

QIC

QIC ANNUAL REPORT 2019-2020



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About QIC

QIC is a leading long-term specialist manager in alternatives offering expertise in infrastructure, real estate, private capital, liquid markets and the management of the Queensland Government's state investments. QIC is one of the largest institutional investment managers in Australia, with \$79 billion in funds under management¹. Headquartered in Brisbane, Australia, QIC also has offices in Sydney, Melbourne, New York, Los Angeles, San Francisco, London and Copenhagen.

¹ As at 30 June 2020. All figures in AUD unless otherwise specified.

MESSAGE FROM THE CHAIR

On behalf of the QIC Board, I am pleased to present the QIC Limited Annual Report for the year ended 30 June 2020.

2019-20 has been a year like no other, with the fourth quarter of this financial year dominated by the COVID-19 pandemic. There is no doubt that this public health crisis has resulted in significant uncertainty for the global economy and investment markets around the world as countries continue to implement measures to contain and manage the impacts of the virus.

Like many organisations, QIC has not been immune to the impacts of COVID-19. Despite the challenging environment we have found ourselves in this year, at all times we have continued to strive to deliver optimum investment outcomes with and for our clients across our five areas of expertise - infrastructure, real estate, private capital, liquid markets and the management of the Queensland Government's state investments.

In a year when market volatility has been high, QIC has delivered solid investment performance for our clients, with 83.2% of representative funds having met or exceeded performance objectives, on a Funds Under Management weighted basis, during the reporting period.

I am also pleased to report that we have delivered a profit before tax of \$84.3 million and a dividend of \$44.2 million to the Queensland Government.

Whilst there is no doubt that COVID-19 has impacted business performance in 2019-20, I am proud of the leadership, expertise, commitment and client-focus our people have shown as we have navigated through these uncertain times.

This year has also seen some changes to the QIC Limited Board. On 30 September 2019, Andrew King stepped down from the Board, having fulfilled the role of Director since 2013 and on 1 October 2019, John Wilson was appointed. I would like to thank Andrew for his contribution to QIC over the six years he served on the Board.

As a Government owned corporation, QIC continues to have an excellent working relationship with our shareholding Ministers, the Honourable Anastacia Palaszczuk MP, Queensland Premier and Minister for Trade and the Honourable Cameron Dick MP, Treasurer and Minister for Infrastructure and Planning. I would also like to acknowledge the support of the Honourable Jackie Trad, former Queensland Deputy Premier, Treasurer and Minister for Aboriginal and Torres Strait Islander Partnerships and shareholding Minister for QIC. On behalf of the Board, I would like to take this opportunity to express our appreciation for their support for our business and endorsement of our strategy throughout this past year.



Ian Martin AM
Chair, QIC Limited

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

This year has been a year of two halves. As QIC's Chair Ian Martin AM said, the final months of 2019-20 saw the COVID-19 crisis dominate headlines around the world, significantly disrupting Australia's social, health and economic landscape in an unprecedented way.

Since March 2020, our people were required to adapt to a new operating environment as our workforce moved to remote working arrangements. The transition to a new way of working was seamless, ensuring the ongoing continuity and productivity of our business and a steadfast focus on continuing to deliver our clients' requirements. I am incredibly proud of how our people have adapted to the changes that were in front of them during such a difficult and challenging time.

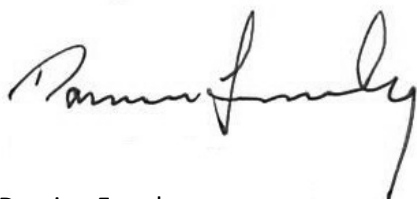
Whilst the full impacts of COVID-19 remain unknown, the fundamentals of QIC's business are strong. At all times throughout this past year, QIC has responded appropriately to ensure the needs of our clients, our shareholding Ministers and our people were met.

We have continued to execute our corporate strategy, refining our target areas and bringing a whole of company and client-led approach to new product and new capability development. A number of new executive-level appointments were made to strengthen the leadership of the organisation and we have been proactive in our response to the opportunities and threats that this new environment presents.

If this past year has taught us anything, it is to expect the unexpected. Despite the speed of change that is occurring, QIC has been able to adapt, both strategically and operationally throughout 2019-20, to deliver a number of highlights including:

- Working in partnership with the Queensland Government to support the establishment of the Queensland Future Fund;
- The acquisition of six new infrastructure investments on behalf of our clients. As a result of these transactions the QIC Global Infrastructure Fund (QGIF), has now fully deployed its initial \$2.35 billion capital raise across a diversified portfolio of 10 high-quality infrastructure investments;
- The strength of investment performance within our Liquid Markets Group in a year of significant volatility;
- The consistent active management approach of our teams to drive long-term investment outcomes for our clients, and;
- Enhancing our reputation in responsible investment, building our Environmental, Social and Governance (ESG) capability across our asset classes and being recognised as a top quartile ESG performer under the United Nations Principles of Responsible Investment (UNPRI) assessment.

We are at a pretty unique point of time in history right now and these achievements would not have been possible without the support of our clients, our shareholding Ministers, our Board members and our people, and I would like to thank them all for their unwavering support and commitment to our business this year.



Damien Frawley
Chief Executive Officer, QIC Limited

2019-20 PERFORMANCE SUMMARY

Statement of Corporate Intent

The following table depicts performance against key financial and non-financial measures from QIC's 2019-20 Statement of Corporate Intent (SCI):

| Financial Key Performance Indicators | 2019-20 result | SCI target |
|--------------------------------------|---|---|
| | | |
| Cost to income ratio | Overall: 84.0% Normalised: 65.9% | Overall: 81.6% Normalised: 65.4% |
| Operating profit before tax | Overall: \$84.3 million | Overall: \$102.0 million |
| Return on Assets | 13% | 16% |
| Return on Equity | 40% | 50% |

| Non-financial Key Performance Indicators | 2019-20 result | SCI target |
|---|--|--|
| Deliver investment objectives for clients | 83.2% of representative funds met performance objectives, on a FUM weighted basis, as at 30 June 2020. | 75% of representative mandates meet or exceed their investment objectives and benchmark performance. |

MEASURING OUR PERFORMANCE

Corporate and individual performance at QIC is measured against four themes in a scorecard of key performance indicators. These themes centre on the areas of financial performance, investment performance and clients, execution excellence and risk management, and QIC's standards of excellence, the behaviors we hold our people to account against.

A summary of QIC's results for 2019-20 against these four themes is outlined below.

Financial Performance

The COVID-19 crisis has had a material impact on QIC's financial performance for 2019-20, with market conditions likely to remain challenging in the short to medium term. Despite the difficult operating environment in the final months of this year, QIC has delivered a profit of \$84.3 million for 2019-20, against a target of \$102.0 million. This result has been achieved through a consistent, long term performance focus and the acquisition and development of assets domestically and internationally on behalf of our clients. This has resulted in total revenue for the year increasing by \$82.6 million to \$527.9 million.

During the year, QIC returned a total of \$169.9 million to the Queensland Government including declaring a dividend of \$44.2 million. Further information on QIC's financial results for 2019-20 is summarised in the financial performance overview section of this report.

Investment Performance and Clients

In a year that has seen material market volatility at times, as at 30 June 2020, 83.2% of funds met or exceeded their performance objectives against a FUM-weighted basis and a 75% target. With more than 100 clients in Australia and abroad, we continue to be client-led in our approach and have worked closely with our clients to actively manage their assets and investments. New product development has had an enhanced focus this year and QIC's relationship with the Queensland Government as our owner and largest client remains exceptionally strong, as we continue to work closely together on important government initiatives like the establishment of the Queensland Future Fund.

Execution Excellence and Risk Management

Execution excellence has been demonstrated across the business with the delivery of a number of strategic initiatives and improved operational processes and efficiencies including the roll-out of QIC's modern workplace technology upgrade. QIC continues to be recognised by clients and peers as having an exceptionally strong risk culture and this has been evident throughout our management of the COVID-19 crisis. Clear and well-established business continuity plans ensured that the necessary processes and procedures were in place to ensure the ongoing productivity and continuity of our business as we transitioned to working from home arrangements in March 2020. QIC has continued to enhance our reputation in responsible investment, building our Environmental, Social and Governance (ESG) capability across our asset classes and being recognised as a top quartile ESG performer under the United Nations Principles of Responsible Investment (UNPRI) assessment.

Standards of Excellence

This year QIC has used the strength of its leadership and its culture to effectively deliver significant change across the business and to support the productivity and health of our people throughout the COVID-19 crisis. A number of key appointments were made to QIC's Executive Committee and our people continue to be highly engaged and high performing. Our focus on health and wellbeing was amplified, and we have continued to deliver our diversity and inclusion strategy, including the establishment of two new employee

network groups; QPride – a network that brings together our colleagues who are allies of, or who identify as members of the Lesbian, Gay, Bisexual, Transgender and all other diversities (LGBT+) community, and Balance – an employee network that has been formed with the focus to achieve gender equality by building a future leadership pipeline of women leaders through creating stronger external networks which encourage personal and professional growth.

INVESTMENT CAPABILITY HIGHLIGHTS

QIC's heritage as an alternatives specialist with a long-term investor mindset informs everything we do. During 2019-20, across our areas of expertise in infrastructure, real estate, private capital, liquid markets and the management of the Queensland Government's state investments, we continued to deliver against our strategic objectives, working closely with our clients at all times.

Global Infrastructure

QIC's Global Infrastructure (GI) team, on behalf of our clients, actively manages a \$13.7 billion portfolio (as at 30 June 2020) comprising of 19 direct infrastructure investments across six countries and diversified across sector, lifecycle, and regulatory regime. The GI team's long-term stewardship and active asset management of our diversified portfolios has continued to deliver strong returns for our clients, with an annualised since inception internal rate of return (IRR) of 14.0%.²

The continued growth and success of QIC's infrastructure business is testament to a committed, experienced and high calibre team. The team grew to 51 investment professionals during the year, further bolstering our presence in New York and London. These additions have enhanced our origination and execution capability in these markets. They also enable us to implement our active asset management for clients in growing their North American and European investments. Our additional Australian headcount includes key hires to deepen our asset management expertise in Airports and Energy and Utilities, and further enhance our responsible investment capabilities.

Investment activity

GI had a noteworthy investment year, successfully acquiring six new infrastructure investments on behalf of our clients:

- a 35% stake in Hobart International Airport (HIA) which is Tasmania's largest airport. It accounts for approximately 65% of Tasmania's air passenger traffic and boasts a significant landbank, with 342 ha of freehold and leasehold land available for future development.
- a 100% interest in Sea Swift, an integrated marine transport and logistics services provider, headquartered in Cairns, Australia. Sea Swift operates a fleet of 27 vessels out of eight strategically located depots across Far North Queensland and the Northern Territory. The business provides general cargo and charter freight services throughout the region including the provision of essential supplies to remote communities.
- a 74.56% interest in Nexus Hospitals which operates a portfolio of 15 day and short-stay hospitals throughout Australia. It offers a broad range of largely non-elective, same day procedures. We see Nexus as a highly attractive healthcare platform, underpinned by strong growth thematic.
- a 100% interest of the formerly ASX listed business Pacific Energy Limited. Based in Perth Australia it owns and operates 38 power stations with contracted power generation capacity in excess of 373MW. The power stations deliver 'off-grid' power supply to the Australian resource sector and remote communities, and 'grid-connected' renewable hydro and gas power.

² Past performance of the entire portfolio managed by QIC GI since inception, net of all fees, carried interest and expenses. This includes the return on assets which are managed by QIC GI for other clients/products, and not on behalf of QGIF. This QIC GI since inception net return is an aggregate of the net hedged return of QGIF and the net unhedged returns for other assets managed by QIC GI

- a 15.84% equity interest in Brussels Airport, Belgium's largest airport. It is a freehold perpetual airport located in the political capital of Europe, host to EU and NATO headquarters with a large catchment area. The transaction was the first European investment for the QIC Global Infrastructure Fund (QGIF), providing further geographic and sector diversification.
- a 15.2%³ interest in Generate Capital, a U.S. based investment platform which finances, owns and manages sustainable distributed infrastructure. The portfolio currently includes in excess of 1,200 operating projects and exclusive deployment pipelines across a network of more than 20 asset creation partners.

As a result of these transactions QGIF has now fully deployed its initial \$2.35 billion capital raise into a diversified portfolio of 10 high-quality infrastructure investments.

Asset management

Key highlights across GI clients' portfolios for this year include:

- **COVID-19 Operational Response:** The provision of essential services to customers and the facilitation of broader economic activity and growth are two of the key attributes sought after in infrastructure investments. These characteristics have also presented unique challenges to GI, as an active asset manager throughout the ongoing COVID-19 pandemic. We have been working closely with our portfolio companies to, first and foremost, manage the increased workplace health and safety (WH&S) risks for employees and customers, while also working to ensure businesses can continue to provide their critical services. Our response was initially targeted at key operational areas: pandemic preparedness, WH&S (hygiene measures, prevention and containment measures), procurement disruption and assessing for any single points of failure. As the crisis has progressed, we have increased our focus on mental health and wellness issues associated with continued isolation for our portfolio company workforces.
- **Transition – the first 100 days:** GI recognises that the first 100 days following any transition are critical and require dedicated focus to achieve a seamless transition of ownership without impacting day-to-day operations. Given our investment activity this year, our dedicated Asset Management team have played a pivotal role providing specialist transition advice and guidance, tailoring transition plans to each of our new investments, assessing management and board capability; driving transition through steering committees and working groups against key milestones. The value of this approach has most clearly been evidenced in Nexus Hospitals and Pacific Energy where management teams have continued to pursue and execute strategic, value-accretive growth opportunities during the transitional phase.

Further, notable achievements across our portfolio companies include:

- **Powering Australian Renewables (PowAR)** reached a number of key milestones during the year. In April the 123rd (and final) wind turbine was installed at the Coopers Gap Windfarm. To date 113 turbines have been commissioned and are able to generate 293MW of renewable energy into the National Electricity Market (NEM). In May 2020 Silvertown Windfarm reached its unconstrained, full capacity of 200MW. These achievements have seen PowAR become one of the leading owners of renewable generation in the NEM, delivering on GI's original investment thesis.
- In January 2020, the Victorian Government and Port of Melbourne announced that formal approval to proceed with the Port Rail Transformation Project had been granted. The project, which will see the development of a new on-dock rail terminal at Swanson Dock East, and the integration of on-port rail terminals with container terminals, will be delivered by Port of Melbourne over the course of 2020-23. The project will increase port efficiency, minimise costs, and is also expected to ease road congestion and pollution in Melbourne's inner west. GI played a key role in the scoping and approval of the project over several years. Key focus areas included funded arrangements, commercial and operational frameworks and strategic stakeholder engagement across industry and government.

³ Based on total committed capital as at 30 June 2020 and fully committed fully diluted shares outstanding

- At Brisbane Airport, the new parallel runway reached completion during the year and formally commenced operations in early July 2020. This concluded a \$1.3 billion, 8-year construction project, which has effectively doubled the airport's capacity. GI has been heavily involved in the commercial arrangements for this project since its inception. The airport remains focused on its other capital projects including the Domestic Terminal redevelopment and the Brisbane Airport Auto Mall which are scheduled for completion in December 2020 and 2022 respectively.

GI was particularly active on the financing front during 2020 across its funds and portfolio companies, arranging over \$1.5 billion of financing across five of its new portfolio companies. In addition, in excess of \$2.5 billion was refinanced across the portfolio and GI-managed funds throughout the financial year. To date, GI's portfolio has been able to successfully navigate the impacts COVID-19, reflecting GI's prudent approach to leverage and diversification.

Activity across the portfolio has included:

- Brisbane Airport raising \$840 million in the bank and AMTN markets in the middle of COVID-19 uncertainty to provide additional liquidity and extend maturities, as well as securing circa \$185 million in additional liquidity through monetising in-the-money derivative positions;
- Port of Brisbane raising \$300 million in the bank market as well as \$200 million in additional liquidity through monetising in-the-money derivative positions;
- Hobart Airport raising \$425 million to refinance existing bank facilities immediately following acquisition;
- Powerco raising c. NZ\$420 million in the bank market to address upcoming maturities and provide additional funding for future growth;
- NorthWestern Roads Group raising \$155 million of 10-year funding in the AMTN market, and;
- QIC Global Infrastructure Fund refinancing its fund level debt facility, extending the tenor of the facility and converting it into an asset-backed facility.

As at 30 June 2020, QIC GI's total portfolio assets⁴ had combined gross debt outstanding of ~\$24 billion with a weighted average tenor of 7.1 years.

ESG approach

QIC Global Infrastructure takes a holistic approach to ESG and is focussed on ensuring the resilience and adaptability of businesses we invest in – both for today and the future. Our businesses need to be both resilient to societal events such as changing weather patterns, workforce demographics and technology disruption, while also adaptable to changing community expectations. Our approach to sustainability is underpinned by four key pillars: Climate Resilience, People and Culture, Risk and Governance, and Community and Stakeholders. We actively engage with each of the companies in the portfolio to ensure they value sustainability and have embedded this focus in everyday decision-making, operational processes, and long-term corporate plans and strategies.

Businesses must work to find a balance between generating business growth and stable returns for shareholders and protecting and enhancing the environment, their peoples' well-being and the community in which they operate. During the year, GI has continued to implement ESG action plans for each of the businesses we have invested in on behalf of our clients.

We have also taken steps to catalogue and collate standardised ESG performance indicators across our portfolio companies. Further information can be found in the 2020 Global Infrastructure Sustainability Report which is available on www.qic.com.

Origination and Research

A key part of GI's sector-driven and thematic approach to investing is that we undertake a wide range of research which we share with our clients and publish more broadly. This year, we released seven Investment Insight papers and two Red Papers exploring key risks and opportunities for infrastructure investors. Of note was our research into healthcare and social infrastructure which ultimately underpinned

⁴ All assets where QIC ownership > 10%

our origination and investment into Nexus Hospitals. Our research has also explored this year the immediate and longer-term impacts of COVID-19, including the implications of Government fiscal responses.

GI continues to develop a strong global pipeline of investment opportunities across our three core infrastructure sectors: Transport, Energy and Utilities and Social Infrastructure. We continue to leverage our thematic research program to identify emergent technologies in our active asset management, investment and opportunities in evolving and nascent infrastructure sub-sectors where we can find and create relative value for our clients. With enhanced dedicated investment teams in QIC's Australian, New York and London offices, GI is well placed on behalf of our clients to continue to execute our thematic sector centric strategies across our target markets.

Global Real Estate

QIC Global Real Estate's (GRE) flagship funds, the QIC Property Fund and QIC Shopping Centre Fund, achieved an annualised since inception return of 8.61% and 7.74%⁵ respectively for the financial year to 30 June 2020. GRE's Assets Under Management was circa \$17.75 billion (US\$12.2 billion) at 30 June 2020.

While headwinds affecting the broader retail sector and the impact of the global COVID-19 pandemic presented challenges for GRE, the team continued to drive investment outcomes for its clients via its active management approach.

During the past financial year, GRE has completed significant developments at two of its core retail assets, Castle Towers in Sydney and Watergardens in Melbourne's west, and commenced construction of its first greenfield development since 1997, Merrifield City, and eastern Melbourne's newest commercial building, EastCo.

The \$180 million Level 1 Fresh Food and Metro Mall development at Castle Towers opened ahead of schedule on 5 December 2019. In an exceptional example of repurposing under-utilised space, this project transformed a car park to refurbish and expand the Centre's fresh food precinct, as well as reconfiguring the existing Coles supermarket. It also enabled the centre to seamlessly connect with the new Castle Hill Station along the Sydney Metro line.

At Watergardens, The Marketplace, a \$50 million development, opened on 26 March 2020. The Marketplace, a new modern fresh food and casual dining precinct that celebrates the diverse traditions of the community, introduces a range of convenient experiences, including another major new food retailer, Aldi, that meet the everyday needs of the Centre's customers. The introduction of these essential services served the centre well considering The Marketplace opened during the onset of the COVID-19 crisis in early 2020.

On 10 December, GRE officially commenced construction of the first stage of Merrifield City, a retail town centre for Victoria's largest mixed-use master planned community, Merrifield. Stage One of Merrifield City is due to open in late 2020, spans 7,000 square metres and will deliver a new Coles and approximately 20 specialty retailers. Future stages for the development are expected to see the Centre expand to become the future epicentre of Melbourne's northern suburbs.

⁵ QPF: The benchmark as at 1 January 2014 is the MSCI/Mercer - Australia Core Wholesale Monthly Property Fund Index, Retail Funds, NAV Weighted, Pre Fees (ex QIC). Performance results reported for periods which incorporate this date employ a weighted blend of this benchmark and from 01/01/2014 to 30/06/2018 the MSCI/Mercer - Australia Core Wholesale Monthly Property Fund Index, Diversified Funds, NAV Weighted, Pre Fees, and from Fund inception to 31/12/2013 the Financial Standard Wholesale Direct Property Index (ex. QIC). Fund inception date is 25 November 1996. QPF is on a Gross of fees TWRR basis.

QSCF: The benchmark from 1 October 2014 is the MSCI/Mercer Australia Monthly Property Fund Index - Core Wholesale, Retail Funds, NAV weighted, Post Base Management fee (ex QIC). Performance results reported for periods which incorporate this date employ a weighted blend of this new benchmark and the average 10-year Commonwealth bond yield during the prior period based on the closing figure for the last business day of each month plus 3%. Fund inception date is 25 September 2002. QSCF is on a net of management fees, TWRR basis.

Past performance is not a reliable indicator of future performance.

In June, GRE commenced construction of EastCo, a commercial building located adjacent to Eastland in Ringwood, Victoria. EastCo will deliver 14,000m² and 11 stories of A-grade commercial space, boast a 5-star NABERS rating, and 360-degree views that stretch to the Yarra Valley from the upper levels. EastCo is fully pre-committed to the Victorian Department of Transport, with the Department set to occupy all six levels of office space once construction is complete in early 2022.

Asset Management

Additional examples of GRE's active management approach across the entire investment lifecycle in 2019-20 include:

- Completion of the Central Malls project at Robina Town Centre in August 2019, providing an incremental Gross Lettable Area (GLA) of 5,700 square metres.
- Upgrade works are underway on a commercial building on Bunda Street adjacent to Canberra Centre and is expected to occupy c. 1000 employees when fully leased.
- Construction is almost complete on a new office building positioned between REALM (a library and cultural centre) and Sage Hotel at Eastland. Constructed for Maroondah City Council (MCC) and expected to occupy c. 300 MCC employees when completed.
- Work is underway to deliver an Early Learning Facility at Grand Central by the end of 2020, complementing the current essential services offering provided by the Centre.
- Work is almost complete on a refurbishment and remix project at Hyperdome, which will see the relocation of a Woolworths to a brand-new space next to a freshly refurbished Big W, transforming the precinct into a go-to destination for everyday essentials. The project is also creating two new entrances, revitalising the building's façade and internal finishes, introducing two new play areas and installing shade sails and Park Assist in the adjacent car parks.
- Cosmetic upgrade works are underway in Castle Towers' dining and entertainment precinct, the Piazza, enhancing its design and ambience.
- Following the delivery of Quest at Epping and Sage (Next) Hotel at Eastland, GRE is assessing the introduction of other hotels and coworking facilities at other centres to deliver mixed-use activity hubs and support the retail core. QIC GRE are finalising plans for the introduction of a Quest hotel at Watergardens, which will be built adjacent to the new Marketplace precinct. The QIC GRE team are currently reviewing the project commencement dates for this initiative, and a number of others, in light of likely impacts on trading environments as a result of COVID-19.

Net Zero Emissions Target

In June 2020, GRE announced its commitment to achieving Net Zero Carbon Emissions for their core Australian retail assets⁶ by 2028. The net zero emissions pathway has enabled GRE to be the first Australian signatory to the World Green Building Council's Net Zero Carbon Buildings Commitment for a retail portfolio, contributing to a global effort from the building and construction industry to limit global temperature rises through a significant reduction in carbon emissions.

GRE's proactive approach to achieving this market-leading target focuses on maximising efficiencies and smart investments to lower our carbon footprint and is less reliant on the purchase of green power and carbon offsets. Net zero emissions will be achieved through the implementation of a number of focused initiatives, leveraging some of Australia's leading sustainability expertise and significantly changing the way GRE manages and powers its assets.

These initiatives include:

- One of Australia's largest rooftop and car park solar projects.
- Installation of efficient LED lighting in car parks and centres. So far ~26,000 LED lights have been installed across the portfolio as part of this project, reducing electricity consumption by 9%.

⁶ "Core assets" includes those Australian shopping centres held by QIC Property Fund and QIC Shopping Centre Fund which are 100% owned and operated by GRE.

- Smart metering, live fault monitoring and analytics for assets and tenants. Since 2018, we've reduced electricity consumption by 10% through the rollout of an automated building analytics platform.
- Key equipment and building management system upgrades.
- Battery storage technology to manage peak demand response.
- Expanding power agreements to leverage solar generation capacity.

Achieving net zero emissions is an important element of GRE's ESG strategy, which encompasses GRE's goals in environmental management, social and responsible investment and climate resilience. GRE's net zero emissions pathway will aim to:

- De-risk GRE assets to ensure they remain valuable and relevant and allow GRE to remain a retail partner of choice in an increasingly environmental-focused future.
- Free up capacity and reduce reliance on the electricity network to allow the local community to expand and economic development to flourish in alignment with GRE's retail-led, mixed-use town centre strategy.
- Enhance asset performance and efficiencies through reduced operational demands.
- Directly address climate change by making a significant contribution to the reduction of carbon emissions.
- Drive outcomes which will ensure QIC's assets continue to perform strongly against key industry sustainability benchmarks such as GRESB and NABERS.
- Deliver tangible outcomes that are valued and expected by the communities in which we operate.

As well as becoming the first Australian retail property owner to be a member of the World Green Building Council, GRE continues to report against key industry benchmarks including GRESB and NABERS as part of our ongoing commitment to be one of the highest performing real estate investors in Australia for sustainability.

Delivering one of Australia's largest retail solar projects

As part of the pathway to achieve net zero emissions, GRE is investing in a national solar technology project for its portfolio of Australian retail assets, delivering PV Solar panels, battery storage and 24/7 system monitoring through a partnership with Queensland's Yurika Energy.

In Australia's largest ever onsite solar power agreement to date, this investment includes installation of solar infrastructure and 'behind the meter' solar generation technology, energy management and building automation.

The project is being rolled out in stages across the retail portfolio, reducing grid electricity consumption by around 30% and significantly lowering the carbon footprint of GRE's retail assets. The rollout of this project has already commenced, with the first tranche of retail assets, Domain Central (Townsville, Qld), Robina Town Centre (Gold Coast, Qld), Grand Central (Toowoomba, Qld), Hyperdome (Logan, Qld) and Watergardens (Taylors Lake, Vic) beginning to install solar panels.

Global Private Capital

This year Global Private Capital (GPC) has continued to deliver exceptional performance outcomes for our clients. This includes 17% p.a.⁷ net returns since inception in 2005 (27% p.a. net returns on co-investments)

⁷ The Portfolio IRR and Co-investment IRR outlines the track record of the GPC team as at 31 December 2019. It is designed to represent what GPC has achieved on behalf of client mandates where GPC has been responsible for investment decisions. The Portfolio IRR and Co-Investment IRR are net of all fees and expenses, includes realised and unrealised gains and is shown on an unhedged AUD basis. Inception date of the first mandate was September 2005.

and more than \$5.3 billion in net value created for our clients, making our foundation program one of the best performing private equity programs globally built over the past decade.⁸

In February 2020, Marcus Simpson, Head of Global Private Capital for 14 years retired, with Stephen Whatmore promoted into this executive position. Stephen had previously been in the position of Principal, GPC, establishing QIC's office in San Francisco and leading the North American GPC team for the past nine years. GPC's Crystal Russell was elected to the board of the Australian Investment Council (AIC) for 2020 and QIC continues to be an active member of a number of investment bodies including Institutional Investors Roundtable, Institutional Limited Partners Association (ILPA) and Invest Europe and present regularly at industry conferences.

Investment Activity

Over the past 12 months, GPC has reviewed over 145 fund and 123 co-investment opportunities and closed 10 funds and 4 co-investments, which emphasises the strong selective strategy to deliver concentrated exposures to the best opportunities we see in our global ecosystem. These investments have been made across a variety of sectors including healthcare services, financial and business services, consumer and technology. These sectors have a common thread of being leading platforms where active operational and strategic improvement will drive value creation.

Co-investment capability and philosophy

GPC has a well-established co-investment capability that has continued to be a strong return driver for the program. The team have undertaken 43 co-investments since 2007, of which we have exited 19, resulting in a 27% p.a net return since inception.⁹

GPC use co-investments to provide more direct and undiluted access to high conviction investment opportunities. First and foremost, we see co-investments as providing the potential to drive outperformance, by providing concentrated exposure to companies with compelling micro-dynamics that are supported by strong, sector and macro tailwinds backed by our world class managers. This approach has seen material outperformance in our foundation co-investment portfolio.

We continue to see strong results from our focus on investing in mid to lower mid-market buyouts. GPC has continued to bolster its active co-investment relationships, with the recent addition of new managers in Australia, the U.S. and Europe. Together, these new relationships are expected to deliver outperformance from a fund perspective and yield meaningful co-investment opportunities in the near to medium term.

We bring value to our managers, acting as capital partners, actively co-underwriting and co-leading deals. We leverage our global network to share insights and resources with managers and portfolio companies. Strong, two-way relationships built over many years allow us access to high quality managers and co-investment deal flow. Capital is ubiquitous in today's global marketplace and we believe that being a value-added partner is increasingly a key to building and maintaining relationships with best-in-class managers.

GPC recently invested in Retinal Consultants, a co-investment alongside Webster Equity Partners. GPC along with Webster created Retina Consultants of America (RCA)- the leading national retina group in the United States. The creation of this platform has been a meaningful initiative in the medical space as RCA is

⁸ Total value being gross investment level NAV plus distributions less funding less QIC fees at AUD unhedged, as at 31 December 2019. Past performance is not a reliable indicator of future performance.

⁹ Co-investment IRR outlines the track record of the GPC team as at 31 December 2019. It is designed to represent what GPC has achieved on behalf of client mandates where GPC has been responsible for investment decisions. The Portfolio IRR and Co-Investment IRR are net of all fees and expenses, includes realised and unrealised gains and is shown on an unhedged AUD basis. Inception date of the first mandate was September 2005'

the only pure play retina player. Retina practices treat top ocular conditions (cataracts and diabetic retinopathy) prevalent in the United States that is supported by an aging population. The creation of RCA has allowed for meaningful asset of scale, enhanced recruiting, opportunity to expand ophthalmology specializations and physician autonomy. These synergies will continue to play out through the investment period.

Innovation

GPC considers Innovation and Technology to present one of the most compelling opportunities in the search for alpha over the next decade and beyond. We believe technology today is no longer an isolated industry segment and instead permeates into virtually all sectors. This opportunity is no longer exclusive to the traditional venture capital model. Opportunities exist across geography, company sector and lifecycle stages. Private ownership provides a superior governance model where practitioners across the private equity financing continuum (from venture to buyout) can drive value creation and investor returns by truly impacting a company's growth trajectory. Our Venture and Innovation portfolio has demonstrated our beliefs as a particularly strong contributor to the \$5.3 billion of dollar gains generated for our clients. Since inception, GPC has committed \$2 billion to Innovation and Technology across private equity financing continuum resulting in a 25.5% IRR.¹⁰

We continue to be a very active investor in venture capital and technology start-ups, with a large exposure in the U.S. and China, and selectively the rest of the world including Australia. Longstanding and hard to access relationships with leading venture firms in the U.S. and China has seen our portfolio capture a significant number of unicorns (\$1 billion+) globally since 2007.

Accessing GPC growth themes such as healthcare and technology will continue to be an area of focus, particularly during COVID-19 as we see the acceleration of market disrupting companies through increasing adoption of e-commerce, tele-health, online education and collaboration tools being enhanced by the current crisis.

ESG approach

GPC aims to outperform its peers by employing a sustainable, holistic approach to investing. Private equity has a long-term investment horizon, capable of producing financial and social benefits when embedding ESG measures. Our global platform and experienced team allow us to overlay any opportunity with judgement and ensure each aligns with our investment and ESG beliefs. We also believe the structural characteristics of private equity provide a natural alignment for the integration of ESG into the investment spectrum. Our paper, *Integrating ESG into our investment approach*, demonstrates our commitment to ESG.

Each year, the team surveys our General Partners to track ESG performance. This survey is an opportunity to engage and influence the industry on ESG and associated issues, with results highlighting the following:

- 85% of the respondents said they had a formal ESG policy and that ESG factors were integrated into their investment process. Encouragingly, over the past four years, QIC has seen a 12% increase of managers with an ESG policy and a 9% increase of managers incorporating ESG as part of their risk management and value creation approach. The team will continue to engage with the remaining managers to showcase the positive benefits of embedding ESG considerations.

¹⁰ As at 31 December 2019. AUD returns using constant currency. GPC's post fee returns vary according to differing fee structures negotiated with individual investors. Net returns are hypothetical returns based on a composite of the GPC team's investments. Returns have been calculated by deducting fees and expenses (using the same fee/expense percentage) which has been charged across the GPC total gross returns. Hypothetical returns are an example only and may differ from actual returns. Past performance is not a reliable indicator of future performance.

- We registered an 18% increase of our managers becoming UNPRI signatories. Managers who were not signatories to the UN PRI, were signatories to alternative policies. A further positive trend included the number of managers who are not signatories to an ESG framework decreasing from 73% to 42% from 2016 to 2019 respectively.
- The survey also highlighted the complexity of ESG, and how there is no simple solution. For instance, when asked to identify the top five ESG issues they saw in relation to their portfolio, 51.5% of respondents nominated diversity. Yet when a follow up question was asked, “Does the firm have a formal diversity and inclusion policy or initiative”, only 45% answered in the affirmative, with 55% saying they had no such measures in place.

Since the initiation of our annual ESG survey in 2016, GPC’s external managers have made progressive improvements in their ESG policies and the componentry that makes up our ESG focus areas, creating positive change.

QIC’s private equity portfolio is well diversified both by region and sector, with the largest exposures to Information Technology and Health Care, which are expected to be more resilient and potential beneficiaries of COVID-19. GPC have been actively communicating with our GPs on the current environment since the early days of the outbreak, developing regional and sector insight. GPs have been very responsive and in addition to managing their own people and operations, have been active in engaging with and reviewing portfolio companies and assessing a range of financial and market risks and helping companies take appropriate action.

GPC anticipates there will be increased opportunity to leverage off meaningful disruption to underlying portfolio companies and future markdowns in this current environment. Secondary activity has slowed as people await lagged valuations; the market has evolved significantly post the Global Financial Crisis as liquidity providers are far more sophisticated now with GP and LP solutions. As a result, we expect secondary opportunities to present differently through this crisis with a likely slower path to liquidity.

The global Private Equity community has also rallied together to play their part in what our managers have described the COVID-19 crisis as a humanitarian challenge. Our managers and portfolio companies have reacted promptly by extending their social responsibility arm to rescue and relief efforts. COVID-19 highlights the critical importance of the influence private equity managers can have on their portfolio companies. Managers have actively connected with their portfolio companies to assist in navigating this new climate and supporting critical initiatives.

Liquid Markets Group

After a relatively sanguine six months through to December 2019, investors started 2020 analysing conflicting market forces, namely positive global growth, albeit decelerating, against a backdrop of evolving geopolitical issues, from trade wars to elections across G20 countries. Not long into 2020, more risks emerged as COVID-19 cases spread from one country to the next, with the full force of the Pandemic hitting global financial markets through March-April 2020 resulting in massive volatility across equity, rates, credit and FX markets. As a measure of equity market volatility, the VIX Index spiked sharply, from around 10 at the start of the year, to over 80 in mid-March. Bond markets gyrated as liquidity pressures tightened; in the month of March alone, the Australian Government 10-year bond yield skyrocketed from a low of 0.6% to a high above 1.40% and then back down towards 0.6%. Following this exacerbated volatility, front end yields have fallen sharply as central banks swiftly eased monetary policy in response to the unfolding economic crisis and deep recession. The yield on Australian 3-month Bank Bills fell, from 0.9% p.a. at the start of the year, to 0.10% p.a. by the end of June 2020.

At times of crisis, attention naturally turns towards the most important and, given the extreme market volatility, our clients zoomed in on liquidity, asset allocation and currency exposures. Expertly navigating

through these adverse market conditions highlighted our ability to work in partnership with our clients to achieve superior outcomes for their portfolios. LMG Overlay and Implementation Services provided frequent real-time updates, skilfully risk managed exposures across asset classes and managed currency hedging programs adaptable to changing client requirements. LMG's derivatives knowledge, combined with our specialist capability in equity options and hedging strategies, enabled us to identify the most attractive defensive strategies as we entered into the extreme volatility in markets to be able to generate enhanced returns for clients.

Moreover, our best in class 24-hour multi-asset trading desk, now completely centralised in Australia, has been built out to support LMG capabilities in delivering more value add for our clients. COVID-19 allowed us to further demonstrate our expertise in managing high volume, global multi asset market execution, with a 33% increase in global trading transactions in 2019-20 when compared to the previous year. Reflecting the violent market moves, almost a fifth of the year's trading volumes were executed in March. Increased client engagement with our traders provides opportunity for further strengthening of QIC client relationships.

Our Overlay Solutions and Trading capability has provided a solid foundation for growth of the LMG business as a market leader in currency and undisputed recognition of our skill in portfolio implementation for our clients. This foundation is now being leveraged into an expanded capability in Options Overlays and Systematic strategies, providing the complete Overlay service to match the needs of our clients. A coherent hedging philosophy, coupled with an enhanced service model, facilitates a deep relationship with investors, pursuing and delivering exceptional outcomes for their portfolios through enhancing returns, minimising costs, mitigating risks and with improved governance.

Alongside the LMG Overlay and Implementation Services capability, the Fixed Interest and Absolute Return team has been agile in focusing on opportunities across the broad spectrum of credit markets, particularly relevant in a global market landscape where sovereign yields have again been driven to near zero or even negative. In such a world, our focus is on extracting the most optimal yields while retaining the defensive characterises inherent to government bond portfolios. In collaboration with State Investments and on behalf of our Government clients, LMG launched in June 2020 the QIC Sovereign Bond Fund (SBF), offering our clients an efficient vehicle to access a diversified portfolio of global sovereign bond exposures across 22 countries.

Beyond Sovereign bonds markets, and with client demand abundant for higher yielding strategies, we have seen continuing flows in the QIC Global Credit Income Fund (GCIF) which was launched in 2017 and has grown to well over \$2 billion in FUM. Notwithstanding wider credit spreads as a result of the Pandemic, GCIF returned 4.05% in 2019-20, 0.32% above its benchmark¹¹. Strong performance reflects robust risk management and the experience and strong due diligence of the LMG Credit team in terms of issuer selection resulting in resilient credit exposures across LMG managed FI funds and portfolios.

In addition to the array of opportunities in public credit markets, in the post COVID-19 environment and with a tightening in available capital, more attractive valuations have emerged in private credit markets opening up a 'once in a cycle' opportunity for clients to benefit from these higher yield and income enhancing strategies. A strong collaboration between LMG and State Investments, in partnership with a specialist external private credit fund manager, led to the co-creation of a diversified multi-asset Private Credit capability with a Fund expected to be launched in 2020-21 focused on private credit investments in Australia and New Zealand, currently offering yields circa 5-8% p.a. (versus circa 3-4% pre-COVID-19).

For those investors with both liquidity and income needs we see increasing demand for Cash Plus strategies in a world where cash offers almost zero. The strategies include our strongly performing Cash Enhanced,

¹¹ As at 30 June 2020. Performance is net of trust administration fees and all underlying fund expenses but gross of QIC management and any applicable performance fees which are charged outside the Funds. GCIF Benchmark: FTSE World BIG Corporate Index 1-10 Years (Currency Hedged to AUD). Inception date 8 March 2017.

and Short-term income Funds. With the twists and turns thrown up since the beginning of the COVID-19 crisis, many issues have had to be navigated including the unprecedented market volatility, corporate solvency pressures, client withdrawals, risk premia dislocations and a lack of interest income. In this environment, the active management capability of the LMG team was successful positioning defensively into the COVID-19 crisis as well as being agile in taking advantage of opportunities that emerged, including shifting overweight corporate bonds at much higher yields. As a result, LMG has achieved or exceeded financial year active return targets on the majority of Fixed Interest and Absolute Return funds and separate portfolios managed by the LMG team. For example, the QIC Diversified Fixed Interest Fund returned 5.02% p.a. for FY19-20 versus its benchmark return of 4.10% p.a.¹², an outperformance of 0.93%. The QIC Absolute Return Bond Fund returned 4.41% versus 0.85% for the Bloomberg AusBond Bank Bill Index, an outperformance of 3.56% p.a.¹³.

The Fixed Interest and Absolute Return team continue to focus on areas to diversify as well as seek enhanced yield or income across the global fixed income universe. With this ongoing focus, after several years of collaboration, QIC and Ping An Asset Management jointly seeded from January 2020 the QIC Ping-An China Corporate Bond Fund (CCBF)¹⁴, investing in a diversified exposure of China Corporate Bonds and building a track record and vehicle for clients to access and diversify exposures in a corporate bond market which performs differently to the rest of the developed world. The LMG team works closely with Ping An Asset Management to access local knowledge, credit research and identify onshore China Bond market opportunities.

ESG approach

LMG believes that environmental, social and governance (ESG) factors can have a material impact on long term investment returns. As the focus and importance on Responsible and Sustainable Investment continues to grow and evolve, the LMG team strives to be at the forefront of the latest developments and continue to embed consideration of ESG factors holistically into our investment decision making process, including incorporating real-time ESG data in our portfolio risk system and relative value tools. Specific examples of ESG integration into LMG investment processes include: ESG practices reviewed as part of bottom-up credit analysis, ESG within our Developed Sovereign Bond model, ESG engagement meetings with issuers, regular investment ESG training for staff as well as Fund level ESG reporting and tailored client reporting. Tailored reporting covers UN SDG alignment mapping, PRI reporting, carbon emissions measurement using QIC's proprietary modelling, shadow carbon pricing analysis, positive screening looking for renewables and transition activities and modern slavery considerations. Reflecting LMG's ESG capabilities and strong peer acknowledgment by debt market participants (investors, fund managers, banks and issuers), QIC's LMG team were awarded the 'Sustainability Fund Manager of the Year' for 2019-20 by Kanga News.

¹² As at 30 June 2020. Performance is net of trust administration fees and all underlying fund expenses but gross of QIC management and any applicable performance fees which are charged outside the Funds. DFI Benchmark: Since 1 May 2017, 40% Bloomberg AusBond Composite Bond 0+ Yr Index; 30% FTSE WGBI 1-10 Years (Currency Hedged in AUD); 30% FTSE World BIG Corporate Index 1-10 Years (Currency Hedged to AUD). Inception date 24 February 2004.

¹³ As at 30 June 2020. Performance is net of trust administration fees and all underlying fund expenses but gross of QIC management and any applicable performance fees which are charged outside the Funds. The benchmark is Bloomberg AusBond Bank Bill Index. QIC Absolute Return Bond Fund track record inception is 1 January 2019, on and from 1 January 2019, the Fund adopted a new investment strategy. The Fund formally changed its name and investment objective on 1 November 2019. Prior to this date, the QIC Absolute Return Bond Fund was known as the QIC GFI Alpha Fund ("GFIA") and contained a different investment objective. The performance returns for GFIA from 30 June 2005 to 31 December 2018 are available from QIC upon request

¹⁴ QIC Ping An China Corporate Bond Fund (USD Class C) has an inception date 14 January 2020. Benchmark - FTSE Chinese (Onshore CNY) Broad Bond Index.

State Investments

QIC's State Investments (SI) team continues to provide multi-asset class investment solutions tailored to meet clients' investment objectives. SI also provides thought leadership across a wide-range of topics, including financial markets, economic themes, asset-class investing, portfolio construction, and risk management.

Over the first half of the financial year investment performance was supported by strong equity markets following the U.S.-China agreement of a phase one trade deal and overall supportive financial conditions. The first half of the financial year's returns were quickly erased in late February as risk markets sold off sharply, with equities down by 30-40% from their highs, in response to the COVID-19 pandemic forcing the shutdown of major economies. This recessionary shock weighed heavily on the SI team's performance against objectives for whole of fund clients. Monetary and fiscal policy responded quickly to support financial conditions and the real economy. The Federal Reserve, RBA and other central banks slashed interest rates to their effective lower bound and implemented further unconventional policy and governments instituted unprecedented amounts of fiscal stimulus. These support measures together with economies slowly reopening pushed equities to rally off their lows with the MSCI ACWI ex Australia (AUD Hedged) finishing the financial year up 0.98%, but still 10% off its February market peak. Despite the ongoing recovery in risk markets, sovereign bond yields remain at historic lows reflecting the uncertain economic outlook, with unemployment rates high in many economies and cases of COVID-19 continuing to accelerate around the world threatening to lead to renewed economic shutdowns.

On the back of COVID-19, managers across most well-diversified portfolios experienced negative returns for 2019-2020. Illiquid assets which tend to be more resilient during equity market crashes, were also significantly affected due to the pandemic lockdowns sending most economies into a recession. The SI's flagship QIC Long Term Diversified Fund delivered a return of -2.1% (gross of management fees) for clients over the 2019-20 financial year¹⁵. Despite the softer performance, the Fund increased its Funds Under Management (FUM) from \$4.6 billion to \$4.9 billion over the financial year. This growth was primarily from additional investments from existing clients.

ESG Approach

QIC SI have established asset class-specific ESG considerations, guided by our Responsible Investment Policy and ESG framework. We also review and assess integration of ESG issues into our investment processes and monitor this on a regular basis. SI delegates the exercising of proxy voting rights to external investment managers, each of whom at this time use independent advice from Institutional Shareholder Services to guide votes on ESG matters. SI retains the ability to override an external manager's voting intentions as appropriate.

RESPONSIBLE INVESTMENT

Over the past year, QIC has continued to see an increasing focus on the integration of ESG issues into investment decision-making from our client base. This is driven by mounting evidence of the financial materiality of ESG issues, as well as evolving societal expectations, activism and regulation.

Guided by our belief that ESG factors have a material impact on the long-term outcomes of investment portfolios, our approach centres on six material ESG focus areas contained within our ESG framework (see Figure 1). We are further guided by our Responsible Investment Roadmap that identifies the areas where

¹⁵ Source: QIC, as at 30 June 2020. Fund returns are net of all underlying Fund expenses but gross of QIC management fees which are charged outside the Fund. Inception date was 5 March 2002. Past Performance is not a reliable indicator of future performance.

QIC must continue to develop skills and knowledge to deliver on shareholder and client expectations now and into the future.

Over 2019-20 key initiatives have included undertaking climate scenario analysis to better understand the risks and opportunities associated with a transition to a low carbon economy and a physical climate change risk assessment of QIC's real assets. Through the internal ESG Advisory Committee we determined a range of internal carbon prices to enable further stress-testing and developed an ESG data strategy to ensure we continue to capture relevant performance information.

Another key focus over the year was responding to our reporting obligations under Australia's *Modern Slavery Act 2018* (Cth). This required a multi-disciplinary approach to embed the necessary policy and governance measures, assess QIC's operations, supply chains and investment portfolios for the potential for modern slavery, develop the relevant risk controls and build awareness of the issue within our organisation. QIC's first Modern Slavery Statement will be published in late 2020.

Transparency remains a focus and an important part of our ESG work. QIC's annual Sustainability Report will again this year include our reporting under the Taskforce on Climate-related Financial Disclosure framework. We continue to work with clients to better understand how we are managing ESG risks and opportunities on their behalf.

We again participated in external benchmarking to understand our ESG performance relative to our peers and identify potential areas for improvement while addressing client expectations. This has included responding to the United Nations Principles for Responsible Investment (UN PRI) Survey and QIC's Real Estate team responding to the annual GRESB assessment. Additionally, we engaged an independent third party to assess our standing against key peers to further monitor our performance.

Figure 1: QIC's ESG Framework

| QIC ESG FRAMEWORK | PRINCIPLES | QIC RESPONSIBLE INVESTMENT POLICY | | | | | |
|-------------------|---------------------|-----------------------------------|-----------------------|---|----------------------------|-----------|-----------------------|
| | ESG FOCUS AREAS | CLIMATE RISK | ENVIRO SUSTAINABILITY | PEOPLE | COMMUNITY | CORP. GOV | ACTIVE OWNERSHIP |
| | OUR ESG INTEGRATION | STATE INVESTMENTS | | ASSET CLASS SPECIFIC ESG GUIDELINES | | | |
| | | LIQUID MARKETS GROUP | | | | | |
| | | GLOBAL REAL ESTATE | | | | | |
| | | GLOBAL INFRASTRUCTURE | | | | | |
| | | GLOBAL PRIVATE CAPITAL | | | | | |
| | | CORPORATE FUNCTIONS | | ESG CONSIDERATIONS INTEGRATED INTO CORPORATE POLICY | | | |
| | OVERSIGHT | QIC BOARD | | | QIC ESG ADVISORY COMMITTEE | | |
| | | ESG REPORTING | INTERNAL AUDIT | | CORPORATE ESG KPI | | INDUSTRY BENCHMARKING |

DIVERSITY AND INCLUSION

At QIC, we know that our people perform at their best when they feel valued and encouraged to bring their

whole self to work every day. This year, we have continued the delivery of our Diversity and Inclusion strategy to drive a number of new initiatives across the business. We have invested in building our capability through an organisational wide engagement program titled the “Inclusive Leadership Program” and will deepen its rollout and impact in the coming year. Our Diversity and Inclusion progress is monitored by the QIC Limited Board and is a key performance objective for the organisation.

Over the past year we embraced the launch of employee-led networks such as Balance and QPride and have continued the deepening of cultural inclusion through our recognition and celebration calendar of annual events. Our commitment to our Reconciliation Action Plan (RAP) is resolute with pleasing momentum.

Balance network

This year QIC’s Balance network was launched, with a focus on achieving gender equality across our organisation by building a future leadership pipeline of women leaders through creating stronger external networks which encourage personal and professional growth. The network aims to achieve balance in both gender representation and in the lives of our employees through education and fostering an inclusive culture for women. Over the past few years, QIC has made strong progress on achieving a gender-balanced organisation, with 47% of our colleagues identifying as female and 53% as male at 30 June 2020. However, we recognise that there is still a lot of work to do in continuing to empower women and encouraging young women into the funds management industry and our Balance network will play a key role in continuing to drive change across our organisation and industry.

QPride network

QIC’s QPride network was established as an employee network this year to bring together colleagues who are allies of, or who identify as members of the Lesbian, Gay, Bisexual, Transgender and all other diversities (LGBT+) community. QPride aims to provide a voice for QIC’s LGBT+ colleagues and allies, champion an inclusive work environment, create a safe space and working environment for QIC’s LGBT+ employees and allies who may require support or have friends and family that need support, and raise awareness of and educate the broader business on LGBT+ related issues.

During the year, the network has driven a number of initiatives across QIC including:

- The promotion of significant LGBT+ events and recognition days;
- Participation in the Australian Workplace Equality Index survey;
- Proactively making changes to QIC policies to raise the standard of support, inclusivity and protection for LGBT+ colleagues and allies;
- Facilitation of LGBT+ training opportunities, and;
- Awareness/education campaigns.

The network is supported by the QPride Committee, a sub-group of the QIC Diversity and Inclusion Committee, who are responsible for shaping QIC’s LGBT+ agenda and driving the network’s activities through decision making and referrals to other committees within QIC.

QIC’s Reconciliation Action Plan

At QIC our vision for reconciliation is an Australia that embraces equal, fair and just opportunities for Aboriginal and Torres Strait Islander peoples and actively supports reconciliation in our political, business and community structures. We recognise the importance of building a better future for all Australians, which must pay respect to and build trust with Australia’s First Nations Peoples.

During the past year, QIC has continued our commitment to our reconciliation journey and to Australia’s national reconciliation movement. Throughout 2019-20, our focus has been on the delivery of initiatives

outlined in our first 'Reflect' RAP as well as commencing the development of our second 'Innovate' RAP which will be published in 2020-21.

Building on the work we delivered in our Reflect RAP, this year we have sought numerous opportunities to embed the RAP into our organisation to drive reconciliation, awareness and inclusion into different parts of our business. Some of the key initiatives delivered have included:

- Successfully partnering with Griffith University and Queensland University of Technology as part of the QIC Indigenous Tertiary Scholarship program, awarding two Aboriginal and Torres Strait Islander students a QIC scholarship to support them through their tertiary education;
- Continuing to develop partnerships and engage with Aboriginal and Torres Strait Islander peoples and organisations in employment, procurement and investment opportunities;
- Continuing to increase awareness of and educate our employees on the importance of reconciliation through the recognition of National Reconciliation Week and NAIDOC week across QIC;
- In partnership with Queensland Health, installed two additional flagpoles at 111 George Street in Brisbane to enable the Aboriginal and Torres Strait Islander flags to be flown permanently;
- The Indigenous Procurement Working Group was launched in partnership with Supply Nation to provide an opportunity for organisations to discuss procurement strategies for Indigenous suppliers, and;
- Continuing to engage with key Aboriginal and Torres Strait Islander stakeholders on the development of QIC's Innovate RAP and recruitment, investment and procurement initiatives.

We are proud of what we have achieved so far but acknowledge that there is still a lot of progress to be made. Throughout 2019-20 we have been developing our Innovate RAP in consultation with key internal and external stakeholders, including Aboriginal and Torres Strait Islander peoples and organisations. QIC's Innovate RAP, which will be launched in the second half of 2020 is focussed on implementing our key learnings and builds upon our Reflect RAP to demonstrate our continued commitment to Australia's national reconciliation movement and our own reconciliation journey.

Our Innovate RAP will continue to focus on building relationships between, demonstrating respect for, creating economic and social opportunities with, and remaining transparent and accountable in our engagement with Aboriginal and Torres Strait Islander peoples, families, businesses and communities. As part of our Innovate RAP we are committed to increasing our focus on partnering with Aboriginal and Torres Strait Islander people, businesses and communities to co-create meaningful investment outcomes and drive equal opportunities within our procurement, employment and investment activities and obligations.

COMMUNITY ENGAGEMENT

At QIC, we have a proud history of working with our community partners and charitable organisations in Australia and abroad and this has continued throughout 2019-20. Our community strategy is focused on building upon our strong culture of giving and over the past year, our people have actively supported and participated in employee fundraising events, volunteering, pro bono work, targeted sponsorship and the delivery of community-based initiatives and activities.

Our support for the Queensland Community Foundation

Queensland Community Foundation (QCF) is a \$100 million charitable trust that provides a perpetual income stream to over 300 charities in Queensland and in Australia. QIC is a founding sponsor and has provided both financial and in-kind support to QCF since inception in 1997. QCF have distributed \$28.8 million to over 700 charities across Queensland and Australia.

This year, QIC's partnership with QCF has strengthened through our support and involvement across many areas, including hosting a milestone event for the organisation in March as they reached \$100 million in funds under management. A number of employees have continued to work closely with QCF throughout the year in their capacity as members of the Board of Governors, members of their management committee, or to provide pro bono advice and support as needed.

QIC's charitable partnership with Orange Sky Australia

Since 2018, as our employee charity of choice, QIC has supported Orange Sky Australia in their efforts to provide free laundry and shower services to some of our most vulnerable members of our society. This year, thanks to the fundraising efforts and the generosity of our people, more than \$27,000 has been raised to enable Orange Sky Australia to continue to deliver such an important service to people in need. We also established a new partnership with Bridge to Brisbane (B2B), Brisbane's most iconic running race, to run the water stations during this event, raising AUD\$7,500 for our charity of choice. Alongside fundraising, our partnership with Orange Sky Australia has provided our people with volunteering opportunities as well as enabled them to gain a deeper insight into the effects homelessness has on our communities.

QIC Community Day

Every year our people are able to utilise their annual QIC community day to donate their time to assist a charity or community group they wish to support through volunteering. Over the past year, more than 150 employees participated in volunteering initiatives to support charities and communities in Australia and abroad.

CORPORATE GOVERNANCE

QIC's performance is supported by a contemporary and effective approach to governance that permeates the entire organisation. QIC's Board and committee structure and its tailored policies and standards provide a robust framework to ensure that efficiency is optimised and integrity is paramount.

Our practices reflect best practice corporate governance principles such as the ASX 'Corporate Governance Principles and Recommendations' and comply with the Queensland Government's 'Corporate Governance Guidelines for government-owned corporations'.

Included here is a summary of the roles, processes and practices in place at QIC to respond to our dynamic operating environment and ensure the interests of shareholders, clients, employees and other stakeholders are effectively managed.

Corporate governance during 2019-2020

QIC's growing client base and international expansion has seen the Board continue to strengthen QIC's governance arrangements.

QIC continued to strengthen its solid corporate and investment governance foundations by:

- Pro-actively reviewing our corporate governance frameworks to ensure a contemporary, efficient and fit-for-purpose approach.
- Bolstering our ESG and our Responsible Investment strategies and overall ESG/RI approach.

- Enhancing our Investment Valuations policy, our annual Valuations workshop, and our Valuations framework for ensuring independence and assurance to our stakeholders on the independent valuations of our private markets assets.
- Reviewing our delegations of authority systems, how those delegations are exercised, and their use monitored and reported appropriately.
- Ensuring that our calibrated strategy is interwoven with the Board's risk appetite.
- Further strengthening Workplace Health and Safety (WHS) accountabilities and WHS compliance frameworks with the appointment of a dedicated senior WHS qualified expert into the Risk Management Group.
- Further developing refined ways of setting our appetite for risk, and proactively monitoring our key risks through a framework of comprehensive risk documents.
- Ensuring QIC's business activities are carried out in a way that fully satisfies our regulatory, risk management, legal, fiduciary and corporate social responsibility obligations.

Our regulatory environment

QIC Limited is a Government owned corporation (GOC) constituted under the *Queensland Investment Corporation Act 1991* (Qld) (QIC Act). Queensland State Government legislation relating to GOCs, the *Government Owned Corporations Act 1993* (Qld) (GOC Act), applies to QIC, in addition to the *Corporations Act 2001* (Cth) (Corporations Act).

QIC Limited does not hold an Australian Financial Services (AFS) licence and certain provisions (including the financial product disclosure provisions) of the Corporations Act do not apply to QIC. A subsidiary of QIC Limited, QIC Private Capital Pty Limited, holds an AFS Licence and has appointed various other QIC subsidiaries to act as authorised representatives.

QIC is also an Irish Central Bank-approved investment manager, promoter and distributor of Undertakings for Collective Investment in Transferable Securities (UCITS) products.

A QIC subsidiary is registered as investment advisor with the U.S. Securities and Exchange Commission, while another QIC subsidiary is authorised with the UK Financial Conduct Authority. One subsidiary is also authorised by the Korean Financial Supervisory Service.

Our shareholders

As a Queensland GOC, QIC's shareholding Ministers are the Honourable Annastacia Palaszczuk MP, Premier and Minister for Trade and the Honourable Cameron Dick, Treasurer and Minister for Infrastructure and Planning. QIC reports to the shareholding Ministers and regularly liaises with the GOC Performance and Governance Division of Queensland Treasury to inform our shareholding Ministers on various matters as required by the QIC Act, the GOC Act and other Government guidelines. QIC aims to provide its shareholding Ministers with the information they need to make informed assessments of the operations, financial performance and financial position of QIC and its subsidiaries.

QIC's accountability requirements include the preparation of an annual Statement of Corporate Intent (SCI) for our shareholding Ministers' approval. The SCI, together with our Corporate Plan, are based on comprehensive strategic planning, risk management and budgeting processes. The SCI is a formal performance contract between QIC and our shareholding Ministers, detailing our proposed undertakings and target performance for the year ahead. The SCI is tabled in Parliament as an accompaniment to the Annual Report.

Our Corporate Plan is a review of current and future operational strategies and QIC is responsible for meeting forecast profits as detailed in the plan. Corporate performance against planned outcomes is regularly monitored and reported to the Board, and quarterly status reports are provided to our shareholding Ministers.

Foundations of management and oversight

The Board oversees QIC's activities and QIC's management report to it. QIC's Board is appointed by the Governor-in-Council under the GOC Act. The key roles and responsibilities of the Board include:

- Setting performance targets and ensuring targets are met.
- Overseeing the processes for appointment of the CEO (with approval of the shareholding Ministers) and Senior Executives.
- Establishing and monitoring the implementation of the remuneration and incentive policies.
- Ensuring there are sound systems of risk oversight and management and internal control.
- Reviewing and monitoring policy development, including those that promote ethical and responsible decision-making.
- Actively participating in the strategic planning process, including approval of the Corporate Plan, Statement of Corporate Intent and Employment and Industrial Relations Plan.
- Effectively communicating on an ongoing basis with shareholding Ministers, including providing them with key reports and information.
- Approving key financial and non-financial matters, including annual accounts and Director's reports, internal audit plans and annual internal control report (GS007 Report).

Board Independence

The Board comprises nine independent Non-Executive Directors (NED). It is the Board's view that no directors hold any positions that materially affect their ability to exercise independent judgement in the interests of QIC and its shareholding Ministers. Independence is measured generally against the ASX Corporate Governance Principles and Recommendations, and specifically considers whether:

1. In the last three years, the director has been employed in an executive capacity by QIC.
2. In the last three years, the director has been a principal of a material professional adviser, or a material consultant to QIC or an employee materially associated with a service provided to QIC.
3. The director is a material supplier, a customer of QIC or associated with a material supplier or customer.
4. A material contractual relationship exists between QIC and the director, other than in their capacity as a director.
5. The director has any interest and any business or other relationship that could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of QIC.

Family ties and cross-directorships may be relevant in considering interests and relationships that may compromise independence and directors must disclose these to the Board. The Board determines materiality thresholds relevant for the purposes of assessing independence on a case-by-case basis. In supporting this view, but not in isolation, the Board refers to generally accepted accounting principles for materiality. In line with these principles, a relationship may generally be considered material when, over a 12-month period, it represents more than 10 per cent of fee revenue or more than 10 per cent of costs (excluding salary expenses) of either QIC or the entity/person being considered.

When applying this test, less than five per cent is presumed not to be material unless there is evidence or a convincing argument to the contrary. When the quantum represents between five and 10 per cent, the Board will judge materiality based on the facts and circumstances associated with the relationship. The independence of each director is reviewed on each occasion a new disclosure of interest is given.

Board Oversight

QIC's Board is responsible for overseeing QIC's activities. The Board operates in accordance with the principles set out in its Charter and QIC's Constitution. These documents outline the key governance principles adopted by the Board, including:

- Role and responsibilities of the Board
- Delegation of certain responsibilities to management
- Directors' duties and interests
- Board structure
- Remuneration
- Meeting procedures
- Board committees and subsidiaries
- External communication guidelines
- Access to independent advice
- Professional conduct, including conflicts of interest and independence
- Performance assessment

The Boards of QIC's subsidiaries are made up of either executive directors or a combination of executive and independent non-executive directors. The exception is the Board of QIC Private Capital Pty Ltd, which comprises of only independent non-executive directors.

Directors, the Chief Executive Officer and any other person who takes part in the management of QIC (each an 'officer') are also bound under the provisions of the GOC Act that relate to the duties and liabilities as officers of a company GOC. Officers also have duties under the Corporations Act which they must adhere to.

In addition to attending Board and committee meetings, the directors are required to allocate sufficient time to prepare for meetings and consult with management as required.

The Chair commits further time and meets with the Chief Executive Officer and his direct reports on a regular basis.

Board Delegations

The responsibility for the day-to-day operation and administration of QIC is delegated (in accordance with Board direction and policies such as Corporate Delegations and Investment Delegations) by the Board to the Chief Executive Officer and the senior executives. The Chief Executive Officer is appointed by the QIC Board with the prior written approval of the shareholding Ministers. The appointments of senior executives are approved by the QIC Board in accordance with the Policy for Government Owned Corporation Chief and Senior Executive Employment Arrangements.

An extensive independent probity review, insolvency check and criminal history check are also undertaken. The Board ensures this team is appropriately qualified and experienced to discharge its responsibilities and has procedures in place to assess the performance of the Chief Executive Officer and the senior executives, which are outlined below in the 'Alignment of performance with remuneration' section of this report.

Employee Code of Conduct

QIC has established policies and procedures designed to ensure that directors, management and employees meet high standards of professionalism and integrity and adhere to relevant industry standards and legal requirements. QIC's expectations are clearly articulated and documented in our Code of Conduct and Ethics. This code is supported by specific procedures outlined in more detailed policies, including the:

- Conflict of Interest Policy (including procedures governing the receipt of gifts and benefits, the making of personal investments, the holding of nominee roles and the holding of outside business interests by QIC employees and contractors)
- Fraud, Bribery and Corruption Risk Policy
- Breaches and Incidents Policy

- Sensitive Information Standard
- Entertainment Policy

Employees confirm that they understand and will comply with these policies at the start of their employment and annually thereafter via electronic confirmation and e-testing. The Code of Conduct and Ethics is further supported by a Grievance Standard and a Workplace Behaviour Policy. Training on specific policies is also provided as required. The policies apply to directors and employees of QIC and its subsidiary companies and contractors.

All employees must disclose and obtain prior approval for personal investments in property (excluding their private residences unless the transaction might possibly affect any asset in QIC's property portfolio), shares, fixed interest securities, and derivatives of shares, fixed interest securities and currencies to ensure there is no actual, potential or perceived conflict of interest.

Board committees

Board committees operate to assist the Board to oversee and monitor certain policies and controls within the QIC Governance, Risk and Compliance (GRC) Framework.

For the purposes of s190(2) of the Corporations Act, the Board believes each existing Board committee is reliable and competent to exercise the power delegated to it by the Board.

Committee membership is determined based on individual skill and experience. Each committee has a formal charter and generally meets at least quarterly. The Chief Executive Officer and Company Secretary attend all QIC Board and committee meetings, while the senior executives attend all QIC Board meetings and those committee meetings that fall within the scope of their role and/or responsibilities. Upon request, other executives and employees are also invited to attend Board and committee meetings. For further information on the meetings held and attendees to each meeting, please see the Financial Report.

Audit Committee

The primary responsibility of the Audit Committee is to support the Board by overseeing and monitoring:

- The controls that safeguard the integrity of QIC's financial reporting (except for matters relating to debt covenants) and compliance with tax and accounting obligations;
- QIC's management of tax risk;
- The processes employed by QIC to undertake valuations across all investment teams,
- The policies relevant to the Committee's responsibility within the QIC Governance, Risk Management and Compliance Framework (GRC Framework), and;
- External audit processes generally.

Through its regular reporting cycle, the Committee receives assurance from senior management about QIC's compliance with its financial and tax obligations.

The Committee receives advice from the management Financial Reporting Committee, which provides subject matter expertise and challenge to the financial statements review process.

In addition, an annual valuations workshop is held to oversee QIC's asset valuation practices. The purpose of the annual valuations workshop is not to re-interrogate the metrics of applicable valuations, but rather to ensure the processes applied in the course of asset valuations are sound and appropriate.

The Auditor-General of Queensland is the external auditor of QIC and its controlled entities in accordance with the *Auditor-General Act 2009* (Qld) (Auditor General Act). The Auditor-General of Queensland has also been appointed as the external auditor for a number of QIC's investment trusts on a by-arrangement basis or in accordance with the Auditor General Act where that trust meets the definition of a public-sector entity. KPMG has been appointed as external auditor for a number of companies and trusts within the QIC

Private Capital investment structure. The Audit Committee considers external audit reports and management letters and monitors action by management in respect of these reports. The Audit Committee periodically meets separately with QIC's external auditors who are also regular invitees to Audit Committee meetings.

Risk Committee

The primary responsibility of the Risk Committee is to oversee QIC-wide risk management practices to assist the Board in overseeing:

- The company's enterprise wide GRC Framework, ensuring the executive team has identified and assessed all the risks the organisation faces and to ensure there is alignment between risk management and the company's strategy, business plans and financial objectives.
- Risks, such as strategic, financial (including those relating to debt covenants), credit, market, liquidity, security, operational, IT, cyber, workplace health and safety, legal, regulatory, reputational, and other risks, in conjunction with other Board-level committees or the full Board, if applicable.
- The division of risk-related responsibilities to each Board committee or sub-committee as clearly as possible and performing a gap analysis to determine that the oversight of any risks is not missed.
- QIC's compliance with its regulatory and contractual obligations, except for financial and tax related regulatory and contractual obligations for which the Audit Committee is responsible.

Through its regular reporting cycle, the Committee receives assurance from senior management that QIC's GRC Framework is operating as designed and is effective.

The Committee works in parallel with the Board's Human Resources & Remuneration Committee in relation to compliance and risk oversight of workplace health and safety and any non-compliance with the Code of Conduct and Ethics.

The Committee receives advice from the management Risk & Valuations Committee (RVC), which provides subject matter expertise and challenge to the GRC Framework. For clarity, valuation-related matters as overseen by the RVC are reportable to the Audit Committee. The RVC is chaired by the Chief Risk Officer, with a standing invitation open to members of the Risk Committee.

QIC has appointed Deloitte to provide internal audit services and provides Deloitte with direct, unfettered access to the Board and with a reporting line direct to the Risk Committee. The Board, in consultation with the Risk Committee, approves the annual internal audit program, which adopts a risk-based approach to provide assurance over risk management and control activities across QIC. The results of internal audit reviews are reported to both the Risk Committee and management, who are held accountable for ensuring recommendations made by our internal auditors are actioned. QIC's policies and procedures are supplemented by the internal audit program, which provides assurance over the design and implementation of key controls, including controls that have been established to monitor risks and compliance obligations. The internal auditor is independent and acknowledges this independence annually as required by the QIC Auditor Independence Policy.

Human Resources & Remuneration Committee

The Human Resources (HR) & Remuneration Committee considers matters relating to human resource management policies and practices, including employee remuneration, performance management, workplace health and safety, organisational structure and design and succession planning at the senior executive level and for other business-critical roles.

The Audit Committee, Risk Committee and HR & Remuneration Committee Charters are located on QIC's website at: <http://www.qic.com/about-qic/corporate-information/corporate-governance/committees>.

Other committees

QIC's Chief Executive Officer is Chair of the Executive Committee (ExCo), which consists of the Chief Executive Officer and the corporate senior executives. ExCo addresses strategic corporate issues, including major projects, change management and corporate risk issues, and gives assistance and advice to the Chief Executive Officer, the QIC Chair and the Board.

The ExCo are supported by several management committees. Key committees include the:

- Client Capital Committee, which is chaired by Brian Delaney, acting Executive Director of Client Solutions and Capital. CCC's remit is to:
 - Consult and advise on the establishment and variation of all QIC products.
 - Oversee governance and monitoring of existing QIC products and the co-ordination of reviews of capabilities when required by ExCo.
 - Advise on other client and product initiatives as requested by ExCo.
- QIC Operating Committee, which is chaired by Mark McDonald, Executive Director of Operations and Technology, and oversees day-to-day business operations.

Several other management and committee forums exist to ensure appropriate oversight of QIC's internationalisation, its strategic pursuits and appropriate governance to support investment decisions. QIC has the following management committees to support the Board:

- The Risk and Valuations Committee (RVC), which is chaired by the Chief Risk Officer. The RVC is an advisor to the Risk Committee for the oversight and management of key risk and compliance, regulatory, legal and debt-related matters within QIC, except for valuation-related matters, which are reported to the Audit Committee.
- The Financial Reporting Committee (FRC), which is chaired by Claire Blake, Chief Financial Officer. The FRC supports the Audit Committee in satisfying its obligations regarding financial reporting. It does this by ensuring the application of a robust financial reporting assurance framework and fulfilling a detailed financial statement review function for the Audit Committee.
- The ESG Advisory Committee, which is chaired by QIC Board Director Stephen Dunne. This committee focusses on QIC's ESG strategy to enhance its footprint as a responsible investor and to integrate ESG strategies on an enterprise-wide basis.
- The Diversity and Inclusion Committee, which is chaired by Glenn Jackson, Executive Director of Human Resources.

Risk management

Commensurate with the QIC Board and management's prioritisation of effective risk management, QIC has adopted a framework designed to proactively identify, assess and manage risks.

The QIC Board has ultimate accountability for risk management, approves QIC's corporate strategy and sets its risk appetite. These responsibilities include identifying and monitoring risks that may affect QIC's ability to achieve strategic objectives and ensures the Chief Executive Officer and the senior executives are appropriately monitored and incentivised to effectively manage the business.

The QIC Board has established Board committees, each of which is responsible for overseeing specific risks facing QIC.

Considerable importance is placed on maintaining a strong control environment. QIC has a corporate structure with clearly drawn lines of accountability and delegations of authority. Adherence to QIC's policies and standards, including the Code of Conduct and Ethics, is required always, and the Board actively promotes a culture of risk awareness, quality and integrity. QIC employees are required to observe a high level of professional conduct when undertaking their business activities. The Chief Executive Officer, Chief Financial Officer and Chief Risk Officer have declared to the Board in writing, that QIC's risk management

and control system is operating efficiently and effectively in all material respects, based on representations by management.

Risk management approach and initiatives

QIC adopts a ‘three lines of accountability’ approach to managing risks and compliance obligations.

| EXPECTATIONS OF | QIC CLIENTS | SHAREHOLDING MINISTERS | LEGISLATION | REGULATORS |
|--|--|---|---------------------------------|----------------------------|
| OVERSIGHT | QIC Limited and subsidiary Boards | | | |
| | QIC BOARD COMMITTEES | | QIC INTERNAL COMMITTEES | |
| | Audit Committee | Risk Committee | HR & Remuneration Committee | Corporate Management Group |
| | QIC SUB-COMMITTEES | QIC PRIVATE CAPITAL (QPC) COMMITTEES | Executive Committee | |
| | Risk & Valuations Committee | QIC Global Private Capital Investment Committee | Client Capital Committee | Operating Committee |
| | Financial Reporting Committee | QIC Global Infrastructure Investment Committee | Diversity & Inclusion Committee | ESG Advisory Committee |
| 1ST LINE OF ACCOUNTABILITY <i>Manage</i> | QIC Executives, Management and Staff (Risk Management and Execution Excellence KPIs) | | | |
| 2ND LINE OF ACCOUNTABILITY <i>Challenge</i> | QIC Governance, Risk Management, Compliance, WHS and Regulatory teams | | | |
| 3RD LINE OF ACCOUNTABILITY <i>Assurance</i> | Internal Audit (Deloitte) External Audit (Queensland Audit Office, KPMG) | | | |

First line of accountability: Executives and employees within our investment teams and supporting business units are accountable for identifying risks within their area of responsibility and for establishing effective controls to manage these risks. Investment team personnel also have a percentage of their remuneration linked to risk and compliance Key Performance Indicators (KPIs). All employees are required to report breaches and incidents to the Risk Management Group (RMG) division. Management is required, as part of the monthly management reporting process, to report any breaches of our policies, standards, laws, regulations and client mandates. All employees have KPIs that measure risk and compliance which are linked to their remuneration.

Second line of accountability: The Chief Risk Officer reports directly to the Chief Executive Officer. The RMG division provides investment teams and supporting business units with tools, training and advice to assist them to effectively manage their risks and compliance obligations. It also monitors and challenges the business, where appropriate, to provide the Chief Executive Officer and the Board with assurance that risks are being managed effectively and in accordance with QIC policies and standards, laws, regulations and client commitments. The RMG division also produces regular risk and compliance reports for the ExCo, the Board’s sub-committees and the Boards of QIC Limited and key operating subsidiaries.

Third line of accountability: QIC has appointed Deloitte to provide internal audit services. The internal audit function has direct, unfettered access to the Board and reports directly to the Risk Committee. The Board, in consultation with the Risk Committee, approves the annual internal audit program, which adopts a risk-based approach to provide assurance over risk management and control activities across QIC. The results of internal audit reviews are reported to both the Risk Committee and management, who are held

accountable for ensuring recommendations made by our internal auditors are actioned. QIC's policies and procedures are supplemented by the internal audit program, which provides assurance over the design and implementation of key controls, including controls that have been established to monitor risks and compliance obligations. The internal auditor is independent and acknowledges this independence annually as required by the QIC Auditor Independence Policy. The Auditor-General of Queensland is the external auditor of QIC and its controlled entities in accordance with the *Auditor-General Act 2009* (Qld) (Auditor General Act). KPMG has also been appointed as the external auditor of QIC's non-Australian subsidiary companies and for a number of trusts within the QPC investment business.

QIC's risk management maturity continues to evolve and deepen as a response to its changing operating environment, new regulatory requirements and to meet the fiduciary obligations QIC has to clients as well as stakeholder expectations. Throughout the year, the RMG Division facilitated two formal crisis management sessions which contributed to the pro-active management of COVID-19.

QIC continues to proactively manage initiatives to support its continuing maturity, including:

- Further refining QIC's risk appetite statement.
- Enhancing risk reporting, analysing emerging trends and responding to them.
- Communicating throughout the business about the importance of our risk and compliance frameworks and educating users on systems and tools.
- Continuing to refine our risk governance structures.
- Ensuring our GS007 standard for internal controls responds to new areas of potential risk and changes in QIC's business.
- Building on existing compliance capability and supplementing with additional skills where needed for our overseas authorisations, registrations and licences.
- Increasing the sophistication of our risk reporting and increasing sample testing activities.
- Building out our counterparty exposure monitoring and reporting.
- Increasing our use of electronic training tools and other communication methods.

Governance, Risk Management and Compliance Framework

QIC has a robust and comprehensive framework to ensure best practice in managing risk and ensuring compliance with QIC's obligations to its stakeholders. The key risk types incorporated into QIC's systems measure, manage and mitigate across a broad category of risk types, including:

- Strategic
- Investment (including market, credit and liquidity)
- Product
- Project
- Legal, tax, fiduciary and regulatory
- Operational
- Business continuity
- People and culture
- Financial
- Compliance
- Fraud, corruption and bribery
- Cyber and information security

Responsibility for managing and overseeing each risk category is clearly articulated through:

- Specific Board policies
- Executive standards and procedures
- Board and committee charters

- Corporate and investment delegations
- GS007 (internal controls) compliance and reporting
- Applicable legislation
- Key performance indicators
- Position descriptions
- Authorised dealer lists

Alignment of performance with remuneration

QIC relies on the efforts of its people to achieve results. Managing the contribution of our people and measuring their performance are key strategies for ensuring QIC's success.

QIC's remuneration practices must be competitive within the funds management industry to attract and retain the high-quality employees we need to give our clients market-leading investment services. However, this must be balanced with strategic cost management imperatives, QIC's accountability as a Government owned corporation (GOC), and to ensure QIC's culture aligns with the Board's conduct and ethical requirements.

Remuneration policies and practices

QIC's remuneration policies and practices:

- Align with the business strategy, management of risk, and QIC's Standards of Excellence.
- Are fair, equitable and sustainable.
- Are competitive against industry benchmarks while not seeking to be a market leader.
- Are regularly assessed against these benchmarks to ensure remuneration remains appropriate within the markets and industries in which we operate.
- Discriminate between high and low performance.
- Comply with relevant legislation and GOC guidelines.
- Take account of client expectations.
- Show clear methods of performance measurement, enabling employees to track their performance against targets.

Performance and reward

The key feature of QIC's performance-based reward framework is that performance payments are linked to investment outcomes as well as to the individual's contribution to defined KPIs, which reflect stretch targets.

To measure individual contribution, a formal Performance Management Program (PMP) exists for all employees, including the Chief Executive Officer, whose performance review is undertaken by the Chair. The program sets out processes for planning, communicating, monitoring and reviewing an employee's or team's performance and work-related behaviour. Performance related conversations happen regularly throughout the year and culminate in an annual review of all employees, including the Chief Executive Officer and senior executives.

The investment outcomes of QIC Funds are measured against demanding benchmarks. Incentive payments reflect performance against relevant benchmarks and targets. QIC's incentive scheme has been reviewed by external benchmark providers and the incentive amounts referenced within the financial statements have been reviewed by the Queensland Audit Office.

Employee investment in QIC products

Eligible employees may invest in a limited selection of QIC's products via the QIC Employee Investment Scheme. Liquidity and trading windows apply and QIC reserves the right to veto any transaction, transfer or other action that would result in undesirable consequences for QIC or any of its products or clients.

Ongoing assessment and approval of remuneration

The HR & Remuneration Committee advises the Board on appropriate levels of employee remuneration after conducting an annual review of corporate and individual performance and considering industry comparisons and independent advice. The Board then determines the remuneration of the Chief Executive Officer. An Employment and Industrial Relations Plan is approved annually by QIC's shareholding Ministers as part of the Statement of Corporate Intent (SCI) development process. This plan outlines people priorities and areas of emphasis for the coming year.

Directors' fees

QIC directors are paid fees for their services. Remuneration is approved by our shareholding Ministers. Directors are not entitled to performance-based payments or retirement benefits. Directors are eligible to participate in the QIC Employee Investment Scheme.

Board performance evaluation

The Board Charter details the process for the evaluation of the Board's performance as well as that of Board committees and directors.

A formal performance evaluation is required at least every two years. Evaluation is undertaken using a variety of techniques, including formal questionnaires completed by directors, feedback from stakeholders including peers, one-on-one discussions between each director and the Chair and a full Board discussion and reflection. Board evaluation incorporates consideration of many factors to ensure a fulsome view of performance, including the Board's:

- role, its strategy and planning;
- structure;
- meeting processes and efficiency;
- subsidiary and committee reporting;
- performance monitoring and evaluation functionality, and;
- induction and continuing education to deepen performance and business knowledge.

It also incorporates:

- Board and senior management behaviour and relationships, and
- Suggestions to improve the Board's effectiveness.

The Chair also provides each director with feedback on their individual performance. Evaluation also extends to Board and management committees.

Trustee stewardship

In undertaking the role of trustee of a number of investment trusts, QIC ensures the trusts are administered and maintained in accordance with the relevant trust deed, legal requirements, fiduciary duties and prudential standards.

Independent advice and access to QIC information

Each Director has the right of access to all relevant QIC information, to the Chief Executive Officer, the Company Secretary and to the senior executives. Subject to prior consultation with the Chair, Directors may seek independent professional advice at QIC's expense. A copy of this advice is made available to all other Board members.

Directors receive regular updates on changes in the regulatory and operating environment affecting QIC. Directors are also encouraged to attend relevant conferences and seminars where those activities support the Director's effectiveness.

Conflicts of interest

Our Conflicts of Interest Policy applies to all QIC employees and contractors.

QIC employees and others working at QIC have a personal responsibility to be alert to conflicts of interest in their day-to-day activities and to act promptly in identifying, managing and avoiding conflicts. Employees receive specific training on the Conflicts of Interest Policy and advice and guidance where required.

Our culture, conduct and ethics

QIC requires the highest ethical standards and conduct from its Board, employees and suppliers. This is critical to QIC's success. The Code of Conduct and Ethics ('Code') outlines the required behaviours which apply to our Board and all QIC employees and reflects our shared principles about appropriate behaviour. It ensures we meet the requirements specified by the funds management industry, the Queensland public sector, as well as meeting our clients' expectations as a trusted partner.

As outlined in the Code, QIC's reputation in the marketplace and community is critically important in terms of our shareholders' expectations, our ability to operate a successful funds management business and the professional standing of our employees. QIC employees and others working at QIC are expected to exercise good judgement in their professional life and adhere to the core values and principles of ethical conduct set out in the Code.

The Code outlines expectations in key areas, including:

- what professional and lawful behaviour means at QIC;
- our confidentiality obligations;
- how we manage actual, potential or perceived conflicts of interest;
- disclosure and reporting requirements for poor behaviour;
- our zero tolerance for fraud, bribery and corruption in our business;
- our commitment to good workplace health and safety, and;
- our commitment to a high-performing culture that is underpinned by strong leadership and inclusive behaviours at all levels.

The Code was formally reviewed, updated and approved by the Board in this past year. A full rollout of the updated code was conducted across all business units of QIC. The Code is supported by our policy framework, which includes formal, Board-approved policies on key areas, including the Fraud, Bribery & Corruption Risk Policy, Whistleblowing Policy, Conflicts of Interest Policy and Workplace Behaviour Policy. Annual training is also required by all QIC employees on specific policies to ensure these issues are kept front of mind by all employees.

QIC is within the jurisdiction of the Crime and Corruption Commission for the investigation of any matters that may fall within the Commission's parameters.

QIC's working environment

QIC is committed to developing a progressive, high performing, engaging and caring culture that evidences fairness, respect for diversity and recognition of individual talents. This underpins our ability to attract and retain talented and committed professionals. The QIC Standards of Excellence are the framework that allows each member of QIC to understand what is expected from them from a behavioural standpoint, and are used extensively in hiring, promotion and recognition programs.

QIC also has a heavy focus on inclusion, which is designed and delivered by the Diversity and Inclusion Committee. All areas of inclusion are vitally important and QIC is committed to providing a culture where people's success is determined by talent and performance. This imperative is the foundation that provides a safe working environment at QIC free from discrimination, victimisation, vilification, sexual harassment, and other types of unlawful harassment, including workplace bullying. The Workplace Behaviour Policy outlines our Board's expectations of workplace conduct, and the Work, Health and Safety Policy establishes our framework for managing our obligations to provide a safe working environment for all.

Workplace Health and Safety (WHS)

The majority of the QIC workforce is office-based, whether in a corporate office or asset location. QIC has a focus on meeting its compliance objectives in line with WHS statutory requirements in the jurisdictions in which our people are employed. Mandatory training of QIC Responsible Officers has been undertaken in line with the *Work Health and Safety Act 2011*.

The focus which QIC has upheld since its establishment is the provision of an environment, systems, processes and programs which allow for the appropriate management of WHS risks and reported incidents together with a proactive approach to supporting the health and wellbeing of employees, something which has been evident as the business proactively managed the impacts of COVID-19.

QIC continues to strengthen the WHS control framework through the establishment of a WHS management system aligned to AS/NZS ISO 45001 during the financial year.

Regular WHS reports are reported to the QIC Risk Committee (with reporting to the QIC Board).

Right to information

The *Right to Information Act 2009* (Qld) does not apply to QIC Limited or its subsidiaries, except where it relates to community services obligations. However, QIC complies with the Queensland Government's Publication Scheme, which is a framework for the increased publication of information relating to GOCs.

Corporate governance in the sharemarket

On behalf of our clients, we actively monitor corporate governance issues at both a domestic and international shareholding level, primarily under the Responsible Investment Policy and related processes.

Insurance and indemnities

QIC maintains appropriate insurance cover with reliable underwriters to protect it from known quantifiable liabilities and risks where that cover is available. This comprehensive program of cover includes asset protection, employee accident compensation, professional indemnity and director and officers' liability, general public liabilities, cyber and financial loss.

The Board, senior executives and employees are, to the extent permitted by law, provided with indemnification against:

- liability to third parties arising out of conduct undertaken in good faith in their capacity as a QIC officer, and;
- the costs and expenses of defending legal proceedings arising out of conduct as described above.

Litigation

In 2015, clients managed or advised by the group acquired, through the Lochard Group (Lochard), the Iona Gas Storage Facility from EnergyAustralia. In May 2017, Lochard commenced legal proceedings against three EnergyAustralia entities in the Supreme Court of Victoria seeking damages and other relief for breach of contractual warranties and statutory misleading and deceptive conduct in connection with the acquisition. On 28 June 2019, EnergyAustralia filed and served a third party claim against QIC Private Capital Pty Ltd, a subsidiary of QIC Limited (QPC), and a further amended defence to Lochard's claims which raises various allegations concerning QPC's involvement in the due diligence process that occurred prior to the acquisition of the Facility. By the third-party claim and the further amended defence, EnergyAustralia seeks to have QPC bear a proportion of any liability that EnergyAustralia might be found to have to Lochard, either on a statutory proportionate liability or equitable contribution basis. EnergyAustralia has not, to date, specified the proportion of any liability that it seeks to have QPC bear. The Court has set a trial start date of 10 May 2021, with the trial expected to run for 10-13 weeks.

DIRECTORS' PROFILES

Ian Martin AM B.Econ (Hons), FAICD - Chairman

Chair appointed 1 April 2019

Current term to 30 September 2022

Chair of: QIC Limited, QIC Private Capital Pty Ltd.

Other appointments: Chair, UniSuper; Chair, Wayside Chapel Foundation.

Previous appointments include: Chair, Argo Investments Limited and Argo Global Listed Infrastructure Limited, Chief Investment Officer, BT Financial Group, Vice Chairman, Asia Pacific Berkshire Global Advisors, CEO and Head of Global Investment Management and Member of the Management Committee, Bankers Trust, Director, Babcock and Brown, Director, GPT Group, Chair, Australian Financial Services Council and Panel Member, Superannuation System Review (The Cooper Review).

QIC Committees: Chair of the HR & Remuneration Committee, Chair of the U.S. Shopping Center Fund Investment Committee, Member of the Audit Committee and the Member of the Risk Committee.

John Battams BEcon, Dip Ed, MAICD - Director

Director appointed 1 October 2015

Current term to 30 September 2021

Director of: QIC Limited, QIC Private Capital Pty Ltd.

Other appointments: Chair, Teachers' Union Health, Director, Managing Director, Labor Holdings Pty Ltd, Director, Labor Enterprises Pty Ltd, Director, Labor Resources Pty Ltd, Director, Labor Legacies Pty Ltd, Honorary President, Australian Labor Party (Queensland Branch), Management Committee Member, Northern Suburbs Hockey Club Inc.

Previous appointments include: Chair, Queensland Residential Tenancies Authority, Director, Sunsuper, Chair, Sunsuper Investment Committee, Director, Skills Queensland, Board Member, Lady Bowen Trust, General Secretary, Queensland Teachers' Union, Director, Energex Limited, President, Queensland Council of Unions, Director, TJ Ryan Foundation.

QIC committees: Chair of the Risk Committee, Member of the Audit Committee and Member of the U.S. Shopping Center Fund Investment Committee.

Gillian Brown LLB (Hons), Grad Dip Applied Finance (FINSIA), MAICD Director

Director appointed 15 December 2016

Current term to 30 September 2022

Director of: QIC Limited, QIC Private Capital Pty Ltd.

Other appointments: Director, Australian Rail Track Corporation; Director, BRIC Housing.

Previous appointments: Partner, Minter Ellison, Director, Queensland Treasury Corporation Capital Markets Board, Head, Queensland Finance Team, Minter Ellison; Consultant, Minter Ellison.

QIC committees: Member of the Audit Committee, Member of the Risk Committee and Member of the U.S. Shopping Center Fund Investment Committee.

Patrice Derrington PhD (Arch/Civil Eng), MBA, BArch - Director

Director appointed 12 October 2017

Current term to 30 September 2020

Director of: QIC Limited, QIC Private Capital Pty Ltd.

Other appointments: Director, Center for Urban Real Estate, Columbia University, New York, Director, Real Estate Development Program, Columbia University, New York, Director, The University of Queensland in America, Inc. Foundation, Board of the Thomas Moran Trust, Treasurer, University of Queensland in America, Inc. Foundation, Holliday Associate Professor of Real Estate Development Program, Columbia University, New York.

Previous appointments: Director representing interests of David Rockefeller on boards of various corporations holding commercial real estate interests, Independent board member, Amerivest Property Trust, Ambassador, Museum of Contemporary Art, Chair, Audit, Risk and Compliance Committee, Charter Hall Property Trust - Australia.

QIC committees: Member of the U.S. Shopping Center Fund Investment Committee.

Simone Desmarchelier BA, LLB (Hons), BCL (Hons), GAICD – Director

Director appointed 1 October 2016

Current term to 30 September 2022

Director of: QIC Limited, QIC Private Capital Pty Ltd.

Other appointments: Managing Director, Montrose Advisory Pty Limited, Consultant, Herbert Smith Freehills.

Previous appointments: Australian Consul-General, Italy, Senior Trade & Investment Commissioner, Italy and Cyprus; Vice President, Lazard, Vice President, Deutsche Bank, General Counsel, Runge Pincock Minarco, Senior Associate, Minter Ellison, Senior Associate, Gilbert + Tobin Lawyers; Advisory Board Member (via Montrose Advisory) of Roberts Pizzarotti Pty Limited.

QIC committees: Member of the HR & Remuneration Committee, Member of the Risk Committee and Member of the U.S. Shopping Center Fund Investment Committee.

Stephen Dunne BBus, MBA, CFA, SF Fin, FAICD - Director

Director appointed 12 May 2016

Current term to 30 September 2021

Director of: QIC Limited, NAPCO Properties Pty Ltd, NAPCO Properties Sub Holdings Pty Ltd, NAPCO Properties Holdings Pty Ltd, The North Australian Pastoral Company Pty. Limited, QIC Agribusiness Pty Ltd, QIC Agribusiness Holdings Pty Ltd.

Other appointments: Chair, Cbus Investment Committee, Chair, CFA Societies Australia Advocacy Council; Chair, Investor Group on Climate Change; Director, Cbus (United Super Pty Ltd); Director, Evergen Pty Ltd.

Previous appointments include: Director, QIC Private Capital Pty Ltd; Chief Executive, AMP Capital Investors Holding Limited; Chief Executive and Director, AMP Capital New Zealand; Director, AMP Capital United Kingdom; Director, AMP Capital Japan; Director, Client and Marketing Asia Pacific and AMP Capital Investors Holding Limited; Director, Australia & New Zealand AMP Asset Management.

QIC committees: Member of the HR & Remuneration Committee, Member of the Risk Committee and Chair of the Environment, Sustainability and Governance Advisory Committee.

Paul Gallagher BCom, FCA, GAICD - Director

Director appointed 11 December 2014

Current term to 30 September 2020

Director of: QIC Limited, QIC Infrastructure Management No. 2 Pty Ltd.

Other appointments: Chair and Director, Catholic Church Insurance Limited; Chair and Director, Edmund Rice Foundation Limited; Director, BDO Australia Limited; Partner, Audit and Assurance Services Division, BDO.

Previous appointments include: Director, BDO Group Holdings (QLD) Ltd, Director, Brisbane City Council – Field Services Division.

QIC committees: Member of the Risk Committee, Member of the HR & Remuneration Committee and Member the Audit Committee.

Jane Perry BSc, BA, Dip Ed - Director

Director appointed 1 October 2018

Current term to 30 September 2021

Director of: QIC Limited, QIC Investments No. 1 Pty Ltd.

Other appointments: Chair and Director, Fund Executives Associations Limited.

Previous appointments: Association of Superannuation Funds of Australia (ASFA), Australian Brandenburg Orchestra, Victorian Arts Centre Trust, J.P. Morgan Nominees, AXA Business Services (India), National Mutual Superannuation Pty Ltd, National Mutual Staff Superannuation Plan, The Salvation Army Advisory Board Southern Territory, The Salvation Army Advisory Board Eastern Territory, Sydney Financial Forum, BT Funds Management Limited, BT Funds Management No. 2 Limited, Westpac Securities Administration Limited, Director, Sydney Financial Forum.

QIC committees: Member of the Risk Committee and Member of the Audit Committee.

John Wilson BA, LLB, LLM, MA

Director appointed 1 October 2019

Current term to 30 September 2022

Director of: QIC Limited.

Other appointments: Chair, Australian Rugby Foundation, Independent Advisor to the Investment Committee of LGIA Super.

Previous appointments include: Independent Trustee Director & Chairman, Investment Committee LGIA Super; Chairman of NSW Aboriginal Lands Council; Trustee and Director, board responsible for Investment at University of New England Foundation; Director, Melbourne Stadiums Limited and member of the Audit and Risk Committee.

QIC Committees: Member of the HR & Remuneration Committee.

Directors whose terms expired during the financial year 2019-2020

Andrew King Dip Bus (Prop. Val) - Director

Director appointed 12 December 2013

Term expired 30 September 2019

Director of: QIC Limited, QIC Private Capital Pty Ltd, QIC Retail Pty Ltd, QIC Investments No. 1 Pty Ltd, QIC Investments No. 3 Pty Ltd, QGIF Co No. 1 Pty Ltd, QGIF Co No. 1A Pty Ltd.

Other appointments: Chair, Asher Capital; Director, Brisbane City Council Urban Futures; Member, ANZAC Square Committee; Member, Queensland Advisory Committee for the Commemoration of the ANZAC Centenary; Member, Board of Trustees, Brisbane Girls Grammar School.

Previous appointments: QIC Investments No. 1 Pty Ltd, Founder and Joint Managing Director, DTZ Queensland; Director, SEQ Domaine Funds Management; Group Executive Director, PRD nationwide; Member, Queen's Wharf Precinct Committee; Member, Queensland Government Precinct Advisory Committee; Divisional Manager, Project Leasing for Jones Lang Wootton; Director, Nudgee Estates Pty Ltd; Director, RFD Financing Pty Ltd, Director, RFG Middleswan Pty Ltd.

QIC committees: Member of the HR & Remuneration Committee and Member of the U.S. Shopping Center Fund Investment Committee.

FINANCIAL PERFORMANCE OVERVIEW

QIC's 2019-20 overview of financial performance should be read in conjunction with the financial report.

Profitability

COVID-19 has significantly disrupted Australia's social, health and economic landscape.

These disruptions have resulted in significant impacts to asset valuations and investment performance.

The deterioration in current and expected macroeconomic conditions has impacted global investment markets, the operations of our unlisted assets and retail trading volumes across our shopping centre portfolio. Physical distancing rules and travel restrictions have also had an impact on the operations of QIC's shopping centres and some of our unlisted assets.

Given the uncertainty around the ongoing impacts of COVID-19, market conditions are likely to remain challenging in the short to medium term.

QIC remains focussed on being a leading, trusted and specialised manager, actively delivering long term investment out-performance and exceeding client and stakeholder expectations.

For the 2019-20 financial year, QIC delivered a profit before tax of \$84.3 million.

This outcome has been achieved through a consistent, long term performance focus and the acquisition and development of assets domestically and internationally on behalf of our clients. This has resulted in total revenue for the year increasing by \$82.6 million to \$527.9 million.

Expenses for the year have increased by \$96.8 million as we continue to refine our corporate strategy. Costs have risen during the year due to a competitive neutrality fee arrangement with Queensland Government clients and costs associated with the refinement of our overseas operating and investment platform.

As part of QIC's commitment to achieving long term investment out-performance for our clients, over \$181.4 million of corporate capital is currently invested in QIC products across a number of asset classes. This is in addition to undrawn corporate commitments of \$24.8 million to QIC products.

A total of \$169.9 million will be returned to the Queensland government in relation to the 2019-20 financial year. This includes a dividend declared of \$44.2 million for 2019-20.

The QIC Board remains committed to a long-term focus on investment returns for our clients and increasing shareholder value for the Queensland government.

Revenue

Total revenue for 2019-20 was \$527.9 million, an increase of \$82.6 million to the prior year.

QIC has a broad mix of revenue sources across our investment and property management businesses. Investment management fees are dependent on assets under management and investment performance. Performance fee revenue is dependent on positive investment out-performance against client objectives.

In addition, QIC earns property asset level service fees from QIC owned and operated shopping centres both in Australia and the United States. These services include the leasing and development of the underlying assets.

The following activities have contributed to the increase in revenue during the year:

- Equity investment in Generate, the leading U.S. investment and operating platform for distributed sustainable infrastructure. The investment was part of Generate's US\$1 billion capital raising to continue the expansion of their platform.

- Acquisition of c75% equity interest in Nexus Hospitals, Australia's second largest day hospital platform.
- Part of a consortium acquisition of a 70% equity interest in Hobart International Airport – a strategic and critical infrastructure asset with an attractive long-term lease and growth profile.
- 100% acquisition of Sea Swift, a privately-owned, integrated marine transport and logistics provider headquartered in Cairns.
- Acquisition of 100% of the shares of Pacific Energy, a specialist developer, owner and operator of power generation facilities based in Western Australia.
- New fee agreement with Queensland government clients, which includes a competitive neutrality fee arrangement.

Other revenue represents income generated on QIC's working capital and other minor items.

Expenses

Total expenses of \$443.6 million in 2019-20 increased by \$96.8 million compared to the prior year.

The majority of QIC's cost base relates to employee expenses. The increase in employee benefits expense during the year relates primarily to costs associated with the refinement of our overseas operating and investment platform.

A competitive neutrality fee arrangement was entered into during the year as part of a new, commercial fee agreement with Queensland government clients.

Costs in relation to travel, entertainment and training and development have reduced as a result of travel restrictions and QIC implementing working from home arrangements in response to COVID-19.

QIC continues to invest in operating platforms to provide scalable, efficient and fit for purpose solutions to support our investment management services.

QIC continues to be focussed on ensuring the cost base of the organisation is appropriate and is linked to QIC's corporate strategy.

Balance sheet

Assets

Total assets at year-end were \$484.1 million, an increase of \$42.6 million compared to the prior year.

The major contributions to this change were:

- An additional \$88.6 million in corporate capital invested in QIC products.
- A decrease of \$75.9 million in management and performance fees receivable at year end due to change in fee agreement with Queensland government clients.
- The recognition of a right of use asset of \$33.9 million as a result of new accounting standards being adopted for the first time in 2019-20.

Liabilities

Total liabilities at year-end were \$322.8 million, an increase of \$26.0 million compared to the prior year.

The main contributors to this increase were:

- The recognition of a lease liability of \$40.6 million as a result of new accounting standards being adopted for the first time in 2019-20.
- An increase of \$25.7 million in borrowings used to facilitate corporate investment alongside clients in new mandates.
- Reduction of \$14.8 million in dividend declared at 30 June 2020.

- Reduction in amounts payable to employees of \$31.3 million.

Dividend

A dividend of \$44.2 million has been declared for the year which represents a dividend payout of 100% of adjusted net profit after tax.

Cash flows

Cash at year-end of \$158.0 million represents an increase of \$81.4 million when compared to the prior year.

Operating activities generated net cash inflows of \$141.2 million, an increase of \$90.4 million from the previous year. This increase is largely due to timing of the new fee agreement with Queensland government clients. A portion of 2018-19 invoiced revenue was received in 2019-20 in addition to revenue from the new agreement.

Cash outflows from investing activities this year were \$16.8 million and were consistent with the prior year. Investing activities include investments into QIC products, payments for corporate wide projects and payments for property plant and equipment.

Cash outflows from financing activities were \$42.3 million which includes the payment of the 2018-19 dividend.

Corporate entertainment and hospitality costs

QIC undertakes a variety of corporate entertainment and hospitality activities in its normal course of operations with clients. QIC operates in a commercial and competitive environment. These activities are solely for the purposes of building and maintaining relationships with existing and prospective clients and strengthening QIC's brand both domestically and internationally.

QIC has policies in place to ensure that corporate hospitality and entertainment expenditure is appropriate, reasonable and has identifiable commercial benefits.

As a Government owned corporation, QIC must disclose all corporate entertainment and hospitality costs greater than \$5,000.

| | | |
|---|------------|----------|
| Employee – mid-year function – Brisbane | 04/08/2019 | \$18,809 |
| Employee – year-end function – Brisbane | 22/11/2019 | \$22,203 |
| Employee – year-end function – Sydney | 29/11/2019 | \$5,858 |
| Employee – year-end function – Brisbane | 29/11/2019 | \$13,676 |

QIC OFFICE LOCATIONS

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