2010 Annual report to members

Annual report to members 2010

Chairman's report

The 2009/2010 financial year has been a year of growth and development for QSuper, and the superannuation industry more broadly.

In my first year as Chairman of the QSuper Board I have seen an overall upturn in investment markets. And although there are still many challenges on the horizon, the recovery seen so far has had an immense impact on the superannuation industry, with funds showing greatly improved returns.

I am proud to say that QSuper has been well positioned to leverage off the market recovery, with our Balanced option delivering double-digit returns,[1] and outperforming the industry average.[2]

Changes within the superannuation industry

Apart from market recovery, the past twelve months has also been an exciting time for the superannuation industry, with a number of reviews into Australia's taxation and superannuation system completed.

One of these has been Mr Jeremy Cooper's seminal review into Australia's superannuation system, known as the Super System Review. Just completed, this review is seeking to modernise Australia's superannuation system by focussing on a range of key reforms within the superannuation industry, and examined issues of governance, operation and efficiency, and the structure of the superannuation system as a whole.

One area of specific focus for the Super System Review was the role of trustees in a super fund. The Review reinforced the high level of standards that must be displayed by trustees, and the QSuper Board of Trustees is fully supportive of this sentiment. We fully comprehend our duties to QSuper members, and we actively exercise our responsibilities every day.

In many ways, the focus of the Super System Review is aligned with QSuper's Strategic Plan. Developed with the vision of offering a more personalised service to QSuper members, QSuper's Strategic Plan is aimed at gaining efficiencies for QSuper members and improving internal systems and processes.

The Commonwealth Government's response to Dr Ken Henry's review into Australia's taxation system and superannuation arrangements, titled *Australia's Future Tax System Report*, may also significantly impact the superannuation industry.

The Commonwealth Government has proposed to increase the superannuation guarantee (SG) to 12% for all Australians, increase the age someone can receive SG contributions from an employer to 75, provide an additional superannuation contribution to low-income earners, and maintain the concessional contributions cap for some workers aged over 50.

You'll find more information on these proposals in this publication.

1 Past performance is not a reliable indicator of future performance.

2 SuperRatings Fund Crediting Rate Survey (June 2010).

QSuper's Strategic Plan

In addition to changes within the superannuation industry, QSuper is also evolving. We are now one year into QSuper's 2009–2012 Strategic Plan, and as such, some key developments have taken place. Most notably, we have been hard at work over the past twelve months increasing QSuper Limited's in-house investment capability, which allows us to take a larger role in managing how our members' superannuation is invested. We transitioned many investment services from QIC to QSuper Limited, and this provides us greater control over arrangements and improved alignment with QSuper's objectives. National Australia Bank now has custody of QSuper's assets, with QIC remaining a major investment manager for QSuper.

We are now moving on to the next phase in our Strategic Plan, which focuses on improving our education and advice model. I am excited about this phase of the Strategic Plan as it ties in with QSuper's vision to improve the retirement outcomes for all QSuper members, and is an extension of our member-centric culture of helping members grow their super.

On behalf of the QSuper Board, I would like to express my appreciation to QSuper's Chief Executive Officer, Ms Rosemary Vilgan, QSuper Limited's Executive Management team, and QSuper Limited staff for all of their hard work during this period of growth and development. I would also like to thank the Auditor-General of Queensland, Q Invest, QIC, and our other external investment managers for their ongoing assistance.

I would like to thank my fellow Trustees for their commitment to QSuper and the tremendous effort they have undertaken this year in shaping QSuper's future.

I look forward to the coming twelve months as I believe the opportunities presented by the ongoing growth and developments within QSuper and Australia's superannuation system will be of benefit to all QSuper members.

Bob Scheuber
Chairman of the Board

Message from the CEO

It's been a tumultuous couple of years for the superannuation industry, and although market conditions are still challenging, it's good to see super returns re-entering positive territory.[1] In even better news for QSuper members, I'm pleased to report that the QSuper Fund continues to go from strength to strength.

Improving retirement outcomes for members

For me, this sentiment encapsulates what QSuper is all about. I know it's what drives me personally every work day, as it is of great concern to me that many Australians are set to retire with insufficient financial resources. However I find it immensely rewarding to be leading a fund and company that is in a position to help members significantly improve their retirement lifestyles.

It is not a responsibility I or the QSuper Board take lightly. We are confident we offer our members quality products, and this year saw our Accumulation account placed in the top ten super funds in Australia by independent ratings company SuperRatings. However we cannot rest on our laurels, and QSuper's vision of improving retirement outcomes for members is one that continues to shape everything we do.

A period of change

We're constantly looking at ways to improve the products and services we offer, and this ethos underpins the new Strategic Plan developed by the QSuper Board to guide the development of the Fund for the period 2009–2012. A key element of our Strategic Plan is developing a more 'hands-on' approach to the management of our members' funds by implementing a number of initiatives, including the creation of a QSuper Limited investment team.

Another major goal is improved business capability, as the Trustees understand that this will ensure the continued efficiency of our operations, which will in turn enhance the services we offer you. This has been a foundation year, with much work completed that will form the basis of many business improvements in the next few years.

More enhancements to information and advice

A key part of helping members reach their retirement goals is to make sure they have all the information and support they need to make decisions that are right for them. Our Contact Centre is the first point of contact for many members, and I'm delighted to report it was this year recognised as the best in Queensland for its size.[2]

We're always looking at ways to further improve what we do, and as a result we're reviewing how we can make education and financial advice even more accessible and valuable for members.

I look to the future with great excitement and confidence in our vision. QSuper is in the middle of an exciting journey, and I sincerely hope that you continue to travel into the future with us.

Rosemary Vilgan
Chief Executive Officer of the QSuper Board

1 Past performance is not a reliable indicator of future performance.

2 Annual Call Centre awards, Australian Teleservices Association, Queensland chapter.

Contents

You should read this annual report in conjunction with your benefit statement, as together these documents comprise your Periodic Statements for the year ended 30 June 2010.

Board of Trustees

Established under the *Superannuation (State Public Sector) Act 1990*, the QSuper Board (ABN 32 125 059 006) is responsible for the management of the QSuper Fund (ABN 60 905 115 063).

The QSuper Board consists of twelve Trustees, and has equal representation from both employer and member entity (employee) organisations. The day-to-day running of QSuper is delegated by the QSuper Board to the Chief Executive Officer and Executive Management team of QSuper Limited (ABN 50 125 248 286, AFSL 334546). However, the QSuper Board retains responsibility for the operation of QSuper.

The QSuper Board has a number of sub-committees established to assist it in carrying out its responsibilities. These are:

- the Audit and Risk Committee
- the Product Committee
- the Investment Committee.

These committees are comprised of Board members, with the Investment Committee also including three independent specialist members: Mr Michael Rice (Chairman), Mr Ian Macoun and Ms Lorraine Berends.

The *Superannuation (State Public Sector) Act 1990* provides for the indemnification of the QSuper Board. In this regard, the QSuper Board has taken out indemnity insurance under a Trustee Liability Policy.

Employer Trustees

Six employer Trustees are nominated by the Queensland Treasurer. Details of the current employer Trustees are listed below.

Bob Scheuber, AM (Chairman)
Former Chief Executive
Queensland Rail
Appointed: December 2007

John Carpendale
Former superannuation fund executive
Appointed: June 2006

Natalie MacDonald
Associate Director-General
Queensland Department of Public Works
Appointed: December 2007

Peter Henneken, AM
Former Director-General
Department of Employment and Industrial Relations
Appointed: December 2007

Walter Ivessa
Assistant Under Treasurer
Queensland Treasury
Appointed: June 2009

Norelle Deeth
Former Director-General
Department of Child Safety
Appointed: June 2009

		Meeting attendance
10	10	Bob Scheuber
10	10	John Carpendale
9	10	Natalie MacDonald
10	10	Peter Henneken
8	10	Walter Ivessa
9	10	Norelle Deeth

○ Number of Board meetings attended

Member entity Trustees

Six member entity Trustees are nominated as follows: one representative by the Australian Workers' Union Queensland and five other representatives by the Queensland Council of Unions. Details of the current member entity Trustees are listed below.

Steve Ryan (Deputy Chairman)
President
Queensland Teachers' Union
Appointed: June 1994

Karen Peut, PSM
Executive Director
Department of Transport and Main Roads
Appointed: May 1985

Tom Jeffers
Vice-President
Australian Workers' Union
Appointed: August 2007

Gay Hawksworth, OAM
State Secretary
Queensland Nurses' Union
Appointed: December 2007

Amanda Richards
Assistant General Secretary
Queensland Council of Unions
Appointed: September 2008

Michael Barnes
General Secretary
Queensland Police Union of Employees
Appointed: June 2009

		Meeting attendance
10	10	Steve Ryan
10	10	Karen Peut
8	10	Tom Jeffers
8	10	Gay Hawksworth
9	10	Amanda Richards
7	10	Michael Barnes

● Number of Board meetings the Trustee was eligible to attend

Executive Management team as at 30 June 2010

Overseeing QSuper Limited is the Executive Management team. The members of the team are:

Rosemary Vilgan
Chief Executive Officer

Brad Holzberger	Helen Davis	Bronwyn Friend	Michael Cottier	Baden Sharples
Chief Investment Officer	Chief Strategy Officer	Acting Chief Operating Officer	Chief Financial Officer	Executive Manager Business Change

The Commonwealth Government Budget and your super

The Commonwealth Government's 2010/2011 Budget, which included a response to the Henry Tax Review, had some interesting outcomes for the superannuation industry.

Increasing the Superannuation Guarantee (SG)

The Commonwealth Government has proposed to gradually increase the SG rate from 9% to 12% over a seven-year period, starting in the 2013/2014 financial year. While most Queensland Government employees already enjoy employer contributions of up to 12.75%, this is good news for those QSuper members who currently only receive the 9% SG.

Government contribution for low-income earners

From 1 July 2012 the Commonwealth Government is proposing to provide a contribution of up to $500 annually into the super account of workers on adjusted taxable incomes of up to $37,000. This measure is aimed at helping those on lower incomes accumulate adequate retirement savings.

Concessional contribution caps extension for those nearing retirement

It's proposed that workers aged 50 and over with super account balances of less than $500,000 will continue to be able to make up to $50,000 (indexed) in annual concessional contributions to their super without exceeding the contributions cap. The concessional contributions cap was going to be reduced to $25,000 on 1 July 2012 for members age 50 and over, but it is proposed that the cap will be extended indefinitely to allow eligible workers to give their super balances a tax-effective boost in the lead-up to retirement.

Raising the SG age limit from 70 to 75

From 1 July 2013, the Government has proposed that anyone up to the age of 75 will be eligible to receive SG contributions from an employer. This measure removes the inequity older workers face in accumulating retirement benefits and is in line with the Commonwealth Government's general push to encourage longer participation in the workforce and retain skilled employees. Of course, many Queensland Government employees already enjoy this benefit.

Please note the above are proposals only at the time of print, and are still to be considered by the Commonwealth Parliament.

Retain current matching rates for the super co-contribution

Last year's Budget saw the matching rate for eligible members reduced from $1.50 for every $1.00 contributed (up to a maximum $1,500), to $1.00 for every $1.00 contributed (up to a maximum of $1,000). This was done with the view that the scheme would gradually be scaled back up, however the Government has permanently fixed the matching rate at its current position. In addition to this change, the Government has announced that the minimum and maximum super co-contribution income thresholds of $31,920 and $61,920 will be frozen for the 2010/2011 and 2011/2012 financial years.

Continuation of drawdown relief for QSuper Pension account members

At the height of the global financial crisis, the Commonwealth Government recognised that many account-based pension holders were suffering the impact of negative returns and responded by introducing legislation that halved the minimum income drawdown requirements for the 2008/2009 and 2009/2010 financial years. The Commonwealth Government announced on 30 June 2010 that the drawdown relief will continue for the 2010/2011 financial year and regulations implementing these changes have been released.

The drawdown relief will continue to be in the form of a 50 per cent reduction in the minimum payment amounts for account-based pensions such as the QSuper Pension account.

About QSuper's investments

QSuper's investment capability

The QSuper Board is committed to providing solid returns over the long term. Following a detailed investments review at the end of 2008, the Board made the decision to take a larger role in the management of QSuper's investments.

In order to achieve this the Board requested that QSuper Limited develop an in-house investment team. This team is responsible for engaging specialised external managers to help the Fund achieve consistent results in a variety of market conditions. This means QSuper has more control over its assets and increased cost efficiencies. In addition, QSuper now has the ability to manage investments independently and will be directly assigning investment mandates based on merit.

Who invests your money?

For many years QIC was QSuper's main source of investment management and advice, and also acted as a manager of managers, selecting and monitoring specialised fund managers. This role is now performed by QSuper Limited's investment team.

QIC is still the largest investment manager, and other appointed managers include State Street Global Advisors Australia Ltd, Dimensional Fund Advisors Australia Ltd, Bridgewater Associates and AMP Capital Investors. These managers may change from time to time, and are monitored regularly by QSuper.

In total, the above managers are responsible for managing in excess of fifteen individual mandates covering all asset classes in which QSuper invests.

Allocation of investment returns

All QSuper Accumulation and QSuper Pension accounts are unitised. Your QSuper Accumulation or QSuper Pension account benefit is expressed as a number of units, and so the value of your benefit is determined by the number of units held and the value of those units. Your investment option has a unit price that is set daily. These unit prices change to reflect investment returns and changes in market values.

QSuper has the discretion to suspend unit prices if we require further validation of a unit price for any reason. If QSuper uses this discretion, information will be available on the QSuper website.

Assets by manager

Manager	Asset class	Funds under management ($ million)
State Street Global Advisors Australia Ltd	Australian Equities	5,038.0
	International Equities	3,026.6
	Global Listed Real Estate Equities	272.0
Dimensional Fund Advisors Australia Ltd	Australian Equities	385.4
	International Equities	427.0
	Emerging Market Equities	282.5
Bridgewater Associates	Hedge Fund	110.3
AMP Capital Investors	Responsible Investment Leaders Balanced Fund (SRI Option)	108.0
QIC Ltd	Cash	3,762.0
	Defined Benefit Mandate	6,488.8
	Global Fixed Interest	2,343.9
	Capital Markets	2,077.3
	Global Real Estate	1,334.6
	Global Infrastructure	855.9
	Global Private Equity	292.4
	Hedge Fund	771.7
Total Funds under management ($ million)		**27,576.2**

Information as at 30 June 2010. For reporting purposes the numbers in this table have been rounded to one decimal place.

Asset transition

As part of the longer-term project to establish our in-house investment capability, two key outcomes were achieved during 2009/2010. The first was the appointment of a custodian, with National Australia Bank being appointed in December 2009 after a thorough due diligence process.

Subsequent to that, all assets which were previously held on behalf of QSuper by QIC were transferred to National Australia Bank. This was a major asset transition which was successfully conducted over several months through the combined efforts of National Australia Bank, QIC and QSuper. Benefits of this transition include potentially lower management costs and greater visibility of our assets, which in turn means more accountability for our investments.

Unit price reporting

QSuper now reports unit prices to four decimal places rather than six, as this is how they are struck by our new custodian National Australia Bank. This change, which took effect on 28 April 2010, makes the way we report our unit prices consistent with that of many other superannuation funds.

Investment fees and costs

At QSuper we have previously referred to our fees as management expense ratios (MERs) (please see next page for reporting changes to be implemented going forward). The MERs for the 2009/2010 financial year are shown in the tables on pages 10-12.

Changes made to investment arrangements over the course of the year resulted in a reduction in management fees for most options for 2009/2010. For instance the management fee of the default Balanced option decreased from 0.73% to 0.66%, a reduction of over 9%.

QSuper is committed to delivering low cost options, however it is important to note that it is not always possible to drive costs lower. In order to deliver improved option outcomes it is sometimes necessary for QSuper to make changes to the structure or arrangements of investment options. These could, for example, include increasing allocations to certain asset classes or introducing new managers, and on occasions implementing these changes can lead to higher costs. However QSuper is always focused on ensuring that our management fees are competitive when compared to the industry as a whole.

Changes to the way we report fees

Going forward we will report your fees in a different way, by splitting the fee into three separate components. The Board made the decision to increase transparency in our reporting to members. The Board has also decided to replace the term MER with management fee.

It is important to understand that these changes relate only to the way we report our fees to members. These changes do not impact on the actual fees and costs incurred on behalf of members.

The cost of managing your investment is split into three components:

1. Administration fee
   This is the fee deducted by QSuper to cover the costs incurred in managing your super.
2. Investment fee
   This is the fee deducted by QSuper to pay investment managers for managing the assets within each investment option.
3. Performance fee
   This is the fee deducted by QSuper to pay investment managers who outperform an agreed return target.

Administration and investment fees are deducted daily from the unit price relevant to your investment option/s, before the unit price is declared. QSuper's investment managers are paid a performance fee for delivering investment returns that outperform an agreed return target. This performance fee is reflected in the daily unit price only when the value of any out performance can be calculated.

Changes to fees and costs

QSuper is committed to keeping our fees low and, as such, the QSuper Board reviews fees regularly. The QSuper Board will provide at least 30 days notice of any increase in the administration component of the management fees. From 1 July 2010 the administration fee is 0.19% of a member's Accumulation or QSuper Pension account balance.

Given the nature of the investment and performance fee components, these fees cannot be precisely calculated in advance. For more information on fees and costs, please refer to the product disclosure statement relevant to your account.

Single assets valued above 5% of total funds under management

At the end of the financial year, 5.17% of QSuper funds under management were held as Cash on Deposit with National Australia Bank.

Monitoring of member investment choice (MIC) asset and currency allocation ranges

MICs are monitored daily by QSuper Limited to ensure that any variations from prescribed asset allocation or currency ranges are detected and addressed in a timely manner.

Monitoring of external manager investment management agreements (IMAs)

QSuper Limited monitors the compliance of external managers with the requirements specified in their IMAs to ensure that any breaches are detected and addressed in a timely manner.

QSuper investment policies

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, taxes, strategic initiatives tax and operational risk.

Please note that from 1 July 2010, tax will be accounted for in a separate clearing account, and will not be paid from the General Reserve.

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

The General Reserve is currently invested using Cash Plus and Balanced strategies.

General Reserve	$'000
30 June 2010	350,017
30 June 2009	157,145
30 June 2008	408,087
30 June 2007	519,607

Insurance Reserve

The Insurance Reserve is maintained for the purpose of holding insurance premiums and meeting the self-insurance obligations of the fund as and when they fall due.

The State Actuary determines the adequacy of the reserve and reviews the self-insurance arrangements of QSuper on an annual basis.

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

The Insurance Reserve is currently invested using a Cash strategy.

Insurance Reserve	$'000
30 June 2010	179,572
30 June 2009	164,609
30 June 2008	162,496
30 June 2007	144,350

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 Board has previously approved a Balanced investment strategy for the Unallocated Contributions Reserve, and analysis of the investment preferences adopted by members shows that contributions continue to be invested primarily in the Balanced option.

The Unallocated Contributions Reserve is monitored and reviewed by management on a quarterly basis, and by the QSuper Board on an annual basis.

Unallocated Contributions Reserve	$'000
30 June 2010	8,345
30 June 2009	8,799
30 June 2008	4,988
30 June 2007	1,529

Derivatives policy

The Fund uses derivative instruments as part of its investment management process.

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

The QSuper *Derivatives risk statement* (DRS) describes the Fund's policy for managing risk involved in entering into derivatives.

The Fund uses derivatives to manage exposures to specific investment markets, due to their low transaction costs and high liquidity. These features enable the Fund's risk exposures to be changed quickly and efficiently in line with investment strategies.

VPP closed investment option

QSuper provides the members of the closed Voluntary Preservation Plan (VPP) with 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 of 0.35% on 30 June each year. This option is invested in a Cash Plus strategy and consists of 25% to 40% growth assets (such as shares and property), 52.5% to 70% defensive assets (such as fixed interest and cash), and 2.5% to 16.5% in alternative assets (such as infrastructure and commodities).

The VPP crediting rate for the 2009/2010 financial year was applied to VPP member accounts before the capital guarantee fee was debited. The VPP crediting rate for the 2009/2010 financial year was 8.79%.

Asset valuation policy

Appropriate valuation methodologies are developed for each type of asset and are applied consistently. In general, listed assets are valued on a daily basis at fair market value, which is usually the last sale price. The valuation methodology adopted for unlisted assets is based upon the principles of market value. Market value is defined as the estimated amount for which an investment should exchange on the date of the valuation between a willing buyer and a willing seller, in an arm's length transaction, after proper marketing, wherein the parties had acted knowledgeably, prudently and without compulsion.

QSuper's process is consistent with IFSA Guidance Note No. 26 – *Asset valuation and unit pricing for infrequently traded assets.*

In-house asset policy

Part 8 of the *Superannuation Industry (Supervision) Act* (SIS) details the 'in-house asset' rules that are designed to ensure that 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' are not to exceed 5% of total assets.

QSuper does not have more than 5% in in-house assets.

Changes to investment options

Changes to benchmark objectives for some Your Choice options

The following single sector Your Choice options will have their respective benchmark objectives changed on 19 August 2010, to better reflect the management arrangements implemented. However no changes have been made to the structure of the investment options.

QSuper investment option	Previous benchmark	New benchmark objective
Australian Shares	To capture the return of a broadly diversified portfolio of Australian shares after fees and tax.	Matching the return of the S&P/ASX 200 Index after fees and tax. (This index measures the performance of the 200 largest stocks present on the ASX.)
International Shares	To capture the return of a broadly diversified portfolio of international shares after fees and tax.	Matching the return of the MSCI World Developed Markets ex-Australia net dividends reinvested Accumulation index, hedged into AUD, after fees and tax. (This index measures the equity market performance of 22 developed market country indices.)
Cash	To capture the return of a broadly diversified portfolio of cash investments after fees and tax.	Matching the return of the UBS Bank Bill Index after fees and tax. (This index represents the performance of a passively managed short-term money market portfolio.)

Cash option

In March 2008 the QSuper Investment Committee considered the then emerging global financial crisis and its impact on the returns for the Cash option and other cash exposures across all of the investment options.

This resulted in the committee approving an immediate reduction in the risk of the Cash option and the 50% cash allocation of the Cash Plus option. Both portfolios would be transitioned over a two-year period to a low-risk cash portfolio. This move was to reduce the effect of market volatility for the Cash and Cash Plus options, while also allowing the rest of the investment options to retain some exposure to the long-term value if these securities were held to maturity.

This transition, completed in March 2010, has seen the Cash option somewhat buffered from the full effects of market volatility.

Changes to strategic asset allocation ranges

When investing your super, QSuper Limited works within strict asset allocation ranges as prescribed by the QSuper Board. These ranges apply to most of our investment options and defined benefit monies.

In recognition of the fact that different investment strategies may be required in different economic environments, the QSuper Board made the decision to make these asset allocation ranges wider for some options, with new ranges taking effect from 19 August 2010. This provides QSuper Limited with a greater ability to react to market factors and take advantage of investment opportunities as they arise.

Risk levels for investment options

In the returns tables on pages 10-12, we state how often we expect each option to experience a negative return. This reflects our assessment of the likely risk and return profile of the option at a given point in time.

New names for QSuper's investment options

During the past year the QSuper Board approved a review of QSuper's investment-related communications, which included amendments to the names of some of our investment options. This was done to ensure the names of our Ready Made and Your Choice options better reflect their investment structure, and to make it easier for members to choose the investment option that is right for them.

No changes have been made to the structure of the investment options, although some of the objectives for the Your Choice options have been redefined to make it clearer to members what investment performance that option is intended to achieve, as outlined in the table below.

The new names were approved in March 2010, after member research was conducted, and the official rollout began in August 2010. Our website and publications have been updated, and we have created a new *Investment choice* guide, which now forms part of the product disclosure statement (PDS).

The table below shows both the previous and (where applicable) updated names of our investment options.

Ready Made options

Previous name	New name
Balanced	QSuper Balanced (Default)
Cash Plus	QSuper Moderate
Socially Responsible	QSuper Socially Responsible
Basic Growth	QSuper Indexed Mix
High Growth	QSuper Aggressive

Your Choice options

Previous name	New name
Cash	Cash
Fixed Interest	Diversified Bonds
Australian Shares	Australian Shares
International Shares	International Shares

QSuper investment options

This information is reflective of our investments options as at 30 June 2010. However the names of some of our investment options have changed, effective 19 August 2010. Please see page 9 for more information.

Default option

Balanced

Suited to medium to long-term investors with an investment timeframe of at least five to seven years, and who want exposure to assets with potentially higher returns. Investors in the Balanced option 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 5-year periods of CPI + 4% p.a., after fees and tax.

Fees

MER for 2009/2010 **0.66% p.a.**

Risk

Negative return expected 1 year in every 6 years.

Asset allocations

	Actual asset allocations (%) Year ended 30 June 2010	Actual asset allocations (%) Year ended 30 June 2009	Ranges (%) from 19 August 2010
Cash	12	11	0-25
Fixed interest	12	11	0-25
Property	9	9	0-20
Australian shares	30	32	20-40
International shares	26	27	15-35
Alternative assets	6	6	0-20
Infrastructure	5	4	0-20

Investment returns

	Accumulation account	QSuper Pension account
Crediting rate (%)		
12 months	12.3	13.7
3 years p.a.	-1.6	-1.4
5 years p.a.	4.2	4.9
10 years p.a.	4.9	5.6

Ready Made options

Cash Plus

Suited to investors who are seeking short to medium-term stability, and who have an investment timeframe of three to five years, and who want some exposure to growth assets with potential for moderate returns. Investors in the Cash Plus 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 3-year periods of CPI + 3% p.a., after fees and tax.

Fees

MER for 2009/2010 **0.51% p.a.**

Risk

Negative return expected 1 year in every 25 years.

Asset allocations

	Actual asset allocations (%) Year ended 30 June 2010[1]	Actual asset allocations (%) Year ended 30 June 2009	Ranges (%) from 19 August 2010
Cash	56	56	40-70
Fixed interest	6	5	0-12.5
Property	4	5	0-10
Australian shares	15	16	10-20
International shares	13	13	7.5-17.5
Alternative assets	3	3	0-10
Infrastructure	2	2	0-10

Investment returns

	Accumulation account	QSuper Pension account
Crediting rate (%)		
12 months	9.1	9.1
3 years p.a.	1.5	1.6
5 years p.a.	4.5	5.1
10 years p.a.	4.8	5.4

1 These figures total 99% as numbers have been rounded for member reporting purposes.

Socially Responsible

Suited to medium to long-term investors who want an approach that considers the investment's impact on society and the environment, and have an investment timeframe of at least five to seven years. Investors in the 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 5-year periods of CPI + 3.5% p.a., after fees and tax.

Fees

MER for 2009/2010 **0.95% p.a.**

Risk

Negative return expected 1 year in every 5 years.

Asset allocations

	Actual asset allocations (%) Year ended 30 June 2010	Actual asset allocations (%) Year ended 30 June 2009	Ranges (%) from 19 August 2010
Cash	3	7	0-10
Fixed interest	24	21	10-36
Property	13	12	0-35
Australian shares	35	39	28-48
International shares	25	21	4-42
Alternative assets	0	0	0-10
Infrastructure	0	0	0

Investment returns

	Accumulation account	QSuper Pension account
Crediting rate (%)		
12 months	10.0	10.8
3 years p.a.	-3.3	-3.8
5 years p.a.	3.9	4.2
10 years p.a.	n/a	n/a

Basic Growth

Suited to medium to long-term investors who have an investment timeframe of at least five to seven years, and who are willing to accept a higher level of volatility than the Balanced option in exchange for a lower fee. Investors in the Basic Growth option who want exposure to assets with potentially higher returns should also be prepared to accept more fluctuation in the value of their investment over the short term (relative to the Balanced option).

Objective

To achieve an average return over rolling 5-year periods of CPI + 3.5% p.a., after fees and tax.

Fees

MER for 2009/2010	**0.32% p.a.**

Risk

Negative return expected 1 year in every 5 years.

Asset allocations

	Actual asset allocations (%) Year ended 30 June 2010	Actual asset allocations (%) Year ended 30 June 2009	Ranges (%) from 19 August 2010
Cash	5	5	0-13
Fixed interest	25	25	18-32
Property	10	10	0-20
Australian shares	35	35	28-42
International shares	25	25	18-32
Alternative assets	0	0	0
Infrastructure	0	0	0

Investment returns

	Accumulation account	QSuper Pension account
Crediting rate (%)		
12 months	14.3	13.7
3 years p.a.	n/a	n/a
5 years p.a.	n/a	n/a
10 years p.a.	n/a	n/a

High Growth

Suited to long-term investors who want exposure to assets with potentially higher returns, and who have an investment timeframe of more than ten years. Investors in the High Growth 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 10-year periods of CPI + 5% p.a., after fees and tax.

Fees

MER for 2009/2010	**0.80% p.a.**

Risk

Negative return expected 1 year in every 4 years.

Asset allocations

	Actual asset allocations (%) Year ended 30 June 2010	Actual asset allocations (%) Year ended 30 June 2009	Ranges (%) from 19 August 2010
Cash	4	8	0-15
Fixed interest	0	0	0-20
Property	9	9	0-20
Australian shares	29	30	15-45
International shares	43	39	25-55
Alternative assets	10	10	0-25
Infrastructure	5	4	0-20

Investment returns

	Accumulation account	QSuper Pension account
Crediting rate (%)		
12 months	12.1	15.0
3 years p.a.	-6.2	-5.9
5 years p.a.	2.6	3.7
10 years p.a.	2.2	2.8

Cash

Suited to very short-term investors with an investment timeframe of less than one year 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 capture the return of a broadly diversified portfolio of cash investments after fees and tax.

Fees

MER for 2009/2010	**0.33% p.a.**

Risk

Negative return not expected over 1 year.

Asset allocations

	Actual asset allocations (%) Year ended 30 June 2010	Actual asset allocations (%) Year ended 30 June 2009	Ranges (%)
Cash	100	100	100
Fixed interest	0	0	0
Property	0	0	0
Australian shares	0	0	0
International shares	0	0	0
Alternative assets	0	0	0
Infrastructure	0	0	0

Investment returns

	Accumulation account	QSuper Pension account
Crediting rate (%)		
12 months	3.9	4.5
3 years p.a.	3.9	4.5
5 years p.a.	4.3	5.1
10 years p.a.	4.3	5.1

QSuper investment options

This information is reflective of our investments options as at 30 June 2010. However the names of some of our investment options have changed, effective 19 August 2010. Please see page 9 for more information.

Your Choice options

Fixed Interest

Suited to short to medium-term investors who are seeking steady returns and who have an investment timeframe of three to five years. Investors in the Fixed Interest 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

MER for 2009/2010	**0.33% p.a.**

Risk

Negative return expected 1 year in every 11 years.

Asset allocations

	Actual asset allocations (%) Year ended 30 June 2010	Actual asset allocations (%) Year ended 30 June 2009	Ranges (%)
Cash	0	0	0-10
Fixed interest	100	100	90-100
Property	0	0	0
Australian shares	0	0	0
International shares	0	0	0
Alternative assets	0	0	0
Infrastructure	0	0	0

Investment returns

	Accumulation account	QSuper Pension account
Crediting rate (%)		
12 months	18.1	14.8
3 years p.a.	8.9	8.2
5 years p.a.	6.6	6.5
10 years p.a.	n/a	n/a

Australian Shares

Suited to long-term investors who have an investment timeframe of more than ten years, and who want exposure to assets with potentially higher returns. 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 capture the return of a broadly diversified portfolio of Australian shares after fees and tax.

Fees

MER for 2009/2010	**0.34% p.a.**

Risk

Negative return expected 1 year in every 3 years.

Asset allocations

	Actual asset allocations (%) Year ended 30 June 2010	Actual asset allocations (%) Year ended 30 June 2009	Ranges (%)
Cash	0	0	0-10
Fixed interest	0	0	0
Property	0	0	0
Australian shares	100	100	90-100
International shares	0	0	0
Alternative assets	0	0	0
Infrastructure	0	0	0

Investment returns

	Accumulation account	QSuper Pension account
Crediting rate (%)		
12 months	17.2	17.8
3 years p.a.	-5.6	-6.0
5 years p.a.	5.2	5.4
10 years p.a.	n/a	n/a

International Shares

Suited to long-term investors who have an investment timeframe of more than ten years and 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 capture the return of a broadly diversified portfolio of international shares after fees and tax.

Fees

MER for 2009/2010	**0.33% p.a.**

Risk

Negative return expected 1 year in every 3 years.

Asset allocations

	Actual asset allocations (%) Year ended 30 June 2010	Actual asset allocations (%) Year ended 30 June 2009	Ranges (%)
Cash	0	0	0-10
Fixed interest	0	0	0
Property	0	0	0
Australian shares	0	0	0
International shares	100	100	90-100
Alternative assets	0	0	0
Infrastructure	0	0	0

Investment returns

	Accumulation account	QSuper Pension account
Crediting rate (%)		
12 months	10.6	17.8
3 years p.a.	-10.9	-10.5
5 years p.a.	-0.8	0.3
10 years p.a.	n/a	n/a

Defined benefit accounts

About this account

A defined benefit is calculated using a formula based on a benefit multiple times your 'salary for superannuation purposes'. Each year your benefit multiple grows depending on your level of standard member contributions. Members with defined benefit style accounts generally contribute between 2% and 5% of their 'salary for superannuation purposes'. If you work part-time, your multiple growth is adjusted to reflect your part-time hours.

Your employer contributes at a rate that, when combined with your contributions, ensures there is enough money to pay your benefits when they are needed. The State Actuary calculates the amount required. Employer contributions are not paid into your account. Instead, they are paid into a pool of money that is used to pay the benefits of all defined benefit account members as required.

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

All QSuper defined benefit style accounts, which include the Defined Benefit, Parliamentary, State, and Police accounts, are closed to new members.

Investment objective

The investment objective for QSuper's defined benefit style accounts, which include Defined Benefit, State, Police and Parliamentary accounts, is to ensure the fund is able to meet all its obligations relating to member benefits as they fall due. The asset allocation, described in the table below, is designed to meet this objective.

Asset allocation

	Ranges (%) from 30 June 2010	Actual allocation (%) as at 30 June 2010	Actual allocation (%) as at 30 June 2009
Cash	0-30	26.36	6.76
Fixed interest	0-25	10.10	34.36
Property	5-15	11.54	13.09
Australian shares	15-25	17.82	16.85
International shares	15-25	18.26	16.71
Alternative assets	0-25	9.48	7.39
Infrastructure	5-15	6.44	4.84

2009/2010 returns

The crediting rates are net of the fees deducted for management, insurance, and tax expenses, and apply to your compulsory personal contributions for your defined benefit account. As part of our commitment to comprehensive reporting, the details below are provided for the information of members.

Investment returns

	Defined Benefit	Parliamentary	State		Police	
	Crediting rate (%)	Crediting rate (%)	Resignation crediting rate (%)	Preservation crediting rate (%)	Resignation crediting rate (%)	Preservation crediting rate (%)
12 months	12.26	12.26	11.86	12.26	11.86	12.26
3 years p.a.	-1.60	-2.60	-2.01	-1.60	-2.01	-1.60
5 years p.a.	4.57	4.09	3.79	4.19	3.79	4.19
10 years p.a.	5.75	n/a	5.24	5.56	5.24	5.56

Important information

Online delivery of Annual report to members

Legislation has been passed that allows QSuper to deliver the Annual report to members electronically.

Our approach to delivery has not changed and the August edition of *Super Scoop* (which includes the Annual report to members) will be available in a printed format and on our website. If we do change our approach in future years we will advise members on how they can obtain a copy, either online or in print.

Surcharge

The superannuation surcharge was abolished from 1 July 2005. Any existing surcharge liabilities remain payable to the Australian Taxation Office and will generally be deducted from your entitlement when you claim a benefit from QSuper or if you roll over to another complying superannuation fund. To find out if you have a surcharge liability recorded for your account, please see your benefit statement.

Enquiries and complaints

The QSuper Board has procedures in place to ensure any enquiries or complaints are dealt with fairly and promptly.

If you have a complaint about QSuper give us a call on 1300 360 750, or +617 3239 1004 if calling from overseas. Alternatively, 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 not satisfied 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 should contact them on 1300 884 114, or visit their website at www.sct.gov.au.

Additional copies

You can obtain additional copies of this annual report by visiting the QSuper website at qsuper.qld.gov.au or calling QSuper on 1300 360 750.

Important information

This document is issued by the Board of Trustees of the State Public Sector Superannuation Scheme (ABN 32 125 059 006) (the QSuper Board). The QSuper Board is the issuer of interests in the State Public Sector Superannuation Scheme (ABN 60 905 115 063) (QSuper). Where the term 'QSuper' is used in this document, it represents both the QSuper Board of Trustees and the QSuper Fund.

General advice warning

The information in this annual report has been prepared for general purposes only, without taking into account your financial objectives, situation, or needs, so it may not be appropriate for your circumstances. You should read the product disclosure statement (PDS) and consider your circumstances before you make an investment decision. You can download a PDS from the QSuper website at qsuper.qld.gov.au, or call us and we'll send you a copy.

Before acting on any of the information, you may want to consider obtaining personal financial advice. The QSuper Board is not licensed to provide financial product advice.

Disclaimer

Although we make every attempt to ensure the information in this document is accurate and up to date at the date of its publication, legislative and other changes after the date of publication may affect the accuracy of some of the information contained in this document. To find out about updated information which is not materially adverse to you contact QSuper. The QSuper Board, QSuper Limited (ABN 50 125 248 286, AFSL 334546) and the State of Queensland do not guarantee the investment performance of QSuper or the repayment of capital.

Service providers

Administrator
QSuper Limited[1]
Central Plaza Three
70 Eagle Street
Brisbane Qld 4000

Investment services manager
QSuper Limited[1]
Central Plaza Three
70 Eagle Street
Brisbane Qld 4000

Financial planning
Q Invest[2]
Central Plaza Two
66 Eagle Street
Brisbane Qld 4000

Internal auditor
Ernst & Young[3]
Waterfront Place
Level 5, 1 Eagle Street
Brisbane Qld 4000

External auditor
Queensland Audit Office
Level 14, 53 Albert Street
Brisbane Qld 4000

Actuary
State Actuary
Level 2, 33 Charlotte Street
Brisbane Qld 4000

Investment consultant
Towers Watson Australia Pty Ltd[4]
Level 4, 1 Collins Street
Melbourne Vic 3000

External insurer
TOWER Australia Limited[5]
80 Alfred Street
Milsons Point NSW 2061

Custodian
National Australia Bank Asset Servicing[6]
Level 12, 500 Bourke Street
Melbourne Vic 3000

1 QSuper Limited ABN 50 125 248 286, AFSL 334546
2 Q Invest Limited ABN 35 063 511 580, AFSL 238274
Q Invest is jointly owned by the QSuper Board of Trustees and QIC. QSuper and QIC do not accept responsibility for the financial advice or services provided by Q Invest, which is a separate legal entity.
3 Ernst & Young Australia ABN 75 288 172 749
4 Towers Watson Australia Pty Ltd ABN 45 002 415 349
5 TOWER Australia Limited
ABN 70 050 109 450, AFS licence 237848
6 National Australia Bank Limited ABN 12 004 044 937

Financial statements

The QSuper Fund's abridged financial statements have been prepared before the audit of the accounts, using information available at the time of publication. The audited financial statements and auditor's report will be available on the QSuper website in November 2010.

Statement of net assets as at 30 June 2010	2010 $'000	2009 $'000
ASSETS		
Cash assets		
Cash	**50,674**	**53,869**
Receivables		
Employer contributions receivable	26,650	22,270
Member contributions receivable	3,703	3,367
GST receivable	2,680	2,341
Interest receivable	202	145
Sundry receivables and prepayments	2,026	3,199
	35,261	**31,322**
Investments		
Investments	27,613,343	22,900,827
Investment in Q Invest Limited	573	21
Investment in QSuper Limited	42,957	37,730
	27,656,873	**22,938,578**
Tax assets		
Current tax assets	-	35,225
Deferred tax assets	552,535	462,932
TOTAL ASSETS	**28,295,343**	**23,521,926**
LIABILITIES		
Payables		
Benefits payable	11,491	8,155
Administration and investment management fees payable	19,788	31,046
Sundry payables	741	628
	32,020	**39,829**
Tax liabilities		
Current tax liabilities	94,472	-
Deferred tax liabilities	4,884	3,728
Provision for superannuation contributions surcharge	72,375	74,831
	171,731	**78,559**
TOTAL LIABILITIES	**203,751**	**118,388**
NET ASSETS AVAILABLE TO PAY BENEFITS	**28,091,592**	**23,403,538**
Represented by:		
Reserves	537,934	330,553
Accumulated funds	27,553,658	23,072,985
NET ASSETS AVAILABLE TO PAY BENEFITS	**28,091,592**	**23,403,538**

Statement of changes in net assets for the year ended 30 June 2010	2010 $'000	2009 $'000
NET ASSETS AVAILABLE TO PAY BENEFITS		
at the beginning of the financial year	**23,403,538**	**24,614,733**
Investment revenue		
Distributions/Dividends	4,288,683	340,798
Change in net market value of investments	(1,596,069)	(3,398,825)
Investment management fees	(67,529)	(78,242)
Interest revenue	2,171	1,898
	2,627,256	**(3,134,371)**
Contribution revenue		
Employer contributions	2,926,049	2,653,400
Member contributions	870,804	729,932
Transfers from other funds	432,562	346,190
	4,229,415	**3,729,522**
Other revenue		
Insurance recoveries	256	-
Sundry revenue	462	436
	718	**436**
Total revenue	**6,857,389**	**595,587**
Less:		
Benefits paid	**1,791,833**	**1,745,774**
General administration expenses		
Administration fee	83,192	69,076
Other fund expenses	2,478	162
Financial planning fee	14,405	13,744
Superannuation contributions surcharge	4,166	5,044
Insurance premiums	4,042	3,977
	108,283	**92,003**
Total expenses from ordinary activities	**1,900,116**	**1,837,777**
Total change in net assets before income tax	**4,957,273**	**(1,242,190)**
Income tax expense	269,219	(30,995)
Total change in net assets after income tax	**4,688,054**	**(1,211,195)**
NET ASSETS AVAILABLE TO PAY BENEFITS		
at the end of the financial year	**28,091,592**	**23,403,538**

QSuper

Contact Centres
70 Eagle Street Brisbane
63 George Street Brisbane
1300 360 750
(+617 3239 1004 if overseas)

Monday to Thursday
8.30am to 5.00pm
Friday 9.00am to 5.00pm

GPO Box 200
Brisbane Qld 4001
Fax 1300 241 602

qsuper.qld.gov.au

Superannuation product identification numbers (SPIN):
Accumulation account: QSU0101AU
Defined Benefit: QSU0102AU

Superannuation fund number (SFN): 2610 419 41

Board of Trustees of the State Public Sector Superannuation Scheme (the QSuper Board): ABN 32 125 059 006

State Public Sector Superannuation Scheme (QSuper): ABN 60 905 115 063