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QIC ANNUAL REPORT  
2007 – 2008

QIC







**Innovative investment solutions to exceed our clients' investment objectives.**

QIC commenced investment operations in 1989 and was formally established in 1991. Since then, QIC has grown to be the largest institutional investment manager in Australia, with over \$80 billion in funds under management. We bring specialists from all major asset classes into one highly integrated organisation to deliver extensive experience, global capability and a strong track record of innovation for our clients.

We offer a broad range of solutions across equities, fixed interest, property, infrastructure, absolute return strategies and capital and exposure management. Our clients include superannuation funds, government and statutory authorities, insurance organisations, charitable bodies, financial services companies and educational institutions.

QIC's heritage has forged a culture of openly challenging conventional investment thinking to find a better way to achieve our clients' investment objectives. Across all major asset classes, QIC merges some of the industry's best pragmatic investment minds with a proven environment of innovation for client benefit.

At QIC, our sole focus is to develop a complete understanding of our clients' needs, and we work together with our clients to design investment solutions that are more meaningful at the total portfolio level and deliver their specific return objectives.

Our success is dependent upon our people and therefore our ability to attract and retain the very best people in their field. Our people are thought leaders, and they are the key to ensuring we remain the fund manager of choice for our clients and to the growth of our business. We provide a challenging and rewarding work environment for our people and the opportunity to work with some of the leading superannuation funds and institutional investors in Australia. In turn, they impart their commitment and skills to deliver exceptional investment performance for the benefit of our clients.

We go further:

## MISSION, VISION AND VALUES

### Our Mission

Our mission is to provide high quality investment management and consulting services to maximise investment returns for our clients, consistent with their expectations and risk tolerances.

### Our Vision

Our vision is to be a leading provider of professional and disciplined investment management services and to remain at the forefront of industry best practice.

EXCELLENCE  
CONVICTION  
INNOVATION  
TEAMWORK  
INTEGRITY



It has been well documented that 2007-2008 was a particularly challenging year for fund managers globally. The credit crisis, which originated in the US, began to emerge at the beginning of the financial year. Initially equity markets flourished, driven by lower interest rates and injections of liquidity as central banks focused on securing the financial stability of markets.

## CHAIRMAN AND CHIEF EXECUTIVE'S REPORT

However, sentiment soon wavered as oil and other commodity prices fanned inflationary concerns, and financial institutions restricted access to credit. This led to significant falls in markets globally. In the aftermath, the financial press has been dominated by news of large writedowns by globally recognised institutions and others, and this has impacted confidence generally.

While QIC did not have direct exposure to "sub-prime" credit instruments, the contagion effects have meant that we, and our clients, have not been immune to these developments. Despite this, QIC remains positive about the long-term prospects for markets and the investment strategies we have in place.

As always, we continue to work closely with our clients to ensure that they are fully apprised. Given their nature, many have long-term investment horizons and are therefore focused on long-term objectives. For clients such as our superannuation fund clients, we share a commitment to ensuring members are informed during these periods of short-term volatility, and continue to provide assistance with member education initiatives.

The news is not all bad however, and we see positives in the situation we presently find ourselves in. It provides the opportunity for very good managers to demonstrate their ability, and we are confident that QIC is positioned to take advantage and exploit potential opportunities as they arise. This has been clearly illustrated by the active positions taken by our portfolio managers in the past year as we continue to seek to find value in the markets.

Conviction is one of QIC's core values, and central to our investment philosophy is our focus on the long-term and managing risk at the highest level. In times such as we are experiencing, it is essential that we maintain confidence in our processes and our people and demonstrate conviction in our views. This of course is not without its challenges, but we are confident that we have the essential elements in place to deliver long-term performance for our clients – the right people and the right processes.

None of what we do would be possible without the backing and confidence of our clients, and we are very proud of the relationships we share with them. This is not taken for granted, and we would like to thank all of our clients for their support during the year. We look forward to continuing to work with them in the future.

Innovation has always been a hallmark of QIC and is one of our core values. The 2007-2008 financial year was no different, with the introduction of a number of key initiatives including:

- An after-tax investing capability
- Further diversification into unlisted alternative assets
- Significant investments in US endowment funds
- Cost saving and capital efficiency innovations by our Capital Markets (Omega) team
- The implementation of dynamic asset allocation into multi-sector funds.

In January 2008 QIC adopted the United Nations Principles of Responsible Investing (PRI). This commitment to responsible investing reinforces QIC's view that environmental, social and governance (ESG) issues directly affect clients' investment returns. QIC has always been strong on governance, and the PRI reinforces our commitment to not just look at 'the numbers', but to further investigate the long-term sustainability of assets and companies from an environmental and social perspective. QIC's approach to ESG integration is a pragmatic one. We are moving with purpose to integrate ESG into our operations with our focus firmly on the benefit of delivering higher, long-term value to our clients.

Organisationally we have undergone a restructure to further build on our strengths. One of the cornerstones of our success is our culture, which encourages our people to express their views and challenge others. The significant amount of information sharing and collaboration across asset classes led us to change our structure to integrate all of the listed investment teams under the QIC Asset Management Division. This new structure will allow better management of key person risk and clear progression paths for our people, and will benefit our clients by enhancing investment outcomes and ensuring that investment staff are not distracted from their key task of meeting client objectives. This last point is further supported by the creation of the three business line structure, which also brings all of the back and middle office capability together.

During the 2007-2008 financial year QIC's previous five year corporate strategy ran its course. As a result, the Board and management developed a new five year vision and strategy to guide the Corporation to 2013. Not surprisingly, we have not embarked on a radical change of direction. Rather, we will continue to build on the success we have enjoyed to date and focus on our key deliverable – meeting and exceeding the investment objectives of our clients. This will require QIC to continue to challenge itself both internally and externally; deliver innovative solutions where this adds value for our clients; ensure we retain and attract the very best people; and invest appropriately in systems infrastructure, as this is an essential enabler.

Our success continues to be built on the principles of delivering investment performance and client service excellence. These principles guide everything we do in all of our dealings and require that we understand our clients' needs so we can continue to deliver products and services that exceed their expectations. Looking forward, we will continue to focus on strengthening our relationships with our clients and consultants to demonstrate the value QIC adds.

## Financial performance

Financial performance and returns delivered for our clients were again pleasing against the backdrop of investment markets.

We are proud to welcome five new clients to QIC and over \$18.8 billion in new funds. Our funds under management grew by 28.5% during the year (\$82.9 billion as at 30 June 2008 compared to \$64.5 billion the previous year), and the QIC group posted an after tax profit of \$4.4 million.

A dividend of \$2.2 million will be returned to the Queensland Government.

We remain conscious of the need to deliver excellence while keeping costs to our clients to a minimum. To this end, the Board has implemented dedicated programs to focus on leveraging efficiencies and economies of scale to maximise service delivery to our clients.

## Looking to the future

Our commitment to our clients, our people and the management of the Corporation is paramount and is acknowledged in our strategy and key corporate performance indicators. Achieving these will require us to continue to make the very most of our resources and we will rely again on the professionalism and commitment of all QIC staff. On behalf of the QIC Board and management, we would like to acknowledge the dedicated staff at QIC for their contribution this financial year.

As always, ongoing support from the QIC Board and our shareholding Ministers, the Honourable Anna Bligh MP, Premier, and the Honourable Andrew Fraser MP, Treasurer, is acknowledged and greatly appreciated. We also acknowledge and thank retiring Directors Ian Brusasco and John Allpass for their contribution during their time on the Board (10 years and 19 years respectively), and welcome new Directors Lyn Gearing and Brad Bowton.

Looking to next year, the Board will continue to work with management to ensure that we have the appropriate strategy, resources and processes in place to exceed our clients' expectations. This will be made somewhat more challenging given the current state of the markets, but we are confident in our ability and have the commitment to deliver this for our clients and stakeholders.



Trevor C Rowe AM  
Chairman



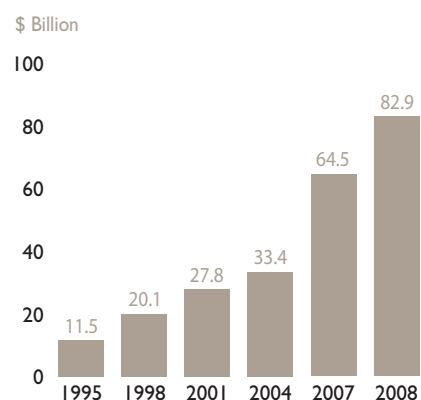
Doug McTaggart  
Chief Executive

Total net cash inflows to QIC from all clients in 2007-2008 were \$18.8 billion.

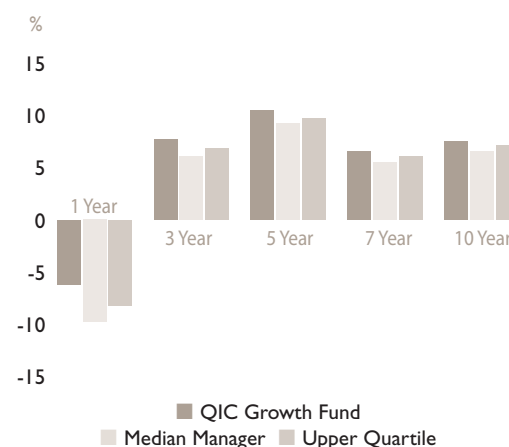
Our funds under management grew by 28.5% during the year to \$82.9 billion as at 30 June 2008.

Volatility and negative sentiment in investment markets through 2007-2008 had a significant negative impact on revenues.

**QIC funds under management growth**  
As at 30 June 2008



**QIC net returns against Mercer Pooled Fund results**  
To 30 June 2008  
Above median and upper quartile for all periods



**QIC Growth Fund returns\***  
As at 30 June 2008

	1 year	3 years (p.a.)	5 years (p.a.)	7 years (p.a.)	10 years (p.a.)
Gross return	-6.8%	8.4%	11.5%	7.3%	8.2%
Benchmark	-5.8%	8.6%	11.1%	7.2%	7.9%
Active Return	-1.1%	-0.2%	0.5%	0.1%	0.3%
Net Return	-6.2%	7.7%	10.5%	6.6%	7.5%

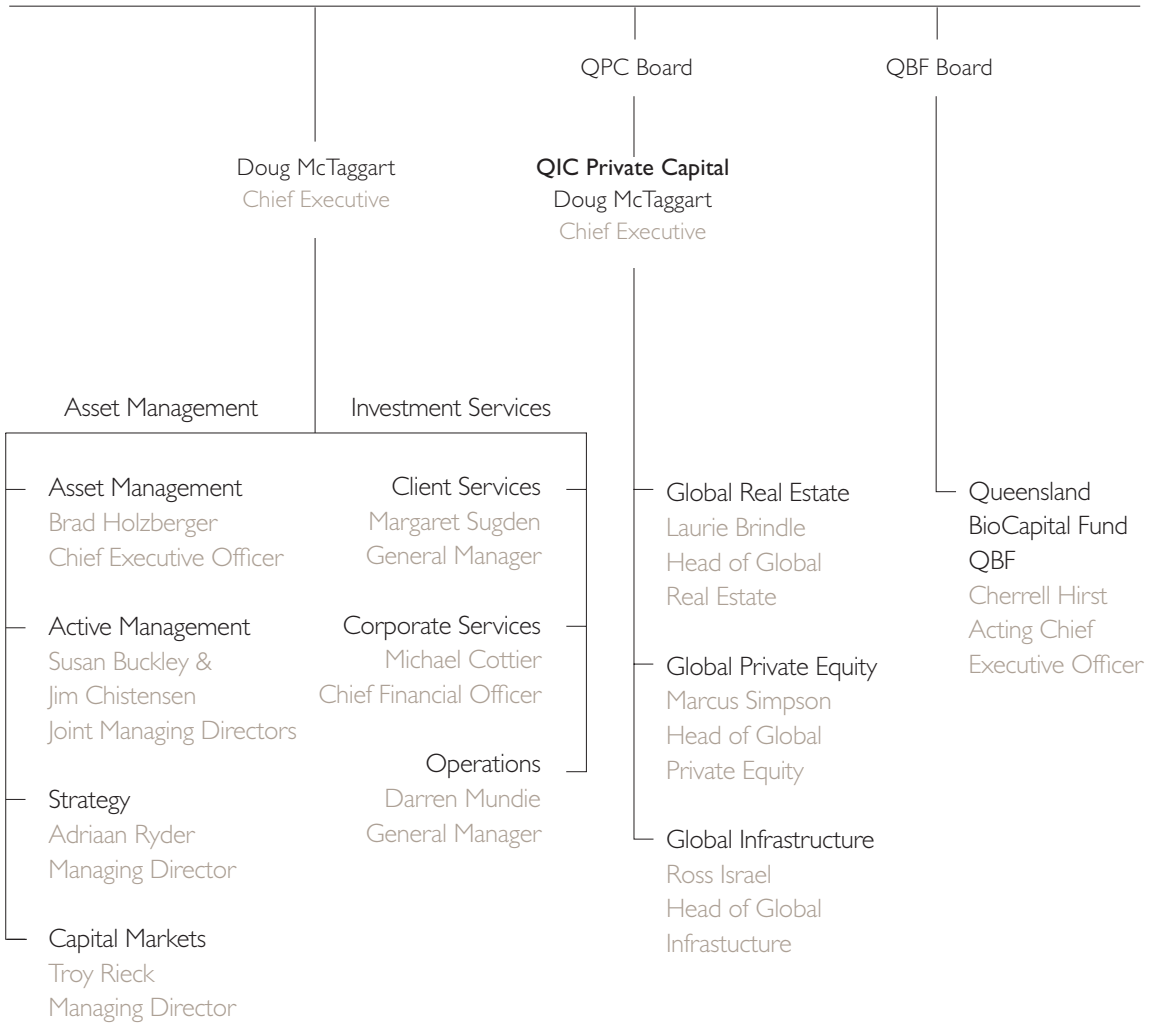
Note inception date of the QIC Growth Fund was 6 March 2002.

\*These returns are constructed from the perspective of a wholesale client who invested in the QIC Investment Trust (QICT) and then transferred to the QIC Growth Fund from July 2002 onwards.

# CORPORATE STRUCTURE

## QIC Board

(Board committees: Audit & Risk Management, Human Resources, Product Development, Debt Management)



QIC's primary focus is to ensure our clients meet their investment objectives. We are client centric, not product centric, and throughout the year the Client Services team has taken a proactive approach to managing relationships and has continued to search for ways to improve client outcomes.

During the year QIC welcomed five new clients, bringing our number of institutional clients to 83. We were also successful in securing ten new mandates from existing clients during the year.

A Client Solutions team was established to manage all aspects of client relationships and to provide clients with one central point of contact. During the year we achieved significant net inflows from our client base, despite it being a difficult year for both the equity and fixed interest markets. We were proactive in our communications with our clients, and were also involved in communications with our clients' members, participating in over 70 client member seminars throughout Queensland.

QIC again ranked highly for partnering with clients in the Peter Lee and Associates 2008 Investment Management survey for institutional funds. 95% of clients surveyed said they would recommend QIC to another fund. The survey findings showed QIC is held in high regard for the intellectual capability of our investment teams, particularly Strategy. There was also strong support for our property and fixed income products.

During the year significant product development occurred that included further diversification of both market and active returns and the management of after-tax outcomes.

The PACE performance measurement system was successfully implemented, and is delivering significant economies of scale for performance calculations. It proved particularly valuable in portfolio restructuring, transitions and new mandates throughout the year.

In the year ahead, Client Services will be focusing on:

- Continuing to introduce investment solutions that deliver performance-driven innovation for clients
- Supporting QIC's growth strategy by launching several new products where market opportunities and client needs meet
- Strengthening existing relationships and creating new relationships that align with QIC's commercial objectives
- Continuing to implement our brand positioning and marketing strategy
- Automating client reporting and delivering e-commerce solutions for client forms and data flow
- Completing a formal assessment of ESG integration and United Nations Principles for Responsible Investment (PRI) and determining how QIC will respond
- Updating the QIC Performance Measurement policy and reviewing performance measurement calculations.

## Active Management

The active management division was formed in December 2007 and includes all alpha generating asset classes including Australian Equities, Implemented Equities, Implemented Absolute Return and Global Fixed Interest.

This new structure improves investment decisions through greater information sharing and coordination across diverse asset classes.

## Alpha Investment Team

The Alpha Investment team's primary role is to monitor and review all QIC alpha generation processes to ensure they are managing to the agreed alpha risk and return targets. The team also conducts ongoing research, analysis and simulations to deliver 'best in class' alpha outcomes for our clients.

During the year the team facilitated a number of significant transitions in alpha exposures to deliver better and more efficient risk adjusted alpha outcomes for our clients. As well as conducting nine formal reviews of various QIC alpha teams and processes, the team also played a significant role in reporting and analysing alpha outcomes for clients.

## Implemented Absolute Return

The Implemented Absolute Return team was formed through the merger of the implemented teams within the Global Fixed Interest and Alternative Investment Strategies areas. The new team's focus is to deliver innovative absolute return strategies via external managers that are across, rather than within, the various asset classes. Specifically, the team provides investment solutions that provide significant diversification benefits to funds by delivering returns uncorrelated to equities.

The team has over A\$5 billion allocated to Absolute Return Strategies, making them one of the largest global investors with their managers. New investments made during the year with managed futures and multi-strategy managers have provided significant diversification benefits to their strategies.

In a tough year for equities, the QIC Active Currency Trust proved its value as a diversifier, producing a 12.8% total return following a 16.7% total return in 2006-2007.

## Global Fixed Interest

The Global Fixed Interest (GFI) team's solid track record of performance saw it rated the number one Australian and global fixed interest manager by a number of consultant and client surveys.

Capitalising on this growing reputation in the market, the team attracted new business in Australian fixed interest and secured a significant cash mandate from the Commonwealth Government's Future Fund.

The credit crisis and subsequent volatility in global credit markets has seen fixed interest managers having to negotiate a difficult market environment. However, the volatile year has highlighted some of the differences between traditional physical-based fixed interest portfolios and more innovative approaches.

While traditional funds rely on their ability to manage physical securities, the QIC GFI Alpha Fund utilises the latest available instruments and innovative processes to actively manage global interest rate and credit derivative strategies.

In the 2007-2008 financial year the GFI Alpha Fund delivered a total return of 11.5%, and has averaged 12.7% per annum over the last three years. The key to the strong performance of the Fund is that GFI can apply its research and scorecard process across global markets with fewer investment restrictions, which can sometimes limit portfolio flexibility. The structure of the Fund also means the team can be more nimble, which is particularly valuable in volatile market conditions.

For the first time the team also invested in high yield infrastructure loans, which proved well timed and have performed well for clients.

## Australian Equities

The 2007-2008 financial year was extraordinarily volatile for global equity markets, and this presented a number of challenges and opportunities for investors.

While the QIC Large Caps and Property Securities strategies were successful in producing positive alpha in a difficult environment, the Core strategy slightly underperformed due to portfolio-reducing exposure to certain energy stocks as the oil price rose late in the financial year. The Small Companies strategy also underperformed its benchmark due to an underweight exposure to the small resources sector.

Despite these disappointments, there were many highlights for the Australian Equities team in what proved to be a challenging year:

- The restructure of the Australian Equities team was completed, creating a long-term, sustainable capability with increased breadth and depth of analyst skills.
- The Australian Equities investment process was fully integrated into QIC's technology platform, enabling the team to better leverage QIC's comparative advantages to improve scalability of investment returns and future growth.

In the year ahead, the team will be focusing on developing more innovative and diversified products to further enhance alpha delivery. This will significantly improve the team's ability to provide more meaningful and tailored alpha solutions for clients.

## Implemented Equities

During the year the Implemented Equities team continued the process of implementing alpha beta separation across all of its portfolios, and also implemented after-tax management for a major client.

The team continued to demonstrate the ability to find and hire the 'best in class' managers, as well as innovative and emerging managers. Closed end discount and volatility managers are some of the unique managers that have performed well for the portfolios throughout the year.

The Implemented Australian Equities Fund was rated number one across all periods in the Chant West Survey released for the end of May 2008. The Fund outperformed its major competitors in what has been a challenging period.

The team's ability to provide a range of client solutions improved during the year with the development of Emerging Markets Equity and Implemented Equities Absolute Return Funds.

## Top Performing Funds – QIC Active Management Division (2007-2008 financial year)

	Actual	Benchmark	Active Return
QIC Active Currency Trust	12.8%	7.3%	<b>5.5%</b>
QIC Global Fixed Interest Alpha Fund	11.5%	7.3%	<b>4.2%</b>
QIC Implemented Australian Equities Fund	-9.7%	-13.4%	<b>3.7%</b>
QIC Active Large Companies Fund	-10.8%	-12.8%	<b>2.0%</b>

## Strategy

The QIC Strategy team's key objective is to be a market and thought leading provider of strategic investment advice and beta management services.

The past year was a year of consolidation for the team, with the continued diversification of beta exposures for clients and the management of these beta exposures in a volatile market environment. Some of the beta exposures provided to clients include US endowment funds, intellectual property funds, commodities and inflation-linked portfolios.

The separation of alpha and beta for QSuper and Treasury assets provided the Strategy team with the flexibility to position these portfolios to meet our clients' objectives, and QSuper finished the financial year with top quartile performance against its peers.

Strategy also implemented the principles of the separation of alpha and beta in QIC's largest multi-asset class pooled fund, the QIC Growth Fund, while further diversifying beta exposures in a range of client portfolios. The performance of the QIC Growth Fund ranked it second in the Mercer Balanced Fund universe for the financial year and for the five years ended 30 June 2008.

In the year ahead the team will be focusing on the continued broadening and deepening of our research capabilities, with a view to further diversifying the beta exposures of our client portfolios to ensure they remain robust to a range of economic conditions.

## Capital Markets

The QIC Capital Markets team implements fund-level risk management solutions for our clients, undertaking a role similar to the Treasury and risk management operations for a multi-national corporation. This includes asset and currency risk management, counterparty and liquidity risk management and capital allocation and tax-effective structuring. It also involves a strategic advisory role with respect to the structuring of investment solutions, which is undertaken in partnership with the key decision makers in client funds.

Capital Markets remained integral to the ongoing implementation of alpha-beta separation in a post fees and taxes environment throughout the year. This ensured that fund-level exposures, capital allocations and liquidity and counterparty risks were proactively managed during difficult market conditions.

During the year Capital Markets introduced the Strategic Risk Management Overlay concept, which is aimed at managing specific portfolio risks identified by clients. This concept provides clients with another tool to ensure their portfolios remain robust in a wider range of economic conditions and market environments, in addition to the risk management that can be achieved through diversification or dynamic asset allocation.

The year ahead will be an exciting time for QIC Capital Markets. The recent market falls have sharpened our clients' focus on the benefits of effective risk management, and we will be working closely with our clients to ensure their portfolio risks are managed efficiently.

## Global Real Estate

The QIC Property Fund (QPF) enjoyed another year of strong performance, achieving 4% above the benchmark despite a difficult and volatile market.

Over the past ten years, the QPF has outperformed the benchmark by 1.3% per annum on a compounding basis. This is testament to both the quality of the portfolio and of the Global Real Estate team, whose long-serving senior executive group has been responsible for delivery of this result.

Risk was tightly controlled across the portfolio throughout the year, and a number of profitable decisions highlighted our disciplined investment process. Operations were also well managed, with all operational indicators performing well across the portfolio. Business processes were further enhanced to provide a sound and scaleable platform for continued growth.

Other key highlights for the past year were the establishment of a UK office, which became fully operational in July 2007, and the sale of the three tower Central Plaza complex, which was reported as the largest transaction of an office complex in Australia, and the biggest commercial deal in Brisbane's history.

QIC leasing and development executives negotiated many successful leasing deals during the year, including a large number of deals with anchor tenants, which will underpin the profitability of the development pipeline going forward.

In the year ahead the team will be focusing on:

- Continuing to deliver strong investment returns for our clients, in line with their risk expectations
- Delivering the significant development pipeline
- Achieving continued income growth across the portfolio
- Investigating anticipated buying opportunities created by weakness in capital markets
- Continuing to improve the environmental efficiency of the portfolio.

## Global Private Equity

QIC's Private Equity program was established in 2005.

At its core is a team of six investment professionals dedicated to meeting the private equity needs of QIC's core clients. The team has extensive global experience in all aspects of private equity investing.

The program continues to evolve as planned and is on track to reach its medium-term target of \$2.5 billion of capital invested. Commitments of \$1.5 billion were made to 47 funds and two co-investments were also made by the end of the financial year (compared to \$752 million to 24 funds last year). Given the relative newness of the program, investment performance is as expected.

Commitments were made to targeted managers in the US, Europe, Asia, and Australia. This included a significant distressed commitment that was made following extensive research into this sector since 2006.

The past year saw further integration and strengthening of the team. The QIC Private Equity team will continue to seek attractive investment opportunities in the year ahead, with now being an opportune time for a newly established program with significant uninvested capital.

Other priorities for the year ahead include:

- Maintaining a disciplined approach to investing, particularly in the buy-out market
- Retaining some capital to be able to take advantage of attractive opportunistic investments that should materialise in down markets
- Ensuring that clients remain informed of QIC's activities, and the latest market developments
- Continuing internal research on defined sub-sectors
- Maintaining QIC's reputation as a leading private equity investor.

### Global Infrastructure

The QIC Infrastructure team was established in January 2006.

QIC Global Infrastructure's key objective is to build infrastructure portfolios that will deliver sustained superior long-term performance in excess of benchmarks agreed with its clients.

The past year saw a significant expansion of the portfolio, with the addition of a number of strategic assets including a 25% interest in the Brisbane Airport and an 18.7% interest in a European ports operator; the latter providing a platform for future expansion into port opportunities in emerging markets. The portfolio also gained exposure to renewable energy and the United States through diversified energy funds.

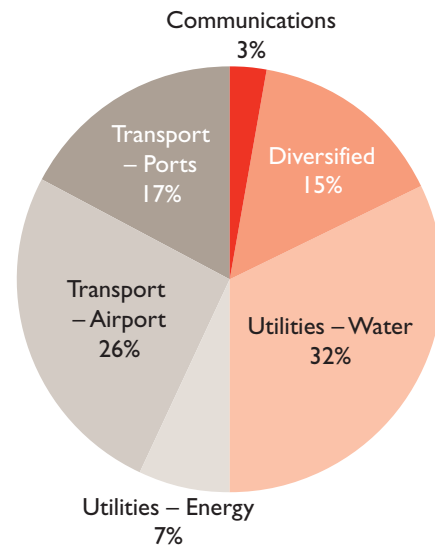
During the year fund investments expanded with the addition of two junior debt placements to further enhance the portfolio. The portfolio now has commitments totalling more than \$1.7 billion, with \$1.3 billion invested, and continues to deliver investment returns that exceed client benchmarks.

The team grew with the addition of three investment professionals. This growth has further strengthened the team of dedicated infrastructure professionals who together have over 50 years of experience in infrastructure, investment management and banking.

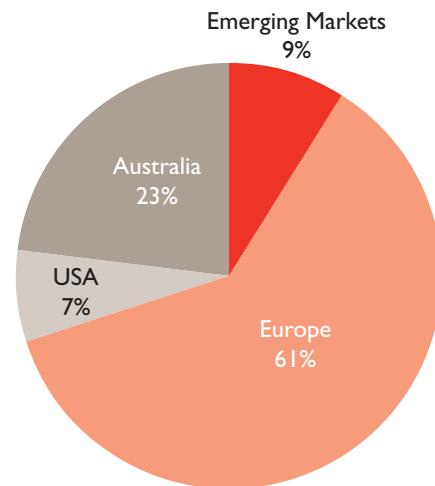
In the year ahead the team will be focusing on:

- Actively managing and diversifying the assets in the portfolio
- Capitalising on the strong opportunities in the pipeline by seeking strategic partners and investments
- Further enhancing our investment framework with regards to environmental, social and governance issues
- Continuing to build and strengthen the investment team.

### Sector Split



### Geographic Split



## Corporate Services supports and enhances the investment capabilities offered by QIC by providing a wide range of value-adding professional and administrative services.

As the business continues to seek and drive innovative solutions to our product offerings and investment structures, so too does the demand for involvement of the professional advisory teams within the Corporate Services division.

Consisting of project management, financial, human resources, legal, tax, compliance and governance professionals, the team has been involved with a significant number of project initiatives and investment transactions during the year. Highlights include leading the implementation of the after-tax investing capability, successful execution of Anti-Money Laundering and Counter Terrorism Financing legislation requirements and progression on the requirement to convert QIC from a statutory government-owned-corporation to a company government-owned-corporation.

One of Corporate Services' key goals for the 2007-2008 financial year was to transform QIC's financial management to make it more consistent with QIC's vision and corporate strategy. To achieve this, Corporate Services has launched a new initiative called Project Mercury, which aims to improve QIC's corporate efficiency and profitability while still maintaining excellent levels of client service. This is being achieved by:

- Automating and streamlining a wide range of internal processes and deliverables
- Providing a more transparent view of organisational costs, and highlighting where QIC is creating value or where we can increase efficiency
- Creating greater focus on corporate profitability and investment performance
- Increasing accountability of each business unit for corporate financial performance.

To date the project has provided better insight into QIC's commercial behaviours and processes, and has already generated substantial future profit improvements, with more initiatives in the pipeline.

In addition to Project Mercury, Corporate Services delivered a number of system and process improvements during the year, including the implementation of a new financial system, enhanced product cost management and reporting and an automated workflow for accounts payable processing.

During the year Corporate Services delivered a number of new people management initiatives, including leadership development programs and a new corporate induction program, as well as a number of workshops covering such topics as coaching and mentoring, goals strategies and actions and innovation. Staff performance management tools were enhanced with the implementation of online performance management, and a global mobility policy was introduced for staff working overseas.

In the year ahead Corporate Services will be focusing on:

- Completing the execution of Project Mercury
- Further enhancing QIC's people management capability
- Continuing to utilise new tax and finance systems where appropriate and leverage existing systems wherever possible
- Completing the required changes to our regulatory and legal framework
- Continuing to improve the internal service delivery model with agreed service level objectives and accountabilities.

## OPERATIONS

The QIC Operations division experienced a significant level of structural change over the past year. This was driven by the requirement to ensure our clients' needs are serviced in the most efficient, transparent and cost effective manner possible, whilst also enabling our investment divisions to focus on investment functions rather than administrative activities.

The Queensland BioCapital Fund (QBF) was established in October 2002 as a ten year, closed-end venture capital fund investing in and actively managing companies in the life sciences and biotechnology sector. This sector is characterised by high risks and high returns. QBF's committed capital is \$100 million, and as such it is one of the larger investors in the Australian biotechnology industry.

## QUEENSLAND BIOCAPITAL FUND

One of the key changes was the introduction of Operations Relationship Managers (ORMs). ORM's act as a central point of contact between Operations and the other business areas of QIC. This has resulted in increased client alignment as well as more streamlined services. This streamlining, when combined with the decommissioning of several applications, is beginning to yield dividends.

During the year a range of initiatives were introduced to improve overall task prioritisation and ultimately increase transparency and client alignment.

The Operations division also experienced a cultural shift over the past year, with an increased sense of unity felt within the division, which was less than six months old at the beginning of the year. The teams are working well together with a common sense of ownership of division-level objectives. This is particularly evident in the commercial focus being applied throughout the team as they endeavour to service an increasingly more complex environment whilst proactively managing expense levels.

In the year ahead Operations will continue to consolidate and scale activities to ensure that the platforms we provide continue to deliver efficient, cost effective solutions.

Operations will also complete the delivery of several key projects, including delivery of a new client reporting system, the implementation of a new unit pricing and registry system, and the refit of QIC's office tenancies.

By mid 2007 QBF was fully committed with investments in 17 portfolio companies diversified across investment size and company focus, including drug development, medical devices and information technology for biosciences research. QBF is now concentrating its focus on the value growth and exit of its portfolio companies before the end of the ten year term in 2012.

In October 2007, Neill Colledge resigned as Chief Executive Officer (CEO), and an independent, non-executive director, Cherrell Hirst, assumed the role of Acting CEO. Cherrell's key objective is to support the strategy to enhance investment returns, and to simultaneously develop and implement a longer term strategy for QBF's future.

The current state of the markets and the general economic environment has created some significant challenges for this industry sector. Anticipated public offers are on hold and capital raising has proved to be difficult. In addition, the Commonwealth government program CommReady, which provided matching grants to early start-ups, has been discontinued, and this has further stressed the capital position of small and vulnerable companies.

Relationships with local and overseas stakeholders have continued to strengthen over the year, with syndicated follow-on investments prominent in planning and action. QBF personnel are also playing an increasing role in industry bodies, committees and conferences.

In the year ahead QBF will continue to focus on maximising its potential investment returns through progressive development and exit from its portfolio companies, and continue to work towards a sustainable future for QBF.

## Q Invest is the financial advice business jointly owned by QIC and QSuper.

Q Invest's primary objective is to provide quality financial advice to Queensland public sector employees at a value not attainable elsewhere.

Q Invest is also the responsible entity for the Investment Access Funds (retail managed funds), for which QIC is the fund manager. As at 30 June 2008, the Investment Access Fund's assets under management totalled \$81.5 million.

The introduction of client fees for superannuation advice to QSuper members in January 2007 moderated the demand for Q Invest services for the financial year ending 30 June 2008. Despite this, Q Invest provided recommendations in relation to \$2.5 billion (96% being QSuper funds), and total funds under advice now exceed \$6.5 billion. Q Invest has a no-commission approach preferring to rebate commissions to clients.

Over the past year 9,456 client interviews were conducted, and over 76% of these resulted in the issue of a written Statement of Advice. A quarter of the interviews took place in locations outside of the Brisbane CBD. Q Invest has regional offices at the Gold Coast, Sunshine Coast, Toowoomba, Bundaberg, Rockhampton, Townsville and, most recently, Chermside.

During the year Q Invest also expanded its service offering to provide advice not only on superannuation issues but also on a range of financial planning matters relevant to the client. Interest in the new Private Client service, which was established to cater for clients with complex financial arrangements, has been particularly encouraging.

In late 2007, Q Invest became the selected provider of financial planning services for First State Super (FSS), a major public sector fund in New South Wales. A successful pilot was conducted with a Q Invest adviser providing advice from the FSS Sydney office. An extension and expansion of the pilot was recently negotiated for the 2008-2009 financial year.

In the year ahead Q Invest will deliver around 13,000 advice interviews to QSuper and FSS members over the phone and face-to-face from nine locations across Queensland and New South Wales. The advice service will be further expanded to provide a structured offering to people in the 30 to 45 years bracket who are in the wealth creation life phase.

Resources have also been allocated to a dedicated business development function to promote Q Invest's services and strengthen existing relationships with employer groups.

Q Invest will continue to focus on being an industry leader in the provision of affordable and accessible quality financial advice.

Our people are what our success is built on. To exceed our clients' expectations, we require talent and expertise in a wide range of disciplines.

**Competing for the best people in a global market**

We continued to attract and engage staff nationally and internationally. Our reputation as a leading-edge investment manager, combined with a great workplace environment, has helped us to successfully recruit for roles ranging from graduates to senior executives.

As a global organisation with a large proportion of our assets located offshore, we are able to offer greater opportunities for staff to develop their knowledge and experience.

Attracting and retaining staff will continue to be a significant challenge in an increasingly competitive market for people in our industry. Projecting our value proposition into the market place and delivering it to our staff is a key priority.

**Providing our people with work-life balance**

People who work at QIC play a significant role in delivering the products and service our clients value. In return, QIC works hard to ensure our people receive value from their relationship with the organisation. The 'Life Balance' program at QIC offers a range of options, including a health and well being program to cater for the different needs of staff during different life phases. Life Balance aims to help people achieve the right balance between meeting business objectives and achieving personal goals. Many staff take advantage of options such as flu vaccinations and skin checks.

**New hire survey**

A 'new hire' survey conducted during the year shows that new employees are positive about QIC's recruitment and induction processes. The survey indicated that new starters generally accepted employment due to the nature of the work on offer and the reputation of the team they were seeking to join. It also revealed that our recruitment processes are effective, with hiring managers deemed capable and portraying a positive image of QIC.

The survey also identified opportunities to improve our orientation processes. The survey's finding will be used to help improve the process of sourcing, recruiting and orienting new hires. It will also provide valuable input to the induction, employment branding and performance management programs.

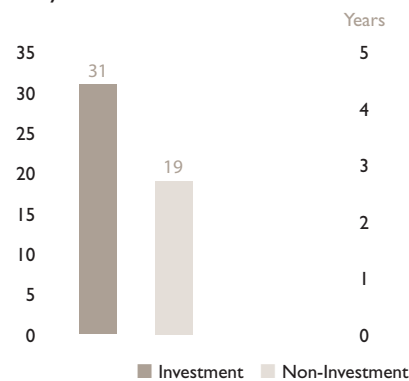
**Leadership development is critical to our continued success**

Leadership development has been identified as a key priority to ensure the future success of our business. Our executives will need a broad range of skills to manage both the technical and people aspects of a dynamic organisation. Developing and growing our staff will be important to offset the impact of changing demographics as talented young people take advantage of a truly global market for their skills.

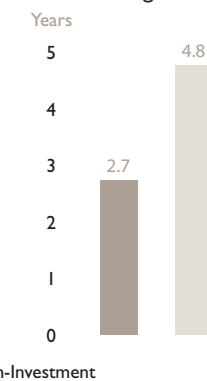
**People snapshot**

- Graduate recruitment – 2
- Staff turnover – 12.2% compared to industry 14.4% as at December 2007
- Maternity leave – 13

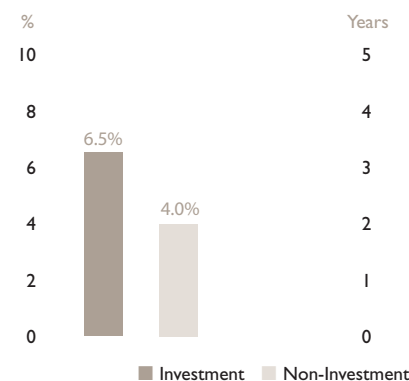
**Staff departures during the year**



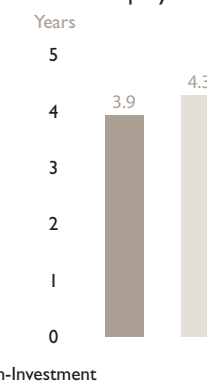
**Average tenure before leaving**



**Turnover by investment/non-investment**



**Average tenure for current employees**



OUR PEOPLE

QIC is aware of the need to balance attractive remuneration with controlled costs and accountability as a Government Owned Corporation (GOC).

Our remuneration and incentive schemes must be competitive within the funds management industry to attract and retain the high quality staff we need in order to give our clients leading investment services.

#### **Remuneration standards**

In setting our remuneration and incentive policies we believe they must:

- Align with business strategy
- Be competitive against industry benchmarks
- Comply with relevant legislation and GOC guidelines
- Discriminate between high and low performance
- Show clear methods of performance assessment, applied fairly to all in the scheme
- Enable staff to track their performance against targets.

#### **QIC's performance framework**

The key feature of QIC's performance-based commissions framework is that performance payments are linked to investment performance as well as to the individual's contribution to defined key result areas.

For this purpose, the performance of QIC funds is measured against demanding benchmarks, and the full payment is only made if actual performance significantly exceeds those benchmarks and achieves stretch targets.

QIC's various incentive schemes were recently reviewed by the Queensland Audit Office and external benchmark providers.

#### **Ongoing assessment and approval of remuneration**

Our Human Resources Committee advises the Board on appropriate levels of staff remuneration after conducting an annual review of corporate and individual performance, taking into account industry comparisons and independent advice. The Board then decides the remuneration of the Chief Executive and senior management staff, subject to our shareholding Ministers' approval.

Our Employment and Industrial Relations Plan is approved annually by our shareholding Ministers. This plan includes our remuneration policy and practices for all staff.

#### **Directors' fees**

The Directors of QIC are to be paid by way of fees for their services, the amounts, if any, approved by the Company in general meeting. Directors are not entitled to performance-based payments and retirement benefits.

To perform effectively, GOCs need to be commercially focused, have the flexibility to respond to competition and pursue investment opportunities that enhance shareholder value. Our Board of Directors affords us this flexibility.

**Trevor C. Rowe AM, Chairman**  
FCIS FAICD CPA  
Appointed 2001. Age 65.  
Current term to 30 September 2009

**Chairmanships:** Rothschild Australia Limited; Gotalk Limited; Enhance Management Pty Ltd; Queensland BioCapital Funds Pty Ltd; QIC Retail Pty Ltd; QIC Private Capital Pty Ltd; United Group Limited; BrisConnections Management Company Limited; Careers Australia Group Pty Limited.

**Directorships:** Australian Securities Exchange Limited; Member of the Board of Guardians of the Future Fund of Australia.

**Other appointments:** Chancellor Bond University; Chairman RSPCA Queensland Building Funds; Foundation Member of the Friends of the Royal Flying Doctor Service (South Eastern Section).

**Previous appointments:** Council Member, Macquarie Graduate School of Management (2000-2003); Member of the Takeovers Panel (2000-2003); Chairman – Investment Banking, Citigroup Global Markets (to 16 September 2005); Director – Resimac Limited (1986-2005), Member of Commonwealth of Australia Foreign Affairs Council (2000-2007).

**QIC Committees:** Member of the Human Resources Committee and the Product Development Committee.

**Ken MacDonald, Deputy Chairman**  
BA(Hons) LLB(Hons) FAICD  
Appointed 1991. Age 59.  
Current term to 30 September 2010

**Chairmanships:** Highlands Pacific Limited.

**Directorships:** Q Invest Limited; QIC Retail Pty Ltd; QIC Private Capital Pty Ltd; RiverCity Motorway Group.

**Other appointments:** Member of the QIC Shopping Centre Fund Advisory Committee.

**Previous appointments:** Board member and Executive Partner of the Energy, Resources and Infrastructure Department of Allens Arthur Robinson. Past partner of Allens Arthur Robinson.

**QIC Committees:** Chairman of the Human Resources Committee and Member of the Product Development Committee.

**John Allpass, Director**  
FCA FCPA FAICD  
Appointed 1991. Age 67.  
Term to 30 September 2008  
Chartered Accountant

**Chairmanships:** Envestra Ltd.

**Directorships:** MBF Australia Limited (and Group Companies); BUPA Australia Holdings Pty Ltd; BUPA Australia Health Pty Ltd; BrisConnections Management Company Limited (and subsidiaries).

**Other appointments:** Several continuing non-director appointments in the Macquarie Group.

**Previous appointments:** Managing Partner for Queensland of KPMG Peat Marwick; Member of the National Board of KPMG Peat Marwick; Councillor and Vice President Australian Institute of Company Directors (Queensland); Director of Macquarie Bank Limited and Chairman Macquarie Life Limited.

**QIC Committees:** Chairman of the Debt Management Committee, Member of the Audit and Risk Management Committee (former Chairman) and Member of the Product Development Committee.

**Ian Brusasco AM, Director**  
PhC  
Appointed 1998. Age 79.  
Term to 30 September 2008

**Chairmanships:** WorkCover Queensland; Foodbank (Qld) Ltd, Gladstone Ports Corporation Limited.

**Directorships:** Pharmall Pty Ltd; Queensland BioCapital Funds Pty Ltd.

**QIC Committees:** Member of the Human Resources Committee.

**David Harrison, Director**

FAICD

Appointed 1998. Age 57.

Current term to 30 September 2011

**Chairmanships:** Port of Brisbane Corporation Limited; Australia TradeCoast Limited; QMI Solutions Limited; Industry Capability Network.

**Directorships:** Gateway Investments Pty Ltd; Brisbane Airport Corporation and associated companies.

**QIC Committees:** Member of the Human Resources Committee and the Audit and Risk Management Committee.

**Marian Micalizzi, Director**

BBus FCA F Fin

Chartered Accountant

Appointed 1994. Age 51.

Current term to 30 September 2009

**Directorships:** Queensland Treasury Corporation's Capital Markets Board; Australian Reinsurance Pool Corporation; Information Technology Australia (an ANZ Limited private equity investee entity).

**Other appointments:** Member of the Independent Investment Committee of the Queensland Development Fund; Member of the Corporations and Markets Advisory Committee; Takeovers Panel; Member of Sunsuper Audit, Risk & Compliance Committee; Commissioner; Public Service Commission (Qld).

**Previous appointments:** Partner of PricewaterhouseCoopers.

**QIC Committees:** Chairman of the Audit and Risk Management Committee; Member of the Product Development Committee and the Debt Management Committee.

**Maurice L. Newman AC, Director**

SF Fin, FSDIA

Appointed May 2004. Age 70.

Current term to 30 September 2011

**Chairmanships:** Australian Broadcasting Corporation; Australian Father's Day Council; Taronga Foundation.

**Other appointments:** Advisor, Marsh Group of Companies; Patron – CEDA; Civil Patron, Royal Australian Naval Reserve, Professional Studies Program.

**Previous appointments:** Chairman Australian Securities Exchange Limited (1994-2008); Managing Director and Executive Chairman of Deutsche Bank Group in Australia (1985-1999); Chairman of Deutsche Bank Asia Pacific Advisory Board and Director Deutsche Bank Asia Pacific (1999-2001); Chairman Deutsche Asset Management (Australia) Limited (1997-2000); Chairman Y2K National Steering Committee; Chairman Financial Sector Advisory Council; Chair ASX Markets Supervision.

**QIC Committees:** Chairman of the Product Development Committee.

**Bronwyn Morris, Director**

BCom, FCA, FAICD

Chartered Accountant

Appointed July 2006. Age 53.

Current term to 30 September 2009

**Directorships:** Stanwell Corporation Limited; Brisbane Marketing Pty Ltd; Spotless Group Limited; Taylors Group Limited; Care Australia; the Royal Automobile Club of Queensland Limited and its wholly owned subsidiaries; Australian Advisory Council of Parsons Brinckerhoff.

**Other appointments:** Councillor; Bond University; Member, Compliance Committee of the WorldMark South Pacific Club (a Managed Investment Scheme developed and managed by Wyndham Vacation Resorts Asia Pacific Pty Ltd).

**Previous appointments:** Partner KPMG; Chairman Queensland Rail (1999-2006); Director Queensland Office of Financial Supervision (1996-1999); Director Colorado Group Ltd; Councillor; Director Office of Economic Development for the City of Brisbane (trading as Velocity Brisbane), Queensland Library Foundation.

**QIC Committees:** Member of the Audit and Risk Management Committee.

**Bradley Bowton, Director**

BSc MBA

Founding Director of CACE Partners

Appointed April 2008. Age 47.

Current term to 30 September 2011

**Previous appointments:** Management consultant with Bain International and McKinsey & Company; investment banker with Morgan Stanley International and Salomon Brothers.

**QIC Committees:** Member of the Product Development Committee and the Debt Management Committee (from September 2008).

**Lyn Gearing, Director**

B. Comm, Dip. Valuations, Cert. Bus. Studies (Real Estate), FAICD

Appointed April 2008. Age 59.

Current term to 30 September 2011

**Directorships:** Stockland Corporation Limited; IMB Limited; Hancock Natural Resource Group Australasia Pty Limited; The Garvan Foundation.

**Previous appointments:** CEO of State Super and its related fund First State Super; Consultant with McKinsey & Company; Executive with Hill Samuel Australia Limited and Rothschild Australia Asset Management Limited.

**QIC Committees:** Member of the Product Development Committee and the Human Resources Committee (from September 2008).

QIC's active Board, Committees and robust policies provide the perspective and structure for efficiency and integrity in corporate governance. Our practices are benchmarked against best practice corporate governance principles.

QIC's Board of Directors and Management are committed to achieving and demonstrating a high standard of corporate governance. QIC's Board, which is appointed by the Governor-in-Council, guides and monitors the Corporation's business affairs on behalf of our shareholders to whom it is accountable.

In this section, we have summarised the main corporate governance practices established by the Board and in place to ensure that the interests of shareholders, clients, staff and other stakeholders are well managed.

#### Corporate governance best practice

QIC is committed to best practice in corporate governance, and our corporate governance practices are continually reviewed and improved to reflect industry guidelines and recommendations. QIC's corporate governance practices have been compared against the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations (Second Edition), the Standards Australia standard for good governance principles and recommendations made by the Auditor-General of Queensland. This approach has been reinforced and supported by the introduction of Corporate Governance Guidelines for GOCs issued in September 2005 by the Queensland Government.

QIC's Board considers that its corporate governance practices comply with the following best practice recommendations:

- QIC's Chairman is an independent and non-executive Director; and the Board is entirely constituted of non-executive Directors, all of whom are considered by the Board to be independent, as defined by ASX principles
- QIC has a Board charter which details the functions and responsibilities of the Board

- QIC's Directors are appointed by the Governor-in-Council, who considers each person's ability to make a contribution to QIC's commercial performance and the implementation of our Statement of Corporate Intent
- QIC has an Audit & Risk Management Committee that consists only of non-executive directors and has a publicly available charter
- QIC has a publicly available Code of Conduct and a publicly available Code of Ethics that apply to all staff and Directors
- QIC has a policy on trading in securities where conflicts of interest may arise
- QIC's principal external auditor is the Auditor-General of Queensland who is appointed to this position on a seven year non-renewable basis. In addition, the Auditor-General has a policy for the regular rotation of audit staff and executives between audits. KPMG have been appointed, for a three year term, as auditors to a number of entities which form part of the QIC Private Capital investment structure.
- QIC has a sound system of risk oversight that is integrated into the internal reporting structure
- The Chief Executive and the Chief Financial Officer state in writing to the Board that the Company's financial reports represent a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.

#### Our shareholders

As a Queensland GOC, QIC's shareholding Ministers are the Honourable Anna Bligh MP, Premier and the Honourable Andrew Fraser MP, Treasurer. QIC reports to shareholding Ministers and regularly liaises with the Office of Government Owned Corporations.

#### Board and management

In accordance with the *Government Owned Corporations Act (1993)*, QIC's Board is appointed by the Governor-in-Council. The Board comprises eight non-executive Directors, all of whom are considered by the Board to be independent, as measured against the ASX Principles of Good Corporate Governance and Best Practice Recommendations (Second Edition). In assessing the independence of directors, regard is had to the following factors:

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 material professional adviser or consultant to the company or is associated with a material professional adviser or consultant;
3. Whether the Director is a material supplier or 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 which may compromise independence and should be disclosed by Directors to the Board. The Board determines materiality thresholds relevant for the purposes of assessing independence on a case by case basis. QIC takes a qualitative rather than a strictly quantitative approach to materiality thresholds.

The independence of each director is reviewed on each occasion a new disclosure of interest is given under the *Disclosure of Relevant Interests – Board Members Policy*. Information about our Directors is on pages 18-19.

QIC's Board is responsible for directing and controlling QIC's activities. The Board operates in accordance with the principles set out in its Charter and the company'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
- External communication guidelines
- Professional conduct, including conflicts of interest and independence
- Performance assessment

Directors, the Chief Executive and any other person who takes part in the management of QIC ("officer") are also bound under the provisions of the Government Owned Corporations Act 1993 and Corporations Act 2001 that relate to the duties and liabilities as officers of a Company GOC. Officers also have common law duties to which they must adhere.

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 the Corporate Delegations and Investment Delegations policies) by the Board to the Chief Executive and the executive management team. These executives are appointed by the QIC Board with the prior written approval of the shareholding Ministers. Prior to consideration by Ministers, candidates must disclose any shareholdings or trading and property ownership that may create a conflict of interest. An independent probity review and criminal check is also undertaken. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities, and has in place procedures to assess the performance of the Chief Executive and the executive management team.

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 its Code of Conduct and Code of Ethics.

Specific procedures are outlined in the following policies:

- Gifts and Benefits Disclosure
- Disclosure and Approval of Personal Investments and Business Interest for Employees and Disclosure of Relevant Interest for Board Members
- Fraud Policy

Understanding and compliance with the above policies is confirmed by employees at the beginning of their employment period, and annually thereafter. An overview of these policies is also included in the Compliance Induction Program. The policies apply to Directors, employees of QIC and its subsidiary companies, temporary staff and contractors.

QIC's trading policy is incorporated in the Code of Conduct, the Disclosure and Approval of Investments and Business Interest policy for employees, and the Disclosure of Relevant Interest Policy for Board Members. QIC takes holdings in listed securities and, while security selection decisions are made by QIC's asset management team (within the guidelines of client investment mandates) and not the Board, the Directors disclose trading in listed securities where QIC (as a group) holds more than 4%.

#### **Board performance evaluation**

The Board Charter contains guidance on Induction and Continuing Education. In addition, the process for the evaluation of the Board, Board Committees and Directors is detailed in the Board Charter. During 2007-2008, the evaluation was undertaken through formal discussion between each Director and the Chairman encompassing the following topics:

- Role of the Board, strategy and planning
- Board structure
- Meeting processes
- Committees
- Performance monitoring
- Board and senior management behaviour and relationships
- Personal contribution to the role
- General comments

#### **Board committees**

To assist our Directors to fulfil their responsibilities, several Board Committees operated during 2007-2008. The membership of these committees, the number of meetings held and each Director's attendance record for the past year is shown on page 22.

- The Audit and Risk Management Committee, comprising Marian Micalizzi (Chair), John Allpass, David Harrison and Bronwyn Morris, reviewed matters relating to financial reporting and assurance, corporate risk management, compliance and internal and external audit functions. The Committee has a formal charter which outlines its role and obligations.

The Committee aims to ensure that financial controls and systems address key business risks and are of a high standard. Each Committee member has significant accounting and financial services experience.

Ernst & Young conducts internal audit reviews to examine the adequacy of internal controls and to measure compliance with Board and management policies and external regulatory requirements. Internal controls aim to provide reasonable assurance that assets are safeguarded, proper accounting records are maintained, and financial information is accurate and complete. The controls are linked to QIC's corporate risk management system. The Audit and Risk Management Committee monitors and considers reports from internal audits and monitors any remedial action required. Ernst & Young was appointed internal auditor for a three-year term following a tender process administered by the Audit and Risk Management Committee.

## Board committees

### Meetings attendance record 2007-2008

Director	Board Meetings		Audit & Risk Management Committee		Human Resources Committee		Product Development Committee		Debt Management Committee	
	Held <sup>1</sup>	Attended <sup>2</sup>	Held <sup>1</sup>	Attended <sup>2</sup>	Held <sup>1</sup>	Attended <sup>2</sup>	Held <sup>1</sup>	Attended <sup>2</sup>	Held <sup>1</sup>	Attended <sup>2</sup>
Trevor Rowe	9	9	-	-	8	8	5	5	-	-
Ken MacDonald	9	8	-	-	8	7	5	4	-	-
John Allpass	9	8	7	7	-	-	5	5	4	3
Bradley Bowton	3	2	-	-	-	-	-	-	-	-
Ian Brusasco	9	6	-	-	8	6	-	-	-	-
Lyn Gearing	3	3	-	-	-	-	-	-	-	-
David Harrison	9	9	7	7	8	8	-	-	-	-
Marian Micalizzi	9	9	7	7	-	-	5	5	4	4
Bronwyn Morris	9	8	7	6	-	-	-	-	-	-
Maurice Newman	9	8	-	-	-	-	5	5	-	-

Notes: <sup>(1)</sup> The number of meetings during the time the Director held office during the financial year.

<sup>(2)</sup> The number of meetings attended during the time the Director held office during the financial year.

The Auditor-General of Queensland is the external auditor in accordance with the *Government Owned Corporations Act (1993)*. KPMG has been appointed as external auditor of a number of entities in the QIC Private Capital investment structure for three years, following a detailed tender assessment by the Committee.

The Committee considers external audit reports and management letters and monitors action by management in respect of these reports. The Committee periodically meets separately with the internal and external auditors in the absence of management.

The Committee has enhanced procedures and policies relating to overseeing internal and external auditors' independence. Internal and external auditors are not permitted to provide services where the auditors would have a mutual or conflicting interest with QIC; be 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 Audit and Risk Management Committee.

- The Human Resources Committee, comprising Ken MacDonald (Chair), Trevor Rowe, David Harrison, Ian Brusasco, Lyn Gearing and Doug McTaggart, considered matters relating to human resource management policies and practices, including staff remuneration.
- The Product Development Committee, comprising Maurice Newman (Chair), Trevor Rowe, John Allpass, Marian Micalizzi, Ken MacDonald, Bradley Bowton, Lyn Gearing and Doug McTaggart, guided QIC's product development process including the establishment of new funds, production of explanatory brochures and due diligence verification processes.

- The Debt Management Committee comprising John Allpass (Chair), Marian Micalizzi, Bradley Bowton, Doug McTaggart and members of the executive management team, ensured that debt facilities used in QIC products were managed prudently and in an efficient and effective manner.

The record of attendance by Directors at Board and Committee meetings is provided above.

#### Other Committees

QIC's Chief Executive is Chairman of three standing Committees that ensure the integrated and efficient management of our Corporation.

- The Executive Committee consists of the Chief Executive and other senior managers. It is a forum to address strategic corporate issues and provides assistance and advice to the Chief Executive, the Chairman and the Board. The Head of Corporate Strategy participates in and assists the Chief Executive to facilitate these meetings.
- The Investment Strategy Committee consists of senior investment staff from each asset division and client services staff. The Committee is a forum for discussing market developments and their implications for investment returns and for monitoring strategic developments in finance and economics.
- The Programme Management Office Executive Committee is a working Committee of the Executive Committee. The Committee and its sub-committees, with defined delegations of authority, manage QIC's portfolio of projects.

QIC has the following management Committees:

- The Alpha Committee considers competing sources of alpha and works to establish a portfolio of active returns that meets clients' objectives.
- The Beta Strategy Committee oversees all beta investment activities to ensure that client objectives are achieved in compliance with the relevant scorecards. It also provides a forum for proactive passage of information on all beta related developments and issues.

#### **Remuneration management**

An overview of our remuneration policy is on page 17.

#### **Trustee stewardship**

In undertaking the role of trustee of a number of investment trusts, QIC ensures that the trusts are efficiently and effectively 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 executive management team. Subject to prior consultation with the Chairman, Directors may seek independent professional advice at QIC's expense. A copy of advice received by a Director is made available to all other members of the Board.

#### **Conflicts of interest**

QIC's overall conflict of interest policy is articulated in the Code of Conduct. Other policies, such as the Code of Ethics and the disclosure policies, relate to the management of conflict of interest. Regular due diligence on the disclosure process is undertaken and outcomes are incorporated into the Monthly Compliance Report to the Board.

To identify and resolve any conflicts of interest, Directors must disclose potential conflicts of interest and may be excluded from participating in Board matters where a potential conflict exists. Nominated staff must also disclose transactions in property (excluding their private residences unless the transaction might possibly affect any asset in QIC's property portfolio), shares, currencies and derivatives of shares and currencies to ensure there is no actual or perceived conflict of interest. Where the staff member exercises significant influence over the investment activities of another person (involving both advice and investment execution), those transactions should also be disclosed. The policy also provides for declaration of other business interests by staff. The Chief Executive must obtain approval from the Chairman to conduct his own investment transactions.

#### **Code of Conduct and Code of Ethics**

Our Code of Conduct and Code of Ethics apply to the Board and all QIC employees. They reflect funds management industry and Queensland public sector requirements and issues.

As outlined in the Code of Conduct, 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 personnel and others working at QIC are expected to exercise good judgement in their professional life and our Code of Ethics provides guidance in terms of the core values and principles of ethical conduct to which they must adhere.

#### **Reporting to shareholders**

As a GOC, QIC prepares 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 this annual report. There have been no modifications to the SCI during the year.

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.

QIC liaises with the Office of Government Owned Corporations in order to conduct or inform shareholding Ministers on various matters as required by the *Queensland Investment Corporation Act 1991* and the *Government Owned Corporations Act 1993*. QIC aims to provide shareholding Ministers with the information they need to make informed assessments of the operations, financial performance and financial position of QIC and its subsidiaries.

#### **Risk management**

QIC's Board and management have adopted a risk management framework that assists us to proactively identify and manage risks to our corporation. Management maintains risk registers and reports to the Board and the Audit and Risk Management Committee as to the effectiveness of QIC's management of its material business risks. More detailed information regarding the recognition and management of risk in QIC is available on page 25.

#### **Fraud policy**

The QIC Board is committed to maintaining a highly fraud resistant corporation and immediately initiating rigorous investigation of any incidents of suspected fraud. The QIC Fraud Policy provides guidance to staff on how to prevent, detect, identify, and report fraud.

**Freedom of information**

The *Queensland Freedom of Information Act (1992)* applies to QIC as a GOC. We have policies and procedures that govern freedom of information.

**Insurance and Indemnities**

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

The Board, senior management 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; and
- the costs and expenses of defending legal proceedings arising out of conduct as described above.

**Corporate governance in the sharemarket**

On behalf of our clients, we actively monitor corporate governance issues both at a domestic and international shareholding level.

**Anti-Money Laundering and Counter-Terrorism Financing**

QIC takes preventing money laundering and terrorism financing seriously and has implemented processes to meet our obligations under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006*.

**QIC Limited**

As of 30 September 2008, the organisation converted from a statutory GOC to a company GOC and was renamed QIC Limited. Our ACN is 130 539 123. Our ABN is 95 942 373 762.

**Website**

Details of QIC's current corporate governance arrangements are available from [www.qic.com](http://www.qic.com).

## From balancing investment risks and returns for our clients to planning for unforeseen impacts on our business, we are constantly assessing and managing risks.

Risk management at QIC is a multi-faceted process that requires communication, judgment and knowledge of financial products and markets. Our Board is responsible for identifying and managing risks that may affect the future viability of our business, as well as reviewing investment strategies that reflect clients' preferred exposures to risk. The Chief Executive, Chief Financial Officer and General Manager Operations have declared, in writing to the Board, that the financial reporting risk management, operational and associated compliance and controls have been assessed and found to be operating efficiently and effectively, based on representations by management.

Our corporate risk management process, compliant with the AS/NZS 4360:2004 risk management standard, is based on three main principles:

- Understanding and valuing risks
- Aligning risk management with our corporate governance structure
- Implementing and operating a risk monitoring system.

QIC's Audit and Risk Management Committee oversees our risk management processes, while our Corporate and Advisory Services team develops and implements corporate and investment risk management policies and procedures. In summary, our policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of our business objectives.

Internal audit conducts regular systematic monitoring of risk control activities, and reports to relevant managers and the Audit and Risk Management Committee.

Management is required, as part of a monthly due diligence process, to identify and report on any risk events that have occurred and any breaches in authorities, policies or legislative requirements. These reports are endorsed by the executive management team and are included in the Chief Executive's monthly compliance report to the Board. Considerable importance is placed on maintaining a strong control environment. There is a corporate structure with clearly drawn lines of accountability and delegation of authority. Adherence to the Code of Ethics and Code of Conduct is required at all times and the Board actively promotes a culture of quality and integrity. QIC personnel are required to observe the highest level of professional conduct in undertaking their business activities, respecting our core values of excellence, conviction, innovation, teamwork and integrity.

### **Integrated risk management process**

QIC has risk management processes that provide us with centralised compliance and risk management support and monitoring functions.

We have continued to expand our current risk management systems to cater for client service level compliance, and to monitor the results from our automated portfolio compliance system that delivers independent, robust compliance in a multi-product environment. We monitor against client instructions, investment regulations and against our investment policies and guidelines.

### **Business continuity management**

Business continuity management (BCM) within QIC involves the development, maintenance and testing of advance action plans to respond to defined risk events.

This ensures that business processes continue with minimal adverse impact on clients, staff, products, services and brands. BCM is an essential part of QIC's risk management process, providing a controlled response to potential operational risks that could have a significant impact on QIC's critical processes and revenue streams. It includes both cost effective responses to mitigate the impact of risk events or disasters and crisis management plans to respond to crisis events.

