Dynamic Investment Solutions

Global Fixed Interest | QIC

Product Profile
Australian Fixed Interest Fund

Why the QIC Australian Fixed Interest Fund?

1. Achieve meaningful fixed interest active return from diversified sources
2. Enhanced investment outcomes delivered through a disciplined, rigourous and repeatable investment process
3. Strong governance framework to better control risk
4. Managed by a leading and innovative global manager of fixed interest solutions

A Leading Global Fixed Interest Manager

With the leadership of Susan Buckley, the QIC Global Fixed Interest (GFI) team has developed into a leading global manager of fixed interest solutions.

Comprising more than 20 experienced investment professionals, the team aims to deliver meaningful contributions through a diverse range of innovative solutions to a growing client base.

Investment Philosophy

To exceed client objectives we strive for excellence in our investment approach, process and people. Our quest for excellence is built on our belief that:

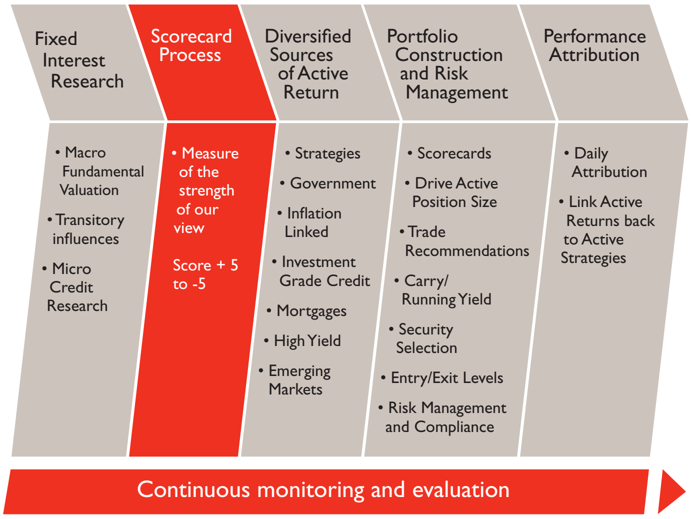
- Fundamental factors drive fixed interest markets towards 'fair value' in the medium to long term
- Diversified portfolios should be constructed from strategies across the broadest possible interest rate and credit market opportunity set
- Managing fixed interest as one global investment class expands the opportunities to add value
- A research driven approach provides a foundation for all active positions with GFI portfolios leading to better investment decision-making
- A strong governance framework must be in place to manage risk for our clients.

"Gain market exposure and meaningful active returns from the Australian fixed interest market."

Five-Step Disciplined Process

QIC's Global Fixed Interest team employs a five step rigorous, disciplined and repeatable approach to portfolio construction decisions. This approach features:

1. Scorecard process, which pulls together this research in a transparent framework that measures the 'strength of our view'.
2. An in-built system that allows continual monitoring and evaluation of our positions.



The 'QIC GFI Scorecard' – a robust framework for better decision-making.

Research is the cornerstone of QIC Global Fixed Interest's investment approach. This encompasses all macro fundamental research of the factors determining the outlook for interest rate and credit markets. This includes analysis of transitory influences, which can cause yields to move away from 'fair value' such as central bank rhetoric, economic data announcements and terrorism. In researching credit markets, GFI adopts a bottom-up approach to analysing corporate and industry strength.

The QIC GFI Scorecard captures, simplifies and quantifies this research. The final "score", which is a combination of both valuation and transitory factors, translates into recommended position sizes. This proven, systematic approach to decision-making leads to superior portfolio recommendations.

Strong Governance Framework to Better Control Risk

Our systems and processes enable a stronger governance framework to better control risk. QIC GFI uses the BlackRock Solutions Aladdin Package to ensure that portfolio managers are fully cognisant of all risks in the portfolios.

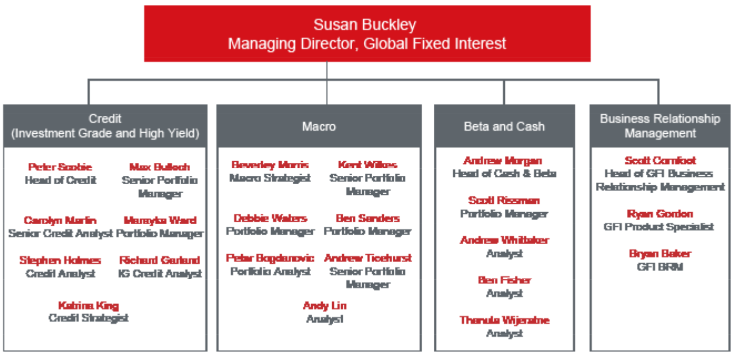
This is an integrated solution incorporating:

- Portfolio Management and Trading
- Compliance
- Operations
- Risk Management, including stress testing
- Performance Attribution
- Reporting.

Combined with the GFI Scorecard process, it provides a powerful tool for portfolio managers to access continuous real time information on portfolio positions. This means timely and informed decision-making as well as the ability to provide clients with up to date and meaningful information on the performance of their fixed interest portfolio.

The QIC GFI team

The team is broken into specialist areas that are focused and accountable for outcomes in macro, global credit, beta and cash management and business management.



Weekly meetings serve as the formal opportunities for the whole team to question, refresh and revalue our assumptions. Team environment also facilitates real-time information flow among all investment professionals.

The QIC GFI Difference

At QIC we believe in 'going further' for our clients to help them achieve their investment objectives. Our people and robust process are the foundation of our proven capabilities, however where QIC GFI 'goes further' than other managers is through:

1. A 'Scorecard' process that delivers better decision-making.
2. A corporate governance structure that better controls risk.

This has delivered a strong track record of performance and most importantly provides clients with the confidence that we can continue to achieve their investment objectives.

About the QIC Australian Fixed Interest Fund

The QIC Australian Fixed Interest Fund (AFI) is a domestic fixed interest portfolio that is actively managed to lift returns and minimise risk.

Generating Meaningful Active Return

The QIC AFI Fund reflects our investment philosophy (as outlined above) by seeking to add meaningful active returns (approximately 0.8%) from the broadest possible set of interest rate and credit sources.

Investments are predominantly Australian securities but may include exposure of up to 50% international securities where we believe such exposure would contribute to achieving the Fund's performance and risk objectives. All international exposures are hedged back into Australian dollars.

Anticipated changes in market and economic conditions are also considered in setting the Funds' allocation across the various market segments, namely, Government versus non-Government allocations.

The AFI benchmark is the UBS Composite Bond Index.

Source: Macro

GFI applies fundamental, top-down, global macro research, which provides the framework for our interest rate analysis.

Proprietary 2 year and 10 year valuation models form the basis for our fair value analysis of global bond yields.

GFI Scorecards measure the strength of our views in terms of i) fair value component and ii) transitory influences. This produces a fair value score that reflects the difference between QIC's fair value and the level of actual yields.

The fair value component is then overlayed by transitory influences which are those factors that cause bond yields to deviate from their fair value level in the shorter term.

Final scores translate into recommended position sizes for all interest rate strategies.

Source: Global Credit

The Credit team adds value by applying a bottom-up approach in managing fundamental credit risk, but does this with macro credit and industry views clearly in focus.

Comprehensive research is undertaken to analyse credits and their relative value as well as corporate strength and industry outlook. From this analysis credit allocation, industry allocation, as well as selecting the individual corporate securities are determined.

Source: Pure Alpha Strategies

The global fixed interest market has evolved in complexity to include dozens of sectors and sub-sectors covering thousands of securities. Not only is there a myriad of bonds to choose from but also the rapid growth in derivatives markets has added a further level of complexity and at the same time offers further opportunities for QIC GFI.

Utilising the existing fundamental research and Scorecard process, GFI exploits a broad range of pure alpha strategies.

This provides the AFI fund with an even broader range of active return strategies in order to maximise the consistency of active return.

Controlling Risk

Tracking Error: 2.5% (max. ex-ante)

Duration: +/- 1.5 years

Portfolio managers use the following tools to ensure they are aware of all risks in the AFI fund:

- Daily risk exposure reports
- Daily profit and loss reports
- BlackRock Solutions risk process – recognised as a superior provider of daily risk metrics such as VAR and tracking error
- BlackRock Aladdin package (previously mentioned).

Performance

The QIC AFI Fund has built a strong track record of performance. Contact us or go to www.qic.com for the latest performance figures.

Find out more ...

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About QIC

QIC commenced operations in 1989 and was formally established in 1991. Since then, we have grown to be one of the largest institutional investment managers in Australia, with more than 80 institutional clients.

Our heritage as a government-owned corporation has resulted in a passionate culture of total client focus and finding better ways to exceed our clients' investment objectives. Our unique history of traditionally managing the total investment portfolio for very large clients has enabled us to pursue and adapt innovative investment solutions that few other fund managers have been able to do.

Dynamic Investment Solutions

Today, QIC is the leading provider of dynamic investment solutions for super funds and other institutional investors. We are experts are developing an intimate knowledge of our clients' investment goals, and creating and adapting tailored investment solutions that continue to perform over time.

Some examples of the dynamic investment solutions we have developed for our clients include:

- **risk management solutions** for liquidity and counterparty risk, which we put in place well before the global financial crisis (GFC) hit
- a **dynamic asset allocation process** that has positioned client portfolios to benefit from extreme valuations both before and after the GFC
- an **after-tax investing approach** that has delivered real bottom-line benefits despite investment market conditions
- **inflation protection solutions** that are customised and cost efficient.

QIC House of Boutiques

As a house of highly specialised investment boutiques, we offer practical investment solutions that are meaningful at the whole-of-portfolio level in fixed interest, property, infrastructure, capital markets, private equity, equities and quantitative management. We continually innovate to meet our clients' changing objectives in the ever-evolving investment environment.

QIC's House of Boutiques model provides investors with the specialisation, responsiveness and client-alignment of a boutique with the backing of a large investment manager.