

Forecast Report

2011-2012

Released: 29 July 2011

Introduction

The growth profile of the Australian funds management industry is positive, however global markets continue to be volatile with investors moving quickly between lower and higher risk asset classes. QIC has been a beneficiary of these market dynamics with its established Global Fixed Interest and Global Real Estate boutiques, in particular, being successful in winning new mandates from existing and new clients.

The size and profile of the Australian market has attracted a plethora of fund managers competing aggressively for market share. As such, margins in QIC's target market continue to come under pressure from more increasingly price-sensitive clients and also as a result of competition.

QIC's 2010-2011 forecast EBIT is significantly above budget. Strong investment performance, significant new client mandates and re-negotiation of market-aligned fee arrangements with existing clients have resulted in expected total revenue above budget. Further increases in profit have been achieved through management of overall expenditure, lower than anticipated insurance premiums, headcount reductions leading to below budget payroll related costs, and other cost containment measures adopted throughout the business.

	Forecast for 2011-12	Explanation
EBIT (earnings before interest and tax)	\$26.5M	Forecast profitability has been impacted by three main factors: (1) As QSuper has now insourced its capital markets operations, the full impact of lost QSuper business is taking effect. (2) The cost of implementing the Target Operating Model has impacted expenses in the 2011-2012 budget. (3) The 2011-2012 budget includes a limited reliance on investment performance fee revenue, given the uncertainty and volatility associated with that revenue stream.
QIC Growth Fund – 5 year return	Performance exceeds CPI+4% over a five-year period	

Strategic Priorities for 2011-12

Continue the development of a high performance risk-aware culture.
 Safeguard against the loss of existing business.
 Assist each funds management boutique to win new profitable business.
 Build compelling new boutiques, and manage existing boutiques, so as to diversify the corporate income base which is used to support individual, or all, boutiques in times of difficult markets.
 Seek to reduce QIC's cost base without loss of operational efficiency or flexibility.

Major Projects for 2011-12

Enhancing QIC's support infrastructure and aligning it to the industry best practice. This project, called 'Target Operating Model', includes the outsourcing of several middle and back office functions. Target completion is August 2012.

Market Environment in 2011-12

The recent volatility in economic markets, weather and natural phenomena is manifesting itself in increased caution on the part of some investors.

Historically, QIC's primary target market comprises larger Australian superannuation funds. As a result of regulatory change and competitive pressures, this target market is undergoing a period of consolidation and internalisation of activities that were previously outsourced.

QIC's House of Boutiques operating model, where QIC has a large number of funds management boutiques focused on disparate asset classes and capabilities, was designed to mitigate the impact of changes in the operating environment and to promote QIC's sustainability.

This report has been prepared based on information available as at 31 May 2011 and has been prepared for general information purposes. Representations made in this report are forecasts only, are subject to change and should not be relied upon.

* The financial information provided in this document is unaudited.