



ANNUAL REPORT 2013

PUTTING MEMBERS FIRST FOR 100 YEARS

Issued October 2013



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About QSuper

This year QSuper is celebrating 100 years of Queensland Government superannuation. From humble beginnings in 1913 as the Public Service Superannuation Fund, QSuper has grown to become the third-largest fund in Australia.¹

The QSuper Board is responsible for the management of more than \$43 billion for 530,000 current and former Queensland Government employees and their spouses.

While much has changed in the past 100 years, QSuper's unwavering commitment to its members continues. It is firmly embedded in the culture and values of QSuper, and through the Board's vision to improve retirement outcomes for its members.

Our members are
at the heart of
everything we do

About the QSuper Board's annual report

The QSuper Board is pleased to present its annual report for the 12 months ending 30 June 2013. This report has been prepared for Queensland Parliament, QSuper members, and organisations who share an interest in the

objectives and achievements of QSuper. As an integral part of QSuper's corporate governance framework, the annual report presents a complete picture of the QSuper Board's activities over the year.

It provides information about the Fund's performance, achievements, financial position and management.

¹ Based on information contained in APRA's *Superannuation Fund-level Rates of Return* report, issued 9 January 2013.

The Chairman's report

2013 is an important milestone for the QSuper Fund: we're celebrating 100 years of helping our members realise their retirement dreams.



This year marks the centenary of the Public Service Superannuation Fund, and I look back on the past 100 years with a great sense of pride. We've come a long way from when we were established, managing just over £9,000 for around 2,000 permanent Queensland Government employees. Today we're one of Australia's largest funds, with more than \$43 billion in funds under management and over 530,000 members. What hasn't changed, however, is the QSuper Fund's commitment to helping our members achieve better retirement outcomes.

A new era

This is a period of great change for the superannuation industry, with the introduction of many of the Federal Government's Stronger Super reforms, and it is a change that QSuper is embracing.

We have had an exceptionally busy year putting in place the policy, system and process changes to respond to the significant body of legislative change. But for us it's about more than meeting the Government requirements. The economic volatility of the last few years highlighted how vulnerable the superannuation of Australians is to fluctuations in investment markets. This has strengthened our determination to evolve our products and services to better help our members reach their retirement goals.

A lot can happen in a lifetime



For this reason we will be introducing our lifecycle product, QSuper Lifetime, as our MySuper product.¹ QSuper Lifetime takes a new approach to lifecycle investing. When setting the investment strategy of the new QSuper default option, the QSuper Board will not only consider age, but other information including account balance, contributions, our views on investment markets and assumptions about whether Government income support payments will be available to supplement members' retirement savings.

The introduction of the QSuper Lifetime option is the culmination of many years of planning and work for the QSuper Fund, and it will continue to evolve to meet the needs of our membership.

Solid returns with a focus on the long term

Continued global economic uncertainty is impacting Australian super funds and their long-term investment strategies. Despite a modest start to the financial year, global investment markets rallied to perform strongly through to 30 June 2013. Stronger markets translated to QSuper's Balanced (Default) option delivering a solid return of 9.6%² for the Accumulation account.

Looking ahead, we remain cautious about what will transpire in investment markets in the coming year, with volatility likely to remain in the short to medium term.

Because of this ongoing volatile outlook, we wrote to members last year about changes to the QSuper Balanced (Default) option designed to reduce exposure to volatility and smooth returns. While it can be tempting to judge investment performance on a year-by-year basis, in reality super is a long-term investment, so the QSuper Board believes it's the long-term returns that count.

The QSuper Balanced (Default) option has been one of the best performing options over virtually all time periods.³ However we are firmly focussed on the long term and from talking to members we understand most of you want to protect your super from the vagaries of investment markets, even if it means giving up some potential for higher returns in the short term. With this in mind, we positioned our default option to better protect against volatility, which means when markets are booming our returns may be lower than other funds. However, when markets fall, the opposite is true and the QSuper Balanced (Default) option is expected to deliver more stable returns.

Bob Scheuber

Chairman of the QSuper Board of Trustees and QSuper Limited Board of Directors

Our focus will always remain on helping our members achieve better retirement outcomes, and QSuper Limited's⁴ Investment Services team, on behalf of the QSuper Board, will continue to monitor and adjust the portfolio to balance risks with expected returns from investments.

An award winning Fund

At QSuper we always strive to provide our members with the best possible products and services, so it is very pleasing to see our efforts recognised by independent industry experts. Both our Accumulation and Pension accounts have again been awarded a platinum rating by independent ratings company SuperRatings, recognising our outstanding value for money, low fees, high investment returns and strong investment methodology. Additionally, the QSuper Pension account has been named Pension Fund of the Year 2013 by Chant West, which acknowledges our commitment to support members over their entire lifetime.

Over the coming months and years we will continue to rise to the challenge of enhancing our products and services to ensure we can keep meeting the changing needs of our members in an ever-evolving world.

A word of thanks

Finally, on behalf of the QSuper Board, I would like to take this opportunity to thank our Chief Executive Officer Rosemary Vilgan, and the QSuper Limited Executive Team and staff for their passion, hard work and commitment during the year. I would also like to thank our external service providers for their ongoing assistance.

Bob Scheuber

Celebrating 100 years

2013 marks the centenary year of the beginning of the QSuper Fund. As we celebrate this milestone, we look with pride on the Fund's strong track record of looking after the retirement savings of members.

This timeline shows some of the highlights of the QSuper Fund's journey – from its origins in 1913 right through to the QSuper of today.

To find out more about QSuper's proud history, visit qsuper.qld.gov.au/100.



1913 Public Service Superannuation Fund established

After almost 50 years in the making, the Public Service Superannuation Fund was established on 1 January 1913.



1914 QSuper's first employee enlists in World War I

Among the 57,000 Queenslanders who joined the World War I effort in 1914 was the Fund's very first employee, Cecil Fortescue. Cecil was one of the lucky ones – he returned home, but more than 6,850 valiant Queensland servicemen never did. Lest we forget.

5,000!

1921 Fund membership reaches 5,000

In less than 10 years, Fund membership had more than doubled to 5,000 members.



1927 University of Queensland staff join the Fund

Membership received a boost in 1928 when full-time staff members of the University of Queensland were admitted to the Fund.

1929 First female State MP elected

Irene Longman was the first woman to stand for State Parliament in Queensland, and was elected to the seat of Bulimba in 1929. Remarkably, after Irene lost her seat in a landslide 1932 election, it was another 34 years before another female MP was elected.



1931 Fund reaches £1 million

As membership grew, so too did the funds under management. By 1931, the Fund managed more than one million pounds on behalf of members.



1944 3,000 Fund members on active war service

Almost one million Australians had entered some branch of the armed services by 1944, including around 3,000 Fund members.

1948 Increased maximum assurance benefit

1948 marked an amendment to the *Public Service Superannuation Act* which saw an increase in the maximum available assurance benefit on death from £1,600 to £2,000.

1958 New Superannuation Act drives change

The new *Public Service Superannuation Act 1958* brought changes for Fund members, including the introduction of widows' and children's pensions, and an increase in annuity and incapacity benefits.



1962 Increase in widows' and children's pensions

In 1962, members gained even greater peace of mind and financial security when significant increases were made to the widows' and children's pensions. The widows' pension was increased by around 25%, while the children's pension was doubled to £104 a year.



1965 Inclusion of railway and public hospital workers

Fund membership enjoyed a boost in 1965 following significant legislative changes, which saw railway workers and hospital workers brought into the Fund, and temporary staff provided with superannuation.

1968 Inclusion of female married employees in the Fund

After decades of female public servants having to resign from their positions after getting married, the ban on employment after marriage was finally lifted in 1968. This meant women could stay with the Fund and continue to contribute towards their retirement savings.



1978 Introduction of pre-retirement seminar

QSuper's comprehensive seminar program was introduced in 1978, with the very first pre-retirement seminar.

1984 Equality in insurance cover

Changes introduced in 1984 meant that women now had the same contribution and coverage rates as men. Additionally, for the first time, husbands of female members were able to receive a benefit in the event of their wife's death.



1988 Introduction of GoSuper

In 1986, the Commonwealth Government announced working Australians on awards would receive a 3% superannuation contribution from their employer. In 1988, GoSuper, the precursor to the Accumulation account, was introduced to accept contributions. The following year, members were offered optional death and total and permanent disability insurance cover, and were also able to make voluntary contributions to their GoSuper account.

1990 Introduction of QSuper's Defined Benefit account

In 1990, the QSuper that we know today was born with the introduction of QSuper's Defined Benefit account.



1994 QInvest is established

1994 saw QSuper and then sole investment manager QIC Limited jointly establish QInvest.¹ QInvest specialises in giving advice about QSuper accounts, and has since grown to be one of the largest financial planning organisations in Queensland.



1997 Merger of all funds into QSuper Fund and website launched

In 1997, new legislation was introduced to amalgamate all Queensland Government superannuation plans – including GoSuper, Police Super and Fire Super – under the one QSuper umbrella. In the same year, the QSuper website was launched.

2000 Accumulation account launched

QSuper's Accumulation account was launched in 2000 as the default option for QSuper members. As a result, many large employee groups, such as new nurses, were given automatic access to more generous contribution arrangements.

2005 Four new investment options introduced

QSuper launched four new investment options – Fixed Interest, Australian Shares, International Shares and Socially Responsible – to give members more control over how their super is invested.

2009 QSuper becomes regulated by the Australian Prudential Regulation Authority (APRA)

In 2009 QSuper became APRA regulated, allowing members no longer working for the Queensland Government to have their non-Government employer contribute to their QSuper account.

2009 Internal investment capability introduced

The addition of an internal investment capability allowed QSuper to take a more active role in managing members' superannuation.



2011 Changes to QSuper Balanced (Default) option

Changes to the QSuper Balanced (Default) option were implemented with the aim of further diversifying investments and managing volatility.



2013 QSuper turns 100!

2013 marks our centenary year – a time for celebration indeed! QSuper received its MySuper licence in July and later in the year will launch the new QSuper Lifetime option. This will become the default option for new and existing QSuper members.

¹ QInvest Limited (ABN 35 063 511 580, AFSL and Australian Credit Licence number 238274) (QInvest) is ultimately owned by the QSuper Board (ABN 32 125 059 006) as trustee for the QSuper Fund (ABN 60 905 115 063), and is a separate legal entity which is responsible for the financial services and credit services it provides.

Celebrating 100 years



Henrietta Young
member in 1925



Richard Murray
member in 1952



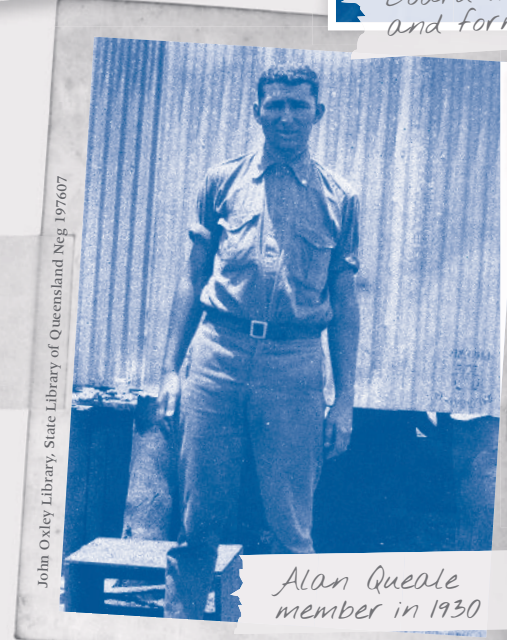
Dallys Wilson
member in 1987



Current and former members of the QSuper Board with QSuper's CEO Rosemary Vilgan and former CEO Dale Hennessy



Dr Aubrey Pye
member in 1960



Alan Queale
member in 1930



Vanessa Dart
member in 1997



Ellen Mitchell
member in 1914

The CEO's report

At QSuper there is one guiding principle that unites staff at every level of the QSuper Fund – 'members are at the heart of everything we do'.



Rosemary Vilgan

Chief Executive Officer of the QSuper Board, QSuper Limited and QInvest Limited

The values that define us

It's achievements like this that highlight the dedication of our staff. I find it truly inspiring to come to work every day and see so many examples of staff going the extra mile for our members.

To better reflect this commitment of delivering for members, this year the QSuper Group launched our new internal values – United, Spirited, Courageous and Accomplished. By living these values every day we can continue to build a culture that will drive our success over the next century and continue to put members at the heart of everything we do.

Rosemary Vilgan

¹ This product is issued by Challenger Life Company Limited (ABN 44 072 486 938) (AFSL 234670) ("Challenger"). You should consider the appropriateness of the product for your circumstances and read the product disclosure statement (PDS) before deciding whether to acquire this product. You can download the PDS from challenger.com.au/guaranteedtermannuity.htm, or call QInvest on 1800 643 893. You should consider obtaining financial advice before making a decision about this product. ² The credit services advertised are provided by QInvest, not the QSuper Board or QSuper Limited (together the QSuper Group). The QSuper Group does not receive any direct payments or commissions from QInvest as a result of members using the QInvest LoanFinder service. Members should make their own assessment regarding the suitability of this service for their individual needs.

We know that in our centenary year we need to continue to evolve to meet member expectations. That's why, even at a time of intense change for the superannuation industry, we have gone beyond what was required by legislation, and over the past 12 months have implemented a range of enhancements to our suite of leading products and services.

As we look forward to the next 100 years, our focus is on what we can do better. We are re-thinking how we can provide more stability for members around their retirement outcomes with our industry-leading approach to lifecycle investing. In an increasingly competitive market, we have to keep going that extra step to ensure we meet the changing needs of our members.

Increased efficiencies and personalisation

Increasingly our business is supported by technology and driven by innovation to reduce costs, and deliver better outcomes, efficiencies and convenience for both our members and employers.

Key achievements in this area over the past year include the introduction of an enhanced Member Online service, a more flexible process for existing members wanting a non-Queensland Government employer to contribute to their QSuper account, and greater convenience and choice of payment options for employers when transacting with us.

A fund for all life stages

The QSuper Board and I firmly believe that to best serve our members, we need to support them over their entire lifetime. Our

responsibility doesn't stop when our members retire; we are there for them throughout their retirement. For many years we have offered members the QSuper Pension account, and from February this year we also began offering members who are looking for more certainty around their retirement income access to a guaranteed term annuity through leading provider Challenger.¹

However we are also aware that we need to be responsive to the needs of our members who are still decades from retirement. For many of these members the biggest priority is their mortgage, and so this year QInvest launched their new mortgage broking service QInvest LoanFinder.² With no out-of-pocket expense for their clients, QInvest LoanFinder aims to significantly reduce overall borrowing costs for members purchasing a home or investment property.

The right advice at the right time

The 2012/2013 year saw QSuper Limited align more closely with QInvest as part of the QSuper Board's long-term focus to provide a seamless advice experience for members. QInvest is a subsidiary of QSuper Limited and a part of what we internally refer to as the QSuper Group.

Our goal is for the advice the QSuper Group offers to adapt not only to meet regulatory requirements, but also to the changing needs and expectations of members. Considerable work has already been carried out in order to reshape and relaunch QInvest's advice offering in the past year so that members can access more tailored, convenient advice.

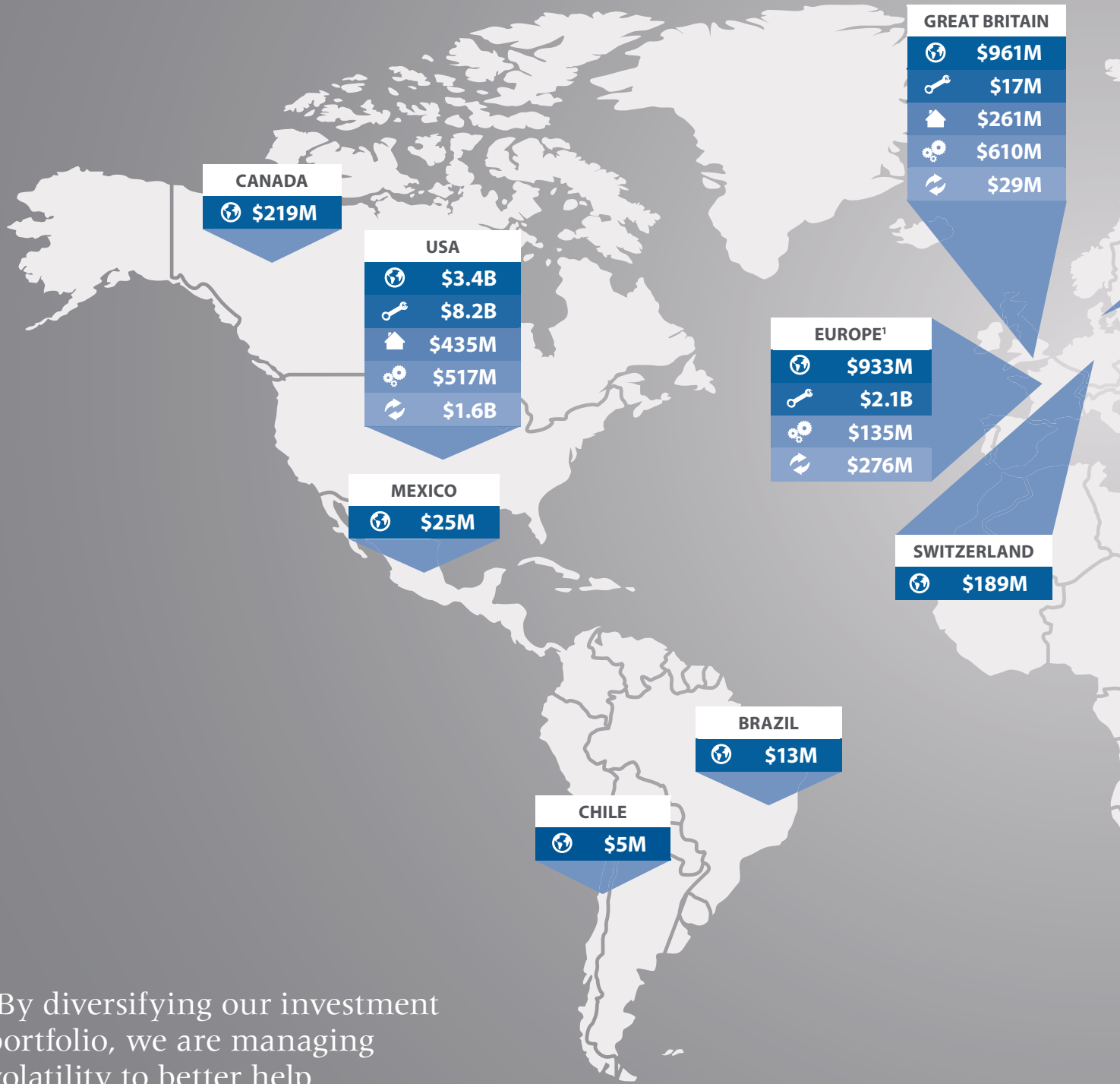
QSuper Limited organisational structure

Headed by Chief Executive Officer Rosemary Vilgan, the QSuper Limited Executive Committee comprises eight executives with a broad range of experience across both public and private sectors and various industries. Together QSuper's Executive Committee harnesses the skills, breadth of knowledge and experience to lead QSuper into the future. The members of the team are:

Chief Executive Officer Rosemary Vilgan						
Chief Strategy Officer Michael Pennisi	Chief Officer Advice & QInvest Stephen Cullen	Chief Officer Member Administration Matthew Halpin	Chief Investment Officer Brad Holzberger	Chief Financial Officer Michael Cottier	Chief Information & Technology Officer David Bowen	Chief Officer HR & Internal Communications Paul Landy

For further information about QSuper's organisational structure, visit qsuper.qld.gov.au/structure.

QSuper Fund investments

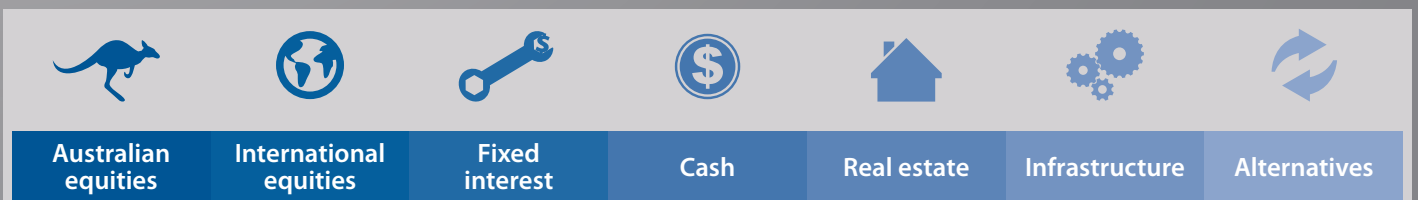
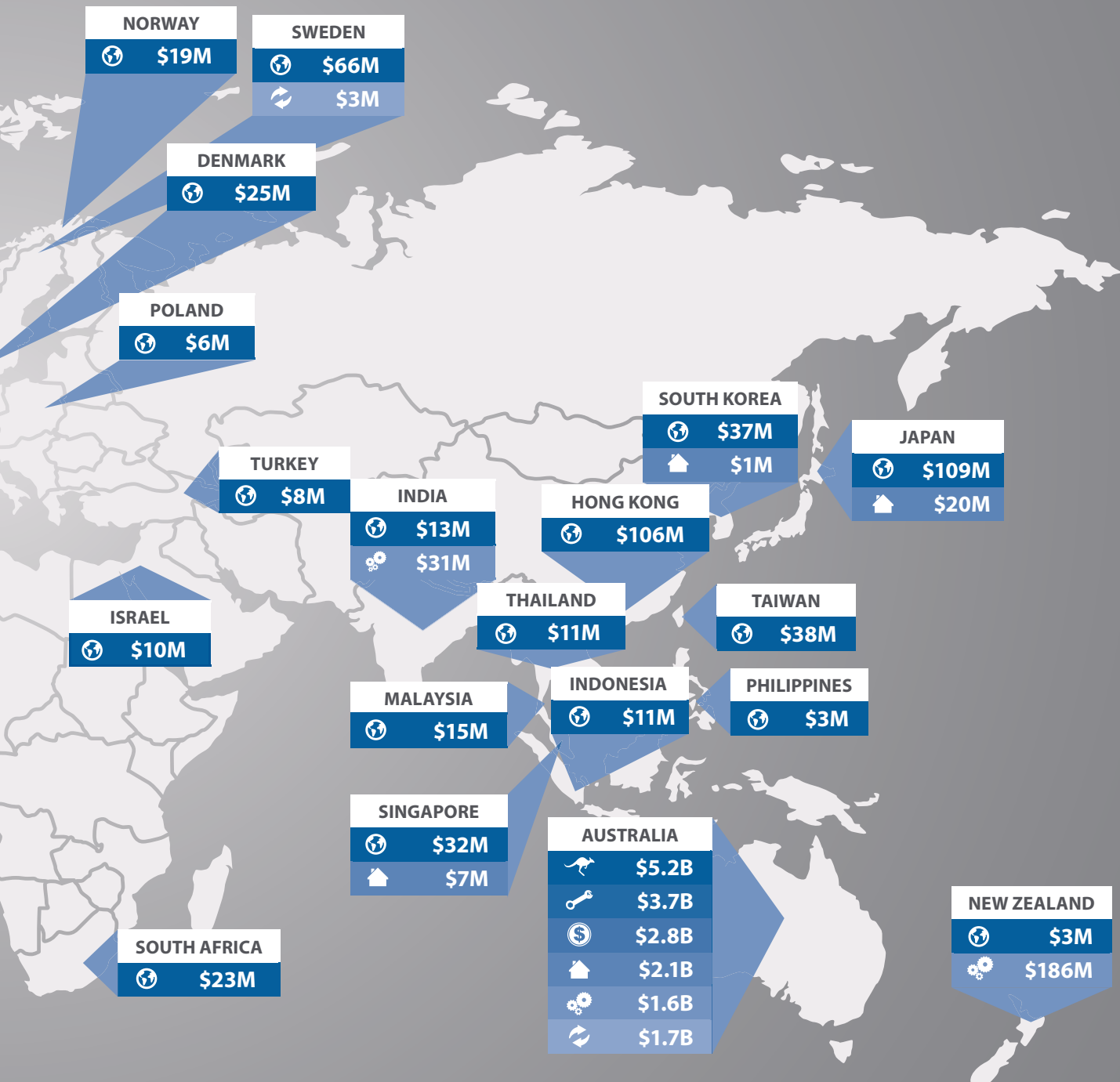


‘By diversifying our investment portfolio, we are managing volatility to better help our members realise their retirement goals.’

Brad Holzberger,
Chief Investment Officer QSuper Limited

With total assets of more than \$43 billion across 31 countries around the world, there's no denying the diversity of QSuper's investment portfolio.

Depending on each member's chosen investment mix, their superannuation can be invested in a wide range of asset classes, including Australian equities, international equities, fixed interest, cash, real estate, infrastructure and alternative assets.



Financial summary

This is an abridged audited version of the QSuper Fund's financial statements. The full audited financial statements and auditor's report are located on page 23 of this report.

	30/06/13 \$m	30/06/12 \$m
Statement of Net Assets at 30 June 2013		
Assets		
Investments		
Cash and short term deposits	2,428	713
Equities	14,934	14,184
Preference shares	30	15
Listed trusts	255	969
Derivative assets	122	201
Other interest bearing securities	8,176	8,085
Unlisted unit trusts	16,896	11,892
Unlisted partnerships	821	527
Investments in service providers	84	72
	43,746	36,658
Other assets		
Cash	37	45
Contributions receivable	84	8
GST receivable	1	1
Sundry receivables and prepayments	654	3
Deferred tax assets	55	100
Total assets	44,577	36,815
Liabilities		
Benefits payable	17	10
Administration and investment management fees payable	34	25
Sundry payables	12	1
Derivative liabilities	667	66
Current tax liabilities	18	591
Provision for superannuation contributions surcharge	61	66
Total liabilities	809	759
Net assets available to pay benefits	43,768	36,056
Represented by		
Reserves	633	378
Accumulated member funds	43,135	35,678
Total equity	43,768	36,056

	30/06/13 \$m	30/06/12 \$m
Statement of Changes in Net Assets at 30 June 2013		
Investment revenue		
Dividends	868	577
Distributions	1,382	453
Change in net market value of investments	2,320	836
Other income	4	-
Interest revenue	48	2
	4,622	1,868
Contribution revenue		
Employer contributions	5,537	4,427
Member contributions	911	796
Transfers from other funds	682	569
	7,130	5,792
Other revenue		
Insurance recoveries	2	-
Sundry revenue	1	2
	3	2
Total revenue	11,755	7,662
Less		
Benefits paid	3,178	2,654
Direct investment expenses	93	94
General administration expenses		
Administration fee	125	100
Other fees	9	3
Financial planning fee	18	16
Superannuation contributions surcharge	2	4
Insurance premiums	7	6
Total expenses	3,432	2,877
Change in net assets before income tax	8,323	4,785
Income tax expense	611	1,394
Change in net assets after income tax	7,712	3,391
Net assets available to pay benefits at the beginning of the financial year	36,056	32,665
Net assets available to pay benefits at the end of the financial year	43,768	36,056

The QSuper Board

The QSuper Board is committed to achieving the best possible retirement outcomes for its members, in accordance with governing rules and superannuation legislation. To ensure the QSuper Board realises this goal, it sets objectives to guide the operation and management of the QSuper Fund, and regularly reviews performance.

Appointment of Trustees

Established under the *Superannuation (State Public Sector) Act 1990* (QSuper Act), the QSuper Board comprises 12 Trustees, with equal representation from both employer and employee (member entity) organisations. Of the member entity trustees, five are nominated by the Queensland Council of Unions and one is nominated by the Australian Workers' Union of Employees Queensland. Trustees are appointed by the Queensland Treasurer pursuant to the QSuper Act for a period of no longer than three years and may be reappointed at the end of their term. QSuper Trustees are also Directors of QSuper Limited.

Board responsibilities

The QSuper Board meets on a regular basis to discuss a range of topics such as the strategic direction of the QSuper Fund, investment strategy, product offering and service delivery.

The QSuper Board is committed to complying with its legislative and regulatory obligations, as well as fulfilling its fiduciary responsibilities. In accordance with industry standards and regulatory requirements, the QSuper Board has a clearly defined, transparent framework for the division of responsibilities in the oversight and operation of the QSuper Fund.

Board remuneration and indemnification

During the 2012/2013 financial year, the QSuper Board was remunerated in accordance with rates approved by the Queensland Treasurer, in consultation with the QSuper Board. This remuneration represents an all-inclusive fee for all QSuper Board-related activities (including committee memberships and QSuper Limited Directorship). The annual fee is not linked to QSuper Fund membership numbers, funds under management or the investment performance of the QSuper Fund. QSuper Board members who are also active public sector employees are not remunerated for performing their Trustee duties.

The QSuper Act provides for the indemnification of the QSuper Board. The QSuper Board and QSuper Limited officerholders are covered by indemnity insurance taken out by the QSuper Board and QSuper Limited.

Board meeting attendance 2012/2013 financial year

Bob Scheuber	11	11
Peter Henneken	11	11
Walter Ivessa	11	11
Debbie Best	10	11
Bede King	5	5
Melissa Babbage	1	1
Steve Ryan	10	11
Karen Peut	9	11
Tom Jeffers	10	11
Gay Hawksworth	10	11
Mick Barnes	11	11
Amanda Richards	10	11

■ Number of Board meetings attended ■ Number of Board meetings the Trustee was eligible to attend

Employer representatives at 30 June 2013



Bob Scheuber, AM
BE, B.Bus, FCPA, FAIM, MAICD
Chairman

Mr Scheuber had an extensive career with Queensland Rail, culminating in six years as Chief Executive Officer. Mr Scheuber is a fellow of CPA Australia and the Australian Institute of Management.

He is currently Chairman and Director of Rail and Transport Health Fund Limited, as well as Chairman and Director of CRC Rail Limited.

Mr Scheuber was appointed to the QSuper and QSuper Limited Boards in December 2007, and became Chairman of these Boards in June 2009. He is also Deputy Chairman of the Investment Committee, and a member of the Audit & Risk and Human Resources committees.



Peter Henneken, AM
B.Bus, B.A., FIPAA, FAICD
Trustee

Former Director-General, Department of Employment and Industrial Relations

Mr Henneken has more than 40 years' experience in the public service, predominantly with the Department of Employment and Industrial Relations.

He is currently Chair of the Building and Construction Industry Portable Long Service Leave Board and the Fitness Sport & Recreation Industry Training Council, and a member of the Fair Work Building and Construction Advisory Board.

Mr Henneken was appointed to the QSuper and QSuper Limited Boards in December 2007. He is a member of both the Investment and Product & Services committees.¹



Walter Ivessa
B.Ec
Trustee

Assistant Under Treasurer, Queensland Treasury and Trade

Mr Ivessa joined Queensland Treasury in 1981 and was appointed as an Assistant Under Treasurer in February 1996.

Prior to joining Treasury, Mr Ivessa worked for several Commonwealth Government departments in the Australian Capital Territory. He is currently a member of the Public Trust Office Investment Board.

Mr Ivessa was appointed to the QSuper and QSuper Limited Boards in June 2009, and is currently Chairman of the Audit & Risk Committee.



Debbie Best
B.A., B.Ed.Stud., M. Ed. Admin, Dip. Ed., FAICD, Grad. Cert. Public. Admin.
Trustee

Director-General, Department of Aboriginal and Torres Strait Islander and Multicultural Affairs

Ms Best is currently Director-General of the Department of Aboriginal and Torres Strait Islander and Multicultural Affairs. She was previously Deputy Director-General in the Department of Environment and Resource Management (DERM).

Ms Best was appointed to the QSuper and QSuper Limited Boards in September 2011, and is currently a member of the Investment Committee.



Bede King
MAICD
Trustee

Partner, Tobin King Lateef

Mr King is currently a partner of Tobin King Lateef Solicitors and Notaries and was admitted as a solicitor of the Supreme Court of Queensland in 1979.

Mr King is a director of Silver Chef Limited, FirstMac Limited, St Aidan's Foundation Limited and Synapse (formerly the Brain Injury Association of Queensland). He is also a member of various compliance committees.

Mr King was appointed to the QSuper and QSuper Limited Boards in February 2013. He is a member of the Product & Services Committee.



Melissa Babbage
B. App. Sc., M. Comm, GAICD
Trustee

Financial Services Professional

Ms Babbage has a 19 year investment banking career in both international and domestic financial markets. She previously held a number of roles at Deutsche Bank from 1997-2011, including Head of Global Finance and Foreign Exchange and Head of Commodities (Asia Pacific).

Ms Babbage is a Director on the Australian Board of Swiss Re Life & Health Australia.

Ms Babbage was appointed to the QSuper and QSuper Limited Boards in June 2013. She is a member of the Investment Committee.

¹ Mr Henneken will become Deputy Chairman of the Investment Committee on 1 July 2013.

 Member entity representatives at 30 June 2013



Steve Ryan
Deputy Chairman

Immediate Past President, Queensland Teachers' Union

Mr Ryan retired as the President of the Queensland Teachers' Union (QTU) in January 2012, having been an Executive Member of the QTU since 1993 and a senior officer of the Union since 2000. Mr Ryan also taught at a number of Queensland schools.

Mr Ryan was appointed to the QSuper Board in June 1994, and became Deputy Chairman in December 2009. He became a Director of QSuper Limited upon its incorporation in May 2007, and is currently Chairman of the Human Resources Committee as well as a member of the Investment Committee.¹



**Karen Peut, PSM
MAICD**
Trustee

Executive Director, Department of Transport and Main Roads

Mrs Peut is a life member of the Together Queensland Industrial Union of Employees. She is currently an Executive Director with the Department of Transport and Main Roads and has more than 46 years' service with the Department.

Mrs Peut was the first woman to be appointed to the State Service Superannuation Board. Mrs Peut was appointed to the QSuper Board in May 1985 and became a Director of QSuper Limited upon its incorporation in May 2007. She is currently a member of the Product & Services Committee.



Tom Jeffers
Trustee

Vice-President, Australian Workers' Union of Employees, Queensland

Mr Jeffers is the Queensland Vice President of the Australian Workers' Union of Employees (AWU). He has been involved with the AWU since 1990, and has extensive expertise and knowledge of employment and industrial relations.

Mr Jeffers was appointed to the QSuper and QSuper Limited Boards in August 2007, and is currently a member of both the Human Resources and Product & Services committees.



**Gay Hawksworth, OAM
Dip.Nursing**
Trustee

Former State Secretary, Queensland Nurses' Union

Ms Hawksworth has 30 years of involvement with the Queensland Nurses' Union (QNU), and retired from the position of State Secretary in 2011 after 16 years. Ms Hawksworth is a former Registered Nurse and midwife. Ms Hawksworth has extensive expertise and knowledge in employment and industrial relations.

Ms Hawksworth was appointed to the QSuper and QSuper Limited Boards in December 2007. She is Chairman of the Product & Services Committee and a member of the Human Resources Committee.



**Mick Barnes
JP (Qual), MAICD**
Trustee

General Secretary, Queensland Police Union of Employees

Mr Barnes is General Secretary of the Queensland Police Union of Employees (QPUE) and was formerly an executive member of the QPUE for 15 years. Mr Barnes is an experienced law enforcement officer, having served for more than 25 years with the Queensland Police Service.

Mr Barnes was appointed to the QSuper and QSuper Limited Boards in June 2009. He is currently a member of both the Human Resources and Product & Services committees.



Amanda Richards
Trustee

Assistant General Secretary, Queensland Council of Unions

Ms Richards is the Assistant General Secretary of the Queensland Council of Unions, a position held since 2008.

Ms Richards is a member of the Workplace Health and Safety Board, and a Director of Safe Work College.

Ms Richards was appointed to the QSuper and QSuper Limited Boards in September 2008, and is currently a member of the Audit & Risk Committee.

¹ Mr Ryan will become Chairman of the Investment Committee on 1 July 2013.

QSuper Board committees

The QSuper Board has established a number of committees to ensure it meets its corporate governance responsibilities. These committees generally make recommendations for decision and action by the QSuper Board, which retains collective responsibility for decision making.

The QSuper Board utilised the following committees in 2012/2013:

- Audit & Risk Committee
- Human Resources Committee
- Investment Committee
- Product & Services Committee.

Each committee is guided by a charter which sets out matters relevant to its composition, responsibilities and administration. While committees have specific membership, all Trustees are able to attend committee meetings. In addition, the QSuper Board has appointed a number of specialist committee members to its Investment and Audit & Risk committees.

Audit & Risk Committee at 30 June 2013

Members

Mr Walter Ivessa (Chairman)
Mr Stephen Maitland
Ms Amanda Richards
Mr Bob Scheuber

The Audit & Risk Committee assists the QSuper Board in discharging its governance and administrative responsibilities. The Committee's role includes:

- reviewing the management of risk, including overseeing the QSuper risk registers and ensuring appropriate internal controls are in place to address those risks
- monitoring compliance with legislative requirements
- reviewing internal and external audit findings, and monitoring the implementation of audit recommendations.

Mr Stephen Maitland is an external Committee member, selected for his specialist knowledge of superannuation, finance and risk management matters.

Human Resources Committee at 30 June 2013

Members

Mr Steve Ryan (Chairman)
Mr Mick Barnes
Ms Gay Hawksworth
Mr Tom Jeffers
Mr Bob Scheuber

The Human Resources Committee provides advice to the QSuper Board on Board performance matters, and the Board's Remuneration Policy. As QSuper Limited and QInvest are owned by the QSuper Board, as trustee for the QSuper Fund, the Committee also oversees human resource matters pertaining to QSuper Group staff.

Investment Committee at 30 June 2013

Members

Mr Michael Rice (Chairman)¹
Mr Bob Scheuber (Deputy Chairman)²
Ms Lorraine Berends
Ms Debbie Best
Mr Peter Henneken
Mr Ian Macoun
Mr Steve Ryan
Ms Melissa Babbage

The Investment Committee provides assistance to the QSuper Board in discharging its investment oversight in relation to the QSuper Fund, including:

- recommending to the QSuper Board the investment objectives for the QSuper Fund and its various investment choice options
- recommending to the QSuper Board the investment policy for the QSuper Fund
- reviewing the adequacy of QSuper investment choice options and their ability to meet member retirement needs
- monitoring investment performance, including the performance of investment managers.

Ms Lorraine Berends, Mr Ian Macoun and Mr Michael Rice are external Committee members selected for their specialist knowledge of superannuation and investment matters.

Product & Services Committee at 30 June 2013

Members

Ms Gay Hawksworth (Chairman)
Mr Mick Barnes
Mr Peter Henneken
Mr Tom Jeffers
Mr Bede King
Mrs Karen Peut

The Product & Services Committee's role includes overseeing:

- the development and continued enhancement of QSuper's suite of products and services
- the member's experience (including service, advice, information and product) in order to meet QSuper member and employer needs
- the QSuper Board's strategic focus on marketing initiatives, including the development and implementation of a comprehensive marketing strategy.

Specialist committee members at 30 June 2013



Michael Rice
FIAA
Investment Committee Chairman
Chief Executive Officer, Rice Warner Actuaries

Mr Rice has extensive experience in the financial services industry, specialising in advising financial institutions, fund managers, government agencies, industry associations and large superannuation funds.

He also writes and speaks frequently on topical issues affecting superannuation, fund management and life insurance.

Mr Rice was appointed Chairman of the Investment Committee in January 2009.¹



Lorraine Berends
FIAA, B.Sc, FASFA, MAICD
Investment Committee Member
Principal, Client Service and Marketing, Marvin & Palmer Associates, Inc.

Ms Berends has more than 30 years' experience in financial services. She served on the Board of the Association of Superannuation Funds of Australia for 12 years (3 years as chair), and has served on the Board of the Investment Management Consultants Association Australia since 2001 (6 years as chair). Ms Berends is also an Actuary.

Ms Berends was appointed a member of the Investment Committee in March 2010.



Ian Macoun
B.Com, M.Fin Mgmt, CFA, FCPA, FAICD,
Dip FS (FP)
Investment Committee Member
Chairman/Managing Director, Pinnacle Investment Management

Mr Macoun has broad investment, financial and business experience, including approximately 20 years as Chief Executive Officer/Chief Investment Officer of a number of investment management firms. His previous roles include the founding Chief Executive Officer of QIC and founding Managing Director of Perennial Investment Partners. Mr Macoun was appointed a member of the Investment Committee in January 2009.



Stephen Maitland, OAM, RFD
BEC, M Bus, LL M, FCPA, FAICD, FCIS,
F.Fin, FAIM
Audit & Risk Committee Member
Principal, Delphin Associates

Mr Maitland has more than 35 years' experience in the banking and finance industries. Mr Maitland is a qualified accountant and company secretary, and was CEO of the Queensland Office of Financial Supervision between 1992 and 1999.

Mr Maitland was appointed a member of the Audit & Risk Committee in January 2011.

Corporate governance

Corporate governance framework

The QSuper Board is committed to high quality corporate governance practices, and uses a clearly defined and transparent corporate governance framework to guide the oversight and operation of the QSuper Fund.

Risk management processes

The QSuper Board takes its risk management responsibilities seriously, and devotes considerable effort to continually reviewing and enhancing this framework.

During 2012/2013, the QSuper Board approved a new Enterprise Risk Management Framework and Enterprise Risk Management Policy to support the QSuper Board and Executive in operating prudently, making informed decisions and protecting the interests of members. The QSuper Board approved a set of Risk Appetite Statements to be used from April 2013 to further guide decision making.

The QSuper Board holds an annual risk workshop during which existing and emerging risks are considered in terms of their potential impact on strategic objectives, and in line with the changing internal and external environment. Material risks are then rated and compared to QSuper's Risk Appetite Statements. At this time, the QSuper Board may stipulate certain mitigations be implemented to maintain or reduce the final rating of the risk. QSuper's risk profile is continually monitored, and new risks or changes to material risks may be assessed by the QSuper Board outside of the annual review process as required.

Internal and external audit

The internal audit function is a key component of QSuper's corporate governance, promoting effective and efficient management and assisting with managing risk.

The external auditor, the Auditor-General of Queensland, audits both the QSuper Fund's and QSuper Limited's financial statements.

The Auditor-General makes recommendations, which are considered and acted upon, following assessment by management, the Audit & Risk Committee and the QSuper Board.

Compliance

QSuper's Compliance Framework, which is based on AS/NZS 3806 Australian Standard on Compliance Programs, supports the early detection, reporting and management of issues, consistent with regulatory and legislative requirements, and key policies and contracts.

Governance

QSuper's governance framework outlines the delegations and responsibilities among the QSuper Board, QSuper Limited executive, management and staff and other stakeholders, and spells out the rules and procedures when making decisions on a range of matters.

¹ Mr Ryan will become Chairman of the Investment Committee on 1 July 2013. Mr Rice will continue as a member of the Investment Committee.

QSuper's products

The QSuper Board recognises that everyone is different and that's why it provides a range of superannuation products that help its members reach their retirement goals.

We understand members' superannuation needs and expectations often change throughout their working life and into retirement. For example, the needs of a 20 year old who is at the start of their career differ greatly from a 60 year old who is nearing the end of their career.

That's why the QSuper Board remains committed to continually reviewing its products and services to meet the changing needs of members throughout their lives.

Accumulation account

QSuper's Accumulation account caters for members both during and after their employment with the Queensland Government. Spouses of members are also eligible to open an Accumulation account.

QSuper's Accumulation account allows members to actively participate in the growth of their superannuation by choosing investment options to suit their appetite for risk and return. QSuper's default investment option is the QSuper Balanced (Default) option, and members' funds are placed in

Accumulation account	30 June 2012	30 June 2013
Accounts (active) ¹	283,798	295,955
Accounts (retained) ¹	376,767	386,993
Income protection benefits paid	3,415	3,803
Rollovers to QSuper Fund	31,370	30,032
Members making voluntary contributions	76,764	76,871
Accumulation accounts opened via spouse deposits	944	1,248
Income		
Contribution	\$4,981m	\$6,288m
Investment	\$1,471m	\$3,238m
Miscellaneous	\$2m	\$2m
Total	\$6,454m	\$9,528m
Expenditure	\$3,598m	\$4,084m
Balance of accounts	\$25,852m	\$31,296m

¹ Some QSuper members may have multiple accounts.

this option when the QSuper Fund does not receive any specific investment direction.

Since 1 July 2009, QSuper members and their spouses have had the option to have

a non-Queensland Government employer pay their super contributions into a QSuper Accumulation account. As at 30 June 2013, more than 48,000 members were utilising this option.

QSuper Pension account

A QSuper Pension account is an account-based pension product that allows members to use their superannuation benefit to generate an income stream in retirement while remaining invested in one or more of QSuper's investment options. The pension is paid until the QSuper Pension account balance is exhausted.

Transition to retirement

The transition to retirement option allows eligible members to open a QSuper Pension account and draw an income while still employed. We introduced the transition to retirement option in July 2006 and as at 30 June 2013, 4,395 members were utilising this option.

QSuper Pension account	30 June 2012	30 June 2013
Accounts	23,330	27,351
New accounts opened	4,303	5,929
Income		
Contribution	\$1,458m	\$2,224m
Investment	\$367m	\$666m
Total	\$1.825m	\$2,890m
Expenditure	\$869m	\$1,056m
Balances of accounts	\$6,387m	\$8,221m

Defined Benefit account

A QSuper Defined Benefit account provides accrued and insured benefits based on a member's salary, contribution rate and length of membership. Employer contributions are held in a reserve managed by Queensland Treasury Corporation on behalf of the Queensland Government, which, when combined with the employee contributions, fund the benefits of Defined Benefit account members as required.

On 12 November 2008, the Defined Benefit account option was closed to new members. Members who already held a Defined Benefit account as at 12 November 2008 could continue their membership.

Defined Benefit account	30 June 2012	30 June 2013
Accounts (active)	65,764	57,881
Accounts (retained) ¹	44,151	43,652
Benefit payments		
Age retirement	6,264	4,459
Permanent disability	270	309
Resignation	2,558	1,055
Retrenchment	166	5,279
Income protection benefits paid	1,577	1,495
Income		
Contribution	\$2,4078m	\$3,568m
Investment	\$30m	\$718m
Total	\$2,437m	\$4,286m
Expenditure	\$2,859m	\$3,852m
Balance of accounts ²	\$3,816m	\$4,250m

¹ Also referred to as deferred retirement benefits.

² This amount is managed by QSuper Limited and comprises member contributions and investment returns on those contributions, which when combined with the employer contributions, fund defined benefit liabilities as required.

State and Police accounts

QSuper State and Police accounts are defined benefit style accounts which are closed to new members. Because there are no new members to these accounts, membership numbers continue to diminish.

In a State or Police account, employer contributions are also held in a reserve managed by Queensland Treasury Corporation on behalf of the Queensland Government, which when combined with the employee contributions, fund the benefits of State and Police members as required.

State and Police accounts	30 June 2012	30 June 2013
Accounts	1,180	1,048
Benefit payments		
Age retirement	101	94
Ill-health retirement	8	2
Death	0	0
Resignation	19	6
Retrenchment/redundancy	1	14
Total	129	116
Income protection benefits paid	26	21
Income	Included in Defined Benefit account	Included in Defined Benefit account
Expenditure	Included in Defined Benefit account	Included in Defined Benefit account
Balance of accounts	Included in Defined Benefit account	Included in Defined Benefit account

Managing members' super

QSuper's investment arrangements

QSuper Board's investment philosophy

Through the QSuper Board's core investment principles, the QSuper Fund aims to help members achieve their retirement outcomes and reach retirement adequacy. To this end, the QSuper Fund sets a return objective for each investment option that reflects its investment principles and underscores its approach to embrace diversification in managing volatility.

Who invests your money?

The QSuper Board has built up a strong in-house investments capability over the past

four years, where QSuper Limited acts as one of our investment managers. In addition, the QSuper Board utilises external investment managers, both through direct and indirect arrangements.

These investment managers are regularly reviewed and so change from time to time, but include direct engagements with QIC Ltd and State Street Global Advisors, Australia Ltd.

Allocation of investment returns

All QSuper Accumulation and QSuper Pension accounts are unitised. This means these accounts are expressed as a number of units and the value of a benefit is

determined by the number of units held and the daily price of each investment option.

Each investment option has a unit price that is determined daily, and which is net of fees and taxes. These unit prices change daily to reflect investment returns, and positive and negative changes in market value.

QSuper's unit prices are a reflection of the movement in the value of the portfolio's underlying assets from two business days earlier. The QSuper Board has the discretion to suspend unit prices if further validation of a unit price is required. If the QSuper Board exercises this discretion, information will be available on the QSuper website.

Single assets valued above 5% of total funds under management

At 30 June 2013, the QSuper Fund had 6.1% invested in the QIC Property Fund and 12.1% in the QS High Duration Bonds Trust. These investments are diversified portfolios with no single underlying asset valued at more than 5% of total assets of the QSuper Fund.

Monitoring QSuper's investment option asset and currency allocation ranges

QSuper's investment options are monitored daily to ensure that any variations from the prescribed asset allocation or currency ranges are addressed in a timely manner.

Monitoring QSuper's external investment management agreements

QSuper monitors the compliance of external managers against specific Investment Management Agreements (IMAs). Any breaches are addressed in a timely manner and regular reports are provided to the QSuper Board.

New custodian

2012/2013 marks QSuper's first year with new Fund custodian State Street Australia Limited. Selected after a rigorous review of potential custodians, State Street is responsible for holding and safeguarding financial assets on behalf of the QSuper Board under a custodial agreement.

State Street Australia Limited is also responsible for keeping records in relation to QSuper Fund assets, thereby separating the QSuper Fund managers from the physical securities.

Manager arrangements	
Asset sector	Manager
Cash	QIC Ltd
Global fixed interest	QIC Ltd QSuper Limited
Listed equities	
Australia	DFA Australia Ltd State Street Global Advisors, Australia Ltd Vanguard Investments Australia Limited
International	DFA Australia Ltd State Street Global Advisors, Australia Ltd
Unlisted assets	
Real estate	AEW Europe LLP Invesco Advisers Inc Jamestown Premier GP, LP QIC Ltd QSuper Limited
Infrastructure	Alinda Capital Partners Global Infrastructure Partners QIC Ltd QSuper Limited
Private equity	Partners Group QIC Ltd
Alternatives	AQR Capital Management LLC Bridgewater Associates, LP First State Media Works Global Endowment Management LP Makena Capital Management LLC Northwater Capital Management Inc Principal Global Investors QSuper Limited
Other	AMP Capital Investors State Street Bank and Trust Company

QSuper's investment policies

Derivatives policy

The QSuper Board uses derivative instruments as part of its overall investment strategy.

A derivative is a financial instrument or liability whose value depends on or is derived from other assets or indices (termed the 'underlying asset'). Derivative transactions are financial contracts and include a wide range of investments, including forward foreign exchange contracts, futures, options, swaps and other composites of these instruments.

The QSuper Board has policies and controls in place to ensure the appropriate use of derivatives, in line with QSuper's overall investment strategy. Through its investment managers, the QSuper Board authorises the use of derivatives to manage exposures to specific investment markets and fluctuations in underlying market, currency, or asset-specific values.

Derivatives charge ratio

The derivatives charge ratio is the percentage of total market value of the assets of the QSuper Fund (other than cash) that the Trustee has charged as security for derivative investments made by the Trustee.

At no point during the 2012/2013 financial year did the market value of the assets that were subject to a charge in relation to a derivative contract relative to total assets of the QSuper Fund exceed 5%.

In-house asset policy

The *Superannuation Industry (Supervision) Act 1993* details the 'in-house' asset rules that are designed to ensure the security of investments set aside for the provision of members' retirement incomes is not dependent on the success of the business activities of an employer, or other related party. In summary, these 'in-house' assets must not exceed 5% of total assets.

During the 2012/2013 financial year, the QSuper Fund did not at any time hold more than 5% 'in-house' assets.

QSuper's reserves

General Reserve

The primary purpose of the General Reserve is to ensure there is adequate provisioning to meet QSuper's current and future liabilities associated with administration costs, strategic initiatives and operational risk.

The General Reserve operates under a policy approved by the QSuper Board, which sets and annually reviews the investment strategy for the General Reserve. In setting the investment strategy for the General Reserve, consideration is given to the purpose of the Reserve, the nature of underlying liabilities and investment risk.

There were two significant impacts on the General Reserve during the year. These were the resolution of an income tax dispute with the Australian Taxation Office (more information is available in the financial statement notes), and the transfer of funds out of the reserve to create the new Operational Risk Financial Requirement Reserve required under the new APRA Prudential Standards effective from 1 July 2013.

At 30 June 2013, 40% of the General Reserve was invested in the QSuper Balanced (Default) investment option, and 60% was invested using the QSuper Moderate investment option.

General Reserve	\$m
30 June 2013	308
30 June 2012	166
30 June 2011	421
30 June 2010	350

Insurance Reserve

The Insurance Reserve is maintained for the purpose of holding QSuper's Accumulation account insurance premiums and meeting the Fund's self-insurance obligations.

The State Actuary determines the adequacy of the Insurance Reserve and reviews the self-insurance arrangements annually.

The Insurance Reserve operates under a policy approved by the QSuper Board, and is monitored and reviewed by management monthly.

The Insurance Reserve is currently invested using the Cash investment option.

Insurance Reserve	\$m
30 June 2013	209
30 June 2012	193
30 June 2011	171
30 June 2010	180

Unallocated Contributions Reserve

The purpose of the Unallocated Contributions Reserve is to bear the risk of any movement in investment earnings during the contributions allocation process.

The QSuper Board has previously approved the QSuper Balanced (Default) option strategy for the Unallocated Contributions Reserve because analysis of the investment preferences adopted by members shows that contributions continue to be invested primarily in the QSuper Balanced (Default) option.

The Unallocated Contributions Reserve operates under a policy approved by the QSuper Board, and is monitored and reviewed by management quarterly, and by the QSuper Board annually.

Unallocated Contributions Reserve	\$m
30 June 2013	5
30 June 2012	19
30 June 2011	19
30 June 2010	8

Operational Risk Financial Requirement Reserve

The Operational Risk Financial Requirement Reserve (ORFR Reserve) was established as a separate reserve during the 2012/2013 year to meet new APRA Prudential Standards effective from 1 July 2013.

The purpose of the ORFR Reserve is to ensure the QSuper Fund has adequate financial resources to address losses arising from operational risks within QSuper's business operations, where such costs are not met by third parties, or are only recoverable from third parties or insurance at a later stage.

The ORFR Reserve operates under a policy approved by the QSuper Board, which sets and annually reviews the investment strategy for the ORFR Reserve. The ORFR Reserve is currently invested using the QSuper Balanced (Default) option.

Operational Risk Financial Requirement Reserve	\$m
30 June 2013	111

QSuper investment options

Default option



QSuper Balanced (Default)

Suitable for medium to long-term investors who want exposure to assets with potentially higher returns. Investors in the QSuper Balanced (Default) option should also be prepared to accept fluctuations in the value of their investments over the short term.

Objective

To achieve a return of CPI + 4% p.a. after fees and tax, measured over rolling ten-year periods.

Fees

Management fees for 2012/2013

Admin fee% ¹	Investment fee %	Performance fee %	Total %
0.21	0.29	0.07	0.57

Risk

A negative annual return is expected between two and three times in every 20 years.



Asset allocations

	Actual asset allocations (%) Year ended 30 June 2012	Actual asset allocations (%) Year ended 30 June 2013 ³	Ranges (%)
Cash	19	13	0–25
Fixed interest	17	24	5–35
Property	9	9	0–20
Australian shares	20	13	5–30
International shares	18	19	5–45
Alternative assets	10	11	0–25
Infrastructure	7	10	0–20

Investment returns⁶

	Accumulation account	QSuper Pension account
Crediting rate (%)		
12 months	9.60	10.97
3 years p.a.	8.06	9.25
5 years p.a.	4.51	5.33
10 years p.a.	7.50	8.56

Ready Made options



QSuper Moderate

Suitable for investors who want short to medium-term stability and some exposure to growth assets with potential for moderate returns. Investors in the QSuper Moderate option should also be prepared to sacrifice the potential for higher returns in exchange for short to medium-term stability.

Objective

To achieve an average return over rolling three-year periods of CPI + 3% p.a. after fees and tax.

Fees

Management fees for 2012/2013

Admin fee% ¹	Investment fee %	Performance fee %	Total % ²
0.21	0.18	0.04	0.42

Risk

A negative annual return is expected between one and two times in every 20 years.



Asset allocations

	Actual asset allocations (%) Year ended 30 June 2012	Actual asset allocations (%) Year ended 30 June 2013	Ranges (%)
Cash	56	52	40–70
Fixed interest	8	9	0–12.5
Property	4	4	0–10
Australian shares	13	13	10–20
International shares	11	11	7.5–17.5
Alternative assets	5	6	0–10
Infrastructure	3	5	0–10

Investment returns⁶

	Accumulation account	QSuper Pension account
Crediting rate (%)		
12 months	6.96	8.11
3 years p.a.	6.06	7.08
5 years p.a.	4.45	5.07
10 years p.a.	5.99	6.85



QSuper Socially Responsible

Suitable for medium to long-term investors who want an approach that considers the investment's impact on society and the environment. Investors in the QSuper Socially Responsible option who want exposure to assets with potentially higher returns should also be prepared to accept fluctuations in the value of their investments over the short term.

Objective

To achieve an average return over rolling five-year periods of CPI + 3.5% p.a. after fees and tax.

Fees

Management fees for 2012/2013

Admin fee% ¹	Investment fee %	Performance fee %	Total %
0.21	0.69	0.00	0.90

Risk

A negative annual return is expected between four and six times in every 20 years.



Asset allocations

	Actual asset allocations (%) Year ended 30 June 2012	Actual asset allocations (%) Year ended 30 June 2013 ⁴	Ranges (%) ⁵
Cash	3	13	0–16
Fixed interest	22	16	10–36
Property	13	10	0–28
Australian shares	35	32	26–40
International shares	26	25	15–30
Alternative assets	1	2	0–6
Infrastructure	0	–	0

Investment returns⁶

	Accumulation account	QSuper Pension account
Crediting rate (%)		
12 months	16.11	18.80
3 years p.a.	7.31	8.52
5 years p.a.	4.04	4.59
10 years p.a.	n/a	n/a

1 The administration fee was 0.19% until 31 December 2012 and 0.22% from 1 January 2013. The average fee for the financial year, rounded to two decimal places, is 0.21%. 2 This figure has been rounded for member reporting purposes. 3 These figures total 99% as numbers have been rounded for member reporting purposes. 4 These figures total 98% as numbers have been rounded for member reporting purposes. 5 Asset allocation ranges were amended by AMP Capital Investors from 8 May 2013. 6 Past performance is not a reliable indicator of future performance.



QSuper Indexed Mix

Suitable for medium to long-term investors who want to be invested in the lowest fee Ready Made option and prefer its investment strategy. Investors in the QSuper Indexed Mix option who want exposure to assets with potentially higher returns should also be prepared to accept more fluctuations in the value of their investment over the short term.

Objective

To achieve an average return over rolling five-year periods of CPI + 3.5% p.a. after fees and tax.

Fees

Management fees for 2012/2013

Admin fee% ¹	Investment fee %	Performance fee %	Total % ²
0.21	0.14	0.00	0.34

Risk

A negative annual return is expected between three and four times in every 20 years.



Asset allocations

	Actual asset allocations (%) Year ended 30 June 2012	Actual asset allocations (%) Year ended 30 June 2013	Ranges (%)
Cash	6	7	0–13
Fixed interest	25	25	18–32
Property	9	8	0–20
Australian shares	35	35	28–42
International shares	25	25	18–32
Alternative assets	0	–	0
Infrastructure	0	–	0

Investment returns³

	Accumulation account	QSuper Pension account
Crediting rate (%)		
12 months	14.26	16.57
3 years p.a.	8.40	9.71
5 years p.a.	5.06	5.45
10 years p.a.	n/a	n/a



QSuper Aggressive

Suitable for long-term investors who want exposure to assets with potentially higher returns. Investors in the QSuper Aggressive option should also be prepared to accept fluctuations in the value of their investments over the short to medium term.

Objective

To achieve an average return over rolling ten-year periods of CPI + 5% p.a. after fees and tax.

Fees

Management fees for 2012/2013

Admin fee% ¹	Investment fee %	Performance fee %	Total % ²
0.21	0.32	0.10	0.62

Risk

A negative annual return is expected between four and six times in every 20 years.



Asset allocations

	Actual asset allocations (%) Year ended 30 June 2012	Actual asset allocations (%) Year ended 30 June 2013	Ranges (%)
Cash	8	3	0–15
Fixed interest	2	6	0–20
Property	9	9	0–20
Australian shares	23	20	15–45
International shares	37	37	25–55
Alternative assets	11	12	0–25
Infrastructure	10	13	0–20

Investment returns³

	Accumulation account	QSuper Pension account
Crediting rate (%)		
12 months	15.32	17.70
3 years p.a.	9.26	10.64
5 years p.a.	3.27	4.44
10 years p.a.	7.52	8.96



Cash

Suitable for short-term investors who want to protect the value of their investments. Investors in the Cash option should also be willing to accept very little short-term real growth.

Objective

To match the return of the UBS Bank Bill Index after fees and tax.

Fees

Management fees for 2012/2013

Admin fee% ¹	Investment fee %	Performance fee %	Total %
0.21	0.07	0.00	0.28

Risk

A negative annual return is not expected over 20 years.



Asset allocations

	Actual asset allocations (%) Year ended 30 June 2012	Actual asset allocations (%) Year ended 30 June 2013	Ranges (%)
Cash	100	100	100
Fixed interest	0	–	0
Property	0	–	0
Australian shares	0	–	0
International shares	0	–	0
Alternative assets	0	–	0
Infrastructure	0	–	0

Investment returns³

	Accumulation account	QSuper Pension account
Crediting rate (%)		
12 months	2.55	2.99
3 years p.a.	3.44	4.04
5 years p.a.	3.59	4.14
10 years p.a.	4.11	4.83

1 The administration fee was 0.19% until 31 December 2012 and 0.22% from 1 January 2013. The average fee for the financial year, rounded to two decimal places, is 0.21%.

2 This figure has been rounded for member reporting purposes. 3 Past performance is not a reliable indicator of future performance.

QSuper investment options

Your Choice options (continued)



Diversified Bonds

Suitable for short to medium-term investors who want steady returns. Investors in the Diversified Bonds option should also be prepared to accept small to moderate fluctuations in the value of their investment in the short term.

Objective

To capture the return of a broadly diversified portfolio of global fixed interest investments, after fees and tax.

Fees

Management fees for 2012/2013

Admin fee % ¹	Investment fee %	Performance fee %	Total % ²
0.21	0.16	0.00	0.36

Risk

A negative return is expected less than one year in every 20 years.



Asset allocations

	Actual asset allocations (%) Year ended 30 June 2012	Actual asset allocations (%) Year ended 30 June 2013	Ranges (%)
Cash	0	-	0-10
Fixed interest ¹	100	100	90-100
Property	0	-	0
Australian shares	0	-	0
International shares	0	-	0
Alternative assets	0	-	0
Infrastructure	0	-	0

Investment returns³

	Accumulation account	QSuper Pension account
Crediting rate (%)		
12 months	4.92	5.77
3 years p.a.	6.02	7.11
5 years p.a.	8.31	8.43
10 years p.a.	n/a	n/a



International Shares

Suitable for long-term investors who want potentially higher returns over the long term. Investors in the International Shares option should also be prepared to accept fluctuations in the value of their investment over the short to medium term.

Objective

To match the return of the MSCI World Developed Markets ex-Australia net dividends reinvested accumulation index, hedged after fees and tax.

Fees

Management fees for 2012/2013

Admin fee % ¹	Investment fee %	Performance fee %	Total %
0.21	0.07	0.00	0.28

Risk

A negative annual return is expected between four and six times in every 20 years.



Asset allocations

	Actual asset allocations (%) Year ended 30 June 2012	Actual asset allocations (%) Year ended 30 June 2013	Ranges (%)
Cash	2	0	0-10
Fixed interest	0	-	0
Property	0	-	0
Australian shares	0	-	0
International shares	98	100	90-100
Alternative assets	0	-	0
Infrastructure	0	-	0

Investment returns³

	Accumulation account	QSuper Pension account
Crediting rate (%)		
12 months	22.12	25.76
3 years p.a.	12.72	14.71
5 years p.a.	3.08	4.88
10 years p.a.	n/a	n/a



Australian Shares

Suitable for long-term investors who want exposure to assets with potentially higher returns over the long term. Investors in the Australian Shares option should also be prepared to accept fluctuations in the value of their investment over the short to medium term.

Objective

To match the return of the S&P/ASX 200 Accumulation Index after fees and tax.

Fees

Management fees for 2012/2013

Admin fee % ¹	Investment fee %	Performance fee %	Total %
0.21	0.07	0.00	0.28

Risk

A negative annual return is expected greater than six times every 20 years.



Asset allocations

	Actual asset allocations (%) Year ended 30 June 2012	Actual asset allocations (%) Year ended 30 June 2013	Ranges (%)
Cash	0	-	0-10
Fixed interest	0	-	0
Property	0	-	0
Australian shares	100	100	90-100
International shares	0	-	0
Alternative assets	0	-	0
Infrastructure	0	-	0

Investment returns³

	Accumulation account	QSuper Pension account
Crediting rate (%)		
12 months	20.11	23.62
3 years p.a.	7.48	8.81
5 years p.a.	3.25	3.73
10 years p.a.	n/a	n/a

1 The administration fee was 0.19% until 31 December 2012 and 0.22% from 1 January 2013. The average fee for the financial year, rounded to two decimal places, is 0.21%.
2 This figure has been rounded for member reporting purposes. 3 Past performance is not a reliable indicator of future performance.

Defined Benefit accounts

About these accounts

The balance of a Defined Benefit account grows on a formula based on years of service and salary, and may also depend on the level of contributions a member may choose to make.

Contributions are made by both members and employers. Instead of making contributions into a member's individual account, the employer contributes to a pool of funds held by the Queensland Treasury Corporation on behalf of the Queensland Government, which is used to pay the benefits of all Defined Benefit accounts as required. The amount an employer is required to contribute is calculated in accordance with an actuarial formula.

QSuper, and the Queensland Government as the employer sponsor of the Fund, invests the employer money and the money members contribute to ensure there are sufficient funds to pay all member benefits as needed.

Details of the defined benefit investment strategy, objectives and investment returns are reported below. As the calculation of a defined benefit is formula based, it's not directly affected by these returns.

QSuper has several defined benefit accounts – Defined Benefit, State, Police and Parliamentary – all of which are closed to new members.

Investment objective

The investment objective for the Queensland Government's defined benefit pool of funds

and the QSuper defined benefit pool of funds together is to have sufficient funds available to meet all obligations relating to member benefits as they fall due. The asset allocations and investment ranges, described in the below table, are designed to meet this objective.

2012/2013 returns

The member component of a member's benefit receives an annual crediting rate determined by the QSuper Board (which may be positive or negative). This crediting rate is disclosed on the relevant benefit statement for Defined Benefit accounts. The crediting rate which applies to this member component does not affect a member's overall entitlements.

Asset allocations			
	Asset allocations (%) at 30 June 2012	Asset allocations (%) at 30 June 2013	Ranges (%) from 30 June 2013
Cash	25.54	33.2	10-50
Fixed interest	3.77	2.0	0-25
Property	8.04	8.5	5-15
Global shares ¹	39.34	27.5	20-40
Global private equity	3.62	5.1	0-10
Alternative assets	11.11	15.8	5-25
Infrastructure	8.58	7.9	5-15

¹ Includes both Australian and international shares.

Important information

More information

You can access this annual report electronically from our website at qsuper.qld.gov.au/annualreport.

QSuper members can also request to receive a printed copy of this report at no cost by calling 1300 360 750.

QSuper's privacy policy

QSuper's privacy policy is available by contacting QSuper or accessing the QSuper website at qsuper.qld.gov.au.

Enquiries and complaints

QSuper has procedures in place to ensure all enquiries and complaints are dealt with fairly and promptly.

If you have a complaint about QSuper, please call us on 1300 360 750 (or +617 3239 1004 if calling from overseas). Alternatively, you can write to the Enquiries and Complaints Officer, QSuper, GPO Box 200, Brisbane QLD 4001 and mark your letter 'Notice of enquiry or complaint'.

If the matter is not resolved within 90 days, or if you are unsatisfied with our response, you can take the matter to the Superannuation Complaints Tribunal (SCT) – an independent body set up by the Commonwealth Government to assist members only after they have made use of their superannuation fund's internal complaints procedure. If you want to find out whether the SCT is able to deal with your complaint, you can contact them on 1300 884 114 or visit their website at www.sct.gov.au.

Surcharge

The superannuation contributions surcharge was reduced to 0% from 1 July 2005. Any existing surcharge liabilities remain payable to the Australian Taxation Office and will be deducted from an entitlement when a benefit is claimed from QSuper, or is rolled over to another complying superannuation fund. Any advance instalments of surcharge will be drawn from a member's account or entitlement. Any surcharge liability recorded for a member's account is on their benefit statement.

Major service providers

Administrator

QSuper Limited
Central Plaza Three
70 Eagle Street
Brisbane QLD 4000

Investment manager

QSuper Limited
Central Plaza Three
70 Eagle Street
Brisbane QLD 4000

Financial planning

QInvest
Central Plaza Two
Level 8, 66 Eagle Street
Brisbane QLD 4000

Internal auditor¹

Ernst & Young²
111 Eagle Street
Brisbane QLD 4000

Actuary

State Actuary
Level 14, 53 Albert Street
Brisbane QLD 4000

Investment consultant

Towers Watson Australia Pty Ltd³
Level 16, 1 Collins Street
Melbourne VIC 3000

External insurer

TAL Life Limited⁴
Level 16, 363 George Street
Sydney NSW 2001

Custodian

State Street Australia Limited⁵
Level 14, 420 George Street
Sydney NSW 2000

Deed changes

During the 2012/2013 financial year, the *Superannuation (State Public Sector) Deed 1990* was amended to:

- allow the QSuper Board of Trustees to offer a MySuper product as defined under the *Superannuation Industry (Supervision) Act 1993*
- allow the QSuper Board to determine an amount to replace the Average Weekly Ordinary Time Earnings for a period when it is not published by the Australian Bureau of Statistics (ABS) due to the ABS changing the frequency of its reporting cycle
- allow members aged 60 and over to access their accrued superannuation on ceasing an arrangement of gainful employment
- ensure required preservation treatment of a benefit is transferred from a Defined Benefit to an Accumulation account
- allow insurance premiums for voluntary insurance taken out by defined benefit members to be deducted from the member's Accumulation account only
- make other minor and related amendments, including to make consequential changes to definitions in line with Commonwealth superannuation legislation
- allow members once in any 12 month period to transfer benefits from their Accumulation account to another complying superannuation fund, provided a minimum balance of \$2,000 is maintained
- allow members the option of making a binding death benefit nomination, which allows members to nominate who receives their superannuation benefit in the event of their death from 1 July 2013.

¹ From 1 July 2013 PricewaterhouseCoopers will become QSuper's internal auditor (ABN 52 780 433 757) ² Ernst & Young Australia (ABN 75 288 172 749)

³ Towers Watson Australia Pty Ltd (ABN 45 002 415 349) ⁴ TAL Life Limited (ABN 70 050 109 450, AFSL 237848) ⁵ State Street Australia Limited (ABN 21 002 965 200)

Financial statements

for the year ended 30 June 2013

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Statement of Net Assets

as at 30 June 2013

	Notes	30/06/13 \$m	30/06/12 \$m
ASSETS			
Investments			
Cash and short term deposits	5	2,428	713
Equities	5	14,934	14,184
Preference shares	5	30	15
Listed trusts	5	255	969
Derivative assets	5	122	201
Other interest bearing securities	5	8,176	8,085
Unlisted unit trusts	5	16,896	11,892
Unlisted partnerships	5	821	527
Investments in service providers		84	72
		43,746	36,658
Other assets			
Cash		37	45
Contributions receivable		84	8
GST receivable		1	1
Sundry receivables and prepayments		654	3
Deferred tax assets	13	55	100
TOTAL ASSETS		44,577	36,815
LIABILITIES			
Benefits payable		17	10
Administration and investment management fees payable		34	25
Sundry payables		12	1
Derivative liabilities	5	667	66
Current tax liabilities	13	18	591
Provision for superannuation contributions surcharge		61	66
TOTAL LIABILITIES		809	759
NET ASSETS AVAILABLE TO PAY BENEFITS		43,768	36,056
Represented by			
Reserves	8	633	378
Accumulated member funds	9	43,135	35,678
TOTAL LIABILITY FOR ACCRUED BENEFITS		43,768	36,056

Statement of Changes in Net Assets

for year ended 30 June 2013

	Notes	30/06/13 \$m	30/06/12 \$m
Investment revenue			
Dividends		868	577
Distributions		1,382	453
Change in net market value of investments	10	2,320	836
Other income		4	–
Interest revenue		48	2
		4,622	1,868
Contribution revenue			
Employer contributions	11	5,537	4,427
Member contributions		911	796
Transfers from other funds		682	569
		7,130	5,792
Other revenue			
Insurance recoveries		2	–
Sundry revenue		1	2
		3	2
TOTAL REVENUE		11,755	7,662
Less			
Benefits paid		3,178	2,654
Direct investment expenses		93	94
General administration expenses			
Administration fee	14(d)	125	100
Other fees		9	3
Financial planning fee	14(d)	18	16
Superannuation contributions surcharge		2	4
Insurance premiums	17	7	6
TOTAL EXPENSES		3,432	2,877
Change in net assets before income tax		8,323	4,785
Less: Income tax expense	13	611	1,394
Change in net assets after income tax		7,712	3,391
NET ASSETS AVAILABLE TO PAY BENEFITS at the beginning of the financial year		36,056	32,665
NET ASSETS AVAILABLE TO PAY BENEFITS at the end of the financial year		43,768	36,056

Notes to the financial statements

for year ended 30 June 2013

Note 1 Operation of QSuper

The State Public Sector Superannuation Scheme ('Fund') has been established by the *Superannuation (State Public Sector) Act 1990* to provide benefits for current and previous Queensland public sector employees and employees of Queensland Government entities, such as departments, statutory bodies and government owned enterprises. The Fund consists of Defined Benefit, Accumulation and Pension accounts.

The Defined Benefit account was closed to new members from 12 November 2008. Current members with a Defined Benefit account are able to maintain their existing benefits until they decide to retire, transfer to an Accumulation account or leave their current employment. Defined Benefit account members who transfer between eligible Fund employers and have a break in service of less than one month will be permitted to continue contributing to their Defined Benefit account.

The Fund receives all member superannuation contributions. The Fund also receives employer contributions through a mixture of regular employer contributions, and payments from a reserve managed by the Queensland Treasury Corporation on behalf of the Queensland Government. Contribution rates in relation to the Fund's defined benefit funding are determined by the Queensland Treasurer on the advice of the State Actuary. The funding arrangements are explained in Note 12.

The Fund obtained its RSE licence from Australian Prudential and Regulatory Authority (APRA) on 09 July 2009 and its registration number is R1073034.

The Federal Government has introduced legislative reforms for the superannuation industry, collectively referred to as 'Stronger Super'. QSuper received approval from APRA on 12 July 2013 to provide a MySuper product in order to comply with the Government's Stronger Super and MySuper legislative and regulatory requirements (refer Note 19).

The Fund is administered by QSuper Limited – ABN 50 125 248 286 (refer Note 14(d)), a controlled entity.

Note 2 Basis of preparation

(a) General Statement of Compliance

These financial statements are a general purpose financial report for the Fund, which has been prepared in accordance and comply with the provisions of the *Superannuation (State Public Sector) Act 1990*, *Superannuation Industry (Supervision) Act 1993* and regulations, Australian Accounting Standard AAS 25 Financial Reporting by Superannuation Plans (AAS 25), other applicable Australian Accounting Standards and interpretations of the Australian Accounting Standards Board (AASB), and the provisions of the *Superannuation (State Public Sector) Deed 1990*.

Accounting policies

Unless otherwise stated, all accounting policies applied are consistent with those of the prior year.

(b) Basis of measurement

The financial statements have been prepared on an accrual and going concern basis under the historical cost convention. Valuation of investments are however, measured in accordance with AAS 25 at net market value.

Rounding and functional currency

The financial statements are presented in Australian dollars and all values are rounded to the nearest million dollars except where otherwise stated.

(c) New accounting standards and interpretations

Australian Accounting Standards and interpretations that have recently been issued or drafted but are not yet effective have not been adopted by QSuper for the annual reporting period ended 30 June 2013. These are outlined in the table on the following page.

Notes to the financial statements

for year ended 30 June 2013

Note 2 Basis of preparation (continued)

AASB amendment/ standard	Title	Nature of change to accounting policy	Application date of standard	Application date for QSuper
AASB 9	Financial Instruments	Addresses the classification and measurement of financial assets and is unlikely to affect QSuper's accounting for its financial assets. No change to accounting policy as it applies to QSuper.	1 January 2015	1 July 2015
AASB 11	Joint Arrangements	Approach for determining whether parties are a joint arrangement and should partially consolidate or whether they are a joint venture and use the equity method for accounting for their interest. No change to accounting policy as it applies to QSuper.	1 January 2013	1 July 2013
AASB 10	Consolidated Financial Statements	Specifies principles of control and details accounting requirements for consolidation. QSuper has assessed early adoption of this standard. No change to accounting policy is required to QSuper.	1 July 2013	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	Disclosure requirements for entities that hold interests in subsidiaries, joint arrangements and associates. No change to accounting policy as it applies to QSuper.	1 January 2013	1 July 2013
AASB 13	Fair Value Measurement	Explains how to measure Fair Value. No change to accounting policy as it applies to QSuper.	1 January 2013	1 January 2013
AASB 119	Employee Benefits	Details accounting and disclosure requirements for Defined Benefit plans. No change to accounting policy as it applies to QSuper.	1 January 2013	1 July 2013
AASB 1053	Application of Tiers of Australian Accounting Standards	Details some reduced disclosure requirements for entities that do not have public accountability. No change to accounting policy as it applies to QSuper.	1 July 2013	1 July 2013
AASB 2011-3	Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments	Amendments to AASB 1049 including clarification to the definition of ABS GFS. No change to accounting policy as it applies to QSuper.	1 July 2013	1 July 2013
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	Provides clarification of Key Management Personnel disclosure requirements. No change to accounting policy as it applies to QSuper.	1 July 2013	1 July 2013
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income	Details amendments for entities to group items presented in other comprehensive income. No change to accounting policy as it applies to QSuper.	1 July 2013	1 July 2013
2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets	Makes amendments to AASB 112 Income Taxes as a consequence of Deferred Tax: Recovery of Underlying Assets. No change to accounting policy as it applies to QSuper.	1 January 2013	1 July 2013

Notes to the financial statements

for year ended 30 June 2013

Note 2 Basis of preparation (continued)

In addition to the above, QSuper has noted that a significant change in accounting policy may potentially arise from Exposure Draft 223 Superannuation Entities (ED 223). The impact of ED 223 has been analysed further below.

(d) ED 223 Superannuation Entities

The AASB approved its Exposure Draft (ED) on superannuation plans and released it for public comment in December 2011. ED 223 is the second exposure draft to be issued by the Australian Accounting Standards Board (AASB) in response to its comprehensive review of the general purpose financial reporting requirements applicable to superannuation entities. In May 2009 the AASB issued ED 179 and, upon receiving feedback from industry constituents, has released ED 223 back into the public domain for comment. It is proposed that the ED will replace AAS 25 and will bring disclosures by superannuation funds more in line with similar entities such as managed investment schemes. The AASB work program has targeted the issue of the Standard for the third quarter of 2013. Application of the proposed new standard will be two years after the date of issue.

The ED includes a number of significant changes that will affect how QSuper will prepare its financial statements. These changes potentially include the following:

- broadly applying presentation principles and requirements of applicable Australian Accounting Standards as opposed to the requirements of AAS 25 that override certain requirements
- calculating defined benefit liabilities based on accrued rather than vested benefits
- the proposal of five financial statements including a statement of changes in member benefits, statement of changes in equity and statement of cash flows
- accounting for insurance contracts as if they were life insurance contracts; QSuper is currently not obliged to report self insurance contracts separately
- disclosing additional information about the nature, extent and management of financial risks and funding strategies.

Standards and interpretations that are not expected to have a material impact on QSuper have not been referred to above.

Note 3 Significant accounting policies

(a) Cash

Cash represents cash at bank.

(b) Receivables

Receivables are carried at the amount due and receivable. This value approximates net market value.

(c) Goods and services tax (GST)

Revenues and expenses are recognised net of the amount of GST to the extent that the GST is recoverable from the taxation authority. Where GST is not recovered it is recognised as part of the expense item.

Receivables and payables for which invoices have been issued or received are stated inclusive of GST. However estimates of receivables and payables are recognised net of GST, to the extent that GST is recoverable from the taxation authority. The net amount of GST recoverable from the taxation authority is included as part of receivables in the Statement of Net Assets.

QSuper is a member of a consolidated GST group. The GST group is treated as one entity for GST purposes with transactions between both entities within the group broadly ignored for GST purposes.

Notes to the financial statements

for year ended 30 June 2013

Note 3 Significant accounting policies (continued)

(d) Taxation

QSuper is taxed as a complying superannuation fund in accordance with the provisions of the *Income Tax Assessment Act 1936* and *Income Tax Assessment Act 1997*.

Income tax on the change in net assets as a result of operations for the year comprises current and deferred tax. Income tax is recognised in the Statement of Changes in Net Assets.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the statement of net assets date and any adjustment to tax payable in respect of previous years. Current tax includes amounts relating to penalty and interest charges that may be imposed by tax authorities.

Deferred tax is determined using the balance sheet method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent it is no longer probable that the related tax benefit will be realised.

Significant judgement is required in determining the provision for income taxes. There are transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. QSuper may be subject to regular review by taxation authorities in the various countries in which it invests. QSuper actively monitors and assesses the impacts of those reviews, including making appropriate tax provisions for potential tax exposures. Where the final outcome of a tax authority review is different from the amounts that were initially recorded, such differences may impact the current and deferred tax provisions in the period in which such determination is made.

(e) Investments and derivative liabilities

QSuper maintains investments for the long term purpose of providing benefits for members upon their retirement, reaching a specified age, death, or termination of employment.

Portfolio investments

Investments of QSuper are initially recognised at cost, being the fair value of the consideration given. After initial recognition, investments are measured at net market value. Gains or losses on investments are recognised in the Statement of Changes in Net Assets. Net market value of investments has been determined as follows:

- securities that are listed or traded on an exchange are recognised at fair value based on quoted 'bid' prices for asset positions
- interests in pooled investment vehicles are recorded at the redemption price as quoted by the investment manager
- interests in unlisted trusts, unlisted partnerships, property, infrastructure and collective investment schemes are recorded at the most recent valuation obtained from the managers adjusted for subsequent calls and redemptions, and significant changes in underlying values
- derivative financial instruments including forward exchange contracts, fixed interest rate futures are recorded at market rates at close of business on the balance date.

Investments in other unlisted unit trusts are recorded at redemption value per unit as reported by the managers of such funds. In the absence of quoted values, securities are valued using the redemption prices as reasonably determined by the fund's managers and this is considered appropriate for valuation.

Estimated costs of realisation have been deducted in determining net market value. Net market value is considered a reasonable approximation of fair value.

Purchases and sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that QSuper commits to purchase the asset.

Notes to the financial statements

for year ended 30 June 2013

Note 3 Significant accounting policies (continued)

Investments in service providers

Investments in service providers are measured as QSuper's share of net assets at reporting date based on holdings. This is achieved by adjusting the carrying amount of the investment to reflect the share of net assets of the investment for that period.

(f) Foreign currency

Both the functional and presentation currency of QSuper is Australian dollars (\$).

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date, monetary assets and liabilities denominated in foreign currencies are translated to Australian currency at rates of exchange at that date. Resulting currency translation differences are brought to account in determining the change in net market value of investments for the year.

(g) Benefits payable

Benefits payable by QSuper are accounted for on an accrual basis. Benefits payable comprise the entitlements of members for whom a claim has been made and, at year end, are awaiting payment under the terms and conditions of the Superannuation (*State Public Sector*) Deed 1990 and the Superannuation (*State Public Sector*) Act 1990. Benefits payable are normally settled within seven days.

(h) Other payables

Payables represent liabilities for goods and services provided to QSuper prior to year end which are unpaid at 30 June. Payables are normally settled within 30 days of recognition.

(i) Superannuation contributions surcharge

Superannuation contributions surcharge was levied on surchargeable contributions on the basis of individual members' adjusted taxable incomes. The liability for the superannuation contributions surcharge was recognised when the assessments were received from the Australian Taxation Office as the QSuper Board of Trustees (the Board) considers this was when it could be reliably measured.

A liability has been recognised in the financial statements for the amount of surcharge assessments received but not paid, together with any interest accrued on this amount.

The *Superannuation Laws Amendment (Abolition of Surcharge) Act 2005* abolished both the superannuation contributions surcharge and the termination payments surcharge in respect to superannuation contributions and certain termination payments made or received on or after 1 July 2005.

(j) Liability for accrued benefits

Defined Benefit account

The liability for accrued defined benefits is actuarially measured on at least a triennial basis. This liability represents QSuper's obligation to pay benefits in the future, and is determined on the basis of the present value of expected future payments which arise from membership of the scheme up to the measurement date. The figure is determined by reference to expected future salary levels and by application of a market-based, risk-adjusted discount rate and relevant actuarial assumptions (refer Note 6). In accordance with AAS 25, this liability is specifically excluded from being reported on the face of the financial statements as it is only measured on a triennial basis.

Accumulation account

The liability for accumulation accrued benefits represents QSuper's present obligation to pay benefits to members and has been calculated as the difference between the carrying amount of the assets and the liabilities of QSuper as at the reporting date. In accordance with AAS 25, this liability is specifically excluded from being reported on the face of the financial statements.

(k) Reserves

General reserve

QSuper maintains a general reserve to ensure that it can meet both current and future liabilities, including those associated with administration, strategic initiatives and operational risks pertaining to costs associated with the non-member component of operational risk events. The reserve provides the Trustee with access to funds to protect members' interests and mitigate the impact of an adverse event. Transfers in and out of the reserve are made only at the authorisation of the Trustee and in accordance with QSuper's reserve policy.

Notes to the financial statements

for year ended 30 June 2013

Note 3 Significant accounting policies (continued)

Operational risk financial requirement reserve

QSuper maintains an Operational Risk Financial Requirement Reserve (ORFR Reserve) for costs pertaining to the member component of operational risk events. The ORFR Reserve ensures QSuper has adequate financial resources to address losses arising from operational risks within its business operations, where such costs are not met by third parties, or are recoverable from third parties or insurance only at a later stage.

The ORFR Reserve is implemented, managed and maintained in accordance with the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the requirements of APRA Prudential Standard SPS 114 – Operational Risk Financial Requirement (SPS 114). APRA has defined 'operational risk' as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk but excludes strategic and reputational risk.

Unallocated contributions reserve

This reserve is held to absorb investment variations which may be caused by the delay between when member funds are received and when the transaction is processed and allocated to the member's selected investment option.

Insurance reserve

QSuper provides death, disability and income protection insurance benefits to members. The amount by which the insurance benefits exceeded the members' claims is represented by the balance of the reserve. This reserve holds insurance premiums collected from members to meet the QSuper insurance expenses. The premium rates are reviewed by the State Actuary and set by the Board.

(I) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to QSuper and that revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Investment revenue

Dividend revenue

Revenue from dividends is recognised on the date the shares are quoted ex-dividend and if not received at balance sheet date, the balance is reflected in the Statement of Net Assets as part of the underlying investment category.

Distributions from unit trusts

Distributions from unit trusts are recognised as investment income on the date when it is deemed that QSuper is presently entitled to the trust income.

Changes in net market value of investments

Changes in the net market value of investments are recognised as revenue and are determined as the difference between the net market value at year end (net of costs expected to be incurred for realising the investments) or consideration received (if sold during the year) and the net market value as at the prior year end (net of costs expected to be incurred for realising the investments) or cost (if the investment was acquired during the period).

Interest revenue

Revenue on money market and fixed interest securities is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. If interest is not received at balance date, it is reflected in the Statement of Net Assets as part of the underlying investment category.

Notes to the financial statements

for year ended 30 June 2013

Note 3 Significant accounting policies (continued)

Contributions revenue

Employer contributions

Employer contributions are brought to account on an accruals basis whereby any contributions owing for the financial year are brought to account by QSuper at the reporting date.

Member contributions

Member contributions, which include co-contributions received from the Australian Government, are brought to account when received as this is the only point at which measurement is reliable.

Transfers from other funds

Transfers from other funds are brought to account when received as this is the only point at which measurement is reliable.

Other revenue

Insurance recoveries

Insurance recoveries are brought to account on a cash basis as this is the only point at which measurement is reliable. These are insurance claims which have been received on behalf of members and will be remitted to the beneficiaries in due course.

Sundry revenue

Sundry revenue is accounted for on an accrual basis.

Note 4 Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, and are based on experience and other factors believed to be reasonable in the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in Note 15 – financial instruments sensitivity analysis.

Assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 3(d) – taxation
- Note 3(e) – valuation of unlisted investments and level 3 investments
- Note 13 – income tax
- Note 6 – liability for accrued benefits.

Notes to the financial statements

for year ended 30 June 2013

Note 5 Investments and derivative liabilities

On 1 November 2012, QSuper effected a new five year custodian agreement with State Street Australia (SSAL) which replaced National Australia Bank Asset Services (NAB) as the Fund's custodian. QSuper has a direct contractual custody relationship with State Street Australia – with the majority of investments held directly by QSuper.

Investments, including derivatives of QSuper, are managed by selected investment managers and QSuper Limited's internal investment team on behalf of the Board. QSuper Limited's provision of investment services is in addition to its administrative services. The Board determines the overall investment objectives and strategy of QSuper.

QSuper contracts external investment managers in various asset classes, sectors, management styles, strategies and geographies under direct investment management agreements (hereafter referred to as mandates). QSuper's expectations of its external managers are documented in the mandates agreed between the parties. Specific reporting and valuation requirements are included within the contracts to ensure sufficient information and transparency is provided for ongoing monitoring.

Notes to the financial statements

for year ended 30 June 2013

Note 5 Investments and derivative liabilities (continued)

	30/06/13 \$m	30/06/12 \$m
Investment assets		
Cash and short term deposits		
Cash and short term deposits	2,428	713
	2,428	713
Equities		
Listed equity securities	14,884	14,051
Unlisted equity securities	50	133
	14,934	14,184
Preference shares		
Preference shares redeemable	30	15
	30	15
Listed trusts		
Listed unit trusts	155	211
Property trusts	100	758
	255	969
Derivative assets¹		
Futures	12	13
Warrants and options	66	–
Swaps	19	57
Forward foreign exchange contracts	25	131
	122	201
Other interest bearing securities		
Fixed interest bonds	207	–
Floating rate notes	103	26
Discount securities	7,865	7,805
Asset-backed securities	1	254
	8,176	8,085
Unlisted trusts		
Unlisted unit trusts	16,561	11,892
Unlisted property trusts	335	–
	16,896	11,892
Unlisted partnerships		
Unlisted partnerships	821	527
	821	527
Derivative liabilities¹		
Swaps	26	9
Futures	12	41
Forward foreign exchange contracts	629	16
	667	66

Refer Note 3(e) for the methods and assumptions adopted in determining the fair values of investment liabilities.

¹ Following transition to QSuper's new custodian State Street Australia Limited during the 2013 financial year, derivative assets and liabilities positions are now reported on a net contract basis. To enable a consistent comparison with the current year's balances, the comparative figures have been reduced by offsetting amounts of \$780m for swap assets and liabilities and \$6,663m for forward foreign exchange contract assets and liabilities.

Notes to the financial statements

for year ended 30 June 2013

Note 5 Investments and derivative liabilities (continued)

(a) Fair value hierarchy classification

In accordance with AASB 7 Financial Instruments: Disclosures, QSuper classifies fair value measurements using a fair value hierarchy.

The fair value hierarchy reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The table below sets out financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2013.

30 June 2013	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Listed equity securities	14,879	3	2	14,884
Unlisted equity securities	49	–	1	50
Preference shares redeemable	30	–	–	30
Listed unit trusts	–	–	155	155
Property trusts	100	–	–	100
Swaps	–	(7)	–	(7)
Forward foreign exchange contracts	–	(604)	–	(604)
Fixed interest bonds	–	190	17	207
Floating rate notes	–	103	–	103
Discount securities	–	7,865	–	7,865
Asset-backed securities	–	1	–	1
Unlisted unit trusts	–	9,557	7,004	16,561
Unlisted property trusts	331	4	–	335
Unlisted partnerships	–	–	821	821
Total	15,389	17,112	8,000	40,501

Investments not included in the above table are cash, deposits and options (\$2,494m). Both these investments and the investments illustrated in the fair value hierarchy table equates to the total investments as at 30 June 2013 (\$42,995m) reduced by derivative liabilities and excluding the investments in service providers.

Notes to the financial statements

for year ended 30 June 2013

Note 5 Investments and derivative liabilities (continued)

30 June 2012	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Listed equity securities	14,050	1	-	14,051
Unlisted equity securities	-	133	-	133
Preference shares non redeemable	-	-	-	-
Preference shares redeemable	15	-	-	15
Listed unit trusts	211	-	-	211
Property trusts	759	-	-	759
Futures	(28)	-	-	(28)
Swaps	-	48	-	48
Forward foreign exchange contracts	-	116	-	116
Floating rate notes	-	10	15	25
Discount securities	-	7,805	-	7,805
Asset-backed securities	-	240	14	254
Unlisted unit trusts	-	9,804	2,088	11,892
Unlisted partnerships	-	-	527	527
Total	15,007	18,157	2,644	35,808

Investments not included in the above table are cash and deposits (\$999,875,000) and outstanding settlements (\$793,920,000). Both these investments and the investments illustrated in the fair value hierarchy table equates to the total investments as at 30 June 2012 (\$32,541,860,000) reduced by derivative liabilities and excluding the investments in service providers.

(b) Level 3 – Financial instruments transactions

The following table shows a reconciliation of the movement in the fair value of financial instruments categorised in level 3 between the beginning and end of the reporting period.

	Listed securities \$m	Unlisted securities \$m	Fixed interest bond \$m	Floating rate notes \$m	Asset backed securities \$m	Unlisted unit trusts \$m	Unlisted partnerships \$m	Listed unit trusts \$m	Total \$m
Opening balance	-	-	-	15	14	2,088	527	-	2,644
Total realised/unrealised (gains) and losses	-	-	2	-	-	1,133	190	-	1,325
Purchases/applications	-	-	-	-	-	618	104	-	722
Sales/redemptions	-	-	-	-	(14)	(68)	-	-	(82)
Reclassification	-	-	15	(15)	-	-	-	-	-
Transfers into level 3	2	1	-	-	-	3,727	-	155	3,885
Transfers out of level 3	-	-	-	-	-	(494)	-	-	(494)
Closing balance	2	1	17	-	-	7,004	821	155	8,000

Notes to the financial statements

for year ended 30 June 2013

Note 5 Investments and derivative liabilities (continued)

Gains or losses recognised in the Statement of Changes in Net Assets for level 3 transactions are presented in the movement in net market value of investments as follows:

	Fixed interest bond \$m	Unlisted unit trusts \$m	Unlisted partner-ships \$m	Total \$m
Total gains/(losses) recognised in the Statement of Changes in Net Assets for the year	–	(17)	–	(17)
Total unrealised gains/(losses) recognised in the Statement of Changes in Net Assets for assets held at the end of the reporting year	2	1,150	190	1,342
Total	2	1,133	190	1,325

(c) Transfers between hierarchy levels

There have been no significant transfers between level 1 and level 2 of the fair value hierarchy during the period.

An internal review of the pricing methodologies applied by investment managers resulted in the transfer of investments of some unlisted unit trusts into level 3 during the year.

Notes to the financial statements

for year ended 30 June 2013

Note 5 Investments and derivative liabilities (continued)

(d) External investment managers

The Board has authorised the use of external specialist investment managers. This approach recognises the diversification advantages of employing a range of investment specialists. Investment managers that have a direct relationship with QSuper and funds under management, as at reporting date, are listed below.

Asset sector	Manager
Cash	QIC Ltd
Global fixed interest	QIC Ltd
Listed equities	
Australia	DFA Australia Ltd State Street Global Advisors, Australia Ltd Vanguard Investments Australia Limited
International	DFA Australia Ltd State Street Global Advisors, Australia Ltd
Unlisted assets	
Real estate	AEW Europe LLP Invesco Advisers Inc Jamestown Premier GP, LP QIC Ltd
Infrastructure	Alinda Capital Partners Global Infrastructure Partners QIC Ltd
Private equity	Partners Group QIC Ltd
Alternatives	AQR Capital Management LLC Bridgewater Associates, LP First State Media Works Global Endowment Management LP Makena Capital Management LLC Northwater Capital Management Inc Principal Global Investors
Other	AMP Capital Investors State Street Bank and Trust Company

In some instances, investment managers may appoint underlying managers. These indirect managers are not represented in the list above.

QSuper Limited also provides investment services to implement the investment policy of the fund, including capital markets, funds management, investment strategy, policy and governance (refer Note 14(d)).

Notes to the financial statements

for year ended 30 June 2013

Note 6 Liability for accrued benefits

The last actuarial review of QSuper was conducted as at 30 June 2010 by the State Actuary, Mr C A Harrison BBusSc FIA FIAA CFA. The value of accrued benefits as at that date was \$48,414,511,000. A summary of the most recent actuarial report prepared for QSuper is attached to, but does not form part of, these financial statements. The summary includes the State Actuary's opinion as to the financial condition of QSuper as at that date. In accordance with AAS 25, the value of accrued benefits has not been shown as a liability on the face of the financial statements as it is only measured on a triennial basis.

The difference existing between net assets available to pay benefits per the statement of net assets and the value of accrued benefits as at measurement date is explained by QSuper's funding arrangements. Further details are provided in Note 12.

The next actuarial review of QSuper will be performed for the period ended 30 June 2013, which will be issued prior to 30 June 2014.

Note 7 Vested benefits

Vested benefits are benefits that are not conditional upon continued membership of QSuper (or any factor other than resignation from the scheme) and include benefits which members were entitled to receive had they terminated their QSuper membership as at the reporting date. This amount has been estimated using actuarial assumptions from the most recent actuarial valuation of QSuper as at 30 June 2010.

	30/06/13 \$m	30/06/12 \$m
Vested benefits	66,152	60,380

The difference between net assets available to pay benefits and the value of vested benefits as at reporting date is explained by QSuper's funding arrangements (refer Note 12). In accordance with AAS 25, vested benefits have not been shown on the face of the financial statements.

The value of vested benefits as at 30 June 2010 is that reported by the actuarial investigation as at that date and differs from that reported in the financial statements in the prior year. The difference has arisen due to changes in the actuarial assumptions underlying the value of the vested benefits in accordance with the most recent actuarial valuation of QSuper. The value of vested benefits reported as at 30 June 2010 was \$51,424,060,000.

Note 8 Reserves

The following table reconciles the changes in reserves between the beginning and the end of the financial year.

	Balance at beginning of financial year \$m	Transfers (to)/from accumulated funds \$m	Balance at end of financial year \$m
General reserve	166	142	308
Unallocated contributions reserve	19	(14)	5
Insurance reserve	193	16	209
Operational risk financial requirement reserve	–	111	111
Reserves¹	378	255	633

¹ Refer to note 3(k) for the accounting policies and purpose of the reserves.

Notes to the financial statements

for year ended 30 June 2013

Note 9 Accumulated member funds

The following table reconciles the changes in accumulated funds during the financial year.

	30/06/13		
	Reserves \$m	Accumulated Member Funds \$m	Total \$m
Liability for accrued benefits at the beginning of the financial year	378	35,678	36,056
Plus: Benefits accrued from ordinary activities after income tax	255	7,456	7,712
Liability for accrued benefits after tax at the end of the financial year	633	43,135	43,768
	30/06/12		
	Reserves \$m	Accumulated Member Funds \$m	Total \$m
Liability for accrued benefits at the beginning of the financial year	612	32,053	32,665
Plus: Benefits accrued from ordinary activities after income tax	(234)	3,625	3,391
Liability for accrued benefits after tax at the end of the financial year	378	35,678	36,056

Notes to the financial statements

for year ended 30 June 2013

Note 10 Change in net market value of investments

	30/06/13 \$m	30/06/12 \$m
(i) Investments unrealised at balance date		
Cash and short term deposits	(5)	(1)
Listed equity securities	2,415	(1,210)
Unlisted equity securities	(1)	17
Preference shares redeemable	9	(4)
Listed unit trusts	24	22
Property trusts	47	26
Futures	–	(28)
Warrants and options	12	–
Swaps	(7)	69
Forward foreign exchange contracts	(604)	116
Fixed interest bonds	1	–
Discount securities	29	34
Asset-backed securities	9	–
Unlisted unit trusts	(283)	1,057
Unlisted partnerships	12	(1)
Total	1,658	97
(ii) Investments realised during the year		
Cash and deposits	(2)	1
Listed equity securities	776	(93)
Unlisted equity securities	2	4
Preference shares redeemable	1	–
Listed unit trusts	(25)	3
Property trusts	1	(2)
Futures	(225)	281
Warrants and options	(8)	–
Swaps	11	11
Forward foreign exchange contracts	68	2
Fixed interest bonds	3	51
Discount securities	221	291
Unlisted unit trusts	(181)	193
Unlisted property trusts	20	–
Unlisted partnerships	–	(3)
Total	662	739
Total changes in net market value	2,320	836

Notes to the financial statements

for year ended 30 June 2013

Note 11 Employer contributions

	Notes	30/06/13 \$m	30/06/12 \$m
<i>Accumulation account</i>			
Employer contributions		2,104	2,121
		2,104	2,121
<i>Defined Benefit account</i>			
Employer contributions – salary sacrifice		200	182
Employer contributions – Queensland Treasury Corporation	(i)	3,233	2,124
		3,433	2,306
Employer contributions		5,537	4,427

(i) Employer contributions are held in a reserve, managed by the Queensland Treasury Corporation on behalf of the Queensland Government.

Employer salary sacrifice contributions in the Defined Benefit account represent standard contributions members have chosen to salary sacrifice. Salary sacrificed contributions are classified as employer contributions. Refer to Note 12 for further details in relation to employer contribution funding arrangements.

Note 12 Funding arrangements

Defined Benefit arrangement

Standard members' contributions are made to QSuper at a rate ranging from 2% to 11.5% (2012: 2% to 11.5%) of members' salaries.

Employing authorities are required to remit defined benefit employer contributions (excluding salary sacrifice contributions) to Queensland Treasury. These contributions are accumulated in a reserve, managed by the Queensland Treasury Corporation on behalf of the Queensland Government (Employer Fund), which is maintained to finance the State's future liability for the employer component of all defined benefits. The Queensland Treasurer, on advice from the State Actuary, determines the rate of employer contributions.

As defined benefits become payable, the full cost is met by QSuper, with the Employer Fund contributing the employers' share of these benefits. This split funding arrangement is the reason for the difference between net assets available to pay benefits, per the Statement of Changes in Net Assets and the value of accrued benefits and vested benefits as at the respective measurement dates.

Funding from the Employer Fund may be in the form of last minute funding received at the time the benefit is paid (as described in the *Superannuation (State Public Sector) Act 1990* and in various sections of the *Superannuation (State Public Sector) Deed 1990*). Alternatively, the *Superannuation (State Public Sector) Act 1990* allows the transfer of amounts from the Employer Fund to QSuper in circumstances and at times other than funding the immediate payment of benefits. Transfers occurred monthly from July 2012 to June 2013 and amounted to \$3,233 million for 2013 (2012: \$2,124 million). These transfers are considered to approximate last minute funding. The level of transfers funded was higher relative to the prior year due to the Queensland Government restructuring of the public sector during 2012/13.

Accumulation arrangement

Where members have chosen an accumulation-style benefit, all member and employer contributions are paid to QSuper. Employer contributions to QSuper for members who do not contribute to an accumulation arrangement are at a rate ranging from 3% to 9% (2012: 3% to 9%) of members' salaries.

Accumulation members, who make their own contributions (rate ranging from 2% to 6%), receive employer contributions at a rate ranging from 9.75% to 18%. Non-core employers may choose to enter into special arrangements that may differ from these standard arrangements. Members may also choose to pay additional voluntary contributions.

Notes to the financial statements

for year ended 30 June 2013

Note 13 Income tax

(a) Income tax expense

Major components of income tax expense are:

	30/06/13 \$m	30/06/12 \$m
<i>Current income tax</i>		
Current income tax expense	771	766
Adjustments in respect of current income tax of previous years (refer Note 13(d))	(205)	509
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences in deferred tax asset	40	(82)
Relating to origination and reversal of temporary differences in deferred tax liability	209	16
Tax losses recognised as a deferred tax asset subsequently derecognised/(recognised) resulting from ATO audit (refer Note 13(d))	(204)	185
Income tax expense reported in Statement of Changes in Net Assets	611	1,394

A reconciliation between prima facie income tax expense and income tax expense as reported in the Statement of Changes in Net Assets before income tax is as follows:

	30/06/13 \$m	30/06/12 \$m
Increase in net assets before income tax	8,323	4,785
Prima facie income tax expense at the tax rate of 15%	1,248	718
Tax effect of non-deductible expenses and non-assessable income in calculating the taxable amount:		
Benefits paid	477	398
Superannuation contributions surcharge	–	–
Increase/(decrease) in income tax expense due to:		
Differences between tax and accounting net investment income	(215)	13
Non-assessable member contributions and transfers in	(245)	(200)
Imputation and foreign tax credits	(189)	(147)
Group life proceeds, notional insurance and anti-detriment	(44)	(41)
Allocated exempt pension income	(36)	(47)
Provision/(benefit) for actual and estimated potential income tax arising from ATO audit (refer Note 13(d))	(382)	700
Other	(8)	–
	606	1,394
(Over)/under provision for taxation – prior year	5	–
Income tax expense reported in Statement of Changes in Net Assets	611	1,394

Notes to the financial statements

for year ended 30 June 2013

Note 13 Income tax (continued)

(b) Deferred income tax

Deferred income tax relates to the following:

	30/06/13 \$m	30/06/12 \$m
<i>Movements in deferred tax asset</i>		
Opening balance	131	234
Change to Statement of changes in net assets	(40)	82
Tax losses recognised as a deferred tax asset subsequently recognised/(derecognised) resulting from ATO audit (refer Note 13(d))	204	(185)
	295	131
<i>Deferred tax asset comprises</i>		
Quarantined capital losses	219	122
Investments	76	–
Other	–	9
Total deferred tax asset	295	131
<i>Movements in deferred tax liability</i>		
Opening balance	31	15
Change to Statement of Changes in Net Assets	209	16
	240	31
<i>Deferred tax liability comprises</i>		
Contributions receivable	11	1
Unrealised gains in investments	229	30
Other	–	–
Total deferred tax liability	240	31
Net deferred tax asset/(liability)	55	100

(c) Current tax liability

	30/06/13 \$m	30/06/12 \$m
Opening balance	591	134
Adjustments in respect of current income tax of previous years (refer Note 13(d))	(204)	509
Tax payments	(1,140)	(818)
Current year income tax	771	766
Closing balance	18	591

Notes to the financial statements

for year ended 30 June 2013

Note 13 Income tax (continued)

(d) Significant item impacting tax expense – Tax audit settlement

During the year QSuper settled a dispute with the Australian Taxation Office (ATO) associated with its former investments in the Queensland Investment Trust No. 1 (QIT1) and the Queensland Investment Trust No. 2 (QIT2) (collectively the QITs). This dispute was disclosed in the prior year accounts. The ATO had challenged the income tax treatment adopted by QSuper in relation to distributions from the QITs for the 2007 to 2010 income years, as well as the application of the capital gains tax provisions to QSuper's interests in the QITs for the 2007 to 2012 years. The dispute related to legacy investment tax issues as QSuper withdrew its investment in QIT1 in 2010 and QIT2 in the 2012 financial year.

The taxation issues involved in the tax dispute were highly technical and complex. QSuper had consistently sought professional tax advice and applied that advice in relation to the tax treatment adopted for the investment in the QITs.

To resolve the tax dispute, the QSuper Board of Trustees agreed that entering into a direct negotiation process with the ATO was in the best interests of members having regard to the complexity of the issues involved, changes in laws and their interpretations, the legacy nature of the QITs and the potential delays and costs associated with a litigation process. As a result of this process, a negotiated settlement was reached between the ATO and QSuper in April 2013 which constitutes a final resolution of all the disputed matters relating to the QITs.

While the precise terms of the Settlement Deed cannot be disclosed due to the confidentiality provisions of the Deed, the total cost to QSuper under the Settlement Deed is significantly less than the expense recorded as a provision in the 2012 financial statements. Therefore, the reduction in tax payable and the increased carry forward capital losses have been recognised as a tax benefit in the current year of \$382m.

The ATO did not apply any tax penalty which reflects the fact that QSuper had taken reasonable care in calculating its income tax liability for the relevant years.

The tax benefit referable to the Defined Benefit scheme will be subject to the existing arrangements with Queensland Treasury. The remaining tax benefit has been credited to the Fund's General Reserve.

The outcome of the tax dispute has no adverse impact on member's individual superannuation account balances or benefits.

Note 14 Related parties

(a) Trustees and key management personnel

The QSuper Board of Trustees at any time during or since the end of the financial year are:

Member representatives	Employer representatives
Mr Stephen Robert Ryan	Mr Robert Ernest Scheuber, AM
Ms Karen Shirley Peut, PSM	Mr Peter Henneken, AM
Mr Kilian Thomas Jeffers	Mr Walter Ivessa
Ms Lorraine Gay Hawksworth, OAM	Ms Debra-Lee Best
Ms Amanda Marion Richards	Mr Bede King ¹
Mr Michael Ian Barnes	Ms Melissa Babbage ¹

QSuper has a 100% ownership interest in QSuper Limited which provides both fund administration and investment services to QSuper. The following persons, employed by QSuper Limited, had authority and responsibility for planning, directing and controlling the activities of QSuper, directly or indirectly, during the financial year:

Executive committee	
Mrs Rosemary Vilgan	Chief Executive Officer
Mr David Bowen	Chief Information & Technology Officer
Mr Michael Cottier	Chief Financial Officer
Mr Stephen Cullen	Chief Officer Advice & QInvest
Mr Matthew Halpin	Chief Officer Member Administration
Mr Brad Holzberger	Chief Investment Officer
Mr Paul Landy	Chief Officer Human Resources & Internal Communications
Mr Michael Pennisi	Chief Strategy Officer

¹ Two employer representative Board of Trustee positions vacant at 30 June 2012 were filled during the financial year.

Notes to the financial statements

for year ended 30 June 2013

Note 14 Related parties (continued)

(b) Key management personnel compensation

Remuneration of executives and employees

Governance of remuneration practices and arrangements occurs through the Human Resources Committee of the Board, which oversees all remuneration policies and their implementation.

QSuper Limited employs staff under both collective agreements and employment contracts. Key executives and other senior management are employed under employment contracts and are paid under salary package arrangements which are necessarily competitive with relevant markets from which employees are sourced.

For the current and prior year, remuneration included a mix of fixed remuneration and variable performance payments. An annual performance payment is available to the majority of employees.

Specific variable performance payments for managers are focused on employees whose roles and contribution are identified as critical to the continued success of QSuper.

Details of compensation

The aggregate compensation made to key management personnel of QSuper, who are remunerated by QSuper Limited, is set out below.

Trustees and other key management personnel	Notes	30/06/13 \$'000	30/06/12 \$'000
Short-term employee benefits	(i)	5,034	3,906
Post-employment benefits	(ii)	288	478
Other long-term employee benefits	(iii)	185	50
Termination benefits		–	357
Total compensation made		5,507	4,791

(i) Short term employee benefits include salaries, annual leave accrued, paid sick leave, at risk performance compensation and any non-monetary benefits provided such as cars or car parking.

(ii) Post-employment benefits are defined as employee benefits which are payable after the completion of employment, and comprise mainly contributions paid or payable to superannuation plans. These include salary sacrifice payments.

(iii) Long term employee benefits include long service leave accrued and long term at risk performance compensation.

The compensation paid to trustees is disclosed below.

Trustee compensation	30/06/13	30/06/12
\$0 to \$19,999	5	4
\$40,000 to \$59,999	6	8
\$80,000 to \$99,999	1	1
Total compensation made	12	13

Notes to the financial statements

for year ended 30 June 2013

Note 14 Related parties (continued)

The number of executives who received or were due to receive compensation, including termination payments is outlined below.

Executive fixed compensation	30/06/13	30/06/12
\$260,000 to \$279,999	1	–
\$280,000 to \$299,999	–	2
\$300,000 to \$319,999	1	–
\$320,000 to \$339,999	1	–
\$360,000 to \$379,999	1	–
\$420,000 to \$439,999	–	3
\$440,000 to \$459,999	1	1
\$480,000 to \$499,999	1	–
\$560,000 to \$579,999	1	1
\$620,000 to \$639,999	–	1
\$640,000 to \$659,999	1	–
Total compensation made	8	8

(c) Employer sponsor

Employer funding arrangements for related employer sponsors are discussed in Note 12.

(d) Related party transactions

Transactions with key management personnel

Key management personnel, who are members of QSuper, contribute to QSuper on the same terms and conditions, and are entitled to the same benefits as other members of QSuper.

There are no other transactions between QSuper and key management personnel other than the compensation transactions disclosed in Note 14(b).

Transactions between QSuper and service providers

QSuper has a 100% ownership interest in QSuper Limited. QSuper Limited provides both fund administration and investment services to QSuper and is paid an administration fee. The administration fee incorporates all administration costs including superannuation administration, cost of running self-insurance, medical costs, strategic and change initiatives, and investment services.

QSuper Limited investment services include capital markets, funds management, investment strategy, policy and governance. The internal capital markets function implements QSuper's investment strategy and manages financial risk through the delivery of portfolio management services.

During the financial year, fees paid/payable to QSuper Limited aggregated \$143m (2012: \$116m).

On 1 July 2012 QSuper disposed 100% of the ordinary shares of QInvest Limited to QSuper Limited for the total consideration of \$3,665,000.

QInvest Limited provides financial planning services and is paid a financial planning fee by QSuper.

During the financial year, fees paid/payable to QInvest Limited aggregated \$18m (2012: \$16m).

Notes to the financial statements

for year ended 30 June 2013

Note 15 Financial instruments and risk management

(a) General

The investments of QSuper are managed on behalf of the Board by appointed managers. Each investment manager is required to invest its assets managed in accordance with the terms of a mandate. The Board or its delegate has determined that the appointment of these managers is appropriate for QSuper and is in accordance with QSuper's Investment Strategy (refer Note 5).

The majority of investments of QSuper are held in custody on behalf of the Board by SSAL who acts as the custodian.

QSuper has investments in a variety of financial instruments, including derivatives, which expose QSuper to market risk, credit risk and liquidity risk. The main purpose of these financial instruments is to obtain exposure to specific asset classes in accordance with investment strategies.

QSuper also has various other financial instruments such as sundry receivables and payables, which arise directly from its operations; these are current in nature. Risks arising from holding financial instruments are inherent in QSuper's activities.

The Board is responsible for identifying and controlling the risks that arise from these financial instruments. The Board reviews and agrees on policies for managing each of these risks and may establish committees as it considers necessary or appropriate to assist it in carrying out its responsibilities.

The Board recognises that sound and prudent risk management is an integral part of its good governance practices. Risk management policies are established to identify and analyse the risks faced by QSuper, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and QSuper's activities.

The Audit and Risk Committee assists the Board in discharging its governance and administrative responsibilities. The Committee's role encompasses reviewing the management of risk, including overseeing the risk register and ensuring appropriate internal controls are in place to address those risks; monitoring the compliance of QSuper and QSuper Limited with legislative requirements; reviewing internal and external audit findings and monitoring the implementation of audit recommendations; and reviewing financial statements.

The Investment Committee provides assistance to the Board in discharging its investment oversight in relation to QSuper. The principal duties and responsibilities of the Committee include recommending to the Board the investment objectives for QSuper and its various member investment choice options; recommending to the Board the investment policy for QSuper; monitoring investment performance, including the performance of investment managers; and discussing investment issues with the Board, QSuper Limited management, and independent advisers, if and when the need arises.

The Board also seeks information and advice from the Investment Committee on the performance of the individual asset classes of QSuper's investments (and may also seek independent advice from other qualified persons) so as to form an opinion on the nature and extent of any risks, and the expected returns, associated with each investment prior to determining its suitability as an investment for QSuper.

Sensitivity analyses have been prepared for different market factors using reasonably possible changes in risk variables. These variables are based on the various indices applicable to the underlying assets of the unit trusts, which have been determined by QSuper's custodian, SSAL. QSuper has reviewed these variables and considers them appropriate for use in the sensitivity analyses, which have been performed on a before tax basis and are individually examined in the risk factors below.

(b) Market risk

Market risk is the risk that the net market value of financial instruments will fluctuate due to changes in market variables such as equity prices, foreign exchange rates and interest rates. Market risk is managed through ensuring that all investment activities are undertaken in accordance with established mandate limits and investment strategies. Controls for managing market risk of derivatives are embedded within QSuper's Capital Markets process as defined within its policies, guidelines and procedures.

Price risk

Price risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual instrument, its issuer or factors affecting all instruments in the market. QSuper is exposed to price risk through listed and unlisted investment, including equity and property investments. As QSuper's financial instruments are valued at net market value, with changes in net market value recognised in the Statement of Changes in Net Assets, all changes in market conditions will directly affect investment revenue.

QSuper's exposure to price risk is determined by the net market value of the financial instruments.

Price risk is mitigated by QSuper's diversified portfolio of investments in accordance with the investment strategy approved by the Board. The Board monitors QSuper's performance on an ongoing basis to ensure that the investment strategy is not breached.

Notes to the financial statements

for year ended 30 June 2013

Note 15 Financial instruments and risk management (continued)

Sensitivity analysis

This analysis is based on historical data over the past five years, expected investment rate movements during the 2013 financial year and is performed in consultation with QSuper's investment team having regard to what is considered reasonably possible at the end of the reporting period.

Listed equity securities	15%
Preference shares	15%
Listed trusts	15%
Unlisted assets	15%
Derivatives	15%

The increase/(decrease) in the market price against the investments of QSuper at 30 June would have increased/(decreased) the amount in net assets available to pay benefits by the amounts shown below. This analysis assumes that all other variables in particular, interest rates and foreign exchange rates remain constant. The analysis is performed on the same basis for 2012 whereby the assets which are applied are the non interest bearing instruments and are not guaranteed.

Sensitivity of price risk and changes on net assets

	%	Carrying Amount \$m	(Decrease) \$m	Increase \$m
30 June 2013				
Listed equity securities	15	14,884	(2,233)	2,233
Preference shares	15	30	(5)	5
Listed trusts	15	255	(38)	38
Unlisted assets	15	17,767	(2,665)	2,665
Derivatives – net ¹	15	(512)	77	(77)
Total		32,424	(4,864)	4,864
30 June 2012				
Listed equity securities	15	14,051	(2,108)	2,108
Preference shares	15	15	(2)	2
Listed trusts	15	969	(145)	145
Unlisted assets	15	12,552	(1,883)	1,883
Derivatives – net ¹	15	88	172	(172)
Total		27,675	(3,966)	3,966

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

QSuper holds assets denominated in currencies other than the Australian dollar, the Fund's functional currency. QSuper is therefore exposed to foreign exchange risk, as the value of the securities and future cash flows of the securities denominated in other currencies will fluctuate due to changes in exchange rates. The risk is measured using sensitivity analysis.

As part of QSuper's risk management strategy, QSuper uses derivative contracts such as forward foreign exchange contracts to convert some or all of QSuper's currency exposures back into Australian dollars in line with QSuper's Investment Policy Statement (IPS), to reduce foreign exchange risk. In certain instances, foreign currency exposures are obtained for member options which are based on established investment objectives.

¹ The amount represented for Derivatives - net includes non-interest bearing futures, forward foreign exchange contracts and warrants.

Notes to the financial statements

for year ended 30 June 2013

Note 15 Financial instruments and risk management (continued)

QSuper's overall exposure to foreign exchange risk is however, less significant, after taking into account forward currency contracts. The currency hedges in place to mitigate foreign exchange risk are independently monitored daily to ensure they are in line with QSuper's IPS.

The foreign exchange risk disclosures have been prepared on the basis of QSuper's direct investment and not on a look through basis for the investments held indirectly through unit trusts.

Consequently the disclosure of foreign exchange risk in the note may not represent the total foreign exchange risk profile of QSuper where QSuper has significant investments in feeder trusts which also have exposure to the foreign markets.

Foreign currency exposure

Currency (AUD equivalent)	30/06/13 \$m	30/06/12 \$m
United States of America (USD)	458	687
European Union (EUR)	82	(12)
Japan (YEN)	403	295
Great Britain (GBP)	(21)	(142)
Canada (CAD)	196	181
Switzerland (CHF)	185	192
Hong Kong (HKD)	104	99
Sweden (SEK)	66	70
Singapore (SGD)	33	41
Other currencies	98	68
Net foreign currency exposure	1,604	1,479

Foreign exchange sensitivity analysis

In accordance with QSuper's policies, the Investment team monitors QSuper's currency position on a daily basis. This information and the compliance with QSuper's policies are reported to the relevant parties on a regular basis such as to key management personnel, the Investment Committee and the Board.

The Board, having set QSuper's policy for foreign exchange exposures, delegates to the Investment team the day-to-day oversight within these ranges. The Investment Committee is responsible for bringing any breaches to the Board's attention. While QSuper has direct exposure to foreign exchange rate changes on the price of non-Australian dollar denominated securities, it may also be indirectly affected for example, by the impact of foreign exchange rate changes on the earnings of certain entities in which QSuper invests, even if those entities' securities are denominated in Australian dollars. For that reason, the sensitivity analysis may not necessarily indicate the total effect on QSuper's net assets attributable to unit holders of future movements in foreign exchange rates.

The tables on the following page summarises QSuper's assets and liabilities which are denominated in non-Australian currencies.

Notes to the financial statements

for year ended 30 June 2013

Note 15 Financial instruments and risk management (continued)

Sensitivity of foreign exchange and changes on net assets

Sensitivity of foreign exchange and changes on net assets

Effect of <u>increase</u> in AUD relative to foreign currency exchange rates	%	30/06/13 \$m	%	30/06/12 \$m
United States of America (USD)	10	(42)	10	(62)
European Union (EUR)	10	(7)	10	1
Japan (YEN)	5	(19)	5	(14)
Great Britain (GBP)	5	1	5	7
Canada (CAD)	5	(9)	5	(9)
Switzerland (CHF)	5	(9)	5	(9)
Hong Kong (HKD)	10	(9)	10	(9)
Sweden (SEK)	10	(6)	10	(6)
Singapore (SGD)	10	(3)	10	(4)
Other currencies	5	(5)	5	(3)
Total		(108)		(108)

Sensitivity of foreign exchange and changes on net assets

Effect of <u>decrease</u> in AUD relative to foreign currency exchange rates	%	30/06/13 \$m	%	30/06/12 \$m
United States of America (USD)	10	51	10	76
European Union (EUR)	10	9	10	(1)
Japan (YEN)	5	21	5	16
Great Britain (GBP)	5	(1)	5	(7)
Canada (CAD)	5	10	5	10
Switzerland (CHF)	5	10	5	10
Hong Kong (HKD)	10	12	10	11
Sweden (SEK)	10	7	10	8
Singapore (SGD)	10	4	10	5
Other currencies	5	5	5	4
Total		128		132

The percentages used in these sensitivity analyses reflect the Custodian's estimates of the maximum likely movements in exchange rates due to foreign exchange risk. These have been reviewed and are considered appropriate for use by QSuper.

Notes to the financial statements

for year ended 30 June 2013

Note 15 Financial instruments and risk management (continued)

Interest rate risk

Interest rate risk refers to the effect on the market value of QSuper's assets and liabilities due to fluctuations in interest rates. The value of QSuper's assets is affected by short term changes in nominal and real interest rates.

QSuper has set investment allocation ranges to meet its objectives of holding a balanced portfolio, including limits on investments in interest bearing assets, which are monitored regularly. QSuper may use derivatives to hedge against unexpected increases in interest rates.

QSuper's exposures to interest rate movements on its financial instruments, by maturity, at balance date are as follows.

30 June 2013	Floating interest rate \$m	1 year or less \$m	1 to 5 years \$m	More than 5 years \$m	Non-interest bearing \$m	Total \$m
Financial assets	8,666	716	1,221	17	33,042	43,662
Financial liabilities	–	(2)	(23)	–	(642)	(667)
Total	8,666	714	1,198	17	32,400	42,995

30 June 2012	Floating interest rate \$m	1 year or less \$m	1 to 5 years \$m	More than 5 years \$m	Non-interest bearing \$m	Total \$m
Financial assets	803	7,920	–	–	27,863	36,586
Financial liabilities	(10)	–	–	–	(56)	(66)
Total	793	7,920	–	–	27,807	36,520

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates at the reporting dates. The analysis assumes that all other variables are held constant. The table only analyses interest bearing securities.

	Change in variable¹		Sensitivity of interest income and changes on net assets	
	30/06/13	30/06/12	30/06/13 \$m	30/06/12 \$m
Interest rate	+ 50 bps	+ 50 bps	61	(39)
Interest rate	- 50 bps	- 50 bps	(61)	39

Notes to the financial statements

for year ended 30 June 2013

Note 15 Financial instruments and risk management (continued)

(c) Credit risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause QSuper to incur a financial loss.

QSuper is exposed to credit risk primarily through its investments in debt securities, trading derivative products, deposits held with banks and receivables. With respect to credit risk arising from the financial assets of QSuper, other than derivatives, QSuper's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the net market value of investments as disclosed in the Statement of Net Assets. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

Credit risk arising from derivative instruments is, at any time, limited to those with positive fair values.

Credit risk arising from investments is moderated through prudential controls imposed on all investment managers under the terms of their mandates. QSuper uses a number of risk mitigation tools including Credit Support Annexure (CSA), imposing counterparty credit limits and International Swaps and Derivatives Association (ISDA) agreements to mitigate counterparty risk for over-the-counter derivative instruments. These are reviewed by the Board on a regular basis as deemed appropriate. In addition to this, an initial and ongoing due diligence of each counterparty's organisational integrity, systems capability, operational performance and competence is undertaken.

There are no significant financial assets that are past due or impaired, and none have been renegotiated.

Credit quality per class of debt instruments

The tables below analyse the credit quality of debt instruments by using Standard & Poor's rating categories, in accordance with the investment mandate of QSuper, and is monitored on a regular basis in accordance with the credit risk profile. This review allows the Trustee to assess the potential loss as a result of risks and take corrective action.

The tables below also show the credit quality by class of assets as at 30 June 2013 and differentiates between long-term and short-term credit ratings.

Long-term credit ratings

	AAA to AA- \$m	BBB+ to B- \$m	CCC+ to C- \$m	Total \$m
Fixed interest securities	190	–	–	190
Asset backed securities	–	1	–	1
Total	190	1	–	191

Short-term credit rating

	A1+ to A1 \$m	Total \$m
Discount securities	7,865	7,865
Total	7,865	7,865

Investments not included in the above table are net assets which do not have a credit rating assigned under Standard & Poor's rating categories. Investments that are non-rated amount to \$34,939,000,000. Examples of non-rated assets include listed equities and unlisted unit trusts. The total value of investments held by QSuper is the sum of the non-rated assets and the investments detailed in the credit rating tables.

(d) Concentrations of risk

Concentrations of risk arise when a number of financial instruments are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities. These similarities could cause the counterparties' capabilities to meet the contractual obligations to be similarly affected by certain changes in the risk variables.

Notes to the financial statements

for year ended 30 June 2013

Note 15 Financial instruments and risk management (continued)

(d) Concentrations of risk (continued)

The concentrations of risk are managed by the Investment team within prescribed limits and monitored by the Investment Committee to ensure they are within acceptable limits by reducing the exposures or by other means as deemed appropriate.

Counterparty limits are imposed to manage and control associated exposures to individual counterparties. Concentrations of risk at asset class level are managed by a number of different controls, which include exposure limits placed at security type, issuer, industry and geographical levels. Additional controls are in place for derivatives, and QSuper's exposure is monitored daily with the unrealised profit and losses aggregated by counterparty.

(e) Liquidity risk

Liquidity risk is the risk that QSuper will encounter difficulty in meeting obligations associated with its financial liabilities. This risk is considered in the development of investment strategies and is controlled through QSuper's investment in financial instruments, which under normal market conditions are readily convertible into cash. In addition, QSuper maintains sufficient cash and cash equivalents to meet normal operating requirements. Derivatives are only used if there is sufficient cash and short term deposits in QSuper to back the derivative exposure at all times by ensuring asset allocations are within the Product Disclosure Statement (PDS) and operational ranges.

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements for QSuper. Vested benefits have not been included, due to the unlikely event that members would call upon the amount. Further information on the current exposure in vested benefits is explained in Note 7 and the appendix to the financial statements. The contractual maturity of QSuper's derivatives are based on undiscounted cashflows.

	Less than 1 month \$m	1-3 months \$m	3-12 months \$m	12-60 months \$m	60+ months \$m	Net market value \$m
30 June 2013						
<i>Financial liabilities</i>						
Benefits payable	17	–	–	–	–	17
Trade and other payables	46	–	–	–	–	46
Total undiscounted financial liabilities (excluding derivatives)	63	–	–	–	–	63
<i>Derivatives</i>						
Fixed interest futures						
- Gross cash inflow	2	11	–	–	–	13
- Gross cash outflow	–	(12)	–	–	–	(12)
Forward foreign exchange contracts						
- Gross cash inflow	2	22	1	–	–	25
- Gross cash outflow	(143)	(334)	(152)	–	–	(629)
<i>Other</i>						
- Gross cash inflow	–	14	205	–	1,432	1,641
- Gross cash outflow	–	–	(153)	–	(1,430)	(1,583)
Total undiscounted derivatives inflow/(outflow)	(139)	(299)	(99)	–	(8)	(545)

Notes to the financial statements

for year ended 30 June 2013

Note 15 Financial instruments and risk management (continued)

(f) Fair value

QSuper's financial instruments are measured at net market value, which approximates net fair value. The methods of determining net market value are described in Note 3(e).

Note 16 Capital Guarantee

The QSuper Defined Benefit account has been underwritten to provide the members of the closed Voluntary Preservation Plan (VPP), a capital guarantee that the earning rate for a full financial year will not be negative. In return for this capital guarantee, VPP members are levied a premium on 30 June each year.

The accumulated premiums levied to 30 June 2013 (net of reimbursements) are \$8m (2012: \$8m).

Note 17 Insurance

Eligible employees of some employers are covered by external insurance arrangements, while the majority of QSuper members have their insurance provided by QSuper on a self-insurance basis (refer Note 8 and Note 3(k)).

Note 18 Commitments and contingent liabilities

QSuper has no other known commitments or contingent liabilities as at 30 June 2013.

Note 19 Post balance date events

From 1 July 2013 QSuper will be able to offer an approved MySuper product in order to comply with the Government's Stronger Super and MySuper legislative and regulatory requirements. QSuper received approval by APRA for its MySuper product on 12 July 2013. It is intended to make the MySuper product the default option on 16 December 2013. Members will be transitioned from our existing default product to the MySuper compliant product automatically unless they elect to opt-out.

No other matters or circumstances have arisen since 30 June 2013 that has significantly affected or may significantly affect the operations in future financial years or the state of affairs of QSuper in subsequent financial years.

Note 20 Auditors' remuneration

	30/06/13 \$'000	30/06/12 \$'000
Audit and review services		
Auditors of QSuper		
<i>Auditor-General of Queensland</i>		
Audit and review of financial statements	360	290
Audit and review services	360	290

Notes to the financial statements

for year ended 30 June 2013

Note 21 Investments in associated entities

QSuper Limited and QSuper Investment Company Pty Ltd are wholly owned by the Board of Trustees of the State Public Sector Superannuation Scheme as trustee for the State Public Sector Superannuation Scheme (QSuper). QSuper Limited's principal activities consist of providing key administration and investment services to QSuper, as well as ancillary services to Queensland Treasury. The carrying amount of the investment approximates fair value.

QSuper Investment Holdings Pty Ltd, a subsidiary of QSuper Limited, is also the trustee for the following investment trusts where QSuper is the ultimate beneficiary.

QS International Strategy Trust

QSuper Global Real Estate Trust

QSuper Global Infrastructure Trust

QS High Duration Bonds Trust

QSuper Investments Trust

QSuper NZ Infrastructure Equity Trust

QSuper Australian Infrastructure Equity Trust

QSuper US RE Trust No. 1

QSuper US Infrastructure Trust

QSuper European Infrastructure Trust

QSuper US Infrastructure Trust No.2 (Open)

QS US Strategy Trust

As at 30 June 2013, the total assets exceeded the total liabilities of these trusts.

Statement of the Board of Trustees of the State Public Sector Superannuation Scheme

for year ended 30 June 2013

In the opinion of the Board of Trustees of the State Public Sector Superannuation Scheme (QSuper):

1. The accompanying financial statements of QSuper are properly drawn up so as to present a true and fair view of the net assets of QSuper as at 30 June 2013 and the changes in net assets for the year ended on that date.
2. The accompanying financial statements have been prepared in accordance with the provisions of the *Superannuation (State Public Sector) Act 1990*, *Supervision Industry (Supervision) Act 1993* and Regulations, Requirements under Section 13 of the *Financial Sector (Collection of Data) Act 2001*, and with Australian Accounting Standards and other mandatory professional reporting requirements in Australia.
3. The accompanying financial statements are in agreement with the accounts and records of QSuper and the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects.
4. QSuper has been conducted in accordance with the *Superannuation (State Public Sector) Deed 1990* and the requirements of the *Superannuation (State Public Sector) Act 1990*.



R E Scheuber
Chairman

29 August 2013
Brisbane



R A Vilgan
Chief Executive Officer

Independent auditor's report to the Board of Trustees of the State Public Sector Superannuation Scheme

To the Board of Trustees of the State Public Sector Superannuation Scheme (QSuper) (ABN 60 905 115 063).

Report by the independent Approved Auditor to the trustees and members.

Financial statements

I have audited the financial statements of the State Public Sector Superannuation Scheme for the year ended 30 June 2013 comprising the Statement of Changes in Net Assets, the Statement of Net Assets, Summary of Significant Accounting Policies, and other explanatory notes.

Trustees' responsibility for the financial statements

The superannuation entity's trustees are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the requirements of the SIS Act and the Superannuation Industry (Supervision) Regulations 1994 (SIS Regulations). The trustees are also responsible for such internal control as the trustees determine is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted an independent audit of the financial statements in order to express an opinion on them to the trustees and members of the Local Government Superannuation Scheme.

My audit has been conducted in accordance with Australian Auditing Standards. These Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the trustee's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the trustee's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustees, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

The *Auditor-General Act 2009* promotes the independence of the Auditor-General and all authorised auditors. The Auditor-General is the auditor of all Queensland public sector entities and can only be removed by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant

Auditor's Opinion

In my opinion, the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards the net assets of the State Public Sector Superannuation Scheme as at 30 June 2013 and the changes in net assets for the year ended 30 June 2013.



K JOHNSON FCA

Assistant Auditor General of Queensland
(as delegate of the Auditor General of Queensland)

29/8/13

Queensland Audit Office
Brisbane

Other Matters/Additional Material – Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial report of the Board of Trustees of the State Public Sector Superannuation Scheme for the year ended 30 June 2013. Where the financial report is included on QSuper's website the Board of Trustees is responsible for the integrity of the QSuper website and I have not been engaged to report on the integrity of QSuper's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or otherwise included with the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report. These matters also relate to the presentation of the audited financial report in other electronic media including CD Rom.

Appendix: Summary report on the actuarial investigation of the State Public Sector Superannuation Scheme as at 30 June 2010

The latest actuarial investigation of the State Public Sector Superannuation Scheme (QSuper) was conducted as at 30 June 2010 by the State Actuary, Mr C A Harrison. Whilst the full details can be found in the corresponding report dated 28 June 2011 (the Report), a summary of the main findings of the investigation is given below.

Financial condition

The investigation revealed that accrued liabilities exceeded the QSuper fund assets by \$20.3 billion as at 30 June 2010. This deficit represents the amount (based on the valuation assumptions) at the investigation date of the statutory guarantee provided by the Queensland Government (the State) in respect of its accrued defined benefit obligations.

An amendment to the *Superannuation (State Public Sector Act) 1990* in December 2008 made the State guarantee explicit and forms the basis for QSuper being exempt from the funding and solvency requirement of the *Superannuation Industry (Supervision) Act 1993*.

QSuper's liabilities are effectively limited to the assets in the QSuper fund with the State meeting the balance of defined benefit obligations through last minute contributions. However, the State makes advance provision for its liabilities by accumulating investment assets in a reserve (the Employer Fund).

Consistent with past practice, the investigation took into account both the assets in the QSuper fund and the Employer Fund in order to provide a more comprehensive understanding of the overall funding of the scheme.

After inclusion of the Employer Fund, the accrued liabilities exceeded assets by \$1.4 billion as at 30 June 2010. This deficit compares with the \$5.1 billion surplus disclosed at the 2007 valuation and is primarily a result of adverse investment experience since the last review, a period that included the Global Financial Crisis.

On 31 May 2011 the State made an in specie contribution of the assets of the Queensland Motorways Limited (QML) with a value of \$3.088 billion to the Employer Fund. Including the discounted value at the valuation interest rate of this contribution (\$2.890 billion) in the Employer Fund assets as at 30 June 2010 provides a more realistic assessment of the current financial position of QSuper. After allowance for the QML transfer, the review disclosed a surplus of assets over accrued liabilities of \$1.4 billion as at the investigation date if the valuation assumptions are realised.

The Actuary considered the funding implications of maintaining the current employer contribution rates (i.e. those listed in Table 1 below). The investigation revealed that employer contributions at these rates would fully fund all the scheme's defined benefit liabilities and therefore the Actuary has supported their retention.

Table 1 – Recommended employer contribution rates by category

Category	Employer contribution rate
DB standard	7.75% of salary + 1.00 x member contributions
DB police	6.00% of salary + 2.00 x member contributions
State category	4.75% of salary + 1.00 x member contributions
Police category	3.00% of salary + 2.00 x member contributions
Parliamentary category	5.00 x member contributions

The Actuary has certified that the liabilities of the scheme are expected to be adequately provided for by the assets in the QSuper fund, together with investment earnings, member contributions and last minute State contributions through transfers from the Employer Fund to the QSuper fund as recommended in Section 6.5 of the Report. In view of the funding arrangements of the scheme, the statements required under Superannuation Industry (Supervision) Regulation 9.31 are not applicable.

Value of assets

The net market value of the QSuper fund assets as at 30 June 2010 was \$28,092 million and the market value of the assets held in the Employer Fund was \$18,873 million.

The indices discussed below have been calculated using a hypothetical asset value as at 30 June 2010 of \$49,854 million that included the combined assets in the QSuper fund, the Employer Fund and the present value of the QML transfer (\$2,890 million).

Appendix: Summary report on the actuarial investigation of the State Public Sector Superannuation Scheme as at 30 June 2010

Vested benefits

Vested benefits are the benefits that would be payable were all members to voluntarily leave employment at the date of calculation. These have therefore been defined as early retirement benefits for those members who are eligible and resignation benefits otherwise. The relationship between vested benefits and assets at any particular date provides an indication of a scheme's ability to provide benefits on a short-term basis. The fund's coverage of vested benefits is therefore an indicator of a scheme's short term financial condition. This relationship is usually expressed as an index defined as the ratio of assets to vested benefits (VBI).

As at 30 June 2010, the value of the vested benefits after allowing for the estimated level of contributions tax was \$51,424 million, implying a scheme VBI of 96.9%. In respect of active defined benefit members only, the VBI was 98.2%.

The benefit design of the defined benefit category results in the scheme's vested benefits exceeding the value of the accrued benefits. In the absence of an accrued surplus, therefore, vested benefits would be expected to exceed assets.

Accrued benefits

Accrued benefits are the benefits that a scheme is committed to provide in the future in respect of scheme membership completed prior to the reporting date. The relationship between a scheme's assets and the value of accrued benefits at a particular date may be used as a guide to the ability to provide benefits on an ongoing basis.

The actuarial value of accrued benefits as at 30 June 2010 was \$48,415 million, including an allowance for the estimated level of accrued contributions tax.

The ratio of the value of the relevant scheme assets to the actuarial value of accrued benefits in respect of active members only was 111.4%. This indicates that the assets were more than sufficient to provide for the present value of accrued benefits.

Key assumptions

Discount rate

The assumed long term earning rate on assets after tax and investment expenses is 7.5% p.a.

Salary growth

Long term salary growth due to inflation is assumed to be at the rate of 4.5% p.a.

Parliamentary backbencher salaries and Average Weekly Ordinary Time Earnings are assumed to increase in line with the 4.5% p.a. rate of salary growth.

Salary growth due to promotion is assumed to be in accordance with an age based salary scale.

Inflation

This assumption is relevant for the purposes of valuing pensions that are increased in line with increases in the Consumer Price Index. Pensions in payment have been assumed to increase at the rate of 2.75% p.a.

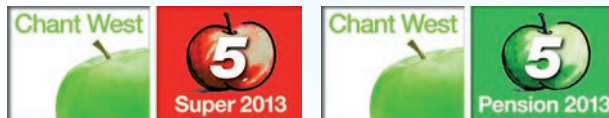
Other assumptions

The other assumptions included in the actuarial basis can be obtained from Appendix C of the Report.

You're with a top-rated fund



Chant West Pension Fund of the Year 2013
QSuper was named Pension Fund of the Year at the 2013 Chant West Super Fund Awards.



Important information

This document is issued by the Board of Trustees of the State Public Sector Superannuation Scheme (ABN 32 125 059 006) (QSuper Board). The QSuper Board is the issuer of interests in the State Public Sector Superannuation Scheme (ABN 60 905 115 063) (QSuper Fund).

The QSuper Board is not licensed to provide financial product advice. This information has been prepared for general purposes only without taking into account your objectives, financial situation, or needs, and should not be relied on as legal or taxation advice, nor does it take the place of such advice. As a result, you should consider the appropriateness of the information for your circumstances and read the product disclosure statement (PDS) before deciding whether to acquire, or continue to hold, a product. You can obtain a PDS at qsuper.qld.gov.au or by calling us on 1300 360 750.

Where the term 'QSuper' is used in this document, it represents the QSuper Board and the QSuper Fund, unless expressly indicated otherwise.

The QSuper Board is required to provide you with the information that reasonably allows you to understand your benefit entitlements. This is the *QSuper Annual Report 2013*, which provides general information about the performance, management and financial condition of the Fund, and should be read in conjunction with your benefit statement as at 30 June 2013.

Chant West has given its consent for the inclusion of references to Chant West in the QSuper Annual Report 2013, and the inclusion of the ratings and awards provided by Chant West in the form and context in which they are included. For further information about the methodology used by Chant West, see chantwest.com.au. SuperRatings does not issue, sell, guarantee or underwrite this product. Go to superratings.com.au for details of its rating criteria. 6187 10/13

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