
1 Investment markets are uncertain. LGsuper sets investment objectives for the lifecycle stages and expects to meet or exceed these between half and two thirds of the time. Return target is correct at 30 June 2014.

2 LGsuper's MySuper Lifecycle option was introduced on 1 January 2014. The past investment returns shown for the period 2010 to 2014 inclusive as well as the 5-year averages are based on the option's predecessor products, Diversified Growth (for Under 75) and Balanced (for 75 plus). Past performance is not an indicator of future performance.



### Aggressive

Actual asset allocation at 30 June 2014



Return target<sup>1</sup> 4.5% p.a. above inflation over rolling 5-year periods

Risk High

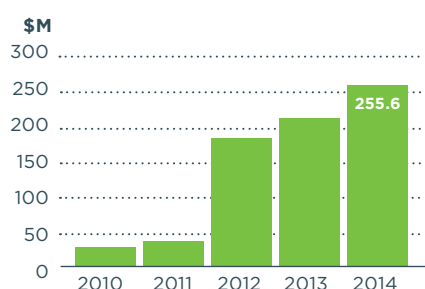
Returns<sup>2</sup>

At 30 June	Accumulation accounts % p.a.	Pension accounts % p.a.
2014	15.05	16.78
2013	17.86	19.35
2012	-1.28	-1.35
2011	12.77	13.94
2010	7.63	8.44
5-yr avg (% p.a.)	10.19	11.18
5-yr avg % p.a. over CPI	7.54	8.53

Strategic asset allocation and ranges

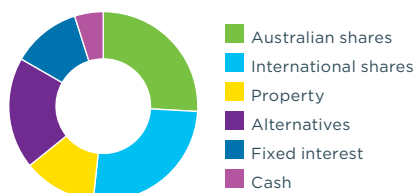
At 30 June	SAA %	Ranges %
<b>Return-seeking</b>	<b>100</b>	<b>100</b>
Australian shares	34.0	26.5-41.5
International shares	34.0	26.5-41.5
Property	15.0	7.5-22.5
Alternatives	17.0	9.5-24.5
<b>Risk-controlling</b>	<b>0.0</b>	<b>0.0</b>
Fixed interest	0.0	0.0
Cash	0.0	0-5.0

Member funds invested



### Diversified Growth

Actual asset allocation at 30 June 2014



Return target<sup>1</sup> 4.5% per year above inflation over rolling 5-year periods

Risk Medium to high

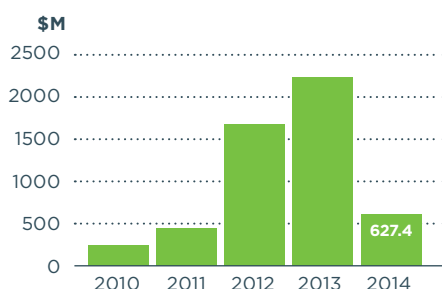
Returns<sup>2</sup>

At 30 June	Accumulation accounts %	Pension accounts %
2014	12.30	13.89
2013	13.95	15.21
2012	1.62	1.82
2011	11.59	12.80
2010	9.43	10.43
5-yr avg (% p.a.)	9.69	10.72
5-yr avg % p.a. over CPI	7.04	8.07

Strategic asset allocation and ranges

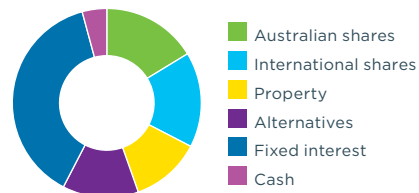
At 30 June	2014 %	Ranges %
<b>Return-seeking</b>	<b>88.5</b>	<b>81.0-96.0</b>
Australian shares	23.9	16.4-31.4
International shares	23.9	16.4-31.4
Property	15.0	7.5-22.5
Alternatives	25.7	18.2-33.2
<b>Risk-controlling</b>	<b>11.5</b>	<b>4.0-19.0</b>
Fixed interest	11.5	4.0-19.0
Cash	0.0	0.0-5.0

Member funds invested



### Balanced

Actual asset allocation at 30 June 2014



Return target<sup>1</sup> 3.5% p.a. above inflation over rolling 5-year periods

Risk Medium

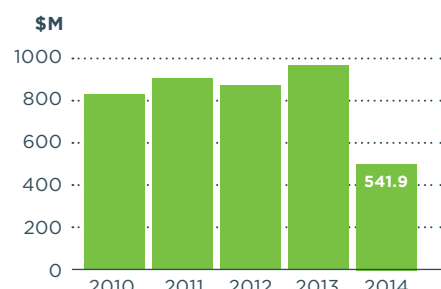
Returns<sup>2</sup>

At 30 June	Accumulation accounts %	Pension accounts %
2014	9.74	11.14
2013	10.08	11.12
2012	5.07	5.71
2011	9.68	10.89
2010	10.02	11.21
5-yr avg (% p.a.)	8.90	9.99
5-yr avg % p.a. over CPI	6.25	7.34

Strategic asset allocation and ranges

At 30 June	2014 %	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	0-5.0

Member funds invested



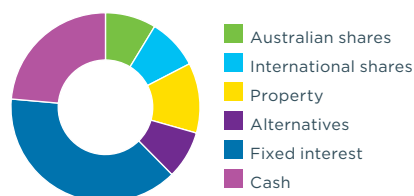
1 Investment markets are uncertain. LGsuper sets investment objectives for the investment options and expects to meet or exceed these between half and two thirds of the time. Return target is correct at 30 June 2014.

2 Past performance is not an indicator of future performance

## Accumulation Benefits Fund cont.

### Stable

#### Actual asset allocation at 30 June 2014



**Return target<sup>1</sup>** 2.5% p.a. above inflation over rolling 5-year periods

**Risk** Low to medium

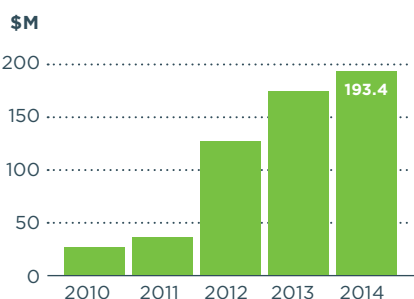
#### Returns<sup>2</sup>

At 30 June	Accumulation accounts %	Pension accounts %
2014	7.17	8.31
2013	7.16	8.05
2012	6.24	7.10
2011	7.90	9.00
2010	8.53	9.64
5-yr avg (% p.a.)	7.40	8.42
5-yr avg % p.a. over CPI	4.75	5.77

#### Strategic asset allocation and ranges

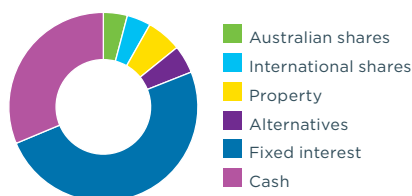
At 30 June	2014 %	Ranges %
<b>Return-seeking</b>	<b>42.2</b>	<b>34.7-49.7</b>
Australian shares	8.1	0.6-15.6
International shares	8.1	0.6-15.6
Property	15.0	7.5-22.5
Alternatives	11.1	3.6-18.6
<b>Risk-controlling</b>	<b>57.8</b>	<b>50.3-65.3</b>
Fixed interest	37.8	30.3-45.3
Cash	20.0	12.5-27.5

#### Member funds invested



### Defensive

#### Actual asset allocation at 30 June 2014



**Return target<sup>1</sup>** 2.0% p.a. above inflation over rolling 5-year periods

**Risk** Very low

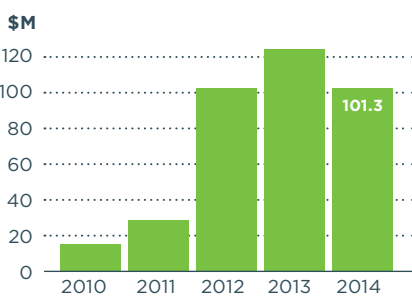
#### Returns<sup>2</sup>

At 30 June	Accumulation accounts %	Pension accounts %
2014	5.56	6.53
2013	4.86	5.61
2012	7.27	8.63
2011	6.27	7.45
2010	8.68	9.88
5-yr avg (% p.a.)	6.52	7.61
5-yr avg % p.a. over CPI	3.87	4.96

#### Strategic asset allocation and ranges

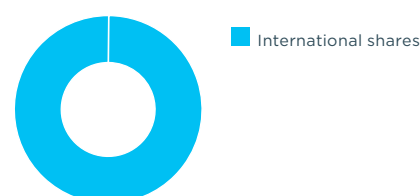
At 30 June	2014 %	Ranges %
<b>Return-seeking</b>	<b>21.6</b>	<b>14.1-29.1</b>
Australian shares	3.8	0-11.3
International shares	3.8	0-11.3
Property	7.5	0-15.0
Alternatives	6.5	0-14.0
<b>Risk-controlling</b>	<b>78.4</b>	<b>70.9-85.9</b>
Fixed interest	48.4	40.9-55.9
Cash	30.0	22.5-37.5

#### Member funds invested



### International Shares

#### Actual asset allocation at 30 June 2014



**Return target<sup>1</sup>** outperform a composite index of international shares over rolling 5-year periods

**Risk** High

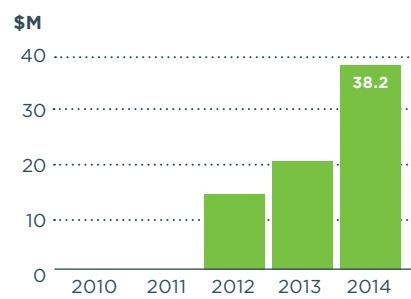
#### Returns<sup>2</sup>

At 30 June	Accumulation accounts %	Pension accounts %
2014	17.63	20.10
2013	26.57	29.91
2012	0.27	0.36
Avg since inception (% p.a.)	14.29	16.12

#### Strategic asset allocation

At 30 June	2014 %
<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

#### Member funds invested



<sup>1</sup> Investment markets are uncertain. LGsuper sets investment objectives for the investment options and expects to meet or exceed these between half and two thirds of the time. Return target is correct at 30 June 2014.

<sup>2</sup> Past performance is not an indicator of future performance

### Australian Shares

Actual asset allocation at 30 June 2014



**Return target<sup>1</sup>** outperform a composite index of Australian shares over rolling 5-year periods

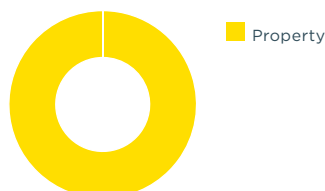
**Risk** Very high

#### Returns<sup>2</sup>

At 30 June	Accumulation accounts %	Pension accounts %
2014	15.44	16.28
2013	15.82	16.69
2012	-9.56	-10.54
Avg since inception (% p.a.)	6.54	6.67

### Property

Actual asset allocation at 30 June 2014



**Return target<sup>1</sup>** 4.5% p.a. above inflation over rolling 5-year periods

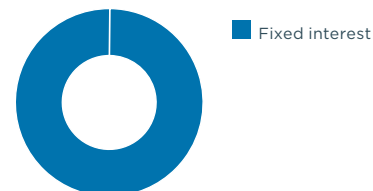
**Risk** Medium to high

#### Returns<sup>2</sup>

At 30 June	Accumulation accounts %	Pension accounts %
2014	8.53	10.12
2013	10.47	11.69
2012	6.80	7.59
Avg since inception (% p.a.)	8.59	9.79

### Diversified Fixed Interest

Actual asset allocation at 30 June 2014



**Return target<sup>1</sup>** outperform a composite index of Australian and international fixed interest over rolling 5-year periods

**Risk** Very low

#### Returns<sup>2</sup>

At 30 June	Accumulation accounts %	Pension accounts %
2014	5.17	6.08
2013	2.35	2.83
2012	10.13	11.99
Avg since inception (% p.a.)	5.84	6.90

### Strategic asset allocation

At 30 June	2014 %
<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

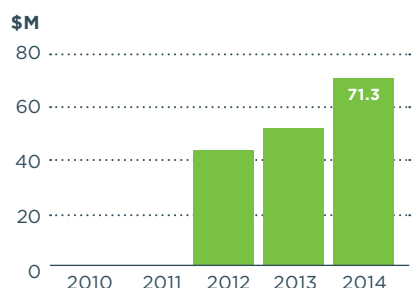
### Strategic asset allocation

At 30 June	2014 %
<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

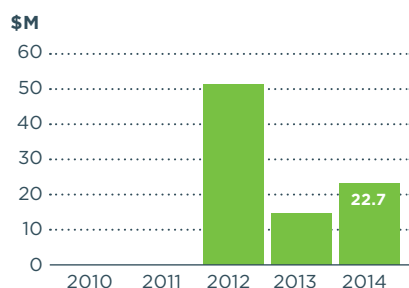
### Strategic asset allocation

At 30 June	2014 %
<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

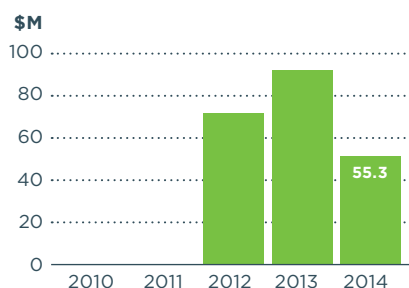
### Member funds invested



### Member funds invested



### Member funds invested

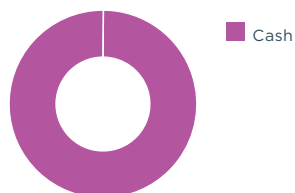


1 Investment markets are uncertain. LGsuper sets investment objectives for the investment options and expects to meet or exceed these between half and two thirds of the time. Return target is correct at 30 June 2014.

2 Past performance is not an indicator of future performance

## Cash

### Actual asset allocation at 30 June 2014



**Return target<sup>1</sup>** RBA official cash rate over rolling 5-year periods

**Risk** Very low

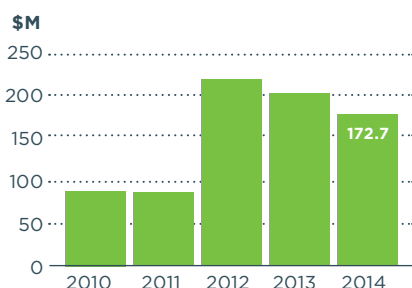
### Returns<sup>2</sup>

At 30 June	Accumulation accounts %	Pension accounts %
2014	2.47	2.95
2013	3.18	3.78
2012	4.18	4.96
2011	4.05	4.81
2010	2.93	3.52
5-yr avg (% p.a.)	3.36	4.00
5-yr avg % p.a. over CPI	0.71	1.35

### Strategic asset allocation

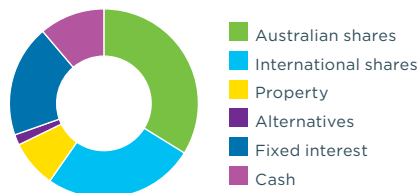
At 30 June	2014 %
<b>Return-seeking</b>	<b>0</b>
Australian shares	0
International shares	0
Property	0
Alternatives	0
<b>Risk-controlling</b>	<b>100</b>
Fixed interest	0
Cash	100

### Member funds invested



## SR Balanced

### Actual asset allocation at 30 June 2014



**Return target<sup>1</sup>** 4.0% p.a. above inflation over rolling 5-year periods

**Risk** High

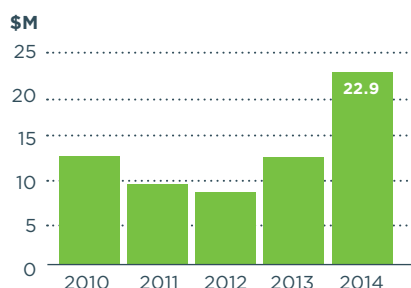
### Returns<sup>2</sup>

At 30 June	Accumulation accounts %	Pension accounts %
2014	11.78	12.97
2013	16.73	18.5
2012	-0.83	-0.81
2011	7.65	8.61
2010	8.03	9.23
5-yr avg (% p.a.)	8.52	9.51
5-yr avg % p.a. over CPI	5.87	6.86

### Strategic asset allocation and ranges

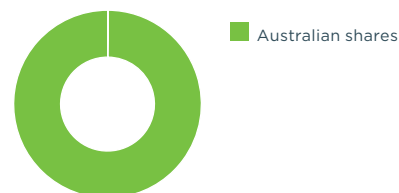
At 30 June	2014 %	Ranges %
<b>Return-seeking</b>	<b>69.0</b>	
Australian shares	33.0	26.0-40.0
International shares	24.5	15.0-35.0
Property	10.0	0.0-15.0
Alternatives	1.5	0.0-6.0
<b>Risk-controlling</b>	<b>31.0</b>	
Fixed interest	25.0	15.0-30.0
Cash	6.0	0.0-16.0

### Member funds invested



## SR Australian Shares

### Actual asset allocation at 30 June 2014



**Return target<sup>1</sup>** outperform S&P ASX300 Accumulation Index over rolling 5-year periods

**Risk** Very high

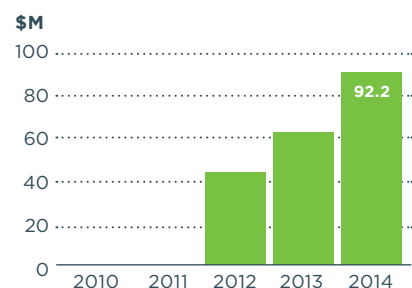
### Returns<sup>2</sup>

At 30 June	Accumulation accounts %	Pension accounts %
2014	15.85	16.69
2013	28.86	30.39
2012	-1.49	-1.55
Avg since inception (% p.a.)	13.72	14.42

### Strategic asset allocation

At 30 June	2014 %
<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



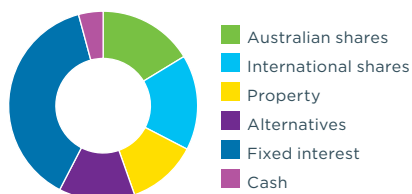
<sup>1</sup> Investment markets are uncertain. LGsuper sets investment objectives for the investment options and expects to meet or exceed these between half and two thirds of the time. Return target is correct at 30 June 2014.

<sup>2</sup> Past performance is not an indicator of future performance

# Defined Benefits Funds

## Defined Benefits Fund

### Actual asset allocation at 30 June 2014



**Investment objective<sup>1</sup>** achieve returns in excess of salary inflation plus 1.5% p.a. over rolling 3-year periods

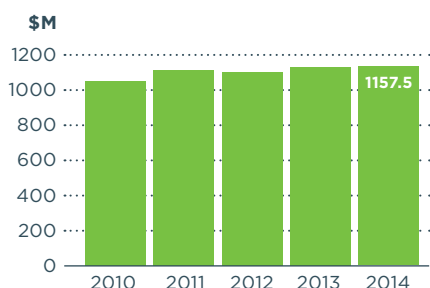
### Returns<sup>2</sup>

At 30 June	Investment return %	Accumulation comparison rate %
2014	9.86	9.36
2013	10.08	8.60
2012	5.07	6.43
2011	9.68	8.43
2010	10.02	6.55
3-yr avg (% p.a.)	8.31	8.12
% 3-yr excess over AWOTE <sup>3</sup>	4.25	4.06

### Strategic asset allocation

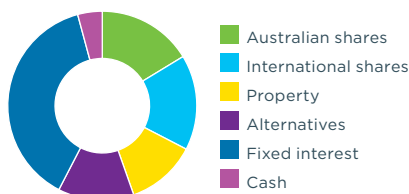
At 30 June	2014 %
<b>Return-seeking</b>	<b>62.8</b>
Australian shares	15.1
International shares	15.1
Property	15.0
Alternatives	17.6
<b>Risk-controlling</b>	<b>37.2</b>
Fixed interest	37.2
Cash	0.0

### Fund balance



## Defined Benefit account (former City Super)

### Actual asset allocation at 30 June 2014



**Investment objective<sup>1</sup>** achieve returns in excess of salary inflation plus 1.5% p.a. over rolling 3-year periods

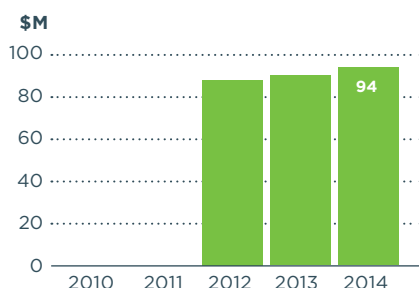
### Returns<sup>2</sup>

At 30 June	Investment return %	Crediting rate %
2014	10.07	7.57
2013	10.84	7.00
2012	2.03	6.77
2011	8.31	1.50
2010	10.15	-3.88
3-yr avg (% p.a.)	7.57	7.11
% 3-yr excess over AWOTE <sup>3</sup>	3.51	3.05

### Strategic asset allocation

At 30 June	2014 %
<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 Benefits 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	2014 %	2013 %	2012 %
Regional Defined Benefits Fund			
	110.16	106.2	103.5
Former City Super Defined Benefits Fund			
	116.73	108.5	102.6

1 Investment markets are uncertain. LGsuper sets investment objectives for the investment options and expects to meet or exceed these between half and two thirds of the time. Return target is correct at 30 June 2014.

2 Past performance is not an indicator of future performance

3 Proxy for salary growth

# Market update

LGsuper delivered strong, positive returns for 2013/14 as global conditions improved. The following market update explains.

## Australian shares

The ASX300 Accumulation Index returned 17.3%, predominantly on the back of the financial sector which was up 21.9% and the materials sector which also experienced strong returns. The resources sector recovered from its poor performance the previous year to post strong gains although returns were subdued by weaker commodity prices, particularly in iron ore (down almost 20%) and coal (down 15%). LGsuper's small cap and micro-cap managers performed particularly well, with both Eley Griffiths and Acorn producing returns over 20% for the year.

## International shares

Global sharemarkets performed strongly over the last year, despite challenges such as geopolitical instability, extreme winter weather in the northern hemisphere and the US government shutdown. The US S&P500 returned 22.0% to post a new record high, while Germany's DAX returned 23.5%, India 34.5% and France 18.3%. The Chinese Shanghai Composite index was only up 3.5% as the government moved to curb lending within the shadow banking sector and concerns grew over the property sector.

The US housing sector continued to improve as house prices, sales and construction increased over the year and unemployment was at a post-GFC low of 6.1%. In contrast the recovery in Europe lost momentum, with manufacturing data at a 7-month low and 11.6% unemployment rates continuing to impair household consumption growth. Given this deterioration a Targeted Long-Term Refinancing Operation (TLTRO) was announced by the ECB to provide cheap funding for the banks to encourage them to lend to the corporate and household sectors.

## Property

LGsuper's highly diversified property portfolio consists of high quality office buildings, retail shopping centres and industrial properties both in Australia and abroad. Low gearing and low vacancy rates mean these investments provide consistent rental income streams and strong capital growth. Most notable investments were the GPT Office Fund which returned 11.2% and Dexus Wholesale Fund which returned 9.3%.

In addition to the solid performance of our unlisted property holdings, LGsuper's global listed properties performed very well and returned 17.1%.

## Alternatives

Our investments in alternatives returned an impressive 9.8% for 2013/14 before tax and fees. Within this sector we invest across three broad themes—infrastructure, hedge funds and emerging market/high-yield debt, each designed to reduce risk and smooth investment returns. All of our investments contributed to this positive performance, and our infrastructure holdings were particularly strong.

Throughout the year LGsuper continued to invest in infrastructure assets, particularly the renewable energy sector. We invest in an alternative waste treatment facility in Australia, solar farms in Japan and bio-refinery facilities in the Philippines, among many other diverse assets. We will continue to build on this sector over the coming years as new investment opportunities present themselves.

## Fixed interest and cash

A relatively strong economy, AAA credit rating and low inflation all contribute to Australia's safe-haven status, which continued to attract overseas investors. The RBA cut the official cash rate only once in August 2013 to a low of 2.50%. With the peak in the mining boom now behind us the RBA attempted to stimulate other sectors of the economy, particularly the housing industry.

The Australian dollar (AUD) appreciated by 3.2% against the US dollar over the course of the year, although it traded in quite a large range – from a high of \$0.97 US in October to a low of \$0.86 US in January.

## Looking forward

In the year ahead financial markets will continue to focus on macroeconomic themes. Strong US economic and housing data indicates continued growth in the near-term and shows both business and consumer confidence trending higher. The US will likely be a key driver of future global growth. Europe's economy will rely on strong growth in Asia and the US to give it the boost it needs in the coming year.

Moving forward from the mining boom, 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 2014

<b>1</b>	<b>BHP Billiton</b> MINING
<b>2</b>	<b>ANZ</b> FINANCE
<b>3</b>	<b>Westpac</b> FINANCE
<b>4</b>	<b>CBA</b> FINANCE
<b>5</b>	<b>Rio Tinto</b> MINING
<b>6</b>	<b>QBE Insurance</b> INSURANCE
<b>7</b>	<b>Telstra</b> TELECOMMUNICATIONS
<b>8</b>	<b>21st Century Fox</b> MEDIA
<b>9</b>	<b>NAB</b> FINANCE
<b>10</b>	<b>Macquarie</b> FINANCE

### Top 10 International shares at 30 June 2014

<b>1</b>	<b>Microsoft</b> SOFTWARE
<b>2</b>	<b>British American Tobacco</b> TOBACCO
<b>3</b>	<b>BP</b> RESOURCES
<b>4</b>	<b>Unilever</b> CONSUMER GOODS
<b>5</b>	<b>Mastercard</b> FINANCE
<b>6</b>	<b>Samsung</b> ELECTRONICS
<b>7</b>	<b>Philip Morris</b> TOBACCO
<b>8</b>	<b>Citigroup</b> FINANCE
<b>9</b>	<b>Avalonbay Communities</b> PROPERTIES
<b>10</b>	<b>SL Green Realty Corp</b> PROPERTY

## 2013/14 LGsuper portfolio returns by asset class

Returns shown are before fees and tax.

Asset class	Gross return % p.a.
Australian shares	17.0
International shares	20.7
Property	10.7
Alternatives	9.8
Fixed interest	6.7
Cash	3.3

# Fees and other costs

## Actual fees charged for 2013/14<sup>1</sup>

Type of fee	Investment options												How and when paid
	Ready-made options					Single asset class options					Socially responsible		
	Aggressive	Diversified Growth	Balanced	Stable	Defensive	International Shares	Australian Shares	Property	Diversified Fixed Interest	Cash	SR Balanced	SR Australian Shares	
Investment fee	0.49% p.a.	0.47% p.a.	0.40% p.a.	0.31% p.a.	0.23% p.a.	0.41% p.a.	0.41% p.a.	0.67% p.a.	0.21% p.a.	0.04% p.a.	0.86% p.a.	0.86% p.a.	Deducted from investment earnings as they are credited to your account
Administration fee	0.21% p.a.	0.21% p.a.	0.21% p.a.	0.21% p.a.	0.21% p.a.	0.21% p.a.	0.21% p.a.	0.21% p.a.	0.21% p.a.	0.21% p.a.	0.21% p.a.	0.21% p.a.	Deducted from investment earnings as they are credited to your account
Buy-sell spread	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Not applicable
Switching fee	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Not applicable
Exit fee	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Not applicable
Advice fees	\$0-\$440	\$0-\$440	\$0-\$440	\$0-\$440	\$0-\$440	\$0-\$440	\$0-\$440	\$0-\$440	\$0-\$440	\$0-\$440	\$0-\$440	\$0-\$440	\$220 (incl. GST) is charged for an in person or phone meeting and \$220 (incl. GST) is charged for personal advice. The fee may be deducted directly from your account on request.
Other fees and costs	Insurance fee: Included in the insurance premiums deducted from your account												
Indirect cost ratio	0.12% p.a.	0.12% p.a.	0.12% p.a.	0.12% p.a.	0.12% p.a.	0.12% p.a.	0.12% p.a.	0.12% p.a.	0.12% p.a.	0.12% p.a.	0.12% p.a.	0.12% p.a.	Deducted from gross investment earnings prior to determining earning rates applicable to your account

<sup>1</sup> The fees and costs for managing your investment, including performance fees charged. Actual charged to LGsuper members in 2013/14.

## Additional explanation of fees and costs

### Fee changes

We report the actual fees in this Annual report 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. For current fee estimates see the Product Disclosure Statement (PDS) for your account.

### 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 \$1.3 million are included in the management costs for 2013/14.

### 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. These advice fees apply to the 2013/14 financial year only. For current advice fees see the PDS for your account.

### 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.

### Indirect costs

Indirect costs are any amounts that we know, or reasonably ought to know, will directly or indirectly reduce the return on your investments that are not charged to your account as a fee. The Australian Government requires us to establish and maintain adequate operational risk reserves. LGsuper has determined a target level of 0.50% of funds under management for these reserves.

From 1 September 2012 to 30 June 2014, 0.01% per month was deducted from earning rates for all investments to build the operational risk reserves. For full disclosure of all indirect costs see the PDS for your account.

### Insurance 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 retained by LGsuper and used to partially offset the administration cost of managing the insurance arrangements.



# 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 Governance Framework that details its investment policies and procedures.

## Total Scheme investment returns

At 30 June 2014	1 yr	3 yrs	5 yrs	7 yrs	10 yrs
Total return (before tax and fees)	13.06	9.99	10.59	4.94	8.11
Composite benchmark	12.61	9.70	9.72	5.73	8.02
% p.a. above/below benchmark	0.45	0.29	0.87	-0.79	0.09

## 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
2014	0.21	0.27	7,404.7
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	1							91.4
Altis			2					65.1
AMP Capital	1	4	2	2				645.2
Ardea						1		114.8
Arrowstreet		1						92.2
Artisan Emerging Markets		1						58.2
Equis Funds Group				1				46.6
BlackRock		2						739.3
Brandes Investment Partners		1						165.6
Bridgewater				1				152.7
Clearbell			1					13.9
Colonial First State		1				1		212.1
Dexus			1					85.3
Eley Griffiths	1							98.0
EQT				2				22.1
Goldman Sachs						1		164.8
GPT			1					91.1
Independent	1							255.6
JCP Investment Partners	1							263.9
K2 Advisors				1				220.9
Lazard Thematic		1						192.1
LGsuper (internal)							1	596.8
Lend Lease			1					90.0
Macquarie	1			1				547.3
Members Equity				1				0.8
Merlon Capital	1							243.1
MFS Global		1						199.4
Morgan Stanley				1				32.2
Northcape Capital	1							288.6
Orion European Funds			1					4.6
Palisade Investment Partners				1				211.9
Perpetual Ltd					1			55.2
PIMCO						1		228.1
QIC			1			4	1	970.3
Resolution Capital			1					115.6
Retirement Villages Group			1					8.6
Rockspring			2					20.8
Rogge Global Partners				1				91.3
Sanders Capital		1						177.0
Stone Harbor				1				272.5
Vontobel		1						198.8
Wellington						1		156.4
Westbourne Capital				1				144.3
<b>Total</b>								<b>8,444.6</b>

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

## Investment managers by asset class

As at 30 June 2014		
Investment manager	\$M	%
<b>Australian shares</b>	<b>1,898.6</b>	<b>22.5</b>
Acorn Capital	91.4	1.1
AMP Capital	191.0	2.3
Eley Griffiths	98.0	1.2
Independent	255.6	3.0
JCP Investment Partners	263.9	3.1
Macquarie Passive Index Trust	466.9	5.5
Merlon Capital	243.1	2.9
Northcape	288.6	3.4
<b>International shares</b>	<b>1,879.7</b>	<b>22.3</b>
Arrowstreet Emerging Markets	92.2	1.1
Artisan Emerging Markets	58.2	0.7
BlackRock	739.3	8.8
Brandes Investment Partners	165.6	2.0
CFS Emerging Markets	57.2	0.7
Lazard Thematic	192.1	2.3
MFS Global Equity	199.4	2.4
Sanders Capital	177.0	2.1
Vontobel	198.8	2.4
<b>Property</b>	<b>956.8</b>	<b>11.3</b>
Altis AREEP I & II	65.1	0.8
AMP Property	349.9	4.1
Clearbell UK Property	13.9	0.2
Dexus Wholesale Property Fund	85.3	1.0
GPT Wholesale Office Fund	91.1	1.1
Lend Lease APPF Retail	90.0	1.1
Orion European Real Estate	4.6	0.1
QIC Property Fund	111.8	1.3
Resolution Global REIT	115.6	1.4
Retirement Villages Group	8.6	0.1
Rockspring UK & European Fund	20.8	0.2

As at 30 June 2014		
Investment manager	\$M	%
<b>Alternatives</b>	<b>1,321.8</b>	<b>15.7</b>
AMP Infrastructure	46.0	0.5
Bridgewater	152.7	1.8
EQT Infrastructure	22.1	0.3
Equis Infrastructure	46.6	0.6
K2 Advisors	220.9	2.6
Macquarie RMBS	80.4	1.0
Members Equity	0.8	0.0
Morgan Stanley Infrastructure	32.2	0.4
Palisade Investment Partners	211.9	2.5
Rogge	91.3	1.1
Stone Harbor	272.5	3.2
Westbourne Capital	144.3	1.7
<b>Socially responsible Balanced</b>	<b>18.6</b>	<b>0.2</b>
AMP RIL Balanced Fund	18.6	0.2
<b>Socially responsible Australian shares</b>	<b>94.9</b>	<b>1.1</b>
AMP Sustainable Share Fund	39.7	0.5
Perpetual Ethical SRI Fund	55.2	0.7
<b>Diversified fixed interest</b>	<b>1,550.8</b>	<b>18.4%</b>
Ardea ILB	114.8	1.4%
Colonial First State - ILB	154.9	1.8%
Goldman Sachs Global Fixed Interest	164.8	2.0%
PIMCO Global Credit	228.1	2.7%
QIC - Australian Diversified	264.7	3.1%
QIC - Australian Government	274.2	3.2%
QIC - Inflation Plus	117.5	1.4%
QIC - Passive Australian ILB	75.4	0.9%
Wellington Global	156.4	1.9%
<b>Cash</b>	<b>723.6</b>	<b>8.6</b>
QIC	126.7	1.5
LGsuper	596.8	7.1
<b>Total</b>	<b>8,444.6</b>	<b>100</b>

# Other important information

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## 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 need to contact the ATO directly for a refund.

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 satisfied with LGsuper and the service we provide. If you are not satisfied, 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 the privacy of your personal information. 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 call us on 1800 444 396 and we will send you a free copy.

# Specialist consultants and advisors

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## **Actuarial advice**

Mr J Burnett, Towers Watson

## **Asset consultants**

Towers Watson

## **Auditors**

PricewaterhouseCoopers, Brisbane (external)

KPMG, Brisbane (internal)

## **Information services**

Bravura, Sydney

Brennan IT

Decimal

Westpac

## **Custodian**

JP Morgan Chase Bank, 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 Insurer**

One Path Life Limited

# Local Government Superannuation Scheme

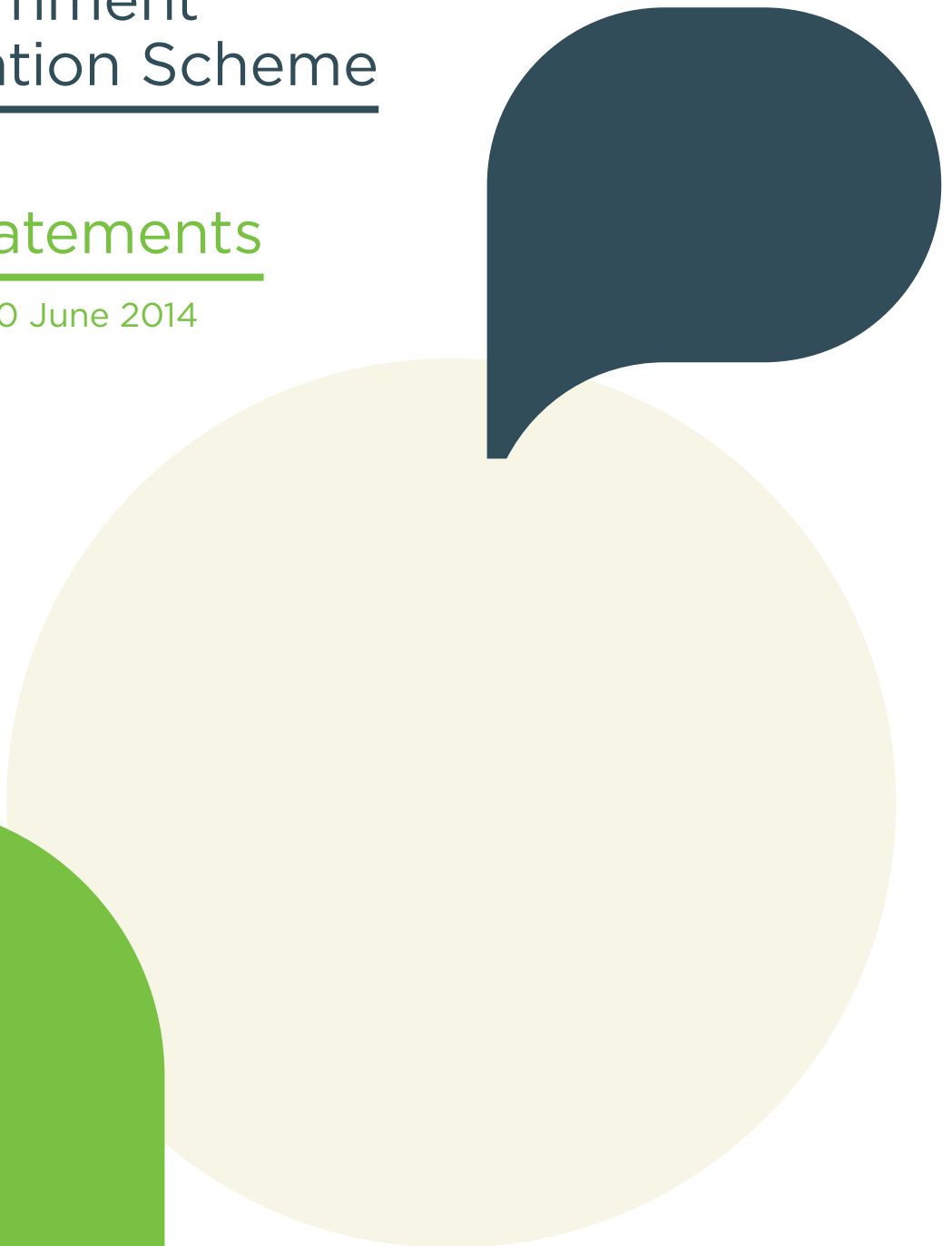
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ABN 23 053 121 564

## Financial statements

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for the year ended 30 June 2014



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## Statement of changes in net assets for the year ended 30 June 2014

	Notes	2014	2013
		\$'000	\$'000
<b>Net investment revenue</b>			
Interest revenue		67,804	77,035
Dividends & trust distributions		249,981	168,193
Real estate property rentals		889	6,491
Change in net market value of investments, derivative assets and derivative liabilities	5	646,337	637,860
Other investment revenue	6	3,611	1,772
		<b>968,622</b>	<b>891,351</b>
<b>Direct investment expenses</b>	7	(21,601)	(20,929)
		<b>947,021</b>	<b>870,422</b>
<b>Contribution revenue</b>			
Member contributions		122,002	108,545
Employer contributions		454,433	429,862
Australian Government co-contributions		3,706	5,889
		<b>580,141</b>	<b>544,296</b>
<b>Other revenue</b>			
Transfers from other funds		121,213	111,734
Sundry income		506	661
Proceeds group life policy		18,455	14,870
		<b>140,174</b>	<b>127,265</b>
<b>TOTAL INCOME FROM ORDINARY ACTIVITIES</b>		<b>1,667,336</b>	<b>1,541,983</b>
<b>Less: Expenses incurred</b>			
Scheme administration expenses	8	12,360	11,592
Benefits paid	9	471,007	393,288
Contribution split payments		775	990
Depreciation and gain/loss on disposal		897	470
Amortisation of capitalised merger costs		413	413
Group life insurance premiums		26,200	26,453
<b>TOTAL EXPENSES FROM ORDINARY ACTIVITIES</b>		<b>511,652</b>	<b>433,206</b>
<b>Change in net assets before income tax</b>		<b>1,155,684</b>	<b>1,108,777</b>
Less: Income tax expense	16	152,385	112,504
<b>Change in net assets after income tax</b>		<b>1,003,299</b>	<b>996,273</b>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS At the beginning of the financial year</b>		<b>7,356,880</b>	<b>6,360,607</b>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS At the end of the financial year</b>		<b>8,360,179</b>	<b>7,356,880</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 2014

	Notes	2014	2013
		\$'000	\$'000
<b>ASSETS</b>			
<b>Investments</b>			
Cash & cash equivalents		448,397	305,756
Fixed interest securities		1,975,847	1,684,013
Listed equity investments and property trusts		2,309,902	1,900,740
Unlisted equity investments and trusts		3,744,642	3,562,252
Derivative assets		32,334	20,756
Direct property investments		-	67,490
<b>TOTAL INVESTMENTS</b>	10	<b>8,511,122</b>	<b>7,541,007</b>
<b>Other assets</b>			
Cash at bank		1,377	2,382
Contributions receivable		12,466	12,667
Prepaid expenses		624	275
Receivables/unsettled trades	11	87,466	50,790
Property, plant & equipment	12	1,687	1,557
Capitalised merger costs		827	1,240
Deferred tax asset	16	44,139	98,847
<b>TOTAL OTHER ASSETS</b>		<b>148,586</b>	<b>167,758</b>
<b>TOTAL ASSETS</b>		<b>8,659,708</b>	<b>7,708,765</b>
<b>Liabilities</b>			
Benefits due and unpaid	13	1,473	2,328
Derivative liabilities	10	11,875	146,450
Payables/unsettled trades	14	159,137	112,750
Accrued employee entitlements	2(i)(ii)	1,462	1,321
Provision for income tax payable		15,680	18,254
Deferred tax liability	16	109,902	70,782
<b>TOTAL LIABILITIES</b>		<b>299,529</b>	<b>351,885</b>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS</b>		<b>8,360,179</b>	<b>7,356,880</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 2014

### 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 20, 333 Ann Street, Brisbane, Queensland.

The financial statements were approved by the Board of Directors of the Trustee on 1 October 2014.

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 instances and members may also make voluntary pre and post-tax contributions. The Scheme also receives transfers in from other super funds. The Scheme obtained from the Australian Prudential and Regulatory Authority (APRA) its RSE licence on 5 September 2005 (registration number R1000160) and its MySuper licence on 24 May 2013 (registration number 23053121564638).

### 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 *AASB 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.

#### *New and amended standards adopted by the Scheme*

The Scheme has changed some of its accounting policies as a result of new and revised accounting standards which became effective for the annual reporting period commencing on 1 July 2013. The affected polices are:

<b>AASB Amendment / Standard</b>	<b>Title</b>	<b>Nature of change to accounting policy</b>
AASB 10	Consolidated Financial Statements	Specifies principles of control, basis for consolidation.
AASB 12	Disclosure of Interests in Other Entities	Disclosure requirements for entities that hold interests in subsidiaries, joint arrangements and associates.
AASB 13	Fair Value Measurement	Defines fair value, provides a single standard and a framework for using fair value and the associated disclosures. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price).

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

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

#### (b) Statement of compliance (continued)

*New and amended standards adopted by the Scheme (continued)*

AASB Amendment / Standard	Title	Nature of change to accounting policy
AASB 119	Employee Benefits	Details accounting and disclosure requirements for Defined Benefit plans.
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	Provides clarification of Key Management Personnel disclosure requirements.
AASB 2012-2	Amendments to Australian Accounting Standards Disclosures Offsetting Financial Assets and Financial Liabilities	Makes amendments to AASB 7 to include disclosures enabling financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

#### *Changes in accounting policy: Fair value measurement*

AASB 13 *Fair Value Measurement* aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Australian Accounting Standards. The standard does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other Australian Accounting Standards.

Previously the fair value of financial liabilities (including derivatives) was measured on the basis that the financial liability would be settled or extinguished with the counterparty. The adoption of AASB 13 has clarified that fair value is an exit price notion, and as such, the fair value of financial liabilities should be determined based on a transfer value to a third party market participant. As a result of this change, the fair value of derivative liabilities has changed on transition to AASB 13, largely due to incorporating credit risk into the valuation.

As required under AASB 13, the change to the fair value of the derivative liabilities is applied prospectively, in the same way as a change in an accounting estimate. There is no material impact on the fair value of the Scheme's derivative liabilities at 1 July 2013, or on the Statement of changes in net assets at 30 June 2014.

#### *Standards effective after 1 July 2013 that have been adopted early by the Scheme*

The Scheme has elected to adopt AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities* early. The amendments define an investment entity and require that, with limited exceptions, an investment entity not consolidate its subsidiaries or apply AASB 3 *Business Combinations* when it obtains control of another entity. These amendments require an investment entity to measure unconsolidated subsidiaries at fair value through profit or loss in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities to AASB 12 *Disclosure of Interests in Other Entities* and AASB 127 *Separate Financial Statements*.

As the Scheme has previously not consolidated controlled entities based on materiality, there is no impact of early adopting AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities* on net assets or comparative amounts.

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

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

#### (b) Statement of compliance (continued)

##### *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 2014. These are outlined in the table below.

<b>AASB Amendment / Standard</b>	<b>Title</b>	<b>Nature of change to accounting policy</b>	<b>Application date of standard</b>	<b>Adoption date for LGsuper</b>
AASB 9	Financial instruments	Addresses the classification and measurement of financial assets	1 Jan 17	1 Jul 17
AASB 2012-3	Amendments to Australian Accounting Standards- Offsetting Financial Assets and Financial Liabilities	These amendments clarify the offsetting criteria in AASB 132 and address inconsistencies in their application. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement arrangements may be considered equivalent to net settlement	1 Jan 14	1 Jul 14
AASB 1056	Superannuation Entities	Specifies requirements for the general purpose financial statements of superannuation entities	1 July 16	1 July 16

The Australian Accounting Standards Board (AASB) approved AASB 1056 *Superannuation Entities* in June 2014. The new standard has been developed in light of significant changes in recent years, including developments in the superannuation industry and Australia's adoption of International Financial Reporting Standards (IFRS). The new standard is designed to provide greater transparency and consistency in reporting by superannuation entities and to substantially align the reporting practices of superannuation entities with other entities applying Australian Accounting Standards.

The new Standard will replace AAS 25 *Financial Reporting by Superannuation Plans*, which was issued in 1993. AASB 1056 includes the developments of the proposals made in two Exposure Drafts, ED 179 *Superannuation Plans and Approved Deposit Funds* and ED223 *Superannuation Entities*, and other forms of consultation that the AASB has performed since 2012.

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

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### 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 are 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 15.

##### *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 in accordance with AAS 25. 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 the 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
- estimated costs of realisation have been deducted in determining net market value. Net market value is considered a reasonable approximation of fair value.

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 2014

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

#### (f) Property plant and equipment

The Scheme's property, plant and equipment are stated at cost, which includes direct and incremental acquisition costs less accumulated depreciation and any impairment if required. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Scheme and the cost of the item can be measured reliably. Repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the following methods over the asset's estimated useful economic life.

	Depreciation Method	Useful Life
Computer hardware	Diminishing value	3-5 years
Computer software	Straight line	4 years
Office furniture and equipment	Diminishing value	3-14 years
Motor vehicles	Diminishing value	4 years
Leasehold improvements	Diminishing value	Lesser of unexpired lease term or 10 years

The residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

The Board has determined that the carrying amounts approximate net market value.

#### (g) 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.

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

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

#### (h) 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 Note 15 and the attachments to the financial statements).

#### (i) 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 *AASB 119 Employee Benefits*.

#### (j) 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*.

#### (k) Payment of benefits

Benefits paid (refer Note 13) recognise all benefits due and payable from the Scheme. Benefits payable are settled in accordance with the Scheme's Trust Deed.

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

Revenues, expenses and assets are recognised net of the amount of goods and services tax (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.

#### (m) 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.

#### (n) 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.

#### (o) 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.

#### (p) Cash

For the purpose of presentation in the Statement of net assets, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

#### (q) Leased assets

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the group is a lessor is recognised in income on a straight-line basis over the lease term.

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

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

#### (r) Comparative figures

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

#### (u) Operational Risk Reserve

Superannuation Prudential Standard 114: Operational Risk Financial Requirement, (SPS114) which became effective 1 July 2013, requires Registered Superannuation Entity (RSE) licensees to maintain adequate financial resources to address losses arising from operational risks that may affect such entities within their business operations. The Fund's operational risk reserve has been established for this purpose.

As a minimum the fund aims to hold a target amount equal to 30 basis points of assets under management subject to a predetermined tolerance limit. The tolerance limit is set by the Trustee to reduce the need for small transfers to or from the operational risk reserve for immaterial fluctuations in the reserve's value.

The operational risk reserve may only be used to make a payment to address an operational risk event as defined by SPS 114.

When the amount falls below the tolerance limit additional funds are transferred into the operational risk reserve. Any transfers to the operational risk reserve must be approved by the Board.

#### (v) Use of estimates

The Scheme makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the majority of the Scheme's financial instruments, quoted market prices are readily available. However, certain financial instruments, for example over-the-counter derivatives or unquoted securities, are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the responsible entity, independent of the area that created them.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For more information on how fair value is calculated please see note 10 to the financial statements.

### 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 is the successor fund.

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).

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### 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 (d))

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 20).

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	
	2014	2013	2014	2013	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Opening balance 1 July</b>	<b>1,139,706</b>	<b>1,102,294</b>	<b>90,826</b>	<b>88,687</b>	<b>6,126,348</b>	<b>5,169,626</b>	<b>7,356,880</b>	<b>6,360,607</b>
Adjustment prior year	-	-	-	-	(38)	-	(38)	-
Amended opening balance	<b>1,139,706</b>	<b>1,102,294</b>	<b>90,826</b>	<b>88,687</b>	<b>6,126,310</b>	<b>5,169,626</b>	<b>7,356,842</b>	<b>6,360,607</b>
Transfer from reserves	-	-	-	-	(3,846)	-	(3,846)	-
Interfund transfers	(1,430)	(705)	-	(197)	1,430	902	-	-
<b>Income</b>								
Contribution revenue	43,591	46,278	3,714	3,840	533,036	492,874	580,341	542,992
Benefits retained	-	-	-	-	508,449	429,807	508,449	429,807
Transfers from other funds	-	-	-	-	121,213	111,734	121,213	111,734
Insurance claim proceeds	444	666	353	428	17,658	13,776	18,455	14,870
Net investment income (a)	115,543	112,001	9,745	9,651	738,519	698,376	863,807	820,028
	<b>159,578</b>	<b>158,945</b>	<b>13,812</b>	<b>13,919</b>	<b>1,918,875</b>	<b>1,746,567</b>	<b>2,092,265</b>	<b>1,919,431</b>
<b>Expenses</b>								
Benefits paid	138,889	111,183	10,728	10,707	830,614	702,195	980,231	824,085
Scheme administration expenses (b)	2,181	2,255	141	186	11,761	10,826	14,083	13,267
Premiums paid to external insurer	1,308	1,703	181	225	20,673	19,107	22,162	21,035
Financial planning fees	-	-	1	-	88	2	89	2
Income tax expense (c)	5,391	5,687	437	465	62,689	58,617	68,517	64,769
	<b>147,769</b>	<b>120,828</b>	<b>11,488</b>	<b>11,583</b>	<b>925,825</b>	<b>790,747</b>	<b>1,085,082</b>	<b>923,158</b>
<b>Closing balance 30 June</b>	<b>1,150,085</b>	<b>1,139,706</b>	<b>93,150</b>	<b>90,826</b>	<b>7,116,944</b>	<b>6,126,348</b>	<b>8,360,179</b>	<b>7,356,880</b>



## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### Note 4 Division of Scheme (continued)

#### (a) Net Investments Income

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

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

#### (b) 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.

#### (c) 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%.

#### (d) 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 2010-2011 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*

	2014	2013
	\$'000	\$'000
<b>Opening balance 1 July</b>	-	828
Adjustments prior year	-	-
	<b>-</b>	<b>828</b>
Plus/(less):		
Transfer to reserves	-	(858)
Net investment income	-	30
Benefits paid	-	-
<b>Closing balance 30 June</b>	<b>-</b>	<b>-</b>

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### 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.

#### *Accumulation Benefits Fund – Smoothing reserve*

	2014	2013
	\$'000	\$'000
<b>Opening balance 1 July</b>	-	27,964
Amounts added (deducted) to support Accumulation Benefits Fund	-	(30,222)
Earnings credited	-	2,258
<b>Closing balance 30 June</b>	-	-

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 Accumulation Fund Operational Risk reserve during the year was as follows:

#### *Accumulation Benefits Fund – Operational Risk reserve*

	2014	2013
	\$'000	\$'000
<b>Opening balance 1 July</b>	27,212	7,277
Interfund transfer	(1)	9
Transfers from:		
Insurance Fund	-	858
Amounts added (deducted) to support Accumulation Benefits Fund	4,180	18,114
Earnings credited	1,685	954
<b>Closing balance 30 June</b>	<b>33,076</b>	<b>27,212</b>

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

#### *Defined Benefits Fund – Operational Risk reserve*

	2014	2013
	\$'000	\$'000
<b>Opening balance 1 July</b>	3,680	-
Transfers from Defined Benefit Fund assets	39	3,680
<b>Closing balance 30 June</b>	<b>3,719</b>	<b>3,680</b>

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### Note 5 Change in net market value of investments, derivative assets and derivative liabilities

	2014	2013
	\$'000	\$'000
<b>Held at reporting date:</b>		
Fixed interest securities	57,849	(20,370)
Equity investments and unlisted trusts	470,543	611,311
Derivatives	111,375	(113,227)
Direct property investments	-	29,644
	<b>639,767</b>	<b>507,358</b>
<b>Realised during period:</b>		
Fixed interest securities	3,599	14,834
Equity investments and unlisted trusts	93,156	72,021
Derivatives	(91,334)	42,253
Direct property investments	1,149	1,394
	<b>6,570</b>	<b>130,502</b>
<b>Total</b>	<b>646,337</b>	<b>637,860</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.

### Note 6 Other investment revenue

	2014	2013
	\$'000	\$'000
Management fee rebates	2,027	1,518
Securities lending revenue	1,113	-
Proceeds from class actions and compensation claims	329	59
Other	142	195
<b>Total</b>	<b>3,611</b>	<b>1,772</b>

### Note 7 Direct investment expenses

	2014	2013
	\$'000	\$'000
External investment management fees	14,514	14,222
Master custodian fees	2,249	1,256
Administration expenses - Scheme investment operations	1,723	1,755
Other management fees and taxes	1,503	527
Asset consultant fees	1,151	1,060
Options/futures brokerage fees and other expenses	187	213
Direct property operating expenses	274	1,896
<b>Total</b>	<b>21,601</b>	<b>20,929</b>

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### Note 8 Scheme administration expenses

	2014	2013
	\$'000	\$'000
Staff salaries and associated costs	7,426	6,560
Taxation and other government charges	2,202	2,594
Consultants fees	1,254	1,223
Occupancy expenses	985	744
Maintenance and service agreements	637	526
Communication expenses	472	370
Insurances	85	298
Printing expenses	348	263
Staff travel and business expenses	231	225
Marketing expenses	113	167
Other management expenses	330	377
<b>Total</b>	<b>14,083</b>	<b>13,347</b>
<b>Less:</b>		
Reallocation to direct investment expenses (refer Note 7)	(1,723)	(1,755)
<b>Total</b>	<b>12,360</b>	<b>11,592</b>

### Note 9 Benefits paid

	2014	2013
	\$'000	\$'000
<b>Lump sum benefits</b>		
Resignation	60,944	54,365
Age retirement	421,251	340,707
Total and permanent disablement	18,275	13,240
Failure of health	740	244
Death	17,906	15,247
Withdrawals	341,204	306,223
	<b>860,320</b>	<b>730,026</b>
<b>Pension benefits</b>		
Allocated pension facility	119,061	92,995
Lifetime pensions	74	74
	<b>119,135</b>	<b>93,069</b>
<b>Total</b>	<b>979,455</b>	<b>823,095</b>
<b>Less:</b>		
Transfer of retained members benefits to new accounts	(508,448)	(429,807)
<b>Total</b>	<b>471,007</b>	<b>393,288</b>

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### Note 10 Investments and derivatives

The disclosure below is prepared on a look through basis to the financial assets and liabilities underlying the Scheme's direct investments. Details of these investments and derivatives are as follows:

Notes	2014	2013
	\$'000	\$'000
<b>Cash and cash equivalents</b>		
Cash accounts	260,176	223,466
Short-term money market accounts	180,500	77,100
Futures deposit accounts	7,721	5,190
	<b>448,397</b>	<b>305,756</b>
<b>Fixed interest securities</b>		
Discount securities	136,076	118,519
Term deposits	380,000	225,000
Corporate bonds	248,083	241,592
Floating rate notes	93,216	72,400
Government and semi-government bonds	1,108,535	914,163
Other fixed interest securities	9,937	112,339
	<b>1,975,847</b>	<b>1,684,013</b>
<b>Listed equity investments and property trusts</b>		
Equity investments	2,047,287	1,686,573
Property trusts	262,615	214,167
	<b>2,309,902</b>	<b>1,900,740</b>
<b>Unlisted equity investments and trusts</b>		
Equity investments	2,420,600	2,384,866
Alternatives	349,599	298,553
Property trusts	704,591	629,699
Diversified fixed interest	156,357	151,899
Socially responsible investments	113,495	97,235
	<b>3,744,642</b>	<b>3,562,252</b>
<b>Derivative assets</b>		
<b>Options</b>		
Equity options	11,793	11,264
Fixed interest options	2,699	1,586
	<b>14,492</b>	<b>12,850</b>
<b>Futures</b>		
Equity futures	-	53
Fixed interest futures	1,885	3,602
Money market futures	497	319
	<b>2,382</b>	<b>3,974</b>
<b>Swaps</b>		
Swaps floating	561	1,550
Swaps fixed	2,729	2,382
	<b>3,290</b>	<b>3,932</b>
<b>Forward foreign exchange</b>		
	<b>12,170</b>	<b>-</b>
	<b>32,334</b>	<b>20,756</b>

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### Note 10 Investments and derivatives (continued)

	Notes	2014	2013
		\$'000	\$'000
<b>Direct property investments</b>			
200 Coward St, Mascot NSW		-	46,456
Wattle Grove Shopping Centre, Wattle Grove NSW		-	21,034
		-	<b>67,490</b>
<b>Total investments</b>		<b>8,511,122</b>	<b>7,541,007</b>
<b>Derivative liabilities</b>			
<b>Options</b>			
Equity options		-	(316)
Fixed interest options		(49)	(79)
		<b>(49)</b>	<b>(395)</b>
<b>Futures</b>			
Equity futures		(6)	(3)
Fixed interest futures		(2,877)	(2,860)
Money market futures		(108)	(82)
		<b>(2,991)</b>	<b>(2,945)</b>
<b>Swaps</b>			
Swaps floating		(467)	(2,368)
Swaps fixed		(8,368)	(5,557)
		<b>(8,835)</b>	<b>(7,925)</b>
<b>Forward foreign exchange</b>		-	<b>(135,185)</b>
<b>Total derivative liabilities</b>		<b>(11,875)</b>	<b>(146,450)</b>
<b>Other financial assets</b>			
Investment revenue receivable	11	36,082	26,674
Other receivables / unsettled trades	11	49,931	23,056
		<b>86,013</b>	<b>49,730</b>
<b>Other financial liabilities</b>			
Unsettled trades	14	<b>(149,228)</b>	<b>(101,587)</b>
<b>Net investment assets</b>		<b>8,436,032</b>	<b>7,342,700</b>

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### Note 10 Investments and derivatives (continued)

#### (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 2014	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>				
Equity investments	2,044,244	1,722	1,321	2,047,287
Listed property trusts	262,615	-	-	262,615
Unlisted trusts	-	637,764	3,106,878	3,744,642
Fixed interest securities	33,432	1,562,415	-	1,595,847
Derivatives	2,383	29,935	16	32,334
<b>Financial liabilities</b>				
Derivatives	(2,991)	(8,884)	-	(11,875)
<b>Total</b>	<b>2,339,683</b>	<b>2,222,952</b>	<b>3,108,215</b>	<b>7,670,850</b>

30 June 2013	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>				
Equity investments	1,686,451	-	122	1,686,573
Listed property trusts	214,167	-	-	214,167
Unlisted trusts	-	569,121	2,993,131	3,562,252
Fixed interest securities	16,714	1,442,299	-	1,459,013
Derivatives	3,974	16,782	-	20,756
<b>Financial liabilities</b>				
Derivatives	(2,944)	(143,506)	-	(146,450)
<b>Total</b>	<b>1,918,362</b>	<b>1,884,696</b>	<b>2,993,253</b>	<b>6,796,311</b>

Investments not included in the above table are cash, cash equivalents, deposits and short-term receivables and payables as the carrying amount is a reasonable approximation of fair value.

Fair value for Level 3 instruments can be based on internally developed models in which there are few, if any, external observations. For transactions in this category, there is rarely a two-way market, and typically there is considerable structuring.

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### Note 10 Investments and derivatives (continued)

(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:

2014 financial year	Equity securities	Unlisted unit trusts	Fixed interest securities	Derivatives	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2013	122	2,993,131	-	-	2,993,253
Purchases	-	113,694	-	-	113,694
Sales	(5)	-	-	-	(5)
Reclassification	(53)	53	-	-	-
Transfers into level 3	1,294	-	-	-	1,294
Transfers out of level 3	-	-	-	-	-
Unrealised gains/(losses)	(37)	-	-	16	(21)
<b>Balance at 30 June 2014</b>	<b>1,321</b>	<b>3,106,878</b>	<b>-</b>	<b>16</b>	<b>3,108,215</b>
2013 financial year	Equity securities	Unlisted unit trusts	Fixed interest securities	Derivatives	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2012	39	2,230,247	4,735	-	2,235,021
Purchases	-	762,884	-	-	762,884
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>2,993,131</b>	<b>-</b>	<b>-</b>	<b>2,993,253</b>

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

2014 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	(5)	13,448	-	-	13,443
<b>Total unrealised gains (losses)</b>					
Trading income	(37)	248,097	-	16	248,076
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	-	7,185	-	-	7,185
<b>Total unrealised gains (losses)</b>					
Trading income	-	370,742	-	-	370,742



## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### Note 10 Investments and derivatives (continued)

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

2014 financial year	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Equity securities	(3,016)	1,722	1,294	-
Fixed interest securities	-	-	-	-
Derivatives	-	-	-	-
<b>Total</b>	<b>(3,016)</b>	<b>1,722</b>	<b>1,294</b>	<b>-</b>
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>

### Note 11 Receivables/unsettled trades

	2014	2013
	\$'000	\$'000
<b>Investment revenue receivable</b>		
Interest receivable	2,730	1,782
Dividends receivable	8,192	5,992
Trust distributions receivable	25,160	18,697
Property income receivable	-	203
	<b>36,082</b>	<b>26,674</b>
<b>Other</b>		
Sundry and other debtors	1,453	1,060
Other receivables/unsettled trades	49,931	23,056
	<b>51,384</b>	<b>24,116</b>
<b>Total</b>	<b>87,466</b>	<b>50,790</b>

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### Note 12 Property, plant and equipment

	Office furniture and equipment	Computer hardware	Computer software	Leasehold improvements	Motor vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance 1 July 2012	141	172	498	458	148	1,417
Additions	6	154	324	-	120	604
Disposals	-	-	-	-	-	-
Depreciation	(36)	(99)	(197)	(91)	(41)	(464)
<b>Closing balance 30 June 2013</b>	<b>111</b>	<b>227</b>	<b>625</b>	<b>367</b>	<b>227</b>	<b>1,557</b>
Opening balance 1 July 2013	111	227	625	367	227	1,557
Additions	24	208	725	49	72	1,078
Disposals	(2)	(2)	(15)	(283)	(31)	(333)
Depreciation	(27)	(137)	(333)	(62)	(56)	(615)
<b>Closing balance 30 June 2014</b>	<b>106</b>	<b>296</b>	<b>1,002</b>	<b>71</b>	<b>212</b>	<b>1,687</b>

### Note 13 Benefits due and unpaid

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

	2014	2013
	\$'000	\$'000
<b>Lump sum benefits</b>		
Death	1,473	2,328
<b>Total</b>	<b>1,473</b>	<b>2,328</b>

### Note 14 Payables/unsettled trades

	2014	2013
	\$'000	\$'000
Unsettled trades	149,228	101,587
Trade and sundry creditors	9,805	11,120
PAYG tax payable	104	43
<b>Total</b>	<b>159,137</b>	<b>112,750</b>

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### Note 15 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>=</b>	<b>\$1,111.1M</b>
<b>Accrued benefits</b>		<b>\$1,073.2M</b>
	<b>=</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 20(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>=</b>	<b>\$87.3M</b>
<b>Accrued Benefits</b>		<b>\$85.1M</b>
	<b>=</b>	<b>103%</b>

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### Note 16 Income tax

Major components of income tax expense were:

	2014	2013
	\$'000	\$'000
<b>Statement of changes in net assets</b>		
Current income tax expense	58,557	59,807
Deferred income tax expense	93,828	52,697
<b>Total</b>	<b>152,385</b>	<b>112,504</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	1,155,684	1,108,777
Tax at the rate of 15%	173,353	166,317
Add - tax effect of non-deductible:		
- benefits paid	69,994	58,203
- Insurance administration fees	-	40
- other	13	-
- expenses relating to exempt pension income	6,072	3,750
	<b>76,079</b>	<b>61,993</b>
Less - Tax effect of non-assessable:		
- contributions	18,479	16,777
- transfers from other funds	18,182	16,760
- proceeds group life policy	2,768	2,231
- pension income	8,890	7,468
Dividend imputation and foreign tax credits (net)	25,180	16,167
	<b>73,499</b>	<b>59,403</b>
<b>Adjusted income tax expense</b>	<b>175,933</b>	<b>168,907</b>
- Underprovision (overprovision) for current income tax in prior year	(4,904)	(19,458)
- Underprovision (overprovision) for deferred income tax in prior year	18	11,798
- Other movements in deferred tax assets/deferred tax liabilities	(19,601)	(49,583)
- Recovery of anti-detriment payments from ATO	939	840
	<b>(23,548)</b>	<b>(56,403)</b>
Income tax expense reported in Statement of changes in net assets	152,385	112,504

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### Note 16 Income tax (continued)

	2014	2013
	\$'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	94,655	57,937
Taxable temporary differences – other assets	15,247	12,845
	<b>109,902</b>	<b>70,782</b>
<b>Movements</b>		
Opening balance at 1 July 2013	70,782	17,063
Charged/ (credited) to the statement of changes in net assets	39,120	53,719
Closing balance at 30 June 2014	<b>109,902</b>	<b>70,782</b>
The deferred tax liabilities expected to be settled in more than 12 months are \$94,655 (2013: \$57,937)		
<b>Deferred income tax assets</b>		
Taxable temporary differences – assets subject to CGT	41,231	76,570
Taxable temporary differences – other assets	2,908	22,277
	<b>44,139</b>	<b>98,847</b>
<b>Movements</b>		
Opening balance at 1 July 2013	98,847	97,825
Charged/ (credited) to the statement of changes in net assets	(54,708)	1,022
Closing balance at 30 June 2014	<b>44,139</b>	<b>98,847</b>

The deferred tax assets expected to be settled in more than 12 months are \$41,231 (2013; \$76,570).

### Note 17 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 2014 was as follows for the two defined benefits funds:

	Regional Defined Benefits		City Defined Benefits	
	2014	2013	2014	2013
	\$M	\$M	\$M	\$M
Net assets value	1,150.1	1,136.3	93.2	90.6
Vested benefits	1,044.0	1,070.0	79.8	83.5
Vested Benefits Index (VBI)	110.16%	106.2%	116.73%	108.5%

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### Note 18 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 19 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 2014 employers contributed 12% (2013: 12%) of employees' salaries, while employees contributed 6% (2013: 6%) of their salaries.

For the City Defined Benefits Fund, during 2014 employers contributed 14% (2013: 14%) of employee salaries while employees contributed 5% (2013: 5%) of their salaries

### Note 20 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 Regional Defined Benefits 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	\$1,111.1m
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#### (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 City Defined Benefits 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
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#### (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 2011-2012 \$1.5m of excess reserves was transferred from the Insurance Fund to the Operational Risk reserve. As outlined in Note 4(d), the Insurance Fund has now closed.

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### Note 21 Financial instruments and risk management

#### (a) General financial instruments

The Scheme's assets are principally financial in nature comprising quoted and non-quoted equity investments, property (direct & 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 2014

### Note 21 Financial instruments and risk management (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:

30 June 2014	AUD	USD	JPY	EUR	GBP	Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross investment assets	4,738,235	2,085,018	236,649	451,068	232,642	680,250	8,423,862
Foreign exchange contracts (notional value)	1,874,603	(1,067,548)	(118,934)	(316,216)	(257,130)	(114,775)	-
<b>Total</b>	<b>6,612,838</b>	<b>1,017,470</b>	<b>117,715</b>	<b>134,852</b>	<b>(24,488)</b>	<b>565,475</b>	<b>8,423,862</b>
Fair value of foreign exchange contracts	13,911	(2,963)	5	23	135	1,059	12,170
<b>Total investments and derivatives - refer Note 10</b>	<b>6,626,749</b>	<b>1,014,507</b>	<b>117,720</b>	<b>134,875</b>	<b>(24,353)</b>	<b>566,534</b>	<b>8,436,032</b>

30 June 2013	AUD	USD	JPY	EUR	GBP	Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross investment assets	4,036,788	1,996,464	252,391	559,913	324,163	308,166	7,477,885
Foreign exchange contracts (notional value)	1,507,529	(825,905)	(107,314)	(270,262)	(189,095)	(114,953)	-
<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>
Fair value of foreign exchange contracts	(138,633)	3977	(125)	753	247	(1,404)	(135,185)
<b>Total investments and derivatives - refer Note 10</b>	<b>5,405,684</b>	<b>1,174,536</b>	<b>144,952</b>	<b>290,404</b>	<b>135,315</b>	<b>191,809</b>	<b>7,342,700</b>



## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### Note 21 Financial instruments and risk management (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 above 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 2013.

	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 2014</b>				
US dollars	11.7%	(11.7%)	(96,330)	96,330
Japanese yen	14.0%	(14.0%)	(15,478)	15,478
Euro	9.7%	(9.7%)	(22,295)	22,295
British pounds	10.9%	(10.9%)	(23,736)	23,736
Other	9.6%	(9.6%)	(3,485)	3,485
			<b>(161,324)</b>	<b>161,324</b>
<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>

#### 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 2014

### Note 21 Financial instruments and risk management (continued)

	Floating interest rate	Fixed interest rate	Non-interest bearing	Total
30 June 2014	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>				
Cash & cash equivalents	448,397	-	-	448,397
Fixed interest securities	195,090	1,780,757	-	1,975,847
Listed equity investments & property trusts	-	-	2,309,902	2,309,902
Unlisted equity investments & property trusts	-	-	3,744,642	3,744,642
Derivatives	1,057	7,299	23,978	32,334
Other financial assets	-	-	86,013	86,013
	<b>644,544</b>	<b>1,788,056</b>	<b>6,164,535</b>	<b>8,597,135</b>
<b>Liabilities</b>				
Derivatives	(575)	(11,251)	(49)	(11,875)
Other financial liabilities	-	-	(149,228)	(149,228)
	<b>(575)</b>	<b>(11,251)</b>	<b>(149,277)</b>	<b>(161,103)</b>
<b>Total</b>	<b>643,969</b>	<b>1,776,805</b>	<b>6,015,258</b>	<b>8,436,032</b>

	Floating interest rate	Fixed interest rate	Non-interest bearing	Total
30 June 2013	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>				
Cash & cash equivalents	305,756	-	-	305,756
Fixed interest securities	181,050	1,502,963	-	1,684,013
Listed equity investments & property trusts	-	-	1,900,740	1,900,740
Unlisted equity investments & property trusts	-	-	3,562,252	3,562,252
Derivative assets	1,869	7,570	11,317	20,756
Direct property investments	-	-	67,490	67,490
Other financial assets	-	-	49,730	49,730
	<b>488,675</b>	<b>1,510,533</b>	<b>5,591,529</b>	<b>7,590,737</b>
<b>Liabilities</b>				
Derivative liabilities	(2,449)	(8,496)	(135,505)	(146,450)
Other financial liabilities	-	-	(101,587)	(101,587)
	<b>(2,449)</b>	<b>(8,496)</b>	<b>(237,092)</b>	<b>(248,037)</b>
<b>Total</b>	<b>486,226</b>	<b>1,502,037</b>	<b>5,354,437</b>	<b>7,342,700</b>

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### Note 21 Financial instruments and risk management (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 2013.

Volatility factors	2014	2014	2013	2013
	Reflects higher interest rates	Reflects lower interest rates	Reflects higher interest rates	Reflects lower interest rates
Australian sovereign bonds	1.1%	(1.1%)	1.4%	(1.4%)
Australian corporate bonds	1.4%	(1.4%)	1.7%	(1.7%)
International sovereign bonds	0.6%	(0.6%)	0.6%	(0.6%)
International corporate bonds	0.7%	(0.7%)	0.9%	(0.9%)
Australian real yields	0.7%	(0.7%)	0.7%	(0.7%)
International real yields	0.4%	(0.4%)	0.4%	(0.4%)
	<b>2014</b>	<b>2014</b>	<b>2013</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Effect on net assets available to pay benefits</b>	<b>(20,789)</b>	<b>20,789</b>	<b>(20,027)</b>	<b>20,027</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 2014

### Note 21 Financial instruments and risk management (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	2014	2014	2013	2013
	Reflects higher asset prices	Reflects lower asset prices	Reflects higher asset prices	Reflects lower asset prices
Australian equities	19.8%	(19.8%)	23.6%	(23.6%)
International equities	17.1%	(17.1%)	19.5%	(19.5%)
Australian & global listed property	16.4%	(16.4%)	16.4%	(16.4%)
Asset backed securities	6.5%	(6.5%)	8.5%	(8.5%)
Emerging markets cash	7.8%	(7.8%)	10.1%	(10.1%)
Emerging markets equities	21.9%	(21.9%)	24.6%	(24.6%)
High yield debt	10.5%	(10.5%)	12.9%	(12.9%)
Global infrastructure	17.4%	(17.4%)	21.1%	(21.1%)
	<b>2014</b>	<b>2014</b>	<b>2013</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Effect on net assets available to pay benefits</b>	<b>1,114,269</b>	<b>(1,114,269)</b>	<b>1,192,517</b>	<b>(1,192,517)</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 2014

### Note 21 Financial instruments and risk management (continued)

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
2014	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Non-derivatives</b>						
Unsettled purchases	(149,228)	-	-	-	-	(149,228)
Trade & other payables	(9,909)	-	-	-	-	(9,909)
Current tax liabilities	-	(15,680)	-	-	-	(15,680)
Accrued employee entitlements	(1,387)	-	-	(39)	(36)	(1,462)
Benefits payable	-	(1,473)	-	-	-	(1,473)
<b>Total non-derivatives</b>	<b>(160,524)</b>	<b>(17,153)</b>	<b>-</b>	<b>(39)</b>	<b>(36)</b>	<b>(177,752)</b>

<b>Derivatives</b>						
Gross settled (forward currency contracts, futures, options, swaps)						
- inflow	2,865,418	3,915,033	2,515,721	962,565	336,672	10,595,409
- (outflow)	(2,852,655)	(3,763,567)	(2,330,881)	(962,450)	(338,585)	(10,248,139)
<b>Total derivatives</b>	<b>12,763</b>	<b>151,466</b>	<b>184,840</b>	<b>115</b>	<b>(1,913)</b>	<b>347,270</b>

	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	(101,587)	-	-	-	-	(101,587)
Trade & other payables	(11,163)	-	-	-	-	(11,163)
Current tax liabilities	-	(18,254)	-	-	-	(18,254)
Accrued employee entitlements	(1,212)	-	-	(83)	(26)	(1,321)
Benefits payable	-	(2,328)	-	-	-	(2,328)
<b>Total non-derivatives</b>	<b>(113,962)</b>	<b>(20,582)</b>	<b>-</b>	<b>(83)</b>	<b>(26)</b>	<b>(134,653)</b>

<b>Derivatives</b>						
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>

The above analysis excludes any vested benefits payable.

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### Note 21 Financial instruments and risk management (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:

	2014	2013
	\$'000	\$'000
Cash and cash equivalents	448,397	305,756
Term deposits	380,000	225,000
Investments in debt instruments	1,595,847	1,459,013
Contributions receivable	12,466	12,667
Unsettled investment sales and income receivable	87,466	50,790
	<b>2,524,176</b>	<b>2,053,226</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. 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 and 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+	Not Rated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2014	1,238,660	179,085	165,784	-	12,318	1,595,847
2013	1,166,008	175,869	117,136	-	-	1,459,013

Credit risk associated with contributions receivable from 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. 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.

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### Note 22 Structured entities

Name of entity	Country of establishment	Ownership interest		Value	
		2014	2013	2014	2013
		%	%	\$'000	\$'000
<b>Wholly owned structured entities</b>					
Kosciusko LG Multi Strategy Fund No. 2	Australia	100%	100%	220,948	215,888
Westbourne Yield Fund No 4	Australia	100%	100%	144,283	108,900
Morgan Stanley Global Infrastructure Fund No. 3	Australia	100%	100%	32,198	25,697
LG Super Asian Infrastructure Investment Trust	Australia	100%	100%	46,649	13,549
Eva Street Trust	Australia	100%	100%	154	11,791
Palisade (LG) Investment Trust	Australia	100%	100%	11,449	11,425
Palisade AWT Trust 1	Australia	100%	100%	10,187	12,733
<b>Partially owned structured entities</b>					
Palisade TGP Holdings Pty Ltd	Australia	28.6%	28.6%	36,426	35,714
Palisade Waterloo Holdings Pty Ltd	Australia	37.0%	37.0%	31,134	29,160
RLMC Operating Company Pty Ltd and RLX Investment Trust	Australia	34.6%	34.6%	29,340	27,565
Palisade Ports Pty Ltd	Australia	31.0%	31.0%	27,713	23,808
Palisade Australian Social Infrastructure Investment Fund 1	Australia	43.4%	43.4%	45,248	41,247
Clearbell II Unit Trust	Isle of Man	15.96%	-	13,929	-
Orion European Real Estate Fund IV, C.V.	Netherlands	33.33%	-	4,640	-

The Scheme has elected to early adopt AASB 2013-5 *Amendments to Australian Accounting Standards - Investment Entities*. This amendment introduces an exception to the consolidation rules for those entities qualifying as "investment entities". Controlled and Associated entities are accounted for at fair value through profit or loss, in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*. For the comparative period, the Scheme did not consolidate controlled entities as the effect of doing so was not material.

#### *Related and unrelated investments*

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. This could be the case where voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

The Scheme invests in other funds for the purpose of capital appreciation.

The investee funds' objectives range from achieving medium to long term capital growth. The investee funds investment in a number of different financial instruments, including equities and debt instruments. The size of a related investee fund is indicated by the net asset value of the fund per the investee funds' balance sheet. For unrelated funds, size is indicated by the carrying value of the fund's investment as recognised on the fund's balance sheet as at reporting date as there is no other exposure to the fund other than the carrying value of its investment.

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### Note 23 Auditors remuneration

	2014	2013
	\$	\$
Amount received or due and receivable by the Auditor-General of Queensland:	-	104,000
Amount received or due and receivable by PricewaterhouseCoopers:		
Audit of financial statements and APRA return	124,500	-
Taxation services	280,186	308,184
Other assurance services (specified assertions audit over Custodian balances)	35,235	35,618
<b>Total</b>	<b>439,921</b>	<b>447,802</b>

### Note 24 Related Parties

#### Details of compensation

Key management personnel include both directors and executives who have authority and responsibility for planning, directing and controlling the activities of the Scheme.

#### (a) Directors

The following persons were directors of the Queensland Local Government Superannuation Board for the year ended 30 June 2014:

Director	Position	Representative body	Appointment date	Resignation/term expired date
Cr P V Bell	Director and committee member	Employer representative	1 July 2004	30 June 2014 (term expired)
Mr N P Cass	Director	Member representative	1 July 2008 <sup>1</sup>	
Ms F Connor	Director and committee member	Member representative	1 July 2001	
Mr R L Curtis	Director	Member representative	1 July 2011	
Cr M A de Wit	Director	Employer representative	1 June 2013	
Ms L M Dudley	Director and committee member	Employer representative	1 July 2011	30 June 2014 (term expired)
Ms B K Morris	Director and committee member	Independent	1 December 2013	
Cr P J Pisasale	Director	Employer representative	1 September 2012	30 June 2014 (term expired)
Mr B D Roebig	Chairman and committee member	Independent	1 August 1995	30 September 2014
Mr J S Smith	Director	Independent	1 December 2013	
Mr P J Smith	Director	Member representative	1 July 2008	30 June 2014 (term expired)
Mr J F Wilson	Director	Independent	1 December 2013	

<sup>1</sup> Previous term 1 July 1995–30 June 2004



## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### Note 24 Related Parties (continued)

#### (b) Executives

The Chief Executive Officer (CEO) is appointed by the Queensland Local Government Superannuation Board. The CEO in turn appoints the executives.

The following persons were executives of the Queensland Local Government Superannuation Board for the year ended 30 June 2014:

Executive	Position	Appointment date	Employment terms
Mr D J Todd	Chief Executive Officer	17 July 2006	Executive contract
Mr I D Harcla	Deputy CEO/Scheme Secretary	30 January 2006	Executive contract
Mr T J Willmington	General Manager Operations	29 August 2005	Executive contract
Mr P C Gamin	Chief Financial Officer	21 January 2013	Executive contract

#### *Remuneration of directors*

Governance of remuneration arrangements for directors occurs through the Board. The Board considers industry practice, an external independent review every two years and members' interests in setting directors' fees. All directors are reimbursed for reasonable expenses incurred while conducting business on behalf of the Scheme.

#### *Remuneration of executives and other employees*

Executives and management staff are employed under individual employment contracts and are paid under packaging arrangements. Remuneration is benchmarked with market rates for employees in the financial services industry every two years by an external independent expert.

Other staff are employed under conditions consistent with the State clerical award. An annual performance payment is potentially available for all staff below Manager level.

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### Note 24 Related Parties (continued)

#### (a) Remuneration of directors

Directors		Short-term		Post-employment	Total remuneration
Name	Position	Board fee	Board committee fee	Superannuation	\$'000
		\$'000	\$'000	\$'000	
<b>2013/2014</b>					
Mr B D Roebig	Chairman	95	7	35	137
Cr P V Bell	Director	48	14	11	73
Cr M A de Wit	Director	47	-	9	56
Ms L M Dudley	Director	46	7	10	63
Cr P J Pisasale	Director	48	-	9	57
Mr N P Cass	Director	28	-	35	63
Ms F Connor	Director	46	7	10	63
Mr R L Curtis	Director	51	-	6	57
Mr P J Smith	Director	26	-	35	61
Ms B K Morris <sup>1</sup>	Director	27	7	4	38
Mr J S Smith <sup>1</sup>	Director	22	-	13	35
Mr J F Wilson <sup>1</sup>	Director	22	-	13	35
<b>Total remuneration</b>		<b>506</b>	<b>42</b>	<b>190</b>	<b>738</b>

Directors		Short-term		Post-employment	Total remuneration
Name	Position	Board fee	Board committee fee	Superannuation	\$'000
		\$'000	\$'000	\$'000	
<b>2012/2013</b>					
Mr B D Roebig	Chairman	102	5	25	132
Cr P V Bell	Director	49	11	11	71
Cr M A de Wit <sup>2</sup>	Director	4	-	1	5
Ms L M Dudley	Director	46	6	10	62
Cr P J Pisasale <sup>3</sup>	Director	39	-	7	46
Mr P M Taylor <sup>4</sup>	Director	41	-	16	57
Cr L R Tyrell <sup>5</sup>	Director	4	-	1	5
Mr N P Cass	Director	36	-	25	61
Ms F Connor	Director	49	6	7	62
Mr R L Curtis	Director	48	-	6	54
Mr P J Smith	Director	34	-	25	59
<b>Total remuneration</b>		<b>452</b>	<b>28</b>	<b>134</b>	<b>614</b>

1 Appointed 1 December 2013

2 Appointed 1 June 2013

3 Appointed 1 September 2012

4 Resigned 31 May 2013

5 Resigned 31 August 2012

All remuneration above was paid directly to each director and not to any representative organisation.

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### Note 24 Related Parties (continued)

#### (b) Remuneration of executives

Executives		Short-term			Post-employment		Termination benefits	Total remuneration
Name	Position	Salary <sup>1</sup>	Non monetary benefits <sup>2</sup>	Bonus	Super	Other <sup>3</sup>	\$'000	\$'000
		\$'000	\$'000	\$'000	\$'000	\$'000		
<b>2013/14</b>								
Mr D J Todd	Chief Executive Officer	373	45	-	25	11	-	454
Mr I D Harcla	Deputy CEO/ Scheme Secretary	274	24	-	25	7	-	330
Mr T J Willmington	General Manager Operations	230	36	-	25	7	-	298
Mr P C Gamin	Chief Financial Officer	244	24	-	25	6	-	299
<b>Total remuneration</b>		<b>1,121</b>	<b>129</b>	<b>-</b>	<b>100</b>	<b>31</b>	<b>-</b>	<b>1,381</b>

Executives		Short-term			Post-employment		Termination benefits	Total remuneration
Name	Position	Salary <sup>1</sup>	Non monetary benefits <sup>2</sup>	Bonus	Super	Other <sup>3</sup>	\$'000	\$'000
		\$'000	\$'000	\$'000	\$'000	\$'000		
<b>2012/13</b>								
Mr D J Todd	Chief Executive Officer	375	36	-	25	10	-	446
Mr I D Harcla	Deputy CEO/ Scheme Secretary	261	22	-	25	7	-	315
Mr T J Willmington	General Manager Operations	225	30	-	25	6	-	286
Mr P C Gamin <sup>4</sup>	Chief Financial Officer	108	8	-	9	3	-	128
<b>Total remuneration</b>		<b>969</b>	<b>96</b>	<b>-</b>	<b>84</b>	<b>26</b>	<b>-</b>	<b>1,175</b>

1 Salary includes base pay plus annual leave accrued less annual leave taken less salary sacrificed non-monetary benefits

2 Non-monetary benefits includes salary sacrificed motor vehicles on a cost neutral basis to the Board

3 Other post-employment includes long service leave accrued - long service leave taken

4 Appointed 21 January 2013.

#### (c) Related party transactions

All directors (other than independent directors), executives and employees are contributing members of the Scheme. There are no other related party transactions between either the Board or the Scheme and key management personnel or employees.

## Notes to and forming part of the Financial statements

for the year ended 30 June 2014

### Note 25 Commitments and contingent liabilities

- A. Except for the liability for accrued benefits (refer Note 2(h)) 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:

	2014	2013
	\$'000	\$'000
Not later than one year	211,879	155,992
<b>Total</b>	<b>211,879</b>	<b>155,992</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:

	2014	2013
	\$'000	\$'000
Not later than one year	1,142	685
Later than one year and not later than five years	4,793	762
Later than 5 years	7,123	-
<b>Total</b>	<b>13,058</b>	<b>1,447</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.

# Trustee's declaration

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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 67 are drawn up so as to present fairly the net assets of the Scheme as at 30 June 2014 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 2014.



**Bronwyn K Morris**

Chairman

1 October 2014  
Brisbane



**Fiona Connor**

Director



**David J Todd**

Chief Executive Officer



## 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 Local Government Superannuation Scheme for the year ended 30 June 2014 comprising the Statement of Net Assets, Statement of Changes in Net Assets, summary of significant accounting policies and other explanatory notes.

#### *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 and the requirements of the *Superannuation Industry (Supervision) Act 1993* (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 Local Government Superannuation Scheme.

My audit has been conducted in accordance with Australian Auditing Standards. These 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 the net assets of Local Government Superannuation Scheme as at 30 June 2014 and the changes in net assets for the year ended 30 June 2014.

PricewaterhouseCoopers

**David Coogan**

Partner

Brisbane  
1 October 2014

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# 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):

	Assets	Benefits	Ratio*
	\$	\$	%
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

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ABN 94 085 088 484 AFS Licence No. 230511

## Financial statements

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for the year ended 30 June 2014

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# Directors' report

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The directors submit their report on the financial statements of the Board for the financial year ended 30 June 2014.

## 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 (resigned effective 30 September 2014)
- Cr P V Bell AM (term expired effective 30 June 2014)
- Mr N P Cass
- Ms F Connor
- Mr R L Curtis
- Cr M A de Wit
- Ms L M Dudley (term expired effective 30 June 2014)
- Mr I C Leckenby (appointed effective 3 July 2014)
- Cr P N Matic (appointed effective 3 July 2014)
- Ms B K Morris (appointed effective 1 December 2013)
- Cr P J Pisasale (term expired effective 30 June 2014)
- Mr J S Smith (appointed effective 1 December 2013)
- Mr P J Smith (term expired effective 30 June 2014)
- Mr J F Wilson (appointed effective 1 December 2013)

## 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. The total amount of insurance premiums paid was \$18,715 (2013: \$9,172).

## Directors' report (continued)

### Directors' meetings

During the year ended 30 June 2014, 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	10
Mr N P Cass	11	9
Ms F Connor	11	11
Mr R L Curtis	11	11
Cr M A de Wit	11	11
Ms L M Dudley	11	10
Cr PJ Pisasale	11	10
Mr P J Smith	11	11
Ms B K Morris	6	6
Mr J F Wilson	6	6
Mr J S Smith	6	6

### 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 76 and forms part of the director's report for the financial year ended 30 June 2014.

Signed in accordance with a resolution of directors



**Bronwyn K Morris**

Chairman

1 October 2014  
Brisbane



**Fiona Connor**

Director



**David J Todd**

Chief Executive Officer



## Auditor's independence declaration

To the Directors of The Queensland Local Government Superannuation Board

As lead auditor for the audit of The Queensland Local Government Superannuation Board for the year ended 30 June 2014 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.

A handwritten signature in black ink, appearing to read 'D Coogan', with a long horizontal flourish extending to the right.

### David Coogan

Partner  
PricewaterhouseCoopers

Brisbane  
1 October 2014

---

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## Statement of comprehensive income

for the year ended 30 June 2014

	Note	2014	2013
		\$	\$
Investment income		-	-
Expenses		-	-
Operating profit before income tax	3	-	-
Profit for the year		-	-

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

## Statement of financial position

as at 30 June 2014

	Note	2014	2013
		\$	\$
<b>Assets</b>		-	-
Total assets		-	-
<b>Liabilities</b>		-	-
Total liabilities		-	-
Net assets		-	-
<b>Equity</b>			
Contributed equity		-	-
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 2014

	Notes	2014	2013
		\$	\$
At the beginning of the year		-	-
Profit for the year		-	-
At the end of the year		-	-

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 2014

	2014	2013
	\$	\$
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 2014

### 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 20, 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*

The Financial Statements are prepared on the basis of the revised Australian Accounting Standards, which include Australian equivalents of International Financial Reporting Standards ("AIFRS"). Since AAS25 is the principal standard that applies to the financial statements, other standards, including AIFRS, are also applied where necessary except to the extent that they differ from AAS 25.

#### (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 Scheme's 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. 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 Scheme's audited 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 2014

### 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 (resigned effective 30 September 2014)
- Cr P V Bell AM (term expired effective 30 June 2014)
- Mr N P Cass
- Ms F Connor
- Mr R L Curtis
- Cr M A de Wit
- Ms L M Dudley (term expired effective 30 June 2014)
- Ms B K Morris (appointed effective 1 December 2013)
- Cr P J Pisasale (term expired effective 30 June 2014)
- Mr J S Smith (appointed effective 1 December 2013)
- Mr P J Smith (term expired effective 30 June 2014)
- Mr J F Wilson (appointed effective 1 December 2013)

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 Scheme's audited 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 PricewaterhouseCoopers (2013: The Auditor-General of Queensland). Audit fees are paid directly by the Board from the Local Government Superannuation Scheme. Audit Fees of \$1,500 (2013:\$1,500) were paid or payable on behalf of the Board for the financial year.

### 9. Indemnification

The Board acts solely as Trustee of the Local Government Superannuation Scheme ('the Scheme'). These financial statements have been prepared for the Trustee, (The Queensland Local Government Superannuation Board) and as such do not record the assets and liabilities of the Trust as the Trustee will only be liable for the obligations of the Scheme if it has committed a breach of its fiduciary duties, or to the extent that the Scheme has insufficient assets to settle its obligations. The Trustee has a right of indemnity from the Scheme in respect of its liabilities, which have not been recognised in its financial statements for the period ended 30 June 2014. At balance date, the assets of the Scheme are sufficient to meet its liabilities, and there has been no breach of fiduciary duties of the Board in its capacity as Trustee.

# Directors' declaration

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In the opinion of the directors of the responsible entity:

- a. The financial statements and notes set out on pages 77-82 are in accordance with the *Corporations Act 2001*, including:
  - i. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
  - ii. giving a true and fair view of the Board's financial position as at 30 June 2014 and of its performance for the financial year ended on that date,
- b. there are reasonable grounds to believe that the Board will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



**Bronwyn K Morris**

Chairman

1 October 2014  
Brisbane



**Fiona Connor**

Director



**David J Todd**

Chief Executive Officer



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

### Report on the financial report

We have audited the accompanying financial report of Queensland Local Government Superannuation Board (the Trustee), which comprises the statement of financial position as at 30 June 2014, 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 Trustee are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2 (b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

#### Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from 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 the risks of material misstatement of 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 appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

#### Auditor's Opinion

In my opinion -

- a. the financial report of Queensland Local Government Superannuation Board is in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the Trustee's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- b. the Trustee's financial report also complies with International Financial Reporting Standards as disclosed in Note 2 (b).

PricewaterhouseCoopers

**David Coogan**  
Partner

Brisbane  
1 October 2014

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