LOCAL AUTHORITIES SUPERANNUATION FUND

DEFINED BENEFIT PLAN

Information Pack 2012

Contents:

Vision Super Pty Ltd

Trustee of the Local Authorities Superannuation Fund

ABN: 50 082 924 561

Australian Financial Services Licence No: 225054

RSE Licence No: L0000239

LOCAL AUTHORITIES SUPERANNUATION FUND

DEFINED BENEFIT PLAN

Background Briefing

June 2012

Vision Super Pty Ltd

Trustee of the Local Authorities Superannuation Fund

ABN: 50 082 924 561

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Introduction

This is a background briefing for Authorities who employ members of the LASF defined benefit plan and/or, previously employed any person who currently receives, (or their spouse currently receives), a lifetime pension under the LASF pension plan.

LASF was established by, and operated under Victorian legislation until 1998 when the Local Authorities Superannuation Act was repealed. At the time of its repeal, special legislation was enacted requiring all Authorities to maintain their contributory obligations to the Fund.

This Background Briefing outlines:

- The differences between accumulation, pension and defined benefit plans;
- The funding of the pension and defined benefit plans; and
- The methodology for apportioning any unfunded liability.

The differences between accumulation, defined benefit and plans

The majority of Australian super schemes are accumulation plans. In accumulation plans the member's retirement benefit is based on the amount of contributions made to their account, plus investment earnings, less fees and tax. Unless an industrial or contractual agreement provides otherwise, employers generally only pay compulsory Superannuation Guarantee contributions for their employees (currently 9% of salary). The member receives no undertaking or guarantee as to the level of retirement benefit he or she will receive. The member bears all of the investment risk.

Unlike accumulation plans, the lump sum retirement benefit for a defined benefit member is based on a formula that takes into account years of membership, a benefit multiple and salary at retirement. The application of this formula results in a defined benefit member's retirement benefit being defined in advance. In defined benefit plans, the sponsoring employers bear all of the investment risk.

LASF Defined benefit members who commenced prior to 25 May 1988 have an on-going right to choose to take up to half of their lump sum benefit as a pension. The pension is payable for life, indexed to CPI. On death of a pensioner, their surviving spouse is generally entitled to a reduced (two-thirds) pension.

Funding of LASF pension and defined benefit plan

Prior to the closure of the plan in 1993 the plan was funded as follows:

Member Contribution	6% of salary
Employer Contribution	13.25% of salary

The first actuarial investigation carried out after the legislated benefit improvements in 1989 showed an unfunded liability of $410 million. The trustee at the time (LASB) developed and implemented a plan to achieve full funding by 2007. This required an employer contribution rate equal to 13.25% of employees' salaries comprising 9.25% to meet ongoing liabilities plus a 4% surcharge to eliminate the unfunded liability. The 1992 actuarial review showed that the plan was working well as the unfunded liability had reduced to $314 million.

In 1993 the State Government, concerned about growing unfunded liabilities in the State scheme for public servants, conducted a review of all public sector schemes, including LASF. As a result, all public sector funds other than two notable exceptions were closed to new members on 31 December 1993. The LASB defined benefit plan was closed even though it was not funded directly by the State and its unfunded liability was reducing.

From 1 January 1994 all new employees of local authorities joined a standard accumulation plan, LASPLAN (now known as Super Saver). As previously explained, accumulation plans do not provide members with the promise of future benefits based on years of service, so no issue of surplus or unfunded liability arises with Super Saver accounts.

The 1995 actuarial review showed that the unfunded liability had further decreased to $217 million but, with the reduced salary base and no new members, the target for fully funding the liabilities had to be moved from 2007 to 2012. The alternative would have been to increase the employer contribution rate.

At the same time, the State Government was reforming local government by amalgamations and requiring external compulsory competitive tendering of traditional council services. These reforms lead to widespread redundancies in local government and had a major impact on LASF. By the time of the next actuarial review the unfunded liability had increased from $217 million to $321 million. The previous funding plan was no longer relevant and a new strategy for funding future benefits had become necessary.

In 1997 a special Working Party comprising local government and water industry representatives was convened to formulate an equitable basis for funding the defined benefit liabilities. The Working Party's recommendations were adopted by LASB and subsequently endorsed by the State government.

The new funding arrangements included:

- A lump sum contribution to pay the (then) $321 million unfunded liability, apportioned between Authorities and payable over a maximum 10-year period. This replaced the 4% surcharge.

- The ongoing employer contribution rate to fund the benefits of existing members was reduced from 13.25% to 9.25%.

- A retrenchment increment to meet the costs of retrenchments. This was payable by each Authority depending upon their individual experience.

On 30 June 1998 the State Government repealed the LAS Act. From 1 July 1998 LASF became a "regulated fund" under Commonwealth legislation; the Superannuation Industry (Supervision) Act 1993. Under the Act, actuarial investigations are required at least every 3 years. Since 1998 the following factors contributed to fluctuations in the financial position of the Plan:

- Closed, defined benefit plans become more volatile over time. No new members join the plan and the salary base on which contributions are based declines as working members progressively retire.

- As membership drops, so plans become more susceptible to changes in salary growth, inflation, investment returns and membership demographics.

- The lack of surplus from the years prior to becoming a regulated fund means there were no reserves to draw upon when the Plan suffered adverse experience.

Fluctuations in the financial condition of closed defined benefit plans are common. They explain the volatility in the condition of the LASF Defined Benefit Plan that has occurred.

- In 2002 there was an unfunded liability of $127 million; largely caused by a downturn in share markets following the collapse of internet companies (the “dot.com bubble”) and the terrorist attacks in the USA.

- By 2005 the Plan had a (small) $23 million surplus.

- In December 2008, the Plan was again adequately funded. However, a downturn in the markets during the global financial crisis (between 31 December and the completion of the actuarial review) resulted in an “actuarial shortfall” of $71 million.

The Trustee obtained regulator (APRA) approval to establish a 5-year funding plan, designed to bring the Plan back to a satisfactory financial position by 2013. The underlying intention of the 5-year funding plan was to buy time for authorities; in the expectation that markets would recover from the global financial crisis and that a call could be avoided. Unfortunately, more difficulties surfaced in the world’s global markets and the expected recovery did not eventuate. As a result of this:

- In June 2010 the Actuary recommended that the $71 million outstanding in 2008 be called.

- In December 2011 there was an unfunded liability of $453 million. The size of the shortfall was largely attributable to two factors; depressed investment performance relative to salary growth coupled with changed assumptions about the expected future experience of the Plan.

Mindful of the potential financial impact on authorities, Vision Super was able to convince the regulator of the need for a longer term 15 year funding plan, rather than the normal regulatory requirement of a 5-year funding plan.

Vision Super is a complying, regulated, superannuation fund within the meaning of the Superannuation Industry (Supervision) Act 1993. One of the requirements of a complying superannuation fund with defined benefits is that the Trustee must carry out an actuarial investigation at least once every 3 years. The purpose of an actuarial investigation is to assess the financial position of the fund and to determine whether current funding arrangements are adequate.

Assessing the financial position of a defined benefit plan involves the actuary making a comparison between the assets of the fund and the estimate of the total liabilities for present and past members, including pensioners. Establishing the appropriate funding level involves the actuary making assumptions about various economic, financial and demographic factors over the life of the current membership. The assumptions include:

- The rate of inflation,
- The rate of salary increases amongst defined benefit members,
- The return on investments,
- Pensioner mortality rates,
- The incidence of:
    - Resignations
    - Retirements, and
    - Death and Disability claims.

The financial performance of the plan is thus dependent upon the performance of, and interrelationship between a complex set of financial, economic and demographic factors. Depending upon the actual experience of the plans relative to assumptions over each three-year period, the actuarial review will show the pension and defined benefit plans to be in either surplus or deficit.

Many of the factors impacting a defined benefit plan's performance are beyond a trustee's control. It is also important to understand that whether a plan is in surplus or deficit can depend upon whether the plan has been in surplus during a sustained period of growth in investment markets. Where this has occurred, plans have generally been able to build an investment surplus that allows the solvency of the plan to be maintained during periods of adverse performance. Given its past funding history, this luxury has not been available to Vision Super.

Furthermore, as a closed defined benefit plan in which the total membership salary base is decreasing, increasing the employer contribution rate during periods of adverse financial or demographic experience, does not normally provide the Trustee with an adequate funding solution. Recognising this problem in 1997, the State Government amended the LASF Act to give the Trustee the power to make lump sum funding calls. This power is included in the current Authority Agreement.

Methodology for apportioning Unfunded Liabilities

The methodology for apportioning pension and active member lump sum funding calls has been consistently applied since its origination in 1997 when LASF was under State legislation.

In summary, the methodology provides for two components:

Pre-30 June 1993 Component:

- Unfunded lifetime pension liabilities are apportioned to each Authority on the basis of their individual share of the Plan's total defined benefit salaries as at 30 June 1993;
- The unfunded liabilities for active members' pre-30 June 1993 membership is apportioned in the same way; and,

Post-30 June 1993 Component:

- The unfunded liabilities for active members' post-30 June 1993 service is apportioned to each Authority on the basis of their individual share of the Plan's total defined benefit salaries at 31 December 2011 (the date of the actuarial investigation).

Example:

At 31 December 2011 there were 4,971 active members of the LASF Defined Benefit Plan. Their combined service period was split 25.15% prior to 30 June 1993 and 74.85% thereafter.

At 31 December 2011, the Plan's pension liability was $359.9m, while the plan's active member liability was $1,516.4m. Pension and active member liabilities totalled $1,879.3m

Organisation A's share of the Plan's total defined benefit salaries at 30 June 1993 was 1%. By 31 December 2011, their share had fallen to 0.75%. Therefore:

	$	Calculation description
Organisation A's share of the pension unfunded liability	$ 868,809.72	$ 359.9m / $1,876.3m * $453.0m * 1.00%
Organisation A's share of the active members' pre 30 June 1993 service	$ 920,799.00	$1,516.4m / $1,876.3m * $453.0m * 1.00% * 25.15%
Organisation A's share of the active members post 30 June 1993 service)	$ 2,055,293.46	$1,516.4m / $1,876.3m * $453.0m * 0.75% * 74.85%
Organisation A's share of the plan's unfunded liability (excl cont tax) payable on 1 July 2013	$ 3,844,902.18	
Contribution tax payable on 1 July 2013	$ 678,512.15	15% of total amount paid on 1 July 2013 being $4.523m
Organisation A's share of the plan's unfunded liability (incl cont tax) payable on 1 July 2013	$ 4,523,414.33	

Conclusion

The defined benefits plan and lifetime pensions are benefits that were afforded to staff of local authorities at a time when such benefits were common for Commonwealth, State and local government employees. While this is no longer the case, authorities are required to maintain their contributory obligations which existed when LASF was governed by the Local Authorities Superannuation Act.

This paper has hopefully given you an understanding of the complex history and issues involved.

LOCAL AUTHORITIES SUPERANNUATION FUND

DEFINED BENEFIT PLAN

Investment Briefing

June 2012

Vision Super Pty Ltd

Trustee of the Local Authorities Superannuation Fund

ABN: 50 082 924 561

Australian Financial Services Licence No: 225054

RSE Licence No: L0000239

Introduction

As the Trustee of the Local Authorities Superannuation Fund (LASF) Defined Benefit Plan, one of Vision Super's roles is to invest the assets of the Plan. When an unfunded liability arises, it is appropriate for people to ask how the investments have been managed. This paper describes:

- our investment structure
- our investment objectives
- how we construct a portfolio
- how we have performed in relative terms
- how we have performed in absolute terms.

Investment structure

As Trustee, the Vision Super Board is responsible for investment decisions and has a formal governance structure for managing investments. It has established an Investment Committee that makes recommendations to the Board.

Specialist consultants provide independent expert advice on legal, taxation, audit and compliance and investment issues. Frontier Investment Consulting provides advice on investment strategy, portfolio construction, selecting and monitoring investment managers. Sovereign Investment Research and JG Service provide specialist advice about private equity and property investment respectively.

The Vision Super investment team is responsible for implementing the Board's investment strategy, monitoring fund manager performance and reporting through to the Trustee on all investment matters.

All assets are held in the name of a custodian, NAB Asset Servicing, on behalf of the Trustee. The Custodian is responsible for settling trades instructed by investment managers, collecting investment income, accounting, taxation and compliance reporting. This provides security for the safekeeping of assets.

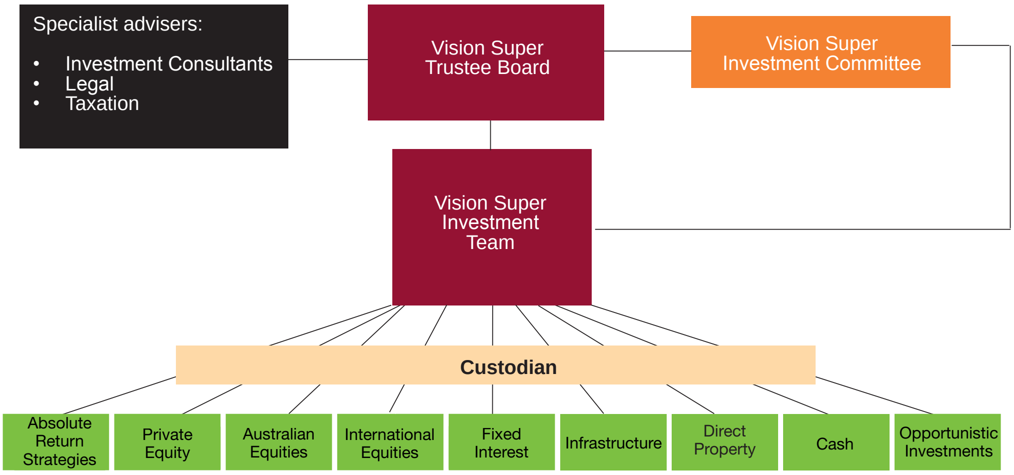
All money held in respect of Vision Super members, including Defined Benefit money, is invested in the Vision Pooled Superannuation Trust. While Defined Benefit assets were $1.69 billion at 31 December 2011, they were invested in a pool of assets totalling $5 billion. This provides greater economies of scale than would be available if the assets were managed independently.

Vision Super invests in a range of different asset classes; Australian and international equities, property, infrastructure, absolute return strategies, private equity, opportunistic property, fixed interest and cash. Separate investment pools are maintained for each asset class.

Specialist investment management companies are appointed to invest a proportion of assets in each pool. All assets are managed externally, with the exception of cash.

Both the Actuary and Frontier consult with the Board about the expected returns and liability profile of the Defined Benefit Plan. The assets of the Defined Benefit Plan are managed as a separate portfolio.

Vision Super Investment Structure

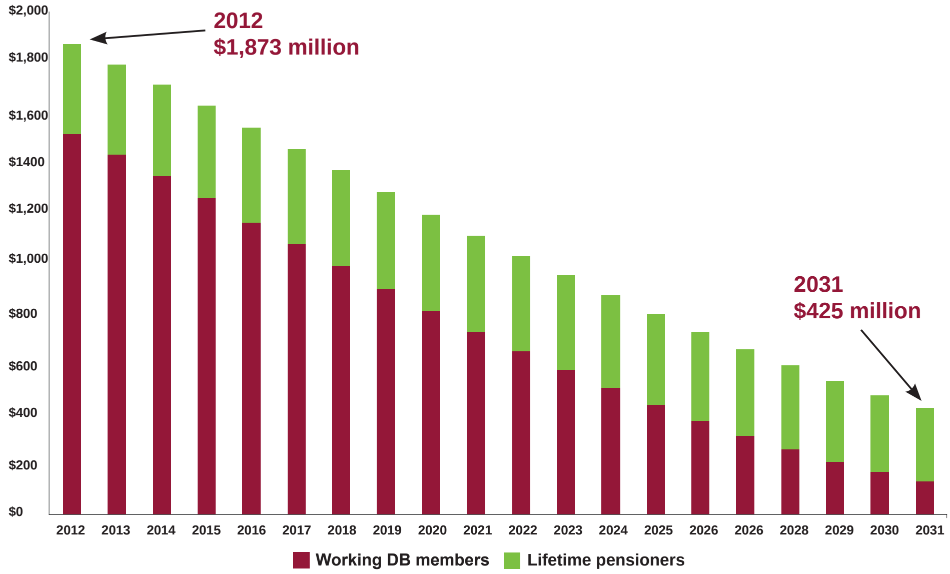


It is important to understand that Vision Super has a robust process for managing the assets of the Defined Benefit Plan.

Investment objectives

In a Defined Benefit fund, the assets are invested in a way that will provide the greatest likelihood that monies will be available to pay benefits to members and pensioners as they fall due. The following chart shows the amount expected to be required to pay benefits to members (in red) and pensioners (in green) in the years ahead.

Projection of Vested Benefits at 1 January (in today's dollars)



Source: Russell Investments

It is expected that $1.87 billion is required now, and that this amount will progressively decrease as members retire and lifetime pensioners pass away. However, it is expected that in 20 years time $425 million will still be needed.

The long-term liabilities of the Defined Benefits portfolio require Vision Super to adopt a longer-term investment strategy, while maintaining sufficient liquidity to pay benefits as they fall due.

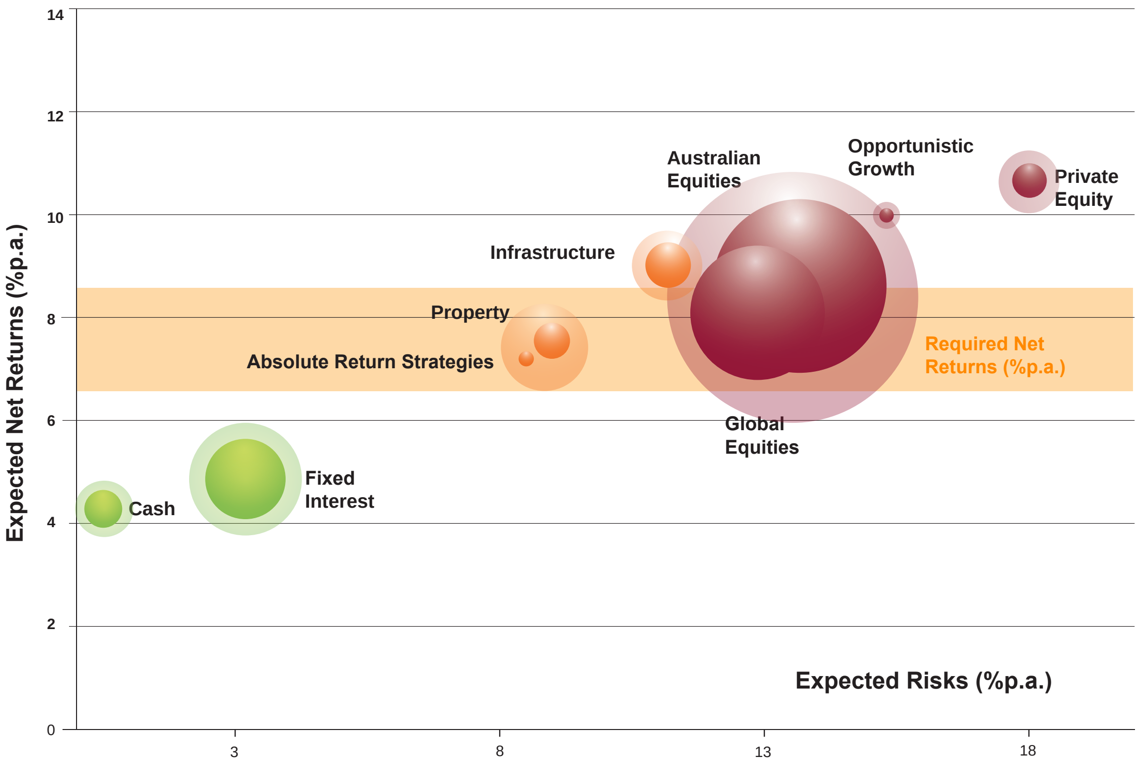
How we construct the portfolio

Constructing the portfolio involves investing in a mix of asset classes that is expected to meet the long-term investment objectives of the Defined Benefit Plan. Investments are also spread across a range of asset classes for diversification. We do not ‘put all our eggs in one basket’.

How we construct a portfolio is explained in the picture on the next page, where:

- The orange horizontal bar shows the required long-term return from the portfolio, in this case a return of between 6.5% and 8.5% a year. The required investment return from the portfolio is currently 7.5% p.a.
- Each ball represents a different asset class, the size of each ball represents how much is typically invested in that asset class.
- The colouring outside of each circle reflects its liquidity.
- The scale on the left of the chart shows the expected long-term return from each asset class.
- The scale on the bottom of the chart shows the expected volatility of the asset class i.e. how risky it is. The further to the right, the more volatile the asset class it is likely to be.

Vision Super Defined Benefit Portfolio Mix



Source: Frontier Investment Consulting

This picture demonstrates that to achieve the required long-term return, it is:

- Not possible to invest only in cash or fixed interest; they do not return enough.
- Necessary to invest in both Australian and international equities (shares), even though they are more volatile, and
- Possible to reduce the risk of shares by investing in a range of other asset classes such as property, infrastructure and private equity.

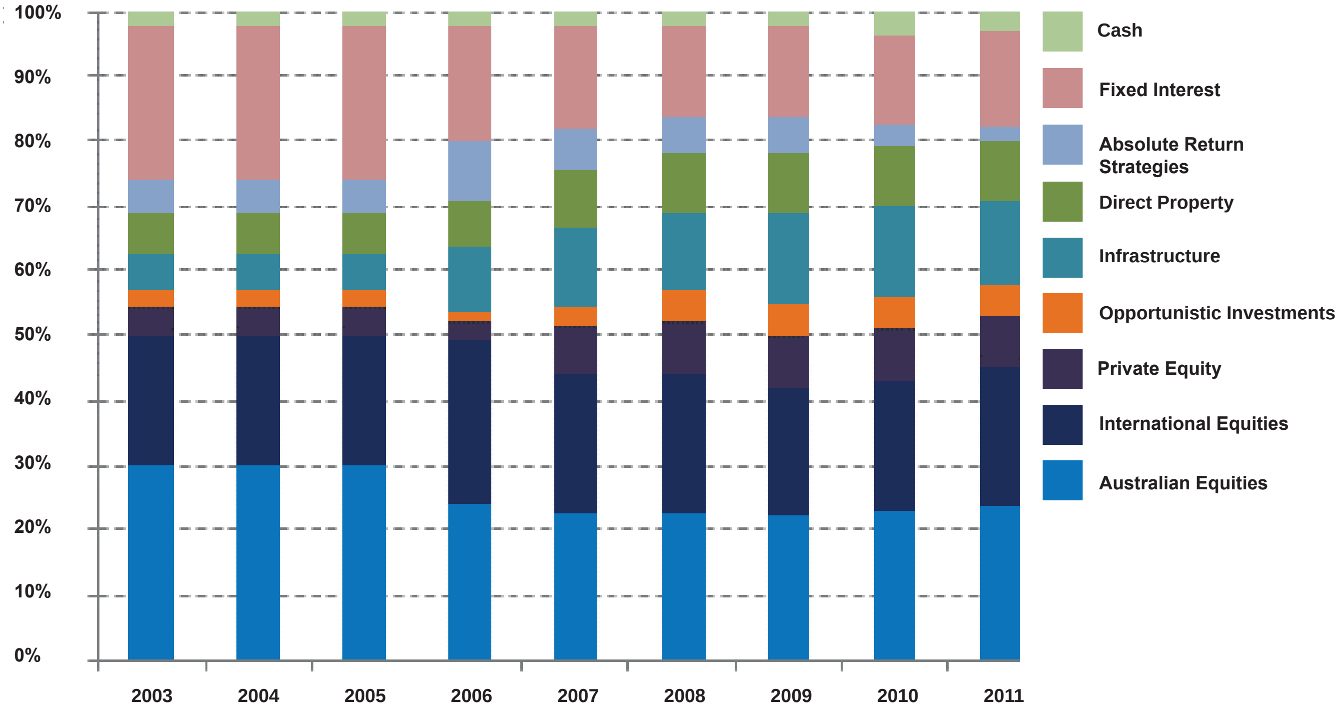
A long-term investment strategy requires investment in asset classes other than cash and fixed interest.

Putting this long-term investment strategy into practice, the table below shows the current strategic asset allocation for the Defined Benefit portfolio.

Vision Super 2012 Defined Benefit Portfolio Strategic Asset Allocation	
Asset Class	Asset Allocation (%)
Cash	5.5
Fixed Interest	10
Absolute Return Strategies	2
Direct Property	9
Infrastructure	13
International Equities	21
Australian Equities	26.5
Opportunistic Investments	5
Private Equity	8
Total	**100**

The following picture shows how the mix of asset classes in the Defined Benefit portfolio has changed over time.

Vision Super Defined Benefit Portfolio Mix Over Time



Source: Frontier Investment Consulting

In 2005 it was decided to invest less in listed Australian and international equities and more in unlisted growth assets such as infrastructure, property and private equity. While the allocation to listed equities was lowered, they still make up a significant part of the portfolio because they are liquid; they can easily be traded on the stock market. This was expected to result in lower risk over time, while still achieving the required return.

How we have performed in absolute terms

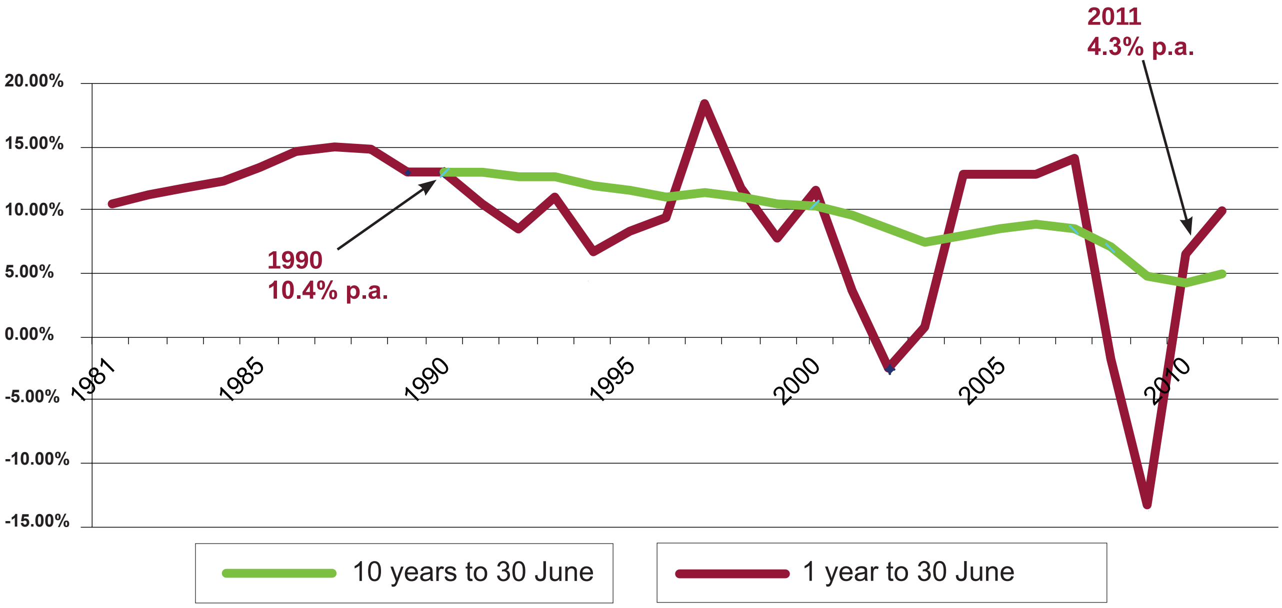
No individual investor can control either the world economy or global investment markets. When these go down every long-term investor is caught in the downturn. Vision Super has likewise been affected. The table below shows the returns of the Defined Benefit portfolio since 1981.

The green line represents rolling 10-year returns i.e. what the return of the portfolio has been over the previous 10 years at any particular point in time. The red line shows rolling 1-year returns i.e. the return of the portfolio over the previous 12 months at any point in time.

In June 1990 the Defined Benefit portfolio had returned 10.4% p.a, net of fees and tax over the previous 10 years (the green line). By June 2011 this had reduced to 4.3% p.a.

While this looks like a steady decline over 20 years, the red line shows the volatility of returns over that time. This demonstrates that investment returns have not only fallen since the global financial crisis, they have also become significantly more volatile.

Vision Super Defined Benefit portfolio Rolling returns to 30 June 2011



As a prudent long-term investor, Vision Super's Defined Benefit portfolio has been caught up in the global financial crisis and its aftermath.

How we have performed in relative terms

Have we done better or worse than other super funds?

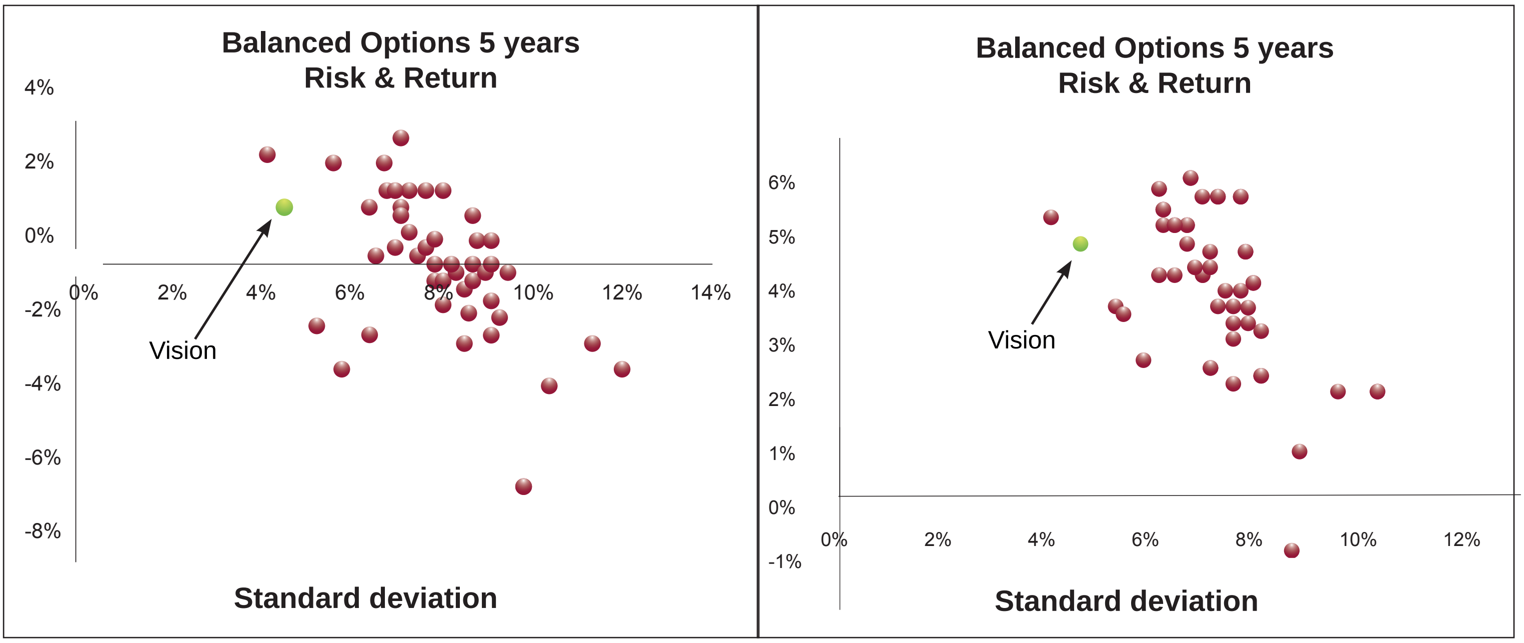
There is no survey of Defined Benefit portfolios. No two funds have the same mix of assets and liabilities, so the mix of assets in their portfolios will vary. Therefore we compare our performance against other super funds with a similar mix of assets.

Since 2005, the Defined Benefit portfolio has returned 4.5% p.a. This would have made it a top quartile performer i.e in the top 25% of super funds with a similar investment option (Source: SuperRatings Fund Crediting Rate Survey December 2011).

Using data from SuperRatings, Frontier has prepared the following “risk and return” charts, where:

- The scale on the left shows the actual return of each super fund’s investment portfolio in the survey.
- The scale on the bottom shows the relative volatility of the asset class i.e. how volatile its returns have been. The further you are to the left, the lower your volatility has been.
- The green dot is the Vision Super Defined Benefit portfolio.
- The red dots are other super funds with a similar mix of assets.

Performance of Vision Defined Benefit portfolio compared to similar balanced options (to 31 December 2011)



Source: SuperRatings Fund Crediting Rate Survey December 2011 & Frontier Investment Consulting

The position of the green dot shows that, over both the previous 5 and 7 years, the Vision Super Defined Benefit portfolio has performed above the average of its competitors with below average volatility.

Relative to competitors, we have performed well and the strategy of investing more in unlisted growth assets has reduced volatility.

Conclusion

When there is an unfunded liability it is wholly reasonable and justifiable for stakeholders to ask how the investable assets of the Defined Benefit portfolio have been managed. The purpose of this paper has been to explain both our processes and performance.

The assets of the Defined Benefit portfolio are invested in accordance with a strict governance framework. The Defined Benefit Plan is a separate portfolio, with its assets invested in the larger, Vision Pooled Superannuation Trust; therefore gaining access to greater economies of scale.

The objective of investing a Defined Benefit portfolio is to match assets with liabilities. The liabilities of the Defined Benefit plan will exist long-term; so a longer-term investment strategy is required.

To meet the required longer-term performance necessitates investment in equities and growth assets. Investing solely in cash and fixed interest would not provide the required returns.

To lower volatility, the portfolio has been invested in a range of unlisted growth assets (e.g. property and infrastructure) designed to reduce exposure to Australian and international equities without reducing performance.

With a longer-term investment strategy, the returns of the Defined Benefit portfolio have been depressed by the global financial crisis and the downturn in world economies and markets that have followed it.

While all long-term investors have suffered lower returns, in relative terms the Vision Super Defined Benefit portfolio has produced above average returns with below average volatility.

Since 2005, the performance of the Defined Benefit portfolio would have placed it in the top 25% of funds with a similar asset allocation in the independent SuperRatings survey. As outlined in this investment briefing, Vision Super has managed the assets of the Defined Benefit plan in a prudent and responsible manner and will continue to do so.

LOCAL AUTHORITIES SUPERANNUATION FUND

DEFINED BENEFIT PLAN

Apportionment Methodology

Vision Super Pty Ltd

Trustee of the Local Authorities Superannuation Fund

ABN: 50 082 924 561

Australian Financial Services Licence No: 225054

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LASF Defined Benefit Plan
Lump Sum Funding Calls - Apportionment Methodology

The methodology for apportioning pension and active member lump sum funding calls has been consistently applied since its origination in 1997 when LASF was under State legislation.

In summary, the methodology provides for two components:

Pre-30 June 1993 Component:

- Unfunded lifetime pension liabilities are apportioned to each Authority on the basis of their individual share of the Plan's total defined benefit salaries as at 30 June 1993;

- The unfunded liabilities for active members' pre 30 June 1993 membership is apportioned in the same way; and,

Post-30 June 1993 Component:

- The unfunded liabilities for active members' post 30 June 1993 service is apportioned to each Authority on the basis of their individual share of the Plan's total defined benefit salaries at 31 December 2011 (the date of the actuarial investigation).

Example:

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Organisation A's share of the active members post 30 June 1993 service)	$ 2,055,293.46	$1,516.4m / $1,876.3m * $453.0m * 0.75% * 74.85%
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LOCAL AUTHORITIES SUPERANNUATION FUND

DEFINED BENEFIT PLAN

Report from PricewaterhouseCoopers

Vision Super Pty Ltd

Trustee of the Local Authorities Superannuation Fund

ABN: 50 082 924 561

Australian Financial Services Licence No: 225054

RSE Licence No: L0000239

Mr Rob Brooks
Chief Executive Officer
Vision Super
Level 5, 1 Spring Street
Melbourne VIC 3000

31 July 2012

Dear Rob

Unfunded liability apportionment methodology review

This report outlines our scope, approach and findings in respect of the review of the application of the unfunded liability apportionment methodology for the Local Authorities Superannuation Fund Defined Benefit Plan.

1. Introduction

Background

1.1 The Local Authorities Superannuation Fund ("the Fund") has defined benefit liabilities in respect of some current and former members. The Defined Benefit Plan was closed to new entrants in 1993.

1.2 The recent actuarial review, completed 25 June 2012, revealed a shortfall in the Fund of $406 million (excluding contributions tax) as at 31 December 2011. The projected value of the actuarial shortfall at 1 July 2013 is $453 million excluding contributions tax and $533 million including contributions tax.

1.3 The method for allocating this shortfall among the Authorities with current or former defined benefit members was derived in 1997 and is outlined in Appendix A.

Scope of review

1.4 The purpose of this review is to assess whether the apportionment of the unfunded liability as at 31 December 2011 is consistent with the methodology derived in 1997, which is outlined in the attachment in Appendix A.

1.5 A review of the methodology itself is outside of the scope of this review.

2. Approach

2.1 For the purpose of confirming that the apportionment of the unfunded liability as at 31 December 2011 is consistent with the methodology derived in 1997, we have undertaken the following steps:

a. Confirmed our understanding of the methodology as outlined in Appendix A

b. Confirmed the inputs to these calculations as follows:

Unfunded position by reference to the Report on the Actuarial Investigation as at 31 December 2011

30 June 1993 salaries by undertaking a series of spot checks on Authorities and how subsequent amalgamations have been treated. For this purpose we selected a sample of representative Authorities based on their 30 June 1993 salary roll, 31 December 2011 salary roll and the movement of the salary roll and amalgamations between 1993 and 2011.

31 December 2011 salaries by reference to the data provided for the actuarial investigation from the administration system.

c. Confirmed the calculations undertaken by Vision Super as provided.

3. Findings

3.1 Based on our checks of the inputs and of the calculations provided by Vision Super, we believe that the apportionment of the unfunded liability as at 31 December 2011 is consistent with the methodology derived in 1997, as outlined in Appendix A.

4. Statement of compliance

4.1 Our advice to you constitutes a Professional Service as defined in the Code of Professional Conduct (the Code) issued by the institute of Actuaries of Australia and our advice complies with the Code in this respect.

4.2 Please note that this work does not constitute a review or audit in accordance with Australian Auditing Standards.

5. Reliance and limitations

5.1 Our work has been conducted for the sole use and benefit of *Vision Super* and associated Authorities of the Fund in *the review of the unfunded liability apportionment methodology* and for no other purpose. No third party may use or rely on our work for any purpose.

5.2 Unless required by law, no copy of or extract from this report is to be distributed to third parties without our prior written consent. We may at our discretion, grant or withhold our consent or grant our consent subject to conditions.

5.3 No oral or written reference to the content of this report may be made by *Vision Super* to any third parties without our prior written consent, with the exception of Authorities of the Fund. We may, at our discretion grant or withhold our consent or grant it subject to conditions.

5.4 Our responsibilities and liabilities are to *Vision Super* in the context of the use of our report for the purpose set out above. We do not accept any liability or responsibility in relation to the use of our report for any other purpose.

5.5 This report must be read in its entirety. Individual sections of this report could be misleading if considered in isolation from each other.

5.6 All reasonable care has been taken to provide performance and investment data that are accurate. However, we have relied on a range of external sources for data. As a result, we are unable to guarantee the accuracy of the data contained in this report.

5.7 The advice contained in this report is based on the circumstances of *Vision Super* as a whole. It does not take into account the specific circumstances of any individual.

5.8 Past performance is no guarantee of future performance and investment markets are volatile. PricewaterhouseCoopers does not guarantee that any specific level of returns will be achieved.

Yours sincerely,

Catherine Nance FIAA
Retirement Incomes and Asset Consulting

Authorised Representative (#265248) of PricewaterhouseCoopers Securities Ltd

Ashley McBroom AIAA
Retirement Incomes and Asset Consulting

Appendix A: Apportionment methodology

Background

A.1 The method for apportioning liabilities between Authorities was initially agreed by a working party comprising representatives of Local Government, the water industry and the Local Authorities Superannuation Fund in 1997.

A.2 The objective was to derive a methodology that would equitably apportion any shortfall liability between Authorities arising in the funding of benefits for prior and current members of the Local Authorities Superannuation Fund.

A.3 An independent review of this methodology carried out in 2003 by PricewaterhouseCoopers found that, given the historical records available, the methodology "would produce an equitable methodology for fairly and reasonably apportioning the shortfall liability between the individual Authorities".

Apportionment methodology

A.4 The method for apportioning the unfunded liabilities can be summarised as follows (where pre-1993 and post-1993 are referring to 30 June 1993).

Step 1: Calculate proportion of pre-1993 and post-1993 service

A.5 The years of service for all active members is calculated as at 31 December 2011. This service is split into pre-1993 and post-1993 service.

Step 2: Calculate proportion of pre-1993 and post-1993 liabilities

A.6 The active liabilities are then proportioned for pre-1993 and post-1993 components (in percentage terms) based upon this split. The pensioner (including fixed term pension) liabilities are fully apportioned to the pre-1993 period.

A.7 Deferred liabilities receive an effective allocation based on the total pre-1993 and post-1993 proportion calculated as above.

Step 3: Apportion liabilities between pre-1993 and post-1993

A.8 The proportion of pre-1993 and post-1993 liabilities are then applied to the projected actuarial shortfall value at 1 July 2013.

Step 4: Apportion liabilities between individual Authorities

A.9 The total value of the pre-1993 component of the projected actuarial shortfall is apportioned to the Authorities based on each Authority's share of the total 1993 salary roll.

A.10 The total value of the post-1993 component of the projected actuarial shortfall is apportioned to the Authorities based on each Authority's share of the total salary roll as at 31 December 2011.