

QIC

ANNUAL
REPORT
2013

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BUILDING ON OUR STRONG FOUNDATION FOR LONG-TERM GROWTH

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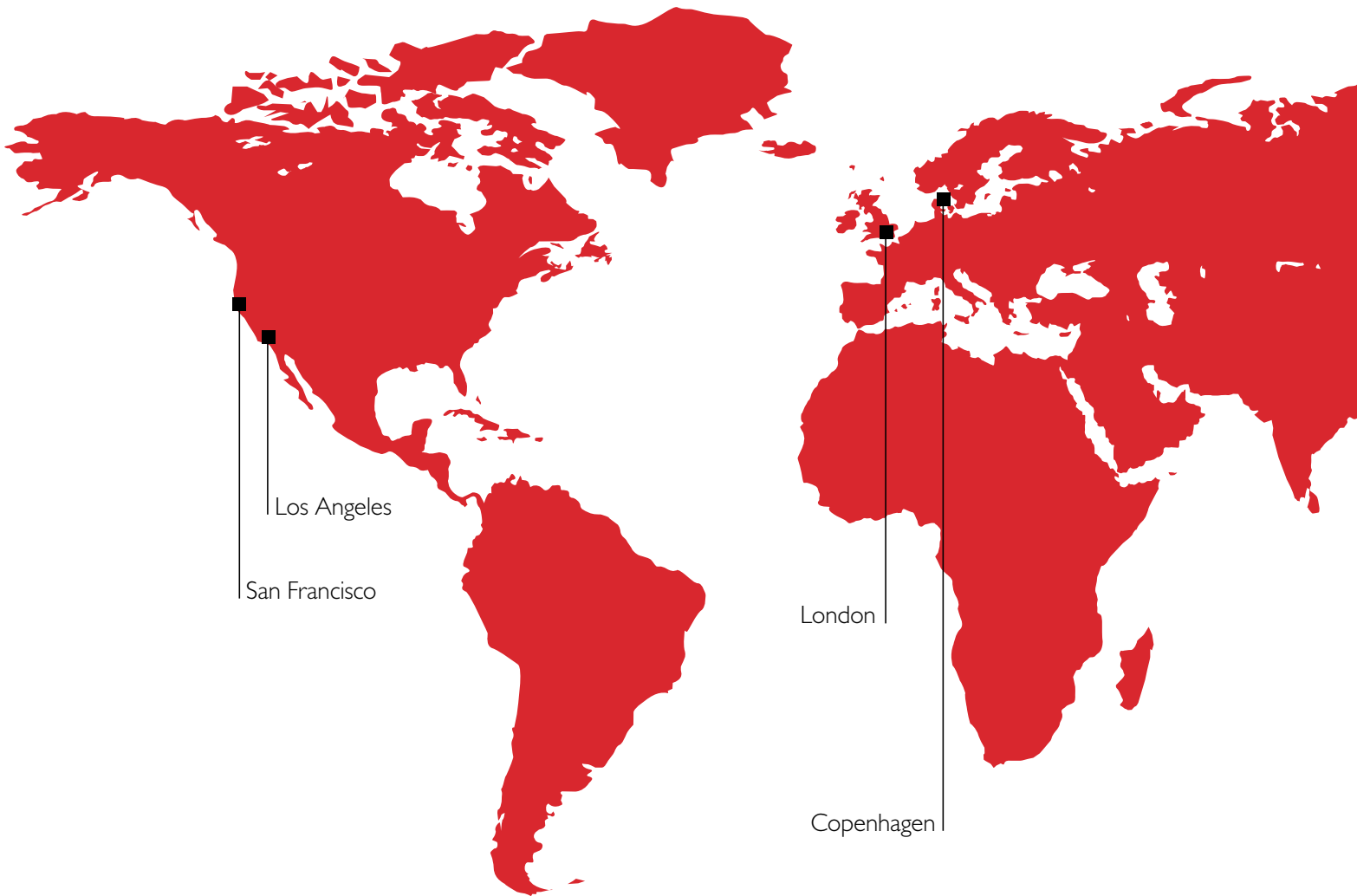


About this report

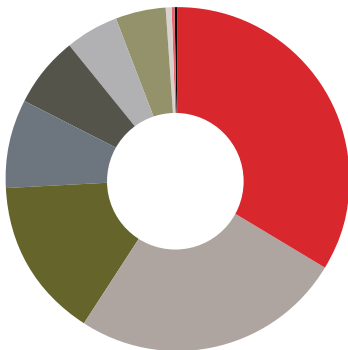
This annual report documents QIC's achievements during the 2012-13 financial year. It describes our business, our corporate strategy and the important role our people play in delivering strong investment outcomes for our clients.

QIC AT A GLANCE

WITH A STRONG FOUNDATION IN AUSTRALIA, OUR GLOBAL PRESENCE EXTENDS TO EUROPE AND THE UNITED STATES



BREAKDOWN OF FUNDS UNDER MANAGEMENT AS AT 30 JUNE 2013 TOTAL: \$70.3 BILLION



● CASH	29.80%	● PRIVATE EQUITY	4.55%
● GLOBAL BONDS	22.50%	● MANAGED FUNDS	4.00%
● GLOBAL DIRECT PROPERTY	13.41%	● HEDGE FUNDS	0.53%
● INFRASTRUCTURE	11.84%	● COMMODITIES	0.15%
● INTERNATIONAL EQUITIES	7.25%	● BIOCAPITAL	0.07%
● AUSTRALIAN EQUITIES	5.86%	● INCUBATOR ASSETS	0.05%

THIRD LARGEST
INSTITUTIONAL
INVESTMENT MANAGER
IN AUSTRALIA

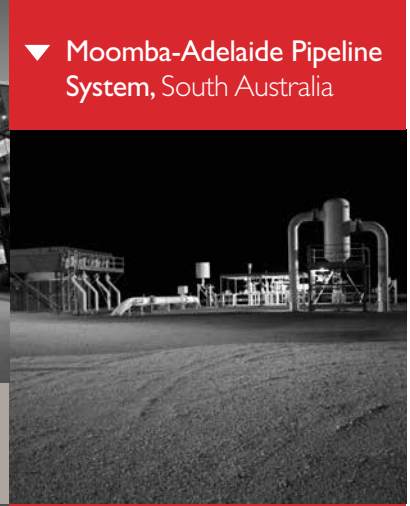
A CLIENT BASE COMPRISING

13 OF AUSTRALIA'S LARGEST
SUPERANNUATION / PENSION
FUNDS

PLUS SOVEREIGN WEALTH FUNDS AND
OTHER LOCAL AND INTERNATIONAL
INSTITUTIONAL INVESTORS



▲ Robina Town Centre, Queensland



▼ Moomba-Adelaide Pipeline System, South Australia



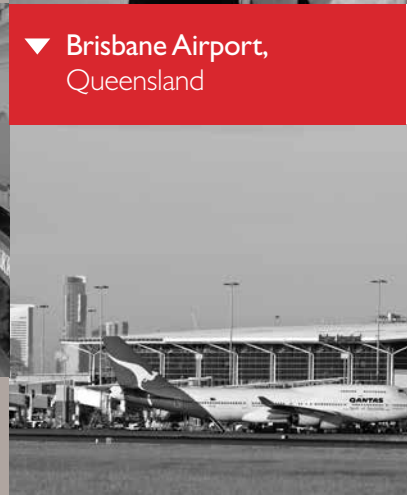
▲ Canberra Centre, Australian Capital Territory



▼ Thames Water, United Kingdom



▲ Merry Hill, United Kingdom



▼ Brisbane Airport, Queensland

These shopping centres represent our global retail portfolio of 13 shopping centres. For more information, please see page 11.

These infrastructure assets form part of the global infrastructure portfolio we manage on behalf of clients. For more information, please see page 13.

MORE THAN
500 EMPLOYEES IN
7 OFFICE LOCATIONS

EMPLOYEE PROFILE

AVERAGE AGE: **38**

AVERAGE TENURE: **5** YEARS MORE THAN

MALE: **57%** FEMALE: **43%**

CHAIRMAN'S REPORT



Peter Young AM

On behalf of the Board, I am pleased to present our report on the performance of QIC Limited for the year ended 30 June 2013 and to provide you with a brief update on what you can expect to see from QIC in the future.

With the appointment of a new Chief Executive Officer in July 2012, the Board and CEO have refreshed QIC's corporate strategy and operational objectives.

Our vision is to build on our heritage to serve our clients and become a global institutional leader in alternative, specialised investments. The mission supporting this vision is long-term thinking and focus which deliver value for clients, shareholders and staff.

QIC has simplified its strategic focus, building three main pillars to execute the corporate strategy to sustain, grow and diversify our business. During the current financial year, you will see us prioritise our investment capability, strive for operational excellence, integrate our operational model and explore avenues to facilitate growth.

As always, our clients remain at the centre of everything we do. As QIC executes its strategy, we will not lose sight of our long-term commitment to producing positive investment outcomes. The strength and depth of capability across our investment teams is essential to this commitment and we will strive to provide them with an operating platform that enables us to deliver performance excellence for our clients.

FINANCIAL PERFORMANCE

QIC reported outstanding financial performance in 2012-13 despite continuing challenging conditions in global investment markets, increasing regulatory requirements and an evolving client landscape.

Funds under management increased to \$70.3 billion, although total exposures far exceed this number due to QIC's overlay management services. This reinforces our position as the third largest institutional investment manager in Australia.

Our financial position remains strong with net assets increasing to \$118.9 million, a \$7.8 million improvement on last financial year.

QIC reported a net profit after tax of \$38.6 million. This excellent result was based on growth in revenue as we delivered strong investment results for clients in an increasingly competitive market, and a focus on strategic cost management across the business.

As our financial results in 2012-13 were among the best QIC has achieved, we were able to deliver a record dividend of \$30.9 million to the Queensland Government. The results also reinforce our foundation for strong future performance, allowing us to continue investing in innovative solutions for our clients and development for our people.

OUR SHAREHOLDERS

QIC has a constructive relationship with the Queensland Government and values the support of our shareholding Ministers, the Honourable Campbell Newman MP, Premier, and the Honourable Tim Nicholls MP, Treasurer and Minister for Trade. QIC also enjoys an excellent relationship with Commercial Monitoring within Queensland Treasury and Trade and we are grateful for their support and advice.

LOOKING AHEAD

QIC's heritage spans more than 20 years and the next phase will be an exciting time in our development as an investment manager of choice. With a solid foundation laid by the support of our shareholders, the aspirations of our clients and the dedication of our employees, the Board and I are confident that the organisation has a strong future.

A handwritten signature in black ink, appearing to read 'Peter Young'. The signature is stylized and cursive, written over a white background.

Peter Young AM
Chairman

CHIEF EXECUTIVE'S REPORT



Damien Frawley

Our strategy to sustain, grow and diversify the business delivered outstanding results in 2012-13. We also focused on adapting our operating model to meet the evolving needs of our clients and continue to deliver positive investment outcomes.

SUSTAIN. GROW. DIVERSIFY

Over the course of 2012-13, there were many examples of QIC's strategy to sustain, grow and diversify the business for the benefit of our clients and as a result, create value for our shareholders and opportunities for our people.

We built on our history of creating customised solutions that deliver superior investment outcomes with the launch of our QIC Bond Plus Fund. We also combined our Capital Markets and Diversified Funds Management capabilities to create a Global Multi-Asset team which continues to deliver strong results for our foundation government superannuation clients and leverages these skills to benefit clients with similar investment objectives.

By offering our clients access to high-quality global infrastructure assets, such as our investment in the Ohio State University parking system, we have deepened our infrastructure footprint globally. This transaction was internationally recognised as Global Deal of the Year by Infrastructure Investor magazine.

Our private equity business has evolved to focus more on direct and secondary investments, particularly co-investments, in response to client demand.

We are diversifying into new markets. We have entered into an agreement to form a retail property joint venture with NYSE-listed Forest City Enterprises and purchase a 49 per cent interest in eight shopping malls across the United States. This arrangement creates a strong platform to offer clients access to high-quality real estate investment opportunities and to grow our US business. Similarly, we continue to develop relationships throughout Asia to source new investment opportunities and identify new clients.

CLIENT RELATIONSHIPS

We spent a great deal of time over the past year in discussion with clients to understand their investment philosophies and how they view our organisation. As an outcome of those conversations, we have adapted QIC's operating model to take a more coordinated approach to client relationships. We have created a Global Clients and Marketing team which has enhanced our capacity to engage with clients and understand their requirements. This group is the client interface with QIC's investment teams and allows them to focus their capabilities and experience to develop new investment solutions that directly address our clients' needs.

Environmental, social and corporate governance factors are likely to have a growing impact on long-term investment returns and our clients are increasingly interested in understanding how they are considered as part of our investment management processes. The QIC Board recently adopted policies and guidelines designed to integrate ESG factors into our investment decision-making and ownership practices. This has been an important step in making QIC a more sustainable business.

OUR PEOPLE

QIC has a reputation for market-leading capabilities. We pride ourselves on the talent and achievements of our people and through their efforts, QIC performed strongly in 2012-13 and provided clients with superior investment outcomes.

LOOKING AHEAD

QIC will continue to adapt its operating model in 2013-14 to enhance the solutions we provide for clients. We will also build on our strong foundations by adding investment capabilities within our core areas of focus and expanding into new markets. Our evolution will make QIC an increasingly sustainable business for our clients, our shareholders and our people.

A handwritten signature in black ink that reads "Damien Frawley". The signature is fluid and cursive, with the first name being more prominent.

Damien Frawley
Chief Executive

ABOUT QIC

SOLE INVESTMENT MANAGEMENT FOCUS

QIC was established in 1991 by the Queensland Government to manage its long-term investments and has grown to be Australia's third largest institutional investment manager.

We manage more than \$70.3 billion¹ in funds and have a client base spanning sovereign wealth funds, superannuation funds and other institutional investors.

Our heritage as a government owned corporation has contributed to a culture that puts our clients first. We continually strive to find better ways to meet and exceed our clients' investment objectives. Our unique history of managing the total investment portfolio for very large clients has enabled us to leverage these capabilities and experience to provide innovative investment solutions for all of our clients.

¹ As at 30 June 2013.

OUR MISSION

Long-term thinking and focus which deliver value for clients, shareholders and staff.

OUR VISION

Build on our heritage to serve our clients and become a global institutional leader in alternative, specialised investments.

SUSTAIN. GROW. DIVERSIFY.

Our corporate strategy encapsulates a commitment to sustain, grow and diversify our business for the benefit of all our clients.

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

ORGANISATIONAL STRUCTURE

QIC Chief Executive

Damien Frawley

Senior Executives

Chief Financial Officer

Claire Blake

Chief Investment Officer

Adriaan Ryder

Chief Operating Officer

Paul Leitch

Chief Risk Officer

David Clarke

Chief of Global Clients and Marketing

Brian Delaney

Investment Capabilities

Global Multi-Asset

Adriaan Ryder

Global Fixed Interest

Susan Buckley

Global Real Estate

Steven Leigh

Global Infrastructure

Ross Israel

Global Private Equity

Marcus Simpson

Australian Small Companies

Stuart Jordan

PERFORMANCE HIGHLIGHTS

FINANCIAL PERFORMANCE

- Pre-tax profit: \$54.1 million
- Dividend payable to Queensland Government: \$30.9 million
- Funds under management: \$70.3 billion

OPERATING HIGHLIGHTS

- For the fifth consecutive year, QIC Global Real Estate was ranked the number one unlisted property manager by clients².
- QIC Global Real Estate entered into an agreement to form a joint venture with US-based Forest City Enterprises and acquire a 49 per cent equity interest in eight US shopping malls.
- QIC Global Infrastructure was awarded Global Deal of the Year by Infrastructure Investor magazine for the acquisition on behalf of clients of a 50-year concession to operate the parking system at Ohio State University, the third largest public university in the United States.
- On behalf of clients, QIC Global Infrastructure acquired 100 per cent of Epic Energy, which comprises the Moomba-to-Adelaide Pipeline System in South Australia.
- Our landmark \$400 million redevelopment of Robina Town Centre received a Renovation and Expansion Gold Design award at the International Council of Shopping Centres' 2012 Asia Pacific awards.

- We continue to innovate in creating new absolute return and objective-based products for our clients and in February 2013 launched the QIC Bond Plus Fund.
- We expanded our European presence to offer more opportunities to existing clients and broaden our client base. We adjusted our UCITS (Undertakings for Collective Investment in Transferable Securities) sub-fund offering for the German market and are registering the product in that country to enable further growth.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE

- Environmental, social and corporate governance (ESG) factors are likely to have an increasingly material impact on the long-term returns of investment portfolios. We recently adopted a Responsible Investment policy confirming QIC's commitment to the six principles of the United Nations 'Principles for Responsible Investment' and ESG factors are now being more actively incorporated into our investment decision-making processes.
- We are committed to reducing our environmental footprint and offsetting environmental impacts we cannot avoid. We encourage our employees to be environmentally responsible and we work with our stakeholders to find practical and innovative ways to deliver our joint business and environmental objectives.

² Peter Lee Associates Investment Management Survey 2013



MEASURING OUR PERFORMANCE

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

FINANCIAL PERFORMANCE

QIC delivered excellent net profit after tax and a record dividend to the Queensland Government, based on outstanding investment results for our clients and a focus on strategic cost management.

You can read more about QIC's 2012-13 financial performance in the Financial Performance Overview on page 26.

CLIENTS AND MARKET

Strong performance for our clients resulted in an increase in total assets under management and increased revenue from property and investment management.

The Peter Lee Investment Management Survey 2013 demonstrated QIC's deep and strong client relationships.

You can read more about QIC's performance for clients in the investment team reports starting on page 10.

PROCESS AND GOVERNANCE

QIC has a mature risk management culture with well-developed practices across our governance, risk management and compliance frameworks. All staff have risk and compliance KPIs against which they are measured twice a year. During the year, extensive audits, surveys and internal reviews were undertaken to ensure our risk management practices continue to improve and compare well against peers.

You can read more about QIC's approach in the Corporate Governance report on page 18.

TALENT AND CULTURE

QIC continues to use strong people practices to manage risk and drive high performance. Every QIC employee has targeted KPIs in place to deliver optimal outcomes for our clients and shareholders.

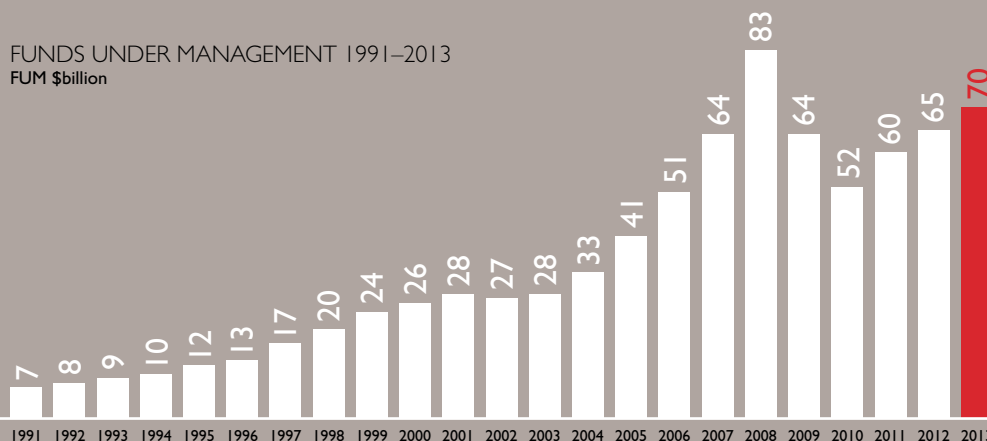
In 2012-13 retention of high-performing employees was above target and QIC built on its already high engagement levels, retaining a place in AON Hewitt's Best Employer category³.

You can read more about QIC's talent and culture practices in the Our People report on page 16.

³ 2012-13 AON Hewitt engagement survey benchmarked to AON Hewitt's Best Employer 2013 results.



FUNDS UNDER MANAGEMENT 1991-2013
FUM \$billion



QIC GLOBAL MULTI-ASSET

QIC's Global Multi-Asset team was formed early in 2013 by combining QIC Capital Markets and QIC Diversified Funds Management. We oversee more than \$75 billion in exposures for more than 30 superannuation funds, insurance clients and institutional investors with a wide variety of investment objectives.



The team brings together our strengths in research, investment strategy, portfolio design and implementation for whole-of-portfolio management. We provide a wide range of solutions including objective-driven multi-asset portfolios, alternative investment strategies, dynamic asset allocation, liability hedging strategies, beta management, passive currency management, portfolio implementation and asset overlays across global markets.

We build and manage diversified portfolios for QIC's government clients to deliver tailored investment outcomes encompassing both asset and liability-driven objectives. We are actively using these leading investment capabilities to assist other clients to achieve a wide range of investment objectives across all elements of multi-asset portfolios.

Apart from our customised separate account client portfolios, our two flagship funds, the QIC Growth Fund and the QIC Alternative Beta Fund, seek to deliver returns of Australian CPI plus four per cent and Australian CPI plus 4.5 per cent over rolling five-year periods, respectively.

Despite challenging market conditions during 2012-13, we delivered strong investment outcomes for our client base in line with their objectives. Having flexibility within our investment mandates was the key to success in allowing us to manage the risks and harness the opportunities presented by market conditions.

In 2013-14, we will continue to focus on delivering returns targeted at achieving a diverse range of investment objectives for our clients, while also meeting their risk management objectives. We will continue to ensure our multi-asset portfolios are diversified and remain dynamic in order to capture opportunities in changing global financial markets.

\$75 BILLION
IN EXPOSURES
FOR MORE THAN
CLIENTS **30**

QIC GLOBAL REAL ESTATE

Global Real Estate (GRE) is one of Australia's leading real estate investment managers.



We manage real estate investments on behalf of 32 clients including some of Australia's largest superannuation funds, global institutional investors and sovereign wealth funds.

In 2013, GRE was ranked as the number one unlisted property manager by clients in the Peter Lee Associates Investment Management Survey 2013. This was the fifth consecutive year that GRE achieved the number one ranking, and we thank our clients for their ongoing support of our business.

We drive investment performance for clients by actively managing our real estate portfolio through a combination of strategic acquisitions, asset management strategies and development activity. In 2012-13, we expanded into Western Australia with the acquisition of a 50 per cent share of Claremont Quarter shopping centre, a premium retail asset in Perth. We also acquired a portfolio of seven commercial buildings in the Brisbane CBD from the Queensland Government. The properties are fully leased to the government with long-term leases (subject to fixed uplifts), making the portfolio an attractive investment for our superannuation fund clients.

In June, GRE entered into an agreement with US-based Forest City Enterprises to form a joint venture and acquire a 49 per cent equity interest in eight US shopping malls, creating a solid platform to expand our real estate portfolio business in the United States and deliver greater investment opportunities for our clients. The joint venture arrangements present the prospect to add value through further development and jointly access future deal flow.

Our planned redevelopments of Robina Town Centre and Eastland Shopping Centre are underway, and construction is well advanced on the expansion of Woodgrove Shopping Centre in regional Victoria. In 2012-13, we completed around 800 lease transactions, including project deals at Woodgrove and Canberra.

GRE is committed to high-quality development and design. Our landmark \$400 million redevelopment of Robina Town Centre received international recognition, winning a Renovation and Expansion Gold Design award at the International Council of Shopping Centres' 2012 Asia Pacific awards.

In 2013-14, the needs of our clients and delivering strong fund performance will continue to be our primary focus. As part of this, we will seek to launch new products designed to provide significant opportunities for clients to invest in the Australian and US property markets.

RANKED NUMBER ONE
UNLISTED PROPERTY
MANAGER FOR THE
FIFTH CONSECUTIVE YEAR

QIC GLOBAL FIXED INTEREST

Global Fixed Interest (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 more than 50 clients with more than \$55 billion in total exposures. Our clients include superannuation funds, insurance endowment charities and wholesale multi-managers.

The volatility and historically low yields that characterised global bond markets in 2011-12 persisted throughout 2012-13 as market sentiment was driven primarily by central bank policy, political risks, headlines and flow of capital. In spite of continued challenging conditions for global markets, we delivered strong performance outcomes across our suite of funds.

Delivering superior investment outcomes for clients was possible with an experienced team backed by a rigorous and disciplined investment process. We responded to volatile market conditions by pursuing diversification across global interest rates, credit and inflation strategies within a tightly controlled risk framework. Demonstrating this, the QIC GFI Alpha Fund delivered a return (after fees) of 10.7 per cent in the year to 30 June 2013 with directional and relative value strategies across interest rates, inflation and credit all contributing. This was achieved with low risk utilisation.

We continue to innovate in creating new absolute return and objective-based products for clients and in February 2013, we launched the QIC Bond Plus Fund. The fund seeks to consistently deliver a return (after QIC fees) in line with the UBS Bank Bill Index (cash) plus two per cent per annum over a rolling three-year period, by actively managing the key fixed interest risk factors of interest rates, credit and inflation.

This year, 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 taking an objective-driven, absolute return approach. We will also focus on extending our distribution capabilities in both the domestic and international arenas.

\$55 BILLION
IN TOTAL EXPOSURES

QIC GLOBAL INFRASTRUCTURE

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



We manage more than \$8.3 billion in funds and offer clients exposure to a global portfolio of infrastructure investments across the utilities, transport and social infrastructure sectors.

GI delivered above-benchmark performance for all our client mandates during 2012-13, notwithstanding ongoing volatility in global financial markets. Our performance is based on building diversified global infrastructure portfolios that deliver on strict risk/return criteria, supported by an active approach to managing the assets we invest in.

The opportunity pipeline for GI continues to expand as governments around the world actively manage their fiscal positions through asset privatisations and greater private sector participation in infrastructure funding. At the same time, global infrastructure is becoming an increasingly attractive asset class for domestic and international institutional investors. Against this backdrop, we made a number of significant new investments during 2012-13.

- In April 2013 GI, on behalf of clients, acquired 100 per cent of Epic Energy, which comprises the Moomba-to-Adelaide Pipeline System. This is a 1,184-kilometre gas pipeline connecting the highly prospective Cooper Basin gasfields with markets in Adelaide and other regional centres in South Australia.

- In September 2012 GI, on behalf of clients, acquired a 50-year concession to operate the Ohio State University (OSU) parking system. OSU is the third largest public university in the United States with more than 56,000 students, 26,000 employees and spaces for 36,000 cars. This investment was awarded Global Deal of the Year by Infrastructure Investor magazine.

Notable achievements by our portfolio investments during the year include:

- Brisbane Airport was voted by airport customers as third in the world in the category of airports servicing 20 million to 30 million passengers per year, and second in the category of best airports in Australia/Pacific in the prestigious 2013 Skytrax World Airport Awards.
- Port of Brisbane opened a new container terminal, making it the first port in Australia to have three different container stevedores operating large scale container terminals.

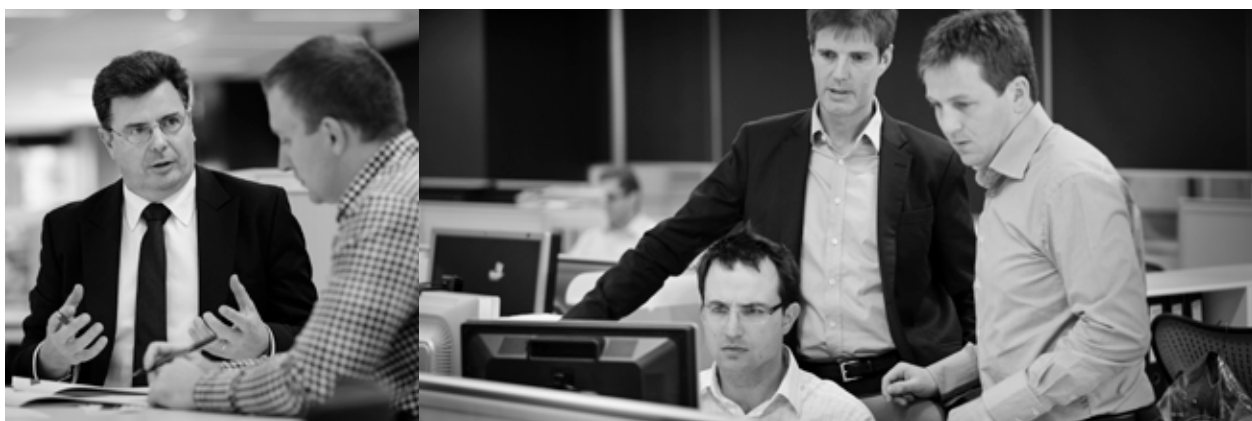
In 2013-14, we will continue to leverage our international reach to identify unlisted infrastructure assets that meet our clients' investment objectives.

\$8.3

BILLION IN FUNDS
UNDER MANAGEMENT

QIC GLOBAL PRIVATE EQUITY

Global Private Equity (GPE) was established in 2005. We manage customised global private equity programs for our clients and have \$3.2 billion⁴ in assets under management.



In 2012-13, GPE delivered strong investment performance for our clients and as at 31 March 2013, net returns since inception were performing above benchmark⁵. We further augmented investment returns by using direct investment strategies in our clients' portfolios.

Through our international team located in Australia, Europe and the United States, as well as a growing Asian presence, we invest with a core group of elite private equity managers globally.

We take a disciplined approach to actively identifying the most attractive regions, sectors and investment themes. All investment analysis is performed in-house and our processes are structured for quick decisions, while at the same time preserving high investment integrity.

The team's extensive global experience and investment strategy allow us to offer our clients access to high-quality deal flow. Our fund portfolio includes buyout, turnaround, growth and venture capital exposure via top-tier managers in developed and emerging markets. In addition, the team makes direct investments into private companies and executes direct purchases of secondary fund investments.

In 2013-14, we expect to continue actively participating in the evolution of the private equity model, whereby investors with appropriate resources challenge the traditional institutional investor approach. Our focus on co-investments is in direct response to clients' requests for greater control, transparency and access in their private equity portfolios, without the layers of fees associated with the fund model. We will also continue partnering with select managers and becoming more directly involved with transactions. GPE's objective is to expand as mandates are added and direct investment activity increases.

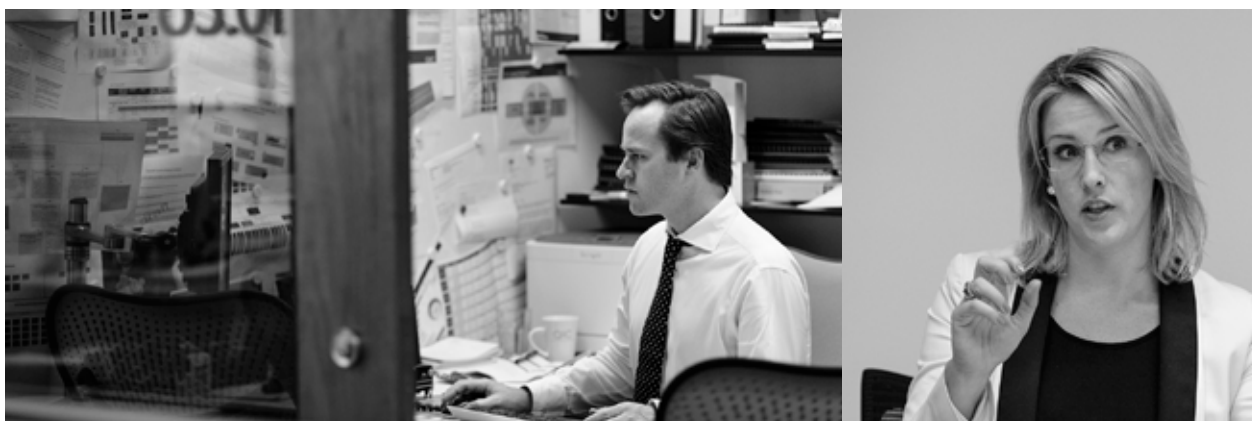
⁴ Hedged AUD, as at 30 June 2013.

⁵ MSCI World Index (Hedged AUD) plus three per cent and MSCI World Index ex Australia (Hedged AUD) plus three per cent.

\$3.2 BILLION
IN ASSETS UNDER
MANAGEMENT

QIC AUSTRALIAN SMALL COMPANIES

Australian Small Companies (ASC) specialises in Australian small capitalisation equities.



ASC manages funds for institutional investors and superannuation funds through the QIC Active Small Companies Fund. We actively research and invest in companies selected from a universe outside the S&P/ASX100 Index.

ASC has delivered performance above the benchmark S&P/ASX Small Ordinaries Accumulation Index of 11.5 per cent per annum since inception in January 2009, and 11.8 per cent during 2012-13⁶.

Superior stock selection was the key to the fund's outperformance in 2012-13. Being overweight companies such as SFG Australia, TPG Telecom, Super Retail Group and Automotive Holdings significantly contributed to our positive results for clients.

The team's investment philosophy is founded on a methodical in-house analysis of company fundamentals. Our performance is underpinned by a proprietary longer-term valuation methodology which places significant weighting on fundamental value beyond a typical three-year investment horizon. This allows us to base stock selections on a comprehensive view of valuation drivers through an economic cycle. As we take a longer term view of value, we are also able to drive performance for our clients by exploiting short-term market dynamics.

ASC is targeting fund growth in 2013-14 based on our consistent investment process which has provided clients with above-market returns.

⁶ Performance before fees.

DELIVERING PERFORMANCE
ABOVE BENCHMARK SINCE
INCEPTION IN JANUARY 2009



OUR PEOPLE

OUR PEOPLE DRIVE OUR PERFORMANCE

QIC has some of the best investment and technical professionals in the industry and through their efforts we drive strong returns for our diverse range of clients.

We challenge our people to outperform and their annual performance goals are aligned to our clients' interests through individual balanced scorecards. Our responsible, industry-referenced remuneration practices are overseen by the QIC Board.

We proactively manage our people risks and adopt a 'three lines of defence' approach, with oversight from appropriate governance committees. You can read more about our risk management practices on page 22.

Our people tell us they enjoy the challenging work, regular development opportunities and reward aligned to high performance that QIC offers. We have high levels of employee engagement across the organisation and have maintained 'Best Employer' status over the past two years. This is reflected in our high levels of employee retention, particularly with key talent. We actively identify key talent and have recently mapped all key roles and developed succession plans for those employees. Through this, and by helping our employees develop their potential, we ensure we have the capability to continue delivering on our clients' expectations.

QIC employees have access to a range of development and learning programs to ensure they stay at the forefront of their professions with the opportunity to participate in tailored coaching and mentoring programs.



CASE STUDY

WE ROAM FREE WITH THE RSPCA

Our Global Multi-Asset team took advantage of QIC's Community Day program to provide some welcome assistance to the local RSPCA animal shelter. The Community Day program encourages QIC employees to get involved in the community for one day every year.

Adriaan Ryder, QIC's Chief Investment Officer, said the team provided the RSPCA with administration and customer service support, and the day was a great team building experience for everyone involved.

"The team particularly enjoyed helping to feed, train and exercise the animals. This enrichment time is important as it allows the large number of RSPCA animals who are waiting for a new home to socialise with people," said Adriaan.

The RSPCA was grateful to the Global Multi-Asset team for its help on the day.



CASE STUDY

SUPPORTING THE NEXT GENERATION OF FEMALE LEADERS

To continue supporting diversity at QIC and to help build the next generation of female leaders in the financial services industry, we partnered with Women & Leadership Australia for the second consecutive year to fund two scholarship programs for QIC women.

This is an important step in actively supporting and encouraging greater diversity in our workforce. By ensuring we attract and retain employees of different genders, educational backgrounds, career histories, family responsibilities, ethnicities, cultures and age demographics we can better understand and value individual differences within the organisation.

"There is considerable research to show that gender balance and increasing diversity in workplaces mean strong organisational performance and greater access to talent and competitive advantage," said Robin Little, General Manager of Human Resources and Corporate Communications.

The Employer of Choice program promotes and supports organisations that are working to develop the capability and capacity of their female leaders. The program provides structured and intensive leadership development for junior and mid-level female leaders, and will provide women at QIC with exposure to inspirational thinking and advice, leadership development and one-on-one coaching.

The Advanced Leadership Program is designed to support the rapid advancement of high-potential female leaders from all sectors and industries. During a potentially career-defining 12-month journey, participants accelerate their own career progression and build a network of senior female leaders from a diverse range of backgrounds.

Alison Towers, Head of Dealing, Global Multi-Asset, said the Advanced Leadership Program was a fantastic opportunity to learn who you are as an individual and as a leader.

"I was given a number of tools to become an effective leader, many of which I have put into practice. It is also a great chance to meet a new network of individuals across a wide range of fields, who have since become a great support network. The individual coaching sessions really enforce the learning and make you think about your presence in the workplace once you are back on the job," said Alison.

The scholarship programs are an important element of QIC's ongoing commitment to supporting gender diversity and increasing the number of women in senior roles.

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 2012-13

During the 2012-13 financial year, the Board focused on a number of specific governance arrangements including:

- refining our policy, standard and procedure framework and monitoring our key risks register
- reviewing business health check outcomes
- reviewing work health and safety accountabilities and compliance frameworks
- reviewing and refining our internal committee structures to ensure they align with modern industry practice
- monitoring the project and change management activity around the transition of some of our back and middle office functions to an external provider
- strengthening our Responsible Investment policies and capabilities.

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 the *Government Owned Corporations Act 1993 (Qld)* (GOC Act) in addition to the *Corporations Act 2001 (Cth)* (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 its investment activities.

These Australian-domiciled entities are not exempt from any part of the Corporations Act and, where required, hold AFS licences. QIC currently has five wholly owned AFS licensed subsidiaries.

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 (UCITS) products.

Two wholly owned QIC subsidiaries are also registered investment advisers with the US Securities and Exchange Commission, with another QIC subsidiary authorised with the UK Financial Conduct Authority (successor to the 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 the shareholding Ministers and regularly liaises with Commercial Monitoring within Queensland Treasury and Trade 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

In accordance with the GOC Act, QIC's Board is appointed by the Governor-in-Council.

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 seven 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 AASBI031 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 is also responsible for setting and annually recalibrating QIC's Risk Appetite Statement. 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 generally comprise executive directors. The exceptions are subsidiaries that carry out regulated activities, in Australia and overseas, 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 Senior Executives. 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 Government guidelines, 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 Senior Executives, which are outlined in the 'Alignment of performance with remuneration' section of this report.

QIC has established policies, standards, guidelines 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. 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 teams (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 to ensure there is no actual, potential or perceived conflict of interest.

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. QIC's Organisational Risk, Legal and Tax team proactively manages and independently monitors management of conflicts and administers the electronic Conflicts of Interest Notification system.

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 the 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.

BOARD COMMITTEES

Board committees operate to assist the Board to oversee and monitor certain policies and controls within the QIC governance, risk management 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 based on individual skill and experience. Each committee has a formal charter and generally meets at least quarterly. The Chief Executive, Senior Executives and Company Secretary attend all Board and committee meetings. Upon request, other senior personnel are invited to attend.

The Audit & Risk Committee, comprising Grant Murdoch (Chair), Lyn Gearing, Bradley Bowton 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 Audit & Risk Committee considers the GRC framework and monitors its relevance to QIC's current risk exposures, the risk appetite statement and future risk strategy. The Audit & Risk Committee also monitors internal and external audit functions.

The Audit & Risk 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 Audit & Risk 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 (with an option to extend).

The Auditor-General of Queensland is the external auditor of QIC Limited and its controlled entities in accordance with the *Auditor-General Act 2009* (Auditor-General Act). 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 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 business for a three-year term, commencing with the audits relating to the years ending 31 December 2012 and 30 June 2013.

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

The Audit & Risk 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 Audit & Risk 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 Audit & Risk Committee also considers issues and audit programs relevant to reviewing the effectiveness of the design and operation of the 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 Committee, which consists of the Chief Executive, the Senior Executives and the Asset Management Group. 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.

The Executive Committee is supported by two management committees:

- The QIC Business Development Committee brings distribution (sales, marketing and client service) and manufacturing (asset managers) together to discuss, agree and execute on our business building initiatives, and is chaired by the Chief of Global Clients and Marketing.
- The QIC Operating Committee oversees day-to-day business operations and is chaired by the Chief Operating Officer.

CORPORATE GOVERNANCE (CONTINUED)

QIC has the following management sub-committees to support the Board:

- The Risk and Compliance Sub-Committee acts as an adviser to the Audit & Risk Committee for the oversight and management of key risk and compliance, valuation and debt-related matters within QIC, and is an amalgamation of the previous Valuation and Debt Committees and the Risk Oversight Sub-Committee. The Risk and Compliance Sub-Committee is chaired by the Chief Risk Officer.
- 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 Financial Statements Review Sub-Committee is chaired by the Chief Financial Officer.

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 the Senior Executives are appropriately monitored and incentivised to manage the business effectively.

The QIC Board has put in place 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 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 Chief Risk Officer 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.

First line of defence: Executives and staff within QIC's investment teams and supporting divisions are accountable for identifying and effectively managing risks within their area of responsibility. Staff are required to report breaches and incidents, including near misses and uncontrolled risks, to the Organisational Risk, Legal & Tax team (ORLT). 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 that are linked to their remuneration.

Second line of defence: ORLT, which is headed by the Chief Risk Officer who reports directly to the Chief Executive, 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 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 also produces regular risk and compliance reports for the Executive Committee, the sub-committees of the Board and the Board.

Third line of defence: QIC has appointed Deloitte to provide internal audit services. The internal audit function has direct, unfettered access to the QIC Board. The Board, in consultation with the Audit & 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 Audit & Risk Committee and management, who are held accountable for ensuring that recommendations made by our internal auditors are actioned.

GOVERNANCE, RISK MANAGEMENT AND COMPLIANCE FRAMEWORK

QIC has an integrated framework around our governance, risk management and compliance obligations across a broad category of risk types including:

- strategic
- investment
- people
- counterparty and credit
- operational
- legal and regulatory
- financial.

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

- specific Board policies
- the Board approved Risk Appetite Statement
- 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 its 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 for clients 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.

Staff investment in QIC products

Eligible employees may invest in a limited selection of QIC's products via the QIC Staff Investment Scheme. While the employee remains an eligible investor, a discount of 50 per cent is provided on QIC management fees. 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 staff remuneration after conducting an annual review of corporate and individual performance and taking into account relevant government policy, industry comparisons and independent advice. The Board then determines the remuneration of the Chief Executive and Senior Executives and advises the shareholding Ministers.

An Employment and Industrial Relations Plan is approved annually by our shareholding Ministers as part of the Statement of Corporate Intent development process.

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. Directors are eligible to participate in the QIC Staff Investment Scheme.

CORPORATE GOVERNANCE (CONTINUED)

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 2012-13. 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.

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 Senior Executives. 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.

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 its 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 2012-13 QIC continued 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 seven 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 SHARE MARKET

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 available in the Corporate Governance section of our website at www.qic.com).

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.

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, Senior Executives 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
Current term to 30 September 2015

CHAIRMANSHIPS: Barclays Australia and New Zealand, QIC Private Capital Pty Ltd, QIC Retail Pty Ltd.

DIRECTORSHIPS: Fairfax Media Limited, the Great Barrier Reef Foundation, PrimeAg Australia Limited, Sydney Theatre Company, QIC Infrastructure Management No. 2 Pty Ltd, QIC Investments No. 1 Pty Ltd.

OTHER APPOINTMENTS: Consultant to Standard Life Investments, governor of the Taronga Foundation, Queensland Art Gallery Board of Trustees.

QIC COMMITTEES: Member of the HR & Remuneration Committee.

AGE: 68.

KENNETH MACDONALD • BA (Hons), LLB (Hons) FAICD

Deputy Chairman appointed 1991
Current term to 30 September 2013

CHAIRMANSHIPS: Highlands Pacific Limited.

DIRECTORSHIPS: QIC Infrastructure Management No. 2 Pty Ltd, QIC Investments No. 1 Pty Ltd, QIC Retail Pty Ltd, QIC Private Capital Pty Ltd.

OTHER APPOINTMENTS: Deputy Chancellor of Bond University Limited.

QIC COMMITTEES: Chairman of the HR & Remuneration Committee, member of the Audit & Risk Committee.

AGE: 63.

MAURICE NEWMAN • AC, Hon DBus Macq, FSIA, FSDIA, FAICD

Director appointed 10 June 2004
Current term to 30 September 2014

CHAIRMANSHIPS: Australian Father's Day Council, Taronga Foundation, Melon Pastoral Pty Ltd and Bradman Foundation.

DIRECTORSHIPS: Tigerair Australia.

OTHER APPOINTMENTS: Honorary Chair of the Macquarie University Foundation, Advisor to the MMC Group of Companies (including Mercers Oliver Wyman), Patron to the Committee for Economic Development of Australia, Trustee of the Sydney Cricket and Sportsground Trust and member of the MARQ Services Advisory Board.

QIC COMMITTEES: Member of the HR & Remuneration Committee.

AGE: 75.

LYN GEARING • BComm, Dip. Valuations, Cert.Bus.Studies (Real Estate), FAICD, FASFA

Director appointed 24 April 2008
Current term to 30 September 2013

DIRECTORSHIPS: Commonwealth Superannuation Corporation, The Garvan Foundation.

QIC COMMITTEES: Member of the Audit & Risk Committee.

AGE: 64.

BRADLEY BOWTON • BSc MBA

Director appointed 24 April 2008
Current term to 30 September 2013

DIRECTORSHIPS: Founding director of CACE Partners.

QIC COMMITTEES: Member of the Audit & Risk Committee.

AGE: 52.

DAVID USASZ • B Comm, FCA

Director appointed 10 November 2011
Current term to 30 September 2014

DIRECTORSHIPS: Cromwell Property Group, Ambre Energy Limited.

OTHER APPOINTMENTS: Member of the Stanbroke Pastoral Company Pty Limited Advisory Board.

QIC COMMITTEES: Member of the HR & Remuneration Committee.

AGE: 57.

GRANT MURDOCH • M Comm (Hons), FCA, FAICD

Director appointed 10 November 2011
Current term to 30 September 2014

CHAIRMANSHIPS: The Endeavour Foundation.

DIRECTORSHIPS: Murdoch Corporate Finance Pty Ltd, ALS Limited, Cardno Limited, UQ Holdings Limited.

OTHER APPOINTMENTS: Senator at the University of Queensland, Adjunct Professor at the University of Queensland Business School.

QIC COMMITTEES: Chairman of the Audit & Risk Committee.

AGE: 61.

FINANCIAL PERFORMANCE OVERVIEW

This is an overview of QIC's 2012-13 financial results and should be read in conjunction with the financial report.

PROFITABILITY

QIC reported profit after tax of \$38.6 million. As a result, QIC declared a record dividend to the Queensland Government of \$30.9 million.

	2013 (\$M)	2012 (\$M)	% change
TOTAL REVENUE	274.6	259.1	6.0
TOTAL EXPENSES	220.5	220.5	-
PROFIT BEFORE INCOME TAX	54.1	38.6	40.2
INCOME TAX EXPENSE	15.5	11.9	30.3
PROFIT AFTER INCOME TAX	38.6	26.7	44.6

FINANCIAL HIGHLIGHTS

QIC reported pre-tax profit of \$54.1 million, representing an increase of 40.2 per cent compared to last year. This result is testament to our focus on our long-term financial objective to maximise shareholder value and profitability on a sustainable and commercial basis.

Funds under management increased to \$70.3 billion at 30 June 2013, with 51.3 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 the majority of investment capital since inception.

Revenue growth and a focus on strategic cost management across the business reduced QIC's cost to income ratio to 80.3 per cent, compared to 85.1 per cent in 2011-12.

REVENUE

The investment management environment in Australia is very competitive, and winning new mandates or retaining current mandates on existing fee rates is a constant challenge. While operating within this challenging environment, total revenue for the year was \$274.6 million, an increase of \$15.5 million or 6.0 per cent compared to last year.

Investment and property management fees from clients increased by \$10.6 million this year.

Continued outstanding investment performance by QIC's investment teams generated investment performance fees of \$42.7 million, an increase of \$4.5 million compared to last year.

Closing funds under management were \$70.3 billion, up by 8.7 per cent from \$64.7 billion at the start of the year. While net client cash flows were modest during the year, the increase was attributed to net positive investment returns generating \$5.5 billion throughout the year.

Other revenue items remained largely flat when compared with last year.

EXPENSES

Strategic cost management was a significant focus for QIC during 2012-13 and will continue to be a focus during 2013-14. The stabilisation of QIC's expenditure growth when compared to last year highlights some of the early results achieved. Total operating expenses were \$220.5 million for 2012-13.

The majority of QIC's costs relate to investment in our employees, including fixed and variable remuneration, staff development and recruitment. As at 30 June 2013, QIC's headcount was 511 full-time equivalent employees, an increase of 10.9 compared to last year.

The proportion of QIC staff employed in support business units was over 60 per cent in 2008 and has reduced to 50 per cent at 30 June 2013. This ratio will further move towards a higher proportion of staff being employed in the investment teams as our relationship with Northern Trust (provider of middle office and administrative services) matures and further business efficiencies are implemented.

Tenancy expenses reduced by over \$2.4 million during 2012-13, from \$13.3 million to \$10.9 million. This occurred as a result of QIC's accommodation review, whereby Brisbane based staff were centralised to Central Plaza II.

The audit tender process and consolidation of audit service providers have resulted in a reduction of \$0.2 million in both external and internal audit fees from last year.

QIC's focus on reducing discretionary expenditure and creating a cost-conscious culture has resulted in a number of other expenses falling well below last year.

BALANCE SHEET

Balance sheet highlights for 2012-13 include:

- net assets of \$118.9 million, a \$7.8 million increase compared to last year
- working capital of \$166.7 million.

Assets

Total assets at year end were \$314.6 million. This represents an increase of \$14.6 million compared to last year.

Major contributions were:

- \$13.1 million increase in receivables as a result of higher performance fee revenue collectable at year end
- \$7.0 million increase in corporate working capital and other financial assets, reflecting profits retained and earnings on investments during the year
- reduction of \$4.1 million in property, plant and equipment and intangibles, reflecting comparatively low asset acquisitions during the year; disposal of previous tenancy capital fitout items, and normal depreciation charges.

Liabilities

Total liabilities at year end were \$195.7 million, an increase of \$6.8 million. Major contributions were:

- an increase of \$20.5 million in payables, largely resulting from a higher dividend payable
- a \$12.4 million decrease in non-current provisions following the recognition of a portion of the mid-term instalment of the QIC Shopping Centre Fund performance fee. As a result, deferred income tax increased by \$4.4 million, with \$3.7 million reflecting the fact that this revenue is not yet taxable
- current tax liabilities reduced by \$4.4 million reflecting higher tax instalments paid during the year
- a reduction of \$1.8 million in current and non-current employee provisions, reflecting a reduction in employee benefits provided and not yet paid, including provision for staff leave and deferral of long-term incentives.

DIVIDEND

A dividend of \$30.9 million has been declared for the year. This is an increase of \$14.9 million compared to last year.

CASH FLOWS

Cash at year end was \$166.7 million.

During the year, operating activities generated net cash inflows of \$24.9 million. The decrease of \$16.2 million compared to last year largely reflects the \$12.1 million increase in current receivables.

Cash outflows from investing activities this year were \$8.3 million, which is a decrease of \$7.8 million compared to last year. This reflects a transfer of cash to longer-term investments.

Cash outflows from financing activities were \$16.0 million, reflecting payment of the 2011-12 dividend.

STATEMENT OF CORPORATE INTENT

The table below depicts our performance against key financial measures from our 2012-13 Statement of Corporate Intent.

Financial results	2013	SCI target
NET PROFIT AFTER TAX (\$M)	38.6	33.2
COST TO INCOME RATIO (%)	80.3	81.0

Non-financial results	2013	SCI target
QIC GROWTH FUND FINANCIAL YEAR GROSS RETURN	14.99%	CPI+4% 6.50%
EMPLOYEE ENGAGEMENT RATING 2013	67%	>5% improvement (2012: 66%)
WORK RELATED INJURIES AND ILLNESSES	15	0

CORPORATE ENTERTAINMENT AND HOSPITALITY COSTS

In the process of engaging with our clients and staff, QIC undertakes a variety of corporate entertainment, hospitality and employee activities. We operate in a commercial environment, so building and maintaining relationships with existing and prospective clients outside of the office is critical, as is informing and engaging our staff to ensure we continue to deliver on our clients' expectations.

QIC has policies in place to ensure that our corporate hospitality and entertainment expenditure is appropriate and reasonable.

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

Event	Date	Cost (\$)
CLIENT FUNCTION: SPORTING EVENT	04 July 2012	5,909
EMPLOYEE FAMILY DAY	05 August 2012	25,449
CLIENT FUNCTION: GOLF DAY	30 August 2012	14,332
CLIENT FUNCTION: QIC PRIVATE MARKETS INVESTOR DAY	04 October 2012	5,643
CLIENT FUNCTION: SPORTING EVENT	13 October 2012	21,843
COOL NIGHT CLASSIC FUN RUN	01 November 2012	9,126
CLIENT FUNCTION: ART EXHIBITION	01-May-2013	6,392

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.

Asset allocation: The distribution of investments by an investment manager among various asset classes or sectors (the major asset classes are shares, property, fixed interest investments and cash). Asset allocation may be referred to as 'strategic' or 'neutral' (where the asset mix is appropriate to the long-term liabilities of the fund) or 'tactical' (where the asset allocation reflects the manager's view of likely short-term market movements). Also see 'Dynamic asset allocation'.

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.

Diversification: Investing in a variety of assets or through a number of managers to spread the risk. In popular terms, diversification means 'not having all your eggs in one basket'.

Dynamic asset allocation: An asset allocation strategy that constantly adjusts the mix of assets in a portfolio as markets rise and fall and as the economy strengthens and weakens.

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 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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