



# GROWING STRONG

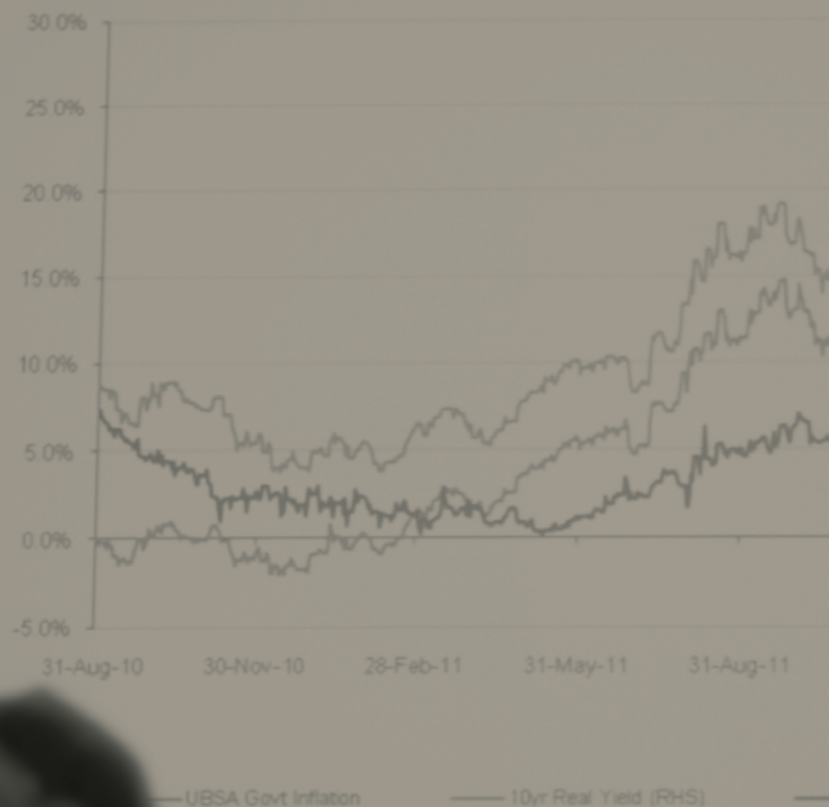
QIC

Annual Report 2012  
Dynamic Investment Solutions



# BUILDING ON OUR STRONG FOUNDATION FOR LONG-TERM **GROWTH**

government inflation index



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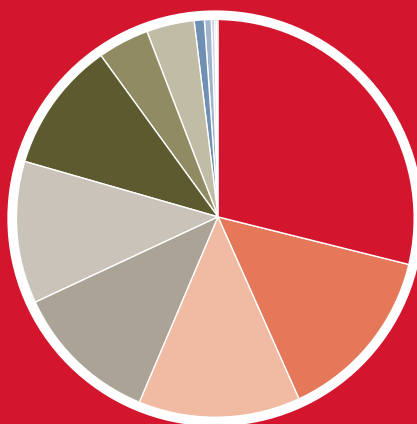
## About this annual report and contents

This annual report outlines QIC's achievements during the 2011-12 financial year. It describes who we are, our corporate strategy and objectives, and the role our people play in delivering strong investment results for our clients.



# QIC IS A LEADING PROVIDER OF DYNAMIC INVESTMENT SOLUTIONS

**Breakdown of funds under management as at 30 June 2012**  
Total \$64.7 billion



- Global bonds: 28.89%
- Cash: 14.67%
- Global direct property: 13.03%
- Infrastructure: 11.65%
- Australian equities: 11.22%
- International equities: 10.65%
- Managed funds: 4.10%
- Private equity: 4.02%
- Commodities: 0.71%
- Hedge funds: 0.71%
- Global REITs: 0.15%
- Biocapital: 0.11%
- Incubator assets: 0.05%

**21**  
years' experience

**With a strong foundation in Australia, our global presence extends to Asia, Europe and the United States**



San Francisco

Los Angeles

Fort Lauderdale



Thames Water, UK

**More than**  
**500**  
employees



Robina Town Centre, Gold Coast

# \$64.7

billion

in funds under management<sup>2</sup>



Port of Brisbane

# Third

largest institutional investment  
manager in Australia<sup>1</sup>



Powerco, New Zealand

# 13

Our client base comprises  
Australian and international  
investors and includes 13 of  
Australia's top 25 superannuation  
funds<sup>3</sup> and sovereign wealth funds

# 8

specialist boutiques

- <sup>1</sup> Rainmaker survey, March 2012.
- <sup>2</sup> As at 30 June 2012.
- <sup>3</sup> Rainmaker survey, March 2012.



# Chairman and Chief Executives' reports



From left to right:  
Peter Young,  
Doug McTaggart  
and Damien Frawley

## Peter Young AM Chairman

Notwithstanding the travails of investment markets and investment managers around the world, QIC has had another solid year increasing funds under management to \$64.7 billion, making us the third largest institutional fund manager in Australia.

Reflecting this growth in funds, QIC remains in a strong financial position with net assets of \$111 million and no debt. Our net profit after tax for the year was \$26.7 million resulting in the declaration of a \$16 million dividend to the Queensland Government.

We are grateful for the support we have received from our shareholding Ministers and we will ensure we have a constructive relationship with the new Queensland Government. QIC also enjoys excellent relations with Queensland Treasury and Trade and the Office of Government Owned Corporations and is indebted to both organisations for their assistance and counsel.

I would like to thank Doug McTaggart for his outstanding stewardship over the past 14 years. Doug has been instrumental in transforming QIC into the commercial and growth-oriented organisation it is today, and his dedication and vision leave us in a strong position to embrace the challenges of tomorrow. It is typical of Doug that in his final annual report he has claimed no responsibility for QIC's success. I have no hesitation in saying that it was Doug's steady hand that steered QIC to the position it finds itself today and we are indebted to him.

During the year we welcomed two new directors to the Board. Their professional experiences will ensure that QIC continues to have an excellent diversity of skills to assist in our ongoing success.

In July 2012 we welcomed Damien Frawley as QIC's Chief Executive Officer. We are fortunate to have attracted a CEO with Damien's leadership skills and asset management experience and the QIC Board and team look forward to working with him.

Peter Young AM

## Doug McTaggart Chief Executive 1998 – June 2012

QIC is a wonderful success story; a genuine quiet achiever. This annual report is testament to QIC's success and includes references to the company's achievements, its impressive scale and the breadth of its activities.

Fourteen years as Chief Executive have provided me with a unique perspective to identify and reflect on the factors that have been instrumental to QIC's success.

QIC would not be the organisation it is today were it not for the original vision and consistently positive support of our shareholder, the Queensland Government. Equally, it is thanks to our clients that I have the opportunity to write in this, QIC's 21st annual report. I acknowledge the commitment these groups have shown to QIC and hope they join in celebrating its ongoing success.

But the group I particularly want to single out in my last annual report is QIC's employees, past and present.

To the QIC team: I am proud of what you have achieved and am filled with admiration for the intellect, energy and discipline you've invested at QIC. Thank you for building QIC into such a respected funds management company and for the privilege of being your CEO.

Doug McTaggart

## Damien Frawley Chief Executive from July 2012

I congratulate Doug on his achievements at QIC over the last 14 years. His commitment to innovative thinking has positioned QIC as a growth-oriented, specialist asset manager with a long-term commitment to producing strong investment results for its clients. I look forward to continuing to work closely with our clients and helping them navigate the challenging investment markets.

I am delighted to be joining QIC at this point in its evolution. Earlier this year the Board approved an ambitious corporate strategy, which reinforces our commitment to grow, diversify and sustain. Fulfilling the Board's targets over the next three years will see us add investment capabilities and expand into new markets for the benefit of our clients, our shareholders and our people. This year QIC intensified our strategy toward long-term ambitions in China, Europe and the United States, to access new trading capabilities for existing clients and to expand our international client base.

It is a great time to be part of the QIC team, with our commitment to the new strategy creating opportunities for all employees to grow and develop. As the new CEO I look forward to the opportunity of working with you.

Damien Frawley

## About QIC

QIC is a leading provider of dynamic investment solutions for sovereign wealth funds, superannuation funds and other institutional investors. Established in 1991 by the Queensland Government to manage its long-term investments, we have grown to be the third largest institutional investment manager in Australia, with more than 90 local and international clients and \$64.7 billion in funds under management.<sup>4</sup> With a strong foundation in Australia, our global presence also extends to Asia, the United Kingdom, Europe and the United States.

As a house of specialist investment boutiques we offer practical investment solutions across a wide range of asset classes, as well as strategic solutions at the whole-of-fund level. Our multi-boutique model supports our strong alignment with meeting and exceeding our clients' objectives.

### Our mission and vision

Our mission is to deliver dynamic investment solutions for our clients with passion and integrity.

Our vision is to be the leading Australian based global fund manager, known for investment excellence, forward thinking, execution, and commitment to client outcomes and our people.

### Our values

**Passion** – for our clients, our people and our business

**Engagement** – with our clients, colleagues and stakeholders

**Innovation** – constantly adapting

**Excellence** – expect nothing less

**Achievement** – delivering what we promise

### Grow. Diversify. Sustain.

In working towards our vision, we aim to be recognised in the market as:

- an independent, growth-oriented investment manager
- a preferred partner to sovereign investors
- a leading, specialist asset manager
- managing for the long term.

## Measuring our performance

Corporate and individual performance is measured against four key criteria in a KPI scorecard.

### Results from 2011-12

#### Financial performance

QIC had a strong financial year exceeding the majority of our financial targets and posting higher operating profit after tax than budgeted.

#### Client and market

We delivered strong investment performance for our clients, which resulted in above target performance fees. Client retention was high and we achieved good results in surveys that measure our client service and investment performance.<sup>5</sup>

#### Process and governance

QIC met governance targets and provided continued evidence of a strong risk culture.

#### Talent and culture

Our people practices focus on managing risk and driving high performance. Every QIC employee has stretch KPIs and development plans in place. Retention of high-performing employees is above target and engagement levels across QIC have significantly increased, now placing QIC in AON Hewitt's Best Employer category.<sup>6</sup>

<sup>4</sup> As at 30 June 2012.

<sup>5</sup> Peter Lee Associates Investment Management Survey 2012.

<sup>6</sup> 2011/2012 AON Hewitt engagement survey benchmarked to AON Hewitt's Best Employer 2011 results.

# SOLID PERFORMANCE IN A CHALLENGING MARKET

## Performance highlights

### Accolades

QIC Global Real Estate was again ranked the number one unlisted property manager for investment strength, having retained the top position since 2009.<sup>7</sup>

QIC Global Fixed Interest has ranked in the top three institutional investment managers for domestic fixed income investment strength since 2007.<sup>8</sup>

QIC's flagship fund, the QIC Growth Fund, was the top ranked fund in its category over two, three, five and seven years.<sup>9</sup>

In November 2011, Castle Towers, QIC Global Real Estate's retail property located in Castle Hill, Sydney, was recognised at the International Council of Shopping Centres Asia Maxi Awards held in Shanghai, China, where it won the coveted gold award in the Sales Promotion and Events category.

### Our people

QIC director, Dr Maurice Newman AC, was awarded the Financial Services Institute of Australasia Pinnacle Award for Most Outstanding Industry Contribution, in October 2011.

Managing Director Global Fixed Interest, Susan Buckley, was awarded the Hudson Private and Corporate Sector Award at the 2011 Telstra Business Women's Awards in Queensland.

<sup>7</sup> Peter Lee Associates Investment Management Survey 2009, 2010, 2011, 2012.

<sup>8</sup> Peter Lee Associates Investment Management Survey 2007-12 (ranked number one for Australian fixed income in 2007-10, ranked number two in 2011 and number three in 2012).

<sup>9</sup> Chant West Implemented Consulting Survey Growth (61-80%) to 30 June 2012.



## Grow. Diversify. Sustain.

In 2011-12 we grew our institutional client base to more than 90 local and international clients.

QIC Global Real Estate completed the acquisition of Noosa Civic Centre and the remaining (50 per cent) portion of A-grade office tower, 52 Martin Place in Sydney, further enhancing its blue ribbon portfolio of investments.

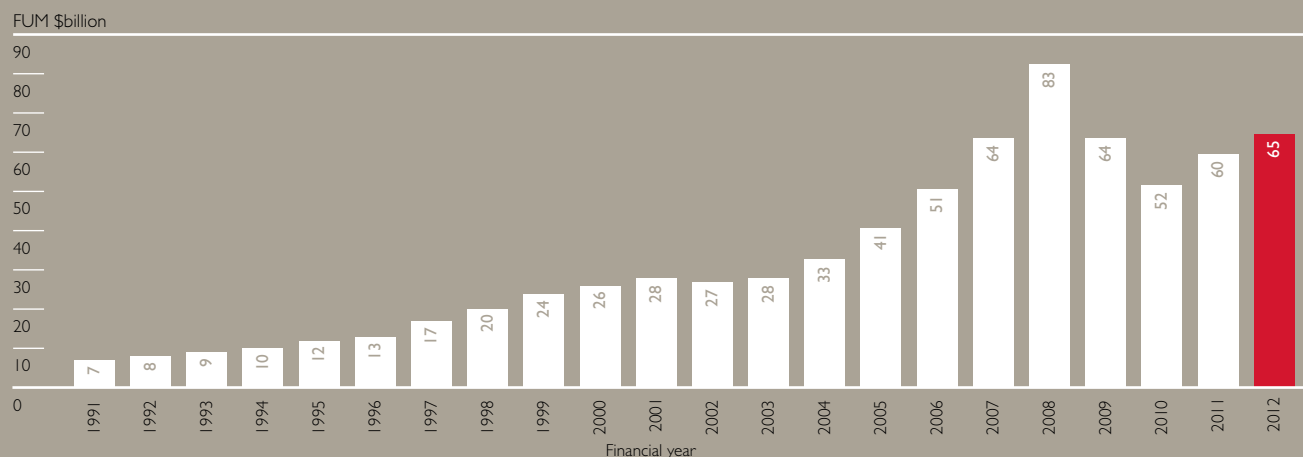
QIC Global Private Equity was appointed to manage a large private equity portfolio, bringing the boutique's portfolio of funds and co-investments to \$3 billion. This makes it one of the largest such portfolios in the region.<sup>10</sup>

Two subsidiaries of QIC were registered as investment advisers with the Securities and Exchange Commission in the US, and a UK-based subsidiary of QIC also received authorisation from the Financial Services Authority in the UK. These regulatory approvals allow us to better service our clients by offering access to new markets and trading capabilities as well as real-time global market information. It also provides QIC with a platform to promote investment products to institutional clients in the US and UK/Europe.

## Financial performance

- Pre-tax profit  
**\$38.6 million**
- Dividend payable to Queensland Government  
**\$16.0 million**
- Funds under management  
**\$64.7 billion**

### Funds under management 1991 – 2012



<sup>10</sup> Rainmaker survey, March 2012.

## House of Boutiques

QIC is structured as a House of Boutiques, which combines the specialist skills of eight sector-specific boutiques with the backing of a well-resourced investment management organisation.

This structure provides a number of benefits:

- a strong focus within each boutique on delivering best-in-class investment solutions
- the flexibility for each boutique to take advantage of investment opportunities as they arise, within applicable risk parameters
- a powerful platform to attract, motivate and retain high-calibre investment professionals.

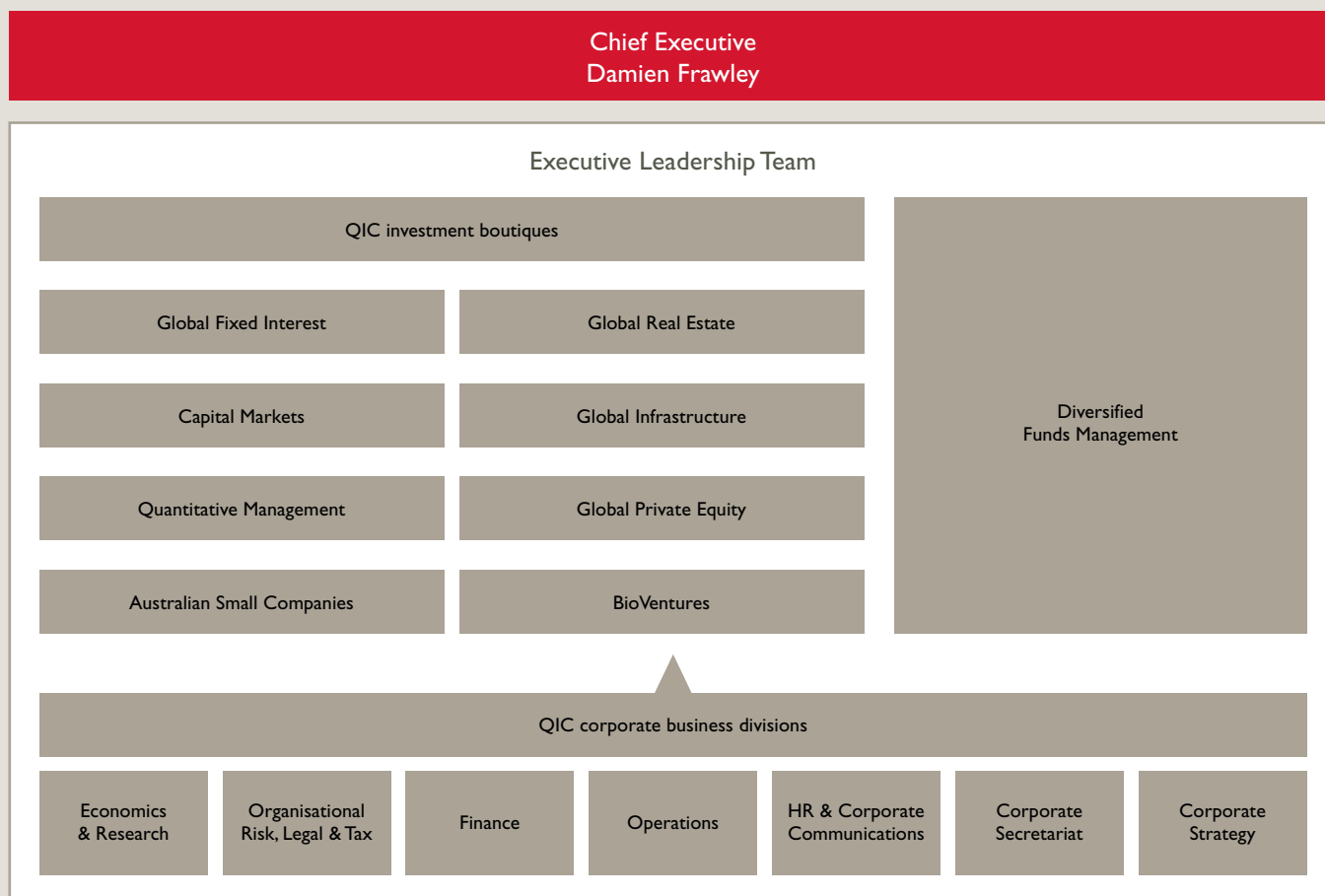
In addition to our boutiques, QIC Diversified Funds Management provides whole-of-portfolio services to our multi asset class clients.

Our investment capabilities are supported by:

- strong risk and compliance disciplines, resourced by a specialist team
- a robust operational and technology infrastructure and finance function
- an Economics and Research team to provide local and global market and economic insights
- centralised corporate strategy and human resources functions to optimise our strategic direction and develop our high-performance culture
- a strong balance sheet to support our boutiques and our future growth.



## QIC organisational chart







Noosa Civic

QIC Global Real Estate (QIC GRE) is one of Australia's leading real estate investment managers measured by both investment performance and client satisfaction.<sup>11</sup> We combine real estate experience with strict corporate governance protocols to produce strong results for our clients.

- Continuing a track record of outperformance every year since inception, our flagship fund, the QIC Property Fund, outperformed its benchmark (the Financial Standard Wholesale Direct Property Index (excluding QIC)) by 0.79 per cent for the financial year to end June 2012.
- In 2012, QIC GRE was ranked as the number one unlisted property manager by clients and consultants in the Peter Lee Associates Investment Management Survey 2012. This is the fourth consecutive year that QIC GRE has achieved the number one ranking.
- We continue to focus on actively managing the real estate assets in our portfolio. In 2012, we completed more than 500 lease deals, finalised the acquisition of Noosa Civic Centre and acquired the remaining portion of 52 Martin Place in Sydney.
- We now manage real estate investments on behalf of 32 clients including eight of Australia's largest superannuation funds, six international clients and four sovereign wealth funds.<sup>12</sup>
- As we move forward, we will continue to focus on our clients and fund performance. As part of this, we will seek to launch new products that will provide significant opportunities for clients to invest in the Australian and US property markets.

# 500

lease deals completed  
in 2011-12.

<sup>11</sup> Peter Lee Associates Investment Management Survey 2012.

<sup>12</sup> As at 30 June 2012.

# QIC Global Fixed Interest

QIC Global Fixed Interest (QIC GFI) offers clients innovative investment strategies across the spectrum of global fixed interest solutions including absolute return, inflation, cash, credit and traditional benchmark-aware portfolios.

- We manage global fixed interest mandates on behalf of 57 clients with over \$54 billion in total exposures.<sup>13</sup> Our clients include superannuation funds, insurance endowment charities and wholesale multi-managers.
- Our global team combines experience and innovation to deliver superior returns for clients within a rigorous risk framework.
- 2011-12 was a challenging year in fixed interest markets. We faced strong headwinds from around the globe and saw the Reserve Bank of Australia cut its official cash rate, while three and 10-year bond yields reached historically low levels. The UBS Composite Bond Index returned a staggering 12.4 per cent for the financial year reflecting the risk-aversion of investors.
- Despite challenging market conditions, relative investment performance across cash, inflation and benchmark-aware strategies was broadly in line with expectations over the year. We welcomed 10 new client mandates, with the QIC GFI Inflation Plus strategy gaining traction in the domestic market, and also saw marked interest in opportunistic credit mandates.
- During the year we took the opportunity to streamline the team structure and evolve our risk management process. This will ensure that as our client base grows, all our clients continue to benefit from strong returns and downside risk management.
- In the coming year, QIC GFI will continue to focus on delivering returns in line with client expectations. We believe the current volatility in global bond markets can offer outstanding opportunities for investors with medium-term timeframes. Our focus will also be on extending our distribution capabilities in both the domestic and international arenas.

13 As at 30 June 2012.



# QIC Global Infrastructure

# \$6.5

billion in funds across  
15 global infrastructure  
investments.

QIC Global Infrastructure (QIC GI) is a leading provider of unlisted infrastructure investment solutions to superannuation funds and other institutional investors.

- We manage more than \$6.5 billion in funds across 15 global infrastructure investments including energy and water utilities, airports, toll roads and sea ports.<sup>14</sup>
- QIC GI delivered above benchmark performance for all our client mandates during 2011-12, notwithstanding ongoing volatility in global financial markets. We achieved this through our robust investment planning and evaluation processes, a focus on ongoing asset management, and a portfolio construction approach that seeks to deliver diversified portfolios to meet risk/return objectives.
- During the year we further diversified our clients' portfolios by committing to a number of investments in new sectors and geographies.
- Notable achievements by portfolio investments during the year include:
  - Brisbane Airport being named Australia's Best Airport for Quality of Service by the Australian Competition and Consumer Commission for the eighth consecutive year; and Best Regional Airport (Australia/Pacific) in the prestigious 2012 Skytrax World Airline Awards.
  - Powerco being named Lines Company of the Year 2011 at the Energy Excellence Awards, held annually to recognise achievements and excellence in the New Zealand energy sector.
- In the year ahead, we will continue to assist clients in achieving their investment objectives in unlisted infrastructure. We also expect to increase our team resources to manage a growing global portfolio.

Brisbane Airport

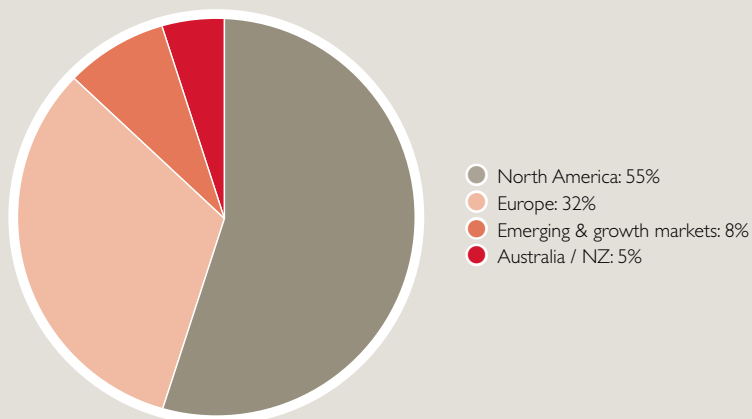
14 As at 30 June 2012.





# QIC Global Private Equity

QIC Global Private Equity portfolios June 2012



QIC Global Private Equity (QIC GPE) was established in 2005 and manages global private equity programs tailored for institutional investors. QIC GPE's total assets under management are \$3 billion.<sup>15</sup>

- Since inception, QIC GPE has returned net investment performance above its public market equivalents<sup>16</sup> and ahead of expectations. Investment strategies driving this performance include turnaround transactions, co-investments, distressed, growth and venture capital investments, and disciplined investing during the mega buy-out era of 2005-07.
- In an asset class where there is a large divergence of returns, the team has also demonstrated superior investment selection.
- Client portfolios are constructed to access the best opportunities globally. For example, client returns have benefited from access, via elite managers, to fast-growing companies including Facebook, Twitter and Living Social, together with companies addressing cloud computing and 'big data'.
- The QIC GPE team has over 70 years' global private equity experience, with staff located in Australia, Europe and the United States.
- Over the next 12 months, we will continue to drive clients' investment performance. We expect the portfolio under management to expand and accordingly are growing the team.

70 years'  
global private equity  
experience.

<sup>15</sup> As at 30 June 2012.

<sup>16</sup> MSCI World Index (developed markets).

# QIC Capital Markets

QIC Capital Markets is an implementation manager with a long history of managing strategic investment risks for clients through a range of market conditions.

- We partner with some of Australia's largest superannuation funds and institutional investors to implement stress-tested and customised risk management solutions to improve a fund's efficiency.
- Our solutions include total implementation, strategic currency management and specialist product development services with one central goal: to achieve investment outcomes that manage risk and improve performance for our clients.
- In 2011-12 we redesigned our team structure to define areas of specialisation. A key outcome was the creation of our Policy and Research team, responsible for developing and tailoring research for our clients' investment strategies and delivering innovation to our investment processes.
- Our key objective over the next 12 months is to continue partnering with clients as they seek to manage portfolio risk and maintain their fund's efficiency.



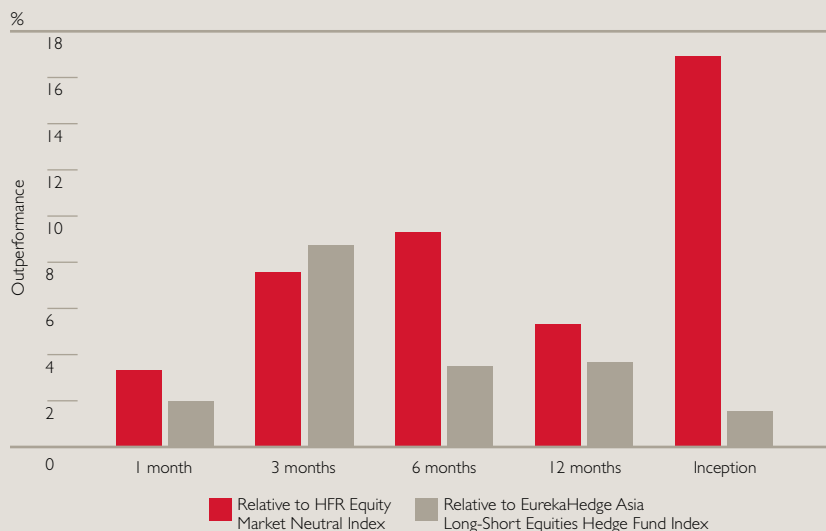
Tailoring research and delivering innovation for our clients' portfolios.



# QIC Quantitative Management

## QIC Asia Pacific Market Neutral Fund performance

Outperformance of peer benchmarks to end June 2012 – USD net



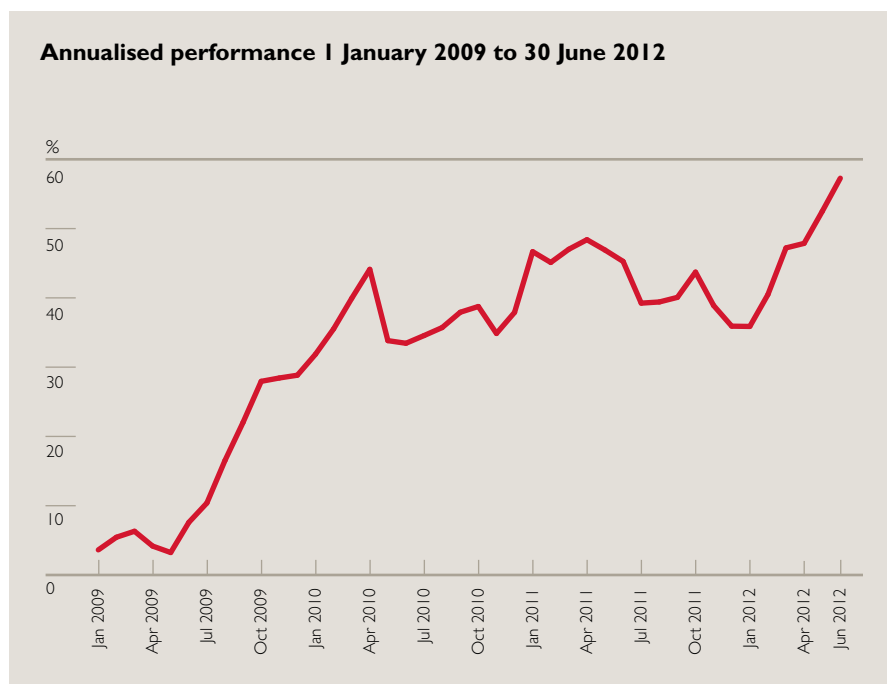
QIC Quantitative Management provides specialist systematic and quantitative investment solutions with a focus on delivering strong, risk-adjusted performance with low or no market exposure.

- The boutique manages the QIC Asia Pacific Market Neutral (APMN) Fund, which was launched in 2009 and uses a suite of stock-selection screens to capture alpha across the Asia Pacific region.
- The 2011-12 financial year was a turbulent one for financial markets, and continuing volatility resulted in a challenging environment for fundamental stock-picking processes. Notwithstanding this market backdrop, the APMN Fund significantly outperformed its peer benchmarks, as outlined in the chart above.
- The team spent time this year refining the fund's investment process, with a particular focus on improving underlying quantitative strategies, investigating new and more powerful quantitative factors and managing downside risk.





# QIC Australian Small Companies



QIC Australian Small Companies specialises in Australian small capitalisation equities. Since inception of the current investment team in January 2009, performance over the benchmark is 11.45 per cent.<sup>17</sup>

- The boutique's disciplined investment process focuses on long-term valuations, and our three-year track record of consistent performance has been delivered to clients via the QIC Active Small Companies Fund.
- Investment performance was aided in 2011-12 by robust financial modelling, with visits to companies we invest in and prospective companies assisting the valuation process and contributing to stock selection.
- As we move into 2012-13, we will continue to engage with clients and their consultants and seek to maintain strong performance.

Delivering consistent performance since inception.

<sup>17</sup> Annualised performance from 1 January 2009 to 30 June 2012, S&P/ASX Small Ordinaries Accumulation Index.





QIC BioVentures (QBV) is QIC's venture capital arm, investing in and actively managing companies in the biotechnology sector.

- QBV manages the Queensland BioCapital Funds No. 1 and No. 2 (collectively termed QBF) which were established in 2002 and are fully invested over 17 portfolio companies.
- Our portfolio companies commercialise early-stage technologies primarily in the fields of medical devices and drug development. They offer demonstrably sound science, strong intellectual property and the potential to develop a well-differentiated product that attracts a sizeable market.
- We seek to take an active role in managing the portfolio company, with a significant equity position in the form of preference shares with specified rights.
- In 2004 QBV established a subsequent fund, Innovis Investments Australia Fund, which has invested in eight companies. We are also a general partner for the Innovis Investments LP (USA) and manage a limited partner relationship with HealthCare Ventures IX.
- Originally a ten-year closed-end venture capital fund, the QBF have been granted an extension. Over the next two years we will continue our focus of maximising value for all funds under management through successful company exits.



# A HIGH PERFORMANCE CULTURE WHICH MAKES A DIFFERENCE

## Our people

### Our people drive our results

Our people are the foundation of our success, and that of our clients.

We attract and retain some of the best investment professionals in the industry. We have a strong retention record driven by challenging work, reward aligned to high performance, and regular development opportunities, which enable our people to build successful careers at QIC.

By identifying talent and helping our employees develop their potential, we ensure we have the capability required to continue delivering on our clients' expectations. QIC employees have access to a range of study assistance options and co-funded learning programs to ensure they stay at the forefront of their professions. Our most senior talent has access to tailored executive coaching sessions and learning programs.

We challenge our people to outperform and their annual performance goals are aligned to our clients' interests through individual balanced scorecards. Short and long-term remuneration outcomes for individuals are linked to the delivery of sustainable business practices and long-term investment returns.

We have responsible remuneration practices in place and decisions are overseen by the QIC Board. QIC proactively manages our people risks and adopts a 'three lines of defence' approach, with oversight from appropriate governance committees. You can read more about this on page 24.

We actively identify key talent via our leadership pipeline and develop succession plans for all key roles. This year we invested in a 360-degree leadership development program for all senior managers; these one-on-one coaching sessions were designed to improve leadership capability at QIC and drive up employee engagement.

After 12 months' employment, QIC employees may apply to receive financial study assistance when undertaking an approved program of study, including postgraduate and bachelor's degrees. In addition, QIC will co-fund special short-term learning opportunities at prestigious institutions considered to be market leaders in executive or financial services education. These opportunities are open to our highest performers and emerging leaders to ensure we develop well-rounded executive talent.





### QIC becomes one of Australia's Best Employers

Over the last two years we have been on a journey to create a high performance culture at QIC. This focus on creating a healthy culture of performance and accountability has seen employee engagement rise by 22 per cent, and has resulted in QIC being included as one of AON Hewitt's Best Employers.<sup>18</sup> We are very proud of this achievement and are committed to supporting our employees as they become the best they can be at QIC.

Some of the initiatives that have benefited QIC employees in the last two years are:

- Increased opportunities for employees to support their local communities by connecting teams and individuals with a number of national charities via QIC's relationship with Queensland Community Foundation (QCF). QCF is a charitable organisation responsible for building a permanent trust fund to generate a continuous income stream for a range of Queensland charities. Our Community Day scheme provides a paid leave day to encourage employees to volunteer in their community.
- A highly successful employee health and wellbeing program to encourage peak performance. This has included activities such as health seminars, onsite group fitness activities and a subsidy to support employees to undertake a wellness activity of their choice.

<sup>18</sup> 2011/2012 AON Hewitt engagement survey benchmarked to AON Hewitt's Best Employer 2011 results.



#### CASE STUDY

### We lend Ronald McDonald a helping hand!

QIC's Finance team took advantage of our Community Day to help out at Brisbane's Ronald McDonald House, and make a small difference to families staying at the home while receiving medical treatment. The team cooked a BBQ lunch, helped out with some much needed gardening and indoor cleaning, and completed some outstanding painting.

Ronald McDonald House Charities is an independent, non-profit organisation, which helps seriously ill children and their families when they need it most. Chief Financial Officer, Claire Blake, said the team had a fantastic day and the Ronald McDonald House staff and residents really appreciated the extra support.

"It was wonderful to give something back to the community and to help complete some big jobs around the house. It was also great to spend some time out of the office bonding as a team. The teamwork displayed by the Finance team on the day was fantastic."

# Corporate governance

QIC's active Board, committees and tailored policies and standards provide the perspective and structure for efficiency and integrity in corporate governance.

Our practices are benchmarked against best practice corporate governance principles and comply with the Corporate Governance Guidelines for Government Owned Corporations issued by the Queensland Government, which are largely based upon the ASX Corporate Governance Principles and Recommendations with 2010 Amendments (Second Edition).

In this section, we have summarised our operating environment and the roles, processes and practices in place at QIC to ensure the interests of shareholders, clients, staff and other stakeholders are actively managed.

## Corporate governance during 2011-12

During the 2011-12 financial year, the Board focused on a number of specific governance arrangements including:

- refining our policy, standard and procedure framework, monitoring our key risks register, and overseeing a peer comparison review of our risk management activities
- reviewing business health check outcomes
- reviewing our work health and safety accountabilities and compliance framework
- monitoring the project and change management activity around the implementation of the Target Operating Model (our new operating platform).

## Our regulatory environment

QIC Limited is a company government owned corporation (GOC) constituted under the *Queensland Investment Corporation Act 1991* (Qld) (QIC Act). QIC is regulated by Queensland State Government legislation pertaining to GOCs, the *Government Owned Corporations Act 1993* (GOC Act), in addition to the *Australian Corporations Act 2001* (Corporations Act).

QIC 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. However, QIC has adopted key compliance and governance policies to operate on a consistent level to that of licensed institutions. QIC uses a number of subsidiaries to conduct our investment activities. These entities are not exempt from any part of the Corporations Act and, where required, hold AFS licences.

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

Two QIC subsidiaries are also registered investment advisers with the US Securities and Exchange Commission, with another QIC subsidiary authorised with the UK Financial Services Authority. These registrations and authorisations allow QIC to conduct investment activities within the scope of the relevant authorisation or registration from our US and UK offices.

## Our shareholders

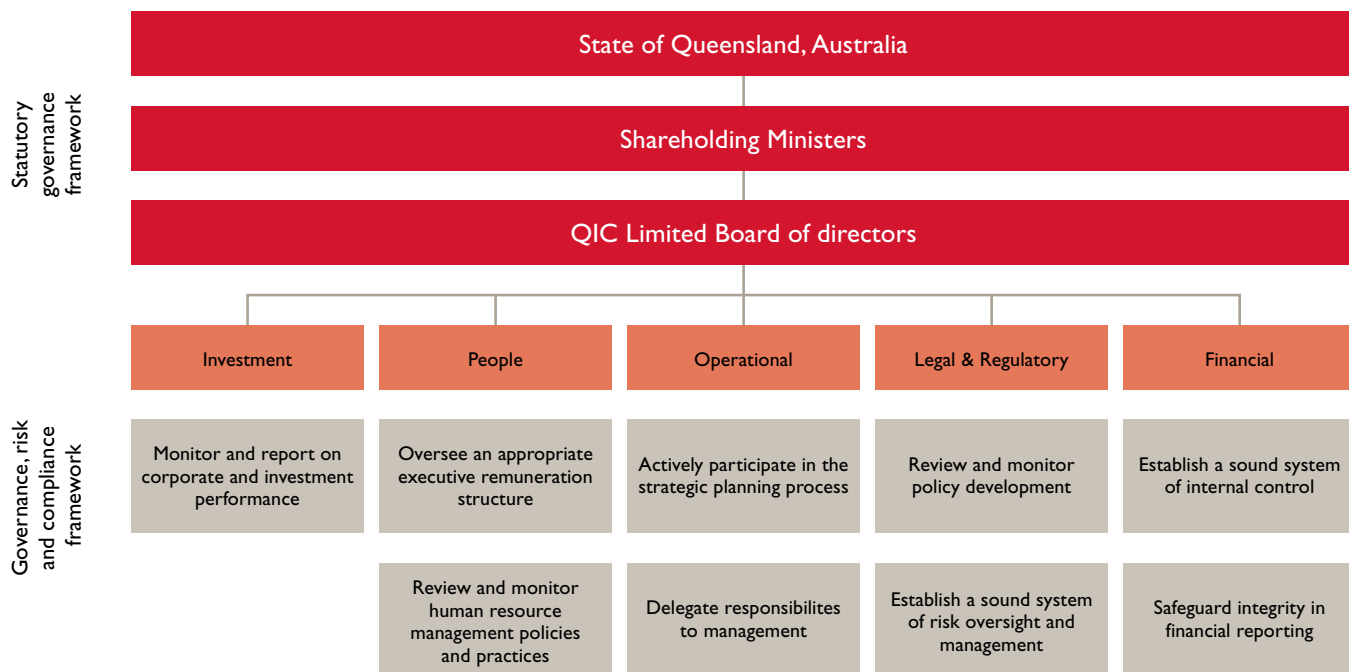
As a Queensland GOC, QIC's shareholding Ministers are the Honourable Campbell Newman MP, Premier and the Honourable Tim Nicholls MP, Treasurer and Minister for Trade. QIC reports to shareholding Ministers and regularly liaises with the Office of Government Owned Corporations (OGOC) to inform our shareholding Ministers on various matters as required by the QIC Act, the GOC Act and other government guidelines. QIC aims to provide our 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) and a Corporate Plan for our shareholding Ministers' approval. Both of these documents are based on comprehensive strategic planning 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

FIGURE 1. Corporate governance framework



In accordance with the GOC Act, QIC's Board is appointed by the Governor-in-Council. Prior to appointment, a background screening process is undertaken for each director.

Upon appointment, new directors receive a detailed letter of appointment and participate in a comprehensive induction program designed to familiarise them with QIC's business, strategy, structure, operations and board committees. Directors appointed to board committees also participate in committee specific induction programs.

The Board comprises eight non-executive directors, all of whom are considered by the Board to be independent, as measured generally against the ASX Corporate Governance Principles and Recommendations with 2010 Amendments (Second Edition). 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. In assessing the independence of directors, the following factors are considered:

1. Whether, in the last three years, the director has been employed in an executive capacity by QIC.
2. Whether, 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. Whether the director is a material supplier; a customer of QIC or associated with a material supplier or customer.
4. Whether a material contractual relationship exists between QIC and the director, other than in their capacity as a director.
5. Whether 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 accounting standard *AASB 1031 Materiality*. In line with this standard, a relationship may generally be considered material when, over a 12-month period, it represents more than ten per cent of fee revenue or more than ten per cent of costs (excluding salary expense) 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 convincing argument to the contrary. When the quantum represents between five and ten 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.

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, responsibilities and powers 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 generally made up of executive directors. The exceptions are subsidiaries that carry out regulated activities, which include non-executive directors.

Directors, the Chief Executive 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 and the Corporations Act that relate to the duties and liabilities as officers of a company GOC. Officers also have common law duties, 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 Chairman commits further time and meets with the Chief Executive on a regular basis.

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 and the Executive Leadership Team (ELT). The Chief Executive is appointed by the QIC Board with the prior written approval of the shareholding Ministers. Senior executives are appointed by the QIC Board. In accordance with the GOC Governance Arrangements for Chief and Senior Executives (February 2009), candidates must disclose any shareholdings or trading and property ownership that may create a conflict of interest. An independent probity review, insolvency check and criminal history check are also undertaken. The Board ensures that this team is appropriately qualified and experienced to discharge its responsibilities, and has in place procedures to assess the performance of the Chief Executive and the ELT, which are outlined in the 'Alignment of performance with remuneration' section on page 25.

QIC has established policies and procedures designed to ensure that directors, management and staff 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:

- 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 Policy
- 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. The Code of Conduct and Ethics is further supported by an Employee Complaints, Grievances and Disputes Policy and Corporate Procurement Plan. Training on specific policies is also provided as required. An overview of these policies is included in the Corporate Induction Program. The policies apply to employees of QIC and its subsidiary companies, and contractors.

To identify and resolve any conflicts of interest, directors must disclose actual, perceived and potential conflicts and may be excluded from participating in Board matters where a conflict exists. QIC's trading policy is incorporated in the Code of Conduct and Ethics and the Conflict of Interest Policy. QIC, on behalf of its clients, takes holdings in listed securities and, while security selection decisions are made by QIC's investment boutiques (within the guidelines of investment mandates) and not the Board, the directors disclose trading in listed securities where QIC (as a group) holds more than four per cent.

All staff 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 and property 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 is of the opinion that each existing Board committee is reliable and competent to exercise the power delegated to it by the Board.

Committee membership is determined by individual skill and experience. Each committee has a formal charter and generally meets at least quarterly. The Chief Executive and Company Secretary attend all Board and committee meetings. Upon request, other senior executives and managers are invited to attend.



The Audit & Risk Committee, comprising Bronwyn Morris (Chair), Lyn Gearing, Bradley Bowton, Grant Murdoch and Ken MacDonald, supports the Board by reviewing matters relevant to QIC's operations, including monitoring the controls that safeguard the integrity of QIC's financial reporting and compliance with tax and other regulatory obligations. The committee considers the GRC framework and monitors its relevance to QIC's current risk exposures, the risk appetite statement and future risk strategy. The committee also monitors internal and external audit functions.

The committee aims to ensure that financial controls and systems address key business risks and are of a high standard. Members have significant experience across the accounting, legal, financial services, management consulting and superannuation sectors.

Internal Audit provides management and the QIC Board with an independent risk-based examination of controls operating within QIC and advises on any remedial action required. The committee monitors and considers reports from internal audits and monitors any resulting remedial action. The scope of Internal Audit is driven by a risk-based assurance framework, which includes key business activities across all divisions. Deloitte provides the internal audit services to QIC and was appointed as internal auditor for a three-year term from 1 July 2012. For the previous term Ernst & Young provided this service.

The Auditor-General of Queensland is the external auditor of QIC Limited and its controlled entities in accordance with the *Auditor-General Act 2009*. The Auditor-General of Queensland has also been appointed as the external auditor on a number of trusts on a by-arrangement basis or in accordance with the *Auditor-General Act 2009* where that trust meets the definition of a public sector entity. KPMG has been appointed as external auditor of a number of companies and trusts within the QIC Private Capital investment structure for a three-year term, commencing with the audits relating to the years ending 31 December 2012 and 30 June 2013. KPMG and PwC were also external auditors for a number of trusts within the QIC Private Capital investment structure relating to the year ended 30 June 2012.

The committee considers external audit reports and management letters, and monitors management's response to these reports. The committee periodically meets separately with the internal and external auditors in the absence of management. The auditors are also permanent invitees to Audit & Risk Committee meetings.

The committee has specific policies relating to the oversight and management of internal and external auditors' independence. Internal and external auditors are not permitted to provide services where the auditors have a mutual or conflicting interest with QIC, are in a position where they audit their own work, function as management of QIC or have their independence impaired or perceived to be impaired in any way. Both the internal and external auditors are required to comply with QIC's Auditor Independence Policy and provide an annual explicit declaration of independence to the committee.

In performing its functions, the committee provides recommendations to the Board on the risk tolerance, risk framework and policies relevant to managing specific risk sectors within QIC's GRC framework.

The committee also considers issues and audit programs relevant to reviewing the effectiveness of the design and operation of QIC's GRC framework including internal controls.

The HR & Remuneration Committee, comprising Ken MacDonald (Chair), David Usasz, Maurice Newman and Peter Young, considers matters relating to human resource management policies and practices, including staff remuneration, performance management, occupational health and safety, organisational structure and design and succession planning at the senior executive level and for other business-critical roles.

## Other committees

QIC's Chief Executive is Chairman of the Executive Leadership Team (ELT), which consists of the Chief Executive and the senior executives. It is a forum to address strategic corporate issues, including major projects and change management, and provides assistance and advice to the Chief Executive, the Chairman and the Board.

QIC has the following management committees to support the Board:

- The Valuation Committee reports to the Audit & Risk Committee and is responsible for the QIC Group Investment Valuations Policy, investigating and resolving valuation discrepancies and issues and monitoring the assurance framework adopted for valuing investments.
- The Financial Statements Review Sub-committee supports the Audit & Risk Committee in satisfying its charter in relation to financial reporting. It does this by undertaking the financial statements review process for specific QIC entities and fulfilling a review function for the Audit & Risk Committee in relation to those financial statements.
- The Debt Committee reviews current facilities and future debt requirements within QIC products to ensure debt facilities are managed prudently and in an efficient manner. The committee continually monitors and reviews, where appropriate, changes to the Board-approved Debt Governance Policy and Product Debt Management Guidelines. The Audit & Risk Committee monitors compliance with the Debt Management Guidelines.
- The Risk Oversight Sub-committee oversees key risks within QIC and ensures they are adequately identified, measured and reported. The sub-committee has oversight of risk management activities across QIC to ensure they are in line with client, stakeholder and regulator expectations as well as industry good practice.

## Risk management

The QIC Board places considerable importance on effective risk management and has adopted a framework designed to proactively identify, assess and manage risks.

The QIC Board has ultimate accountability for risks and is responsible for setting QIC's corporate strategy and risk appetite, identifying and monitoring risks that may affect our ability to achieve strategic objectives and ensuring that the Chief Executive and ELT are appropriately monitored and incentivised to manage the business effectively.

The QIC Board has put in place Board committees, as described on page 22, 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 at all times, and the Board actively promotes a culture of risk awareness, quality and integrity. QIC staff are required to observe a high level of professional conduct when undertaking their business activities and respecting our core values of passion, engagement, innovation, excellence and achievement.

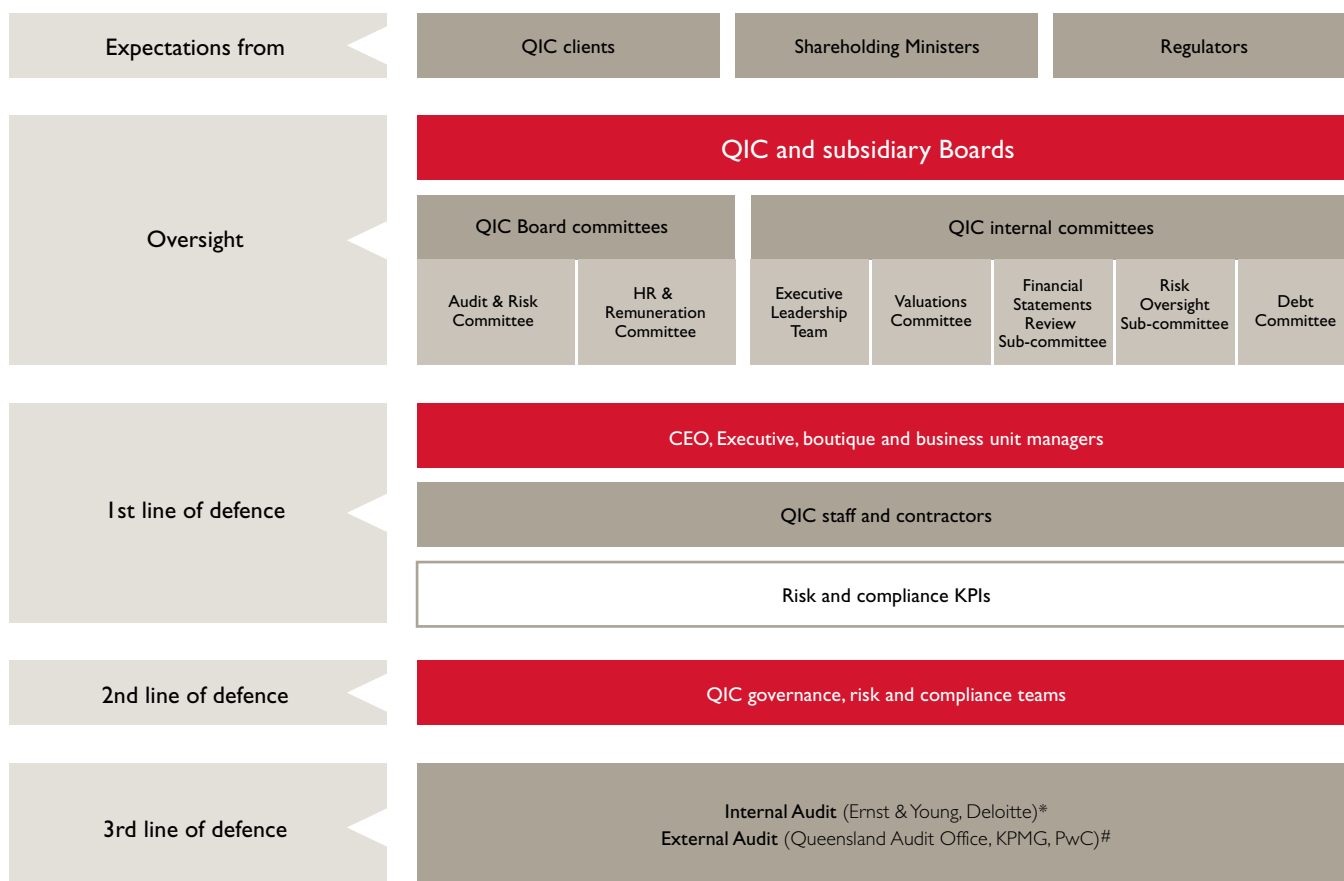
The Chief Executive, Chief Financial Officer, Chief Operating Officer and Managing Director Organisational Risk, Legal & Tax (ORLT) have declared, in writing to the Board, that QIC's risk management and control system is operating efficiently and effectively in all material respects, based on representations by management.

## Risk management approach

QIC adopts a 'three lines of defence' approach to managing risks and compliance obligations. The roles and responsibilities within our three lines of defence are shown in Figure 2.

**First line of defence:** Executives and staff within QIC's investment boutiques and supporting business units are accountable for identifying and effectively managing risks within their area of responsibility. Staff are required to report breaches and incidents, including uncontrolled risks, to the ORLT team. Management is required, as part of the monthly management reporting process, to report any risk events above a defined threshold that have been identified and any breaches of QIC policies, standards, laws, regulations and client commitments. Staff have key performance indicators that measure risk and compliance and are linked to their remuneration.

FIGURE 2. Three lines of defence



\* Ernst & Young to 30 June 2012, Deloitte from 1 July 2012.

# PwC was external auditor for a number of trusts in QIC Private Capital until 30 June 2012.

**Second line of defence:** ORLT, which reports directly to the Chief Executive, provides investment boutiques 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 and the Board with assurance that risks are being managed effectively and in accordance with QIC policies and standards, laws, regulations and client commitments. ORLT produces regular risk and compliance reports for the ELT, Board committees and the Board.

**Third line of defence:** Details of our external and internal audit arrangements are provided on page 23. The audit functions have direct, unfettered access to the QIC Board. The Audit & Risk Committee approves the annual internal and external audit program. The internal audit program adopts a risk-based approach to provide assurance over risk management and control activities across QIC. The results of audit reviews are reported to both the Audit & Risk Committee and management, who are held accountable for ensuring that recommendations made by our auditors are actioned.

### Governance, risk and compliance framework

QIC has a documented framework around our risk management and compliance obligations across a broad category of risk types including:

- strategic
- investment
- product
- project
- legal, tax and regulatory
- operational
- business continuity
- people
- financial
- compliance.

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
- the audited internal controls report
- the audited derivative risk statement
- applicable legislation.

### Alignment of performance with remuneration

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

QIC is required to balance competitive remuneration with controlled costs and accountability as a GOC.

QIC's remuneration practices must be competitive within the funds management industry to attract and retain the high-quality staff we need to give our clients market-leading investment services.

### Remuneration policies and practices

QIC's remuneration policies and practices must:

- align with business strategy
- be fair, equitable and sustainable
- be competitive against industry benchmarks
- discriminate between high and low performance
- comply with relevant legislation and GOC guidelines
- show clear methods of performance measurement, enabling staff 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 key performance indicators, which reflect stretch targets.

To measure individual contribution, a formal performance management program (PMP) exists for all employees, including the Chief Executive, whose performance review is undertaken by the Chairman. The program sets out processes for planning, communicating, monitoring and reviewing an employee's or team's performance and work-related behaviour.

An annual review of all employees, including the Chief Executive and senior executives, was undertaken during the year in line with the PMP framework.

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 the Queensland Audit Office and external benchmark providers.

### Ongoing assessment and approval of remuneration

The HR & Remuneration Committee advises the Board on appropriate levels of staff remuneration after conducting an annual review of corporate and individual performance and taking into account industry comparisons and independent advice. The Board then determines the remuneration of the Chief Executive and senior executives and advises the shareholding Ministers.

The Employment and Industrial Relations Plan is approved annually by our shareholding Ministers.

### Directors' fees

QIC directors are paid by way of fees for their services. The amounts, if any, are approved by our shareholding Ministers. Directors are not entitled to performance-based payments or retirement benefits.

### Board performance evaluation

The Board Charter details the process for the performance evaluation of the Board, Board committees and directors. A formal performance evaluation is required at least every two years, with the last review undertaken during 2010-11. This evaluation is undertaken through a formal questionnaire completed by each director; one-on-one discussions between each director and the Chairman and a full Board discussion encompassing the following topics:

- role of the Board, strategy and planning
- Board structure
- meeting processes
- subsidiary and committee reporting
- performance monitoring
- induction and continuing education
- Board and senior management behaviour and relationships
- individual competencies and contribution to the role
- suggestions to improve Board effectiveness.

The Chairman provides each director with feedback on their individual performance.

### Trustee stewardship

In undertaking the role of trustee of a number of investment trusts, QIC ensures that the trusts are administered and maintained in accordance with the relevant trust deed, legal requirements 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, the Company Secretary and the ELT. Subject to prior consultation with the Chairman, 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 environment affecting QIC. Directors are also encouraged to attend relevant conferences and seminars.

### Conflicts of interest

Our Conflict of Interest Policy applies to all QIC staff and contractors.

As outlined in the Conflict of Interest Policy, QIC staff 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. Staff receive specific training on the Conflict of Interest Policy and advice and guidance where required.

### Code of Conduct and Ethics

Our Code of Conduct and Ethics applies to the Board and all QIC staff. It reflects requirements specified by the funds management industry and Queensland public sector.

As outlined in the Code of Conduct and Ethics, 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 staff. QIC staff 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.

As a GOC, QIC is within the jurisdiction of the Queensland Crime and Misconduct Commission in relation to the investigation of official misconduct.

### Equity

Our Equity Policy applies to the Board and all QIC employees. QIC is committed to ensuring QIC staff are provided with a workplace free from any form of discrimination, harassment and bullying. QIC encourages diversity in the workplace; we believe it adds value to our business decisions through different perspectives and experiences.

QIC aims to achieve high standards in all our dealings consistent with our standing in the business and wider community. By meeting and exceeding these standards we believe that QIC is a better place to work, and as a result, better able to achieve our business objectives.

QIC acknowledges the recommendation with respect to a diversity policy and measurable objectives relating to gender diversity as contained in the ASX Corporate Governance Principles and Recommendations with 2010 Amendments (Second Edition). While this recommendation is not binding on QIC, we are working toward meeting best practice in this regard.

During 2011-12 QIC announced a number of activities to support our next generation of female leaders, including partnering with Women & Leadership Australia to become an Employer of Choice for women and funding two scholarship programs for 14 QIC women.

### Right to information

The *Right to Information Act 2009* does not apply to QIC Limited or its subsidiaries, except where it relates to community services obligations. We do, however, comply 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 (refer to the Corporate Governance Proxy Voting Report and Proxy Voting Policy which are available on our website).

### Insurance and indemnities

QIC maintains appropriate insurance cover with reliable underwriters to protect us from known quantifiable liabilities and risks where that cover is available. This cover includes asset protection, employee accident compensation, general public liabilities and financial loss.

The Board, ELT and staff 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
- the costs and expenses of defending legal proceedings arising out of conduct as described above.



## Directors' profiles

### Peter Young AM, BSc, MBA

Chairman appointed 1 October 2009

Over 30 years' experience in financial markets holding senior roles with major financial institutions in the international and Australian equity and debt markets.

**Chairmanships:** QIC Private Capital Pty Ltd, QIC Retail Pty Ltd, NSW Cultural Management Ltd.

**Directorships:** QIC Infrastructure Management No. 2 Pty Ltd, QIC Investments No. 1 Pty Ltd, Fairfax Media Limited, PrimeAg Australia Limited, RBS Morgan, Great Barrier Reef Foundation.

**Other appointments:** Advisory Council for RBS Australia, governor for Taronga Foundation, consultant to Standard Life Investments, Queensland Art Gallery Board of Trustees.

**QIC committees:** Member of the HR & Remuneration Committee.

Age: 67.

### Ken MacDonald BA(Hons), LLB(Hons), FAICD Deputy Chairman (non-executive) since July 1991 (first appointed to the Investments Board in 1989)

Consultant, Allens Linklaters.

**Chairmanships:** Highlands Pacific Ltd.

**Directorships:** QIC Retail Pty Ltd, QIC Private Capital Pty Ltd, QIC Infrastructure Management No. 2 Pty Ltd, QIC Investments No. 1 Pty Ltd, Deputy Chancellor, Bond University Limited.

**QIC committees:** Chairperson of the HR & Remuneration Committee, member of the Audit & Risk Committee, member of the QIC Shopping Centre Fund Advisory Committee.

Age: 62.

### Dr Maurice L Newman AC, FSIA, FSDIA, FAICD, Hon DBus Macq

Director (non-executive) appointed  
10 June 2004

**Chairmanships:** Australian Father's Day Council, Taronga Foundation, Melon Pastoral Pty Ltd, Bradman Foundation, Sydney Sixers Big Bash Franchise, Honorary Chair, Macquarie University Foundation.

**Directorships:** Port Kembla Port Corporation.

**Other appointments:** Advisor to the MMC Group of Companies (including Mercers Oliver Wyman), patron – Committee for Economic Development of Australia (CEDA).

**QIC committees:** Member of the HR & Remuneration Committee.

Age: 74.

### Bronwyn Morris BCom, FCA, FAICD

Director (non-executive) appointed  
1 July 2006

Chartered Accountant. Former partner of KPMG.

**Directorships:** Collins Foods Limited, Care Australia, The Royal Automobile Club of Queensland, Children's Health Foundation Queensland.

**Other appointments:** Member, Compliance Committee of the WorldMark South Pacific Club (a managed investment scheme developed and managed by Wyndham Vacation Resorts Asia Pacific Pty Ltd), Councillor of the Queensland Division of the Australian Institute of Company Directors.

**QIC committees:** Chairperson of the Audit & Risk Committee.

Age: 57.

### Lyn Gearing BCom, Dip Valuations, Certificate Business Studies (Real Estate), FAICD, FASFA

Director (non-executive) appointed  
24 April 2008

**Directorships:** Commonwealth Superannuation Corporation, The Garvan Foundation, Global Mining Investments Limited.

**QIC committees:** Member of the Audit & Risk Committee.

Age: 63.

### Bradley Bowton BSc, MBA

Director (non-executive) appointed  
24 April 2008

Founding director of CACE Partners.

**QIC committees:** Member of the Audit & Risk Committee.

Age: 51.

### David Usasz B. Comm, FCA

Director (non-executive) appointed  
10 November 2011

Chartered Accountant. Former partner of PricewaterhouseCoopers.

**Chairmanships:** Queensland Mining Corporation, Advisory Board – Carter & Spencer Group Pty Limited.

**Directorships:** Cromwell Property Group, Ambre Energy Ltd, Ambre Fuels Ltd, Urbis Pty Ltd.

**Other appointments:** Advisory Board member, Stanbroke Pastoral Company Pty Limited.

**QIC committees:** Member of HR & Remuneration Committee.

Age: 56.

### Grant Murdoch M. Comm (Hons), FCA, FAICD

Director (non-executive) appointed  
10 November 2011

Chartered Accountant. Former partner of Ernst & Young.

Director, Murdoch Corporate Finance Pty Limited.

**Chairmanships:** The Endeavour Foundation.

**Directorships:** Campbell Brothers, UQ Holdings Limited.

**Other appointments:** Senator, University of Queensland, Adjunct Professor, University of Queensland Business School.

**QIC committees:** Member of Audit & Risk Committee.

Age: 60.

# Financial performance overview

This is an overview of QIC's 2011-12 financial results and should be read in conjunction with the financial report.

## Profitability

	2012 \$M	2011 \$M	% change
Total revenue	259.1	241.8	7.2
Total expenses	220.5	192.4	14.6
Profit before income tax	38.6	49.4	(21.9)
Income tax expense	11.9	15.3	(22.2)
Profit after income tax	26.7	34.1	(21.7)

## Financial highlights

QIC's 2011-12 results reflect a pre-tax profit decrease of 21.9 per cent compared to last year:

- profit before income tax of \$38.6 million
- dividend payable to the Queensland Government of \$16.0 million
- funds under management of \$64.7 billion at 30 June 2012, with 49.7 per cent of those funds coming from non-whole-of-fund foundation clients. Whole-of-fund foundation clients are defined as those Queensland Government clients for which QIC has managed all investment monies since inception.
- cost to income ratio of 85.1 per cent, compared to 79.6 per cent in 2010-11.

## Revenue

Total revenue for the year was \$259.1 million, an increase of \$17.3 million or 7.2 per cent compared to last year.

Investment management fees from clients increased by \$5.8 million this year, reflecting an increase in funds under management across the year of \$4.5 billion.

Continued outstanding investment performance by individual boutiques during the year generated investment performance fees of \$38.2 million, an increase of \$11.4 million compared to last year.

Closing funds under management were \$64.7 billion, up by 7.5 per cent from \$60.2 billion at the start of the year. While net client cash flows were negative during the year, this was more than offset by net positive investment returns generating \$5.3 billion throughout the year.

In addition to asset management, QIC also provides investment advisory services to a range of clients. Including funds under management, total funds for which QIC provides investment management, advisory or other investment related services totalled \$134.1 billion at 30 June 2012, an increase of \$12.2 billion on the prior year.

Other revenue items remained largely unchanged from the prior year.

## Expenses

Total operating expenses were \$220.5 million, an increase of \$28.1 million compared to last year.

The majority of QIC's costs relate to investment in our employees, including fixed and variable remuneration, staff development and recruitment. At 30 June 2012, QIC's headcount was 500.1 full-time equivalent employees, an increase of 10.6 compared to last year.

The proportion of QIC staff employed in support business units was 42.9 per cent at year end, down from 43.4 per cent at the start of the financial year, with the remaining 57.1 per cent employed in the investment boutiques. This ratio will further move towards a higher proportion of staff being employed in the investment boutiques following the outsourcing of a range of activities to Northern Trust in 2012-13.

While spending in other expense categories was largely comparable to last year, QIC did recognise some one-off items.

- QIC is in the process of rationalising its office tenancies to generate long-term cost savings and efficiencies. This resulted in the recognition this year of a \$2.7 million onerous contract provision associated with sub-letting floor space.
- QIC is actively investigating and establishing investment capabilities in a range of offshore markets. This has included, among other things, licensing and registering subsidiaries, developing potential client relationships and investigating the establishment of investment structures. A range of costs associated with these undertakings was expensed this year.

### Balance sheet

Balance sheet highlights for the 2011-12 year include:

- net assets of \$111.0 million, a \$10.7 million increase compared to last year
- cash and cash equivalents of \$177.7 million.

### Assets

Total assets at year end were \$299.9 million. This represents an increase of \$23.5 million compared to last year. Major contributions were:

- an increase of \$16.3 million in corporate cash and cash equivalents, reflecting profits retained and earnings on investments during the year
- an increase of \$7.5 million in receivables as a result of higher performance fee revenue collectable at year end
- a decrease of \$3.4 million in intangibles and property, plant and equipment, reflecting comparatively low asset acquisitions during the year and normal depreciation charges

- an increase of \$3.4 million in deferred tax assets reflecting increased employee benefits not yet deductible, increased capital project expenses not yet deductible and the onerous contract provision identified on page 28.

### Liabilities

Total liabilities at year end were \$188.9 million, an increase of \$12.8 million. Major contributions were:

- an increase of \$3.2 million in payables, resulting from higher employee benefits payable at year end and higher general accounts payable and accrued expenses, offset by the lower dividend declared for the current year
- current and non-current provisions increased by \$13.7 million, reflecting the recognition of the \$2.7 million onerous contract provision identified on page 28 and higher employee benefits provided, including provision for staff redundancies associated with outsourcing a range of activities to Northern Trust.

### Dividend

A dividend of \$16.0 million has been declared for the year. This is a decrease of \$4.4 million compared to last year.

### Cash flows

Cash at year end was \$177.7 million, an increase of \$16.3 million compared to last year.

During the year, operating activities generated net cash inflows of \$41.7 million. The decrease of \$11.2 million compared to last year largely reflects increased operating expenses.

Cash outflows from investing activities this year were \$5.0 million, which is comparable to last year.

Cash outflows from financing activities were \$20.5 million, reflecting payment of the 2010-11 dividend.

### Statement of Corporate Intent

The table below depicts our performance against our 2011-12 Statement of Corporate Intent performance measures:

Financial results	2012	SCI target
Earnings before interest and tax (\$M)	<b>38.6</b>	26.5
Net profit after tax (\$M)	<b>26.7</b>	18.5
Cost to income ratio (%)	<b>85.1</b>	87.8
Non-financial results		
QIC Growth Fund – 5-year return against objective	<b>2.15%</b>	CPI + 4%
Work related injuries and illnesses <sup>1</sup>	<b>12</b>	0
Clients that rate QIC's investment advice as above average <sup>2</sup>	<b>100%</b>	70%
Current projects operating within approved budgets <sup>3</sup>	<b>100%</b>	100%

<sup>1</sup> Excluding incidents that occurred externally.

<sup>2</sup> Peter Lee Associates Client Satisfaction Survey 2011.

<sup>3</sup> Based on projects > \$100,000.

### Corporate entertainment and hospitality costs

In the process of servicing our clients, QIC undertakes a variety of corporate entertainment and hospitality activities. We operate in a commercial environment and these activities are solely for the purposes of building and maintaining relationships with existing and prospective clients and strengthening QIC's brand. QIC has policies in place to ensure our corporate hospitality and entertainment expenditure is appropriate, reasonable and has identifiable commercial benefits.

Attendees at corporate entertainment and hospitality functions hosted by QIC during the year were primarily client representatives and not QIC employees.

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

Event	Date	Cost \$
Staff function: Family day	7 August 2011	23,899
Client function: Golf day	26 August 2011	11,470
Client function: Caulfield Guineas	8 October 2011	27,385
Staff and client functions: QIC 20th anniversary celebrations	13 October 2011 and 2 November 2011	102,640
Staff functions: Christmas	25 November 2011 and 9 December 2011	40,931
Client function: Tennis	8 January 2012	5,824
Mother's Day Classic	12 May 2012	19,765
Client function: Archibald Prize exhibition	23 May 2012	6,948



# Glossary

**Absolute return:** The 'absolute return' is the 'actual return'. It is the rate of return on money invested, usually expressed as a percentage.

**Alpha:** The rate of return (ROR) earned by a security or a portfolio in excess of or below the ROR of the benchmark for that security or portfolio. A positive alpha means the investment outperformed the benchmark ROR. A negative alpha indicates that the investment underperformed the benchmark ROR.

**Benchmark:** A standard, used for comparison. For example, the S&P/ASX 200 Accumulation Index is a benchmark that measures the price movement of selected companies listed on the Australian Stock Exchange. For those interested in monitoring investment performance, benchmarks are used as a measure for comparing a portfolio's return against a similar portfolio of securities.

**Beta:** A measure of how the return of a security or portfolio fluctuates with the market. The market has a beta of 1. Therefore, you would expect the returns of a security (or portfolio) with a beta of 1.2 to be around 20 per cent more volatile than the market. That is, if the market rises by 1 per cent, the security may rise by 1.2 per cent. Conversely, if the market falls by 1 per cent, the security may fall by 1.2 per cent. Similarly, you would expect the returns of a security (or portfolio) with a beta of 0.5 per cent to be half as volatile as the market.

**Currency:** Any reference to the dollar refers only to the Australian dollar unless otherwise stated.

**ELT:** Executive Leadership Team of QIC.

**Equities:** Also referred to as 'shares'. Investments in Australian and/or international companies that represent an ownership stake, or share, of a particular company. Generally, these securities are listed on stock exchanges for those who buy and sell equities. While equities are often more volatile in their returns than fixed interest and cash investments, they also tend to experience higher returns in the long term.

**Fixed interest:** One of the four major asset classes, fixed interest securities include bonds, bank bills, floating rate notes and negotiable certificates of deposit. Interest rates on these securities may be floating but are usually fixed. The holder is paid a fixed value on a fixed future date. Predetermined interest payments may also be made throughout the life of the security.

**Fund:** A trust individually constituted under, or governed by, the relevant trust deed.

**Fund manager:** Also known as an 'investment manager'. Invests and manages the assets of others.

**Hedge:** An investment made to reduce the risk of adverse price movements in a security by taking an offsetting position in a related security, such as an option or futures contract.

**Investment manager:** See 'Fund manager'.

**Liquidity:** The liquidity of an asset relates to how quickly it can be converted to cash.

**Outperformance:** Fund performance above the relevant benchmark or above the targeted return. Its opposite is underperformance.

**Portfolio:** Combined holding of more than one stock, bond, commodity, cash equivalent, or other asset by an individual or institutional investor. Refers to the mix of assets held for a single product/client.

**SCI:** Statement of Corporate Intent. An annual performance agreement between QIC and our shareholding Ministers.

**Stocks:** Individual securities within a portfolio.

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