



# Annual report

Annual report of the  
QSuper Board of Trustees

2010

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### Additional copies

You can obtain additional copies of this annual report by visiting the QSuper website at [qsuper.qld.gov.au](http://qsuper.qld.gov.au) or by calling QSuper on 1300 360 750.

### Warning

The information in this report is not personal advice and has been prepared for general information purposes only, from sources believed to be reliable and accurate. It does not take into account your personal objectives, financial situation, or needs. You should read the product disclosure statement (PDS) and consider your circumstances before you make an investment decision. You can get a PDS from our website at [qsuper.qld.gov.au](http://qsuper.qld.gov.au), or call us on 1300 360 750 and we'll send you a copy. Before acting or relying on any information contained in this report, you should consider whether you need to seek personal financial advice. The QSuper Board is not licensed to provide financial product advice. There is no cooling-off period.

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

# QSuper profile

QSuper is working to improve the retirement outcomes of our members.

The Queensland Government is the major employer sponsor responsible for the superannuation arrangements of the Queensland state public sector, with the major fund being the State Public Sector Superannuation Scheme (QSuper).

Through the QSuper Board, superannuation for current and former Queensland state public sector employees is managed as a partnership between employers and unions.

QSuper is one of Australia's largest superannuation funds, and the QSuper Board is committed to helping members achieve an adequate income in retirement by providing quality products and services.

Until 8 July 2009, the Commonwealth Government had classified QSuper as an exempt public sector superannuation scheme under the *Superannuation Industry (Supervision) Act 1993*. On 9 July 2009, the QSuper Board was granted a Registrable Superannuation Entity (RSE) licence.

QSuper Limited (QSL) (ABN 50 125 248 286, AFSL 334546), is a wholly owned company of the QSuper Board of Trustees (the QSuper Board) and is responsible for the provision of administration and investment services to QSuper.

## Our vision...

**QSuper has built a high level of trust and a reputation for integrity by providing valued products and superior service to generations of members. The QSuper Board respects the importance of QSuper's primary objective, which is to give our members financial dignity and quality of life in retirement.**

**The QSuper Board has developed a new vision for QSuper reflecting this commitment, which will help our members achieve an adequate income in retirement.**

...improving retirement outcomes for members.

## Purpose of this report

The QSuper Board is pleased to present the annual report for the twelve months ending 30 June 2010. This report has been prepared for the Queensland Parliament, and other individuals and organisations sharing an interest in the objectives, achievements, and future direction of QSuper.



# Chairman's report

by **Bob Scheuber**

Chairman of the Board

From market recovery to an in-depth review of the superannuation industry, the last financial year has presented a number of opportunities for QSuper and the superannuation industry more broadly.

## Investment market performance

In my first year as Chairman of QSuper, I have seen investment markets around the world take the initial steps of recovery from the global financial crisis. This has been good news for QSuper members, as the stronger performance of financial markets has seen stronger performance for QSuper's investment options.

It is important to note that although there has been an overall upturn in investment markets, there still may be many bumps on the road, and it is difficult to tell just how long it will take for a full worldwide economic recovery. With this in mind, it is also important to understand that super is a long-term investment and requires a long-term perspective.

## QSuper – federally regulated

The QSuper Board has implemented numerous initiatives over the last twelve months; with perhaps one of the most important being QSuper becoming a regulated fund on 9 July 2009.

This transition has brought with it many new responsibilities for the QSuper Board of Trustees and QSuper Limited staff as we are now subject to the Australian Prudential Regulatory Authority's prudential review program.

This was a vital step in the ongoing development of the Fund as it has allowed us to provide QSuper members with improved services.

## Member retention and growth

One such service is the ability for QSuper members to have a non-Queensland Government employer contribute to their existing account.

This has been a great achievement for QSuper and its members and has seen us enter into new and exciting territory. I am proud to report that as of 1 July 2010, we now have approximately 10,000 members taking advantage of the initiative, and over 7,000 non-Queensland Government employers registered to contribute to the Fund.

## Increasing our investment capabilities

Another exciting initiative presented as a result of becoming regulated has been the development of QSuper Limited's in-house investment capability.

This was implemented with the dual objectives of giving us more control over how our members' money is invested, and providing our members with investment arrangements which satisfy their needs and interests.

As a part of this initiative, QSuper Limited has built a highly skilled in-house investments team. Additionally, QSuper transferred the custody and administration of the Fund's accumulation assets; QSuper now has direct control of these assets via a custody agreement between the Fund and the National Australia Bank. This replaces the previous custody model via QIC Limited, who remain a major investment manager for QSuper.

## Superannuation industry – changes for the better

The 2009/2010 financial year saw many recommendations made to the Commonwealth Government through various reviews on the future direction of superannuation. QSuper contributed to the reviews and their recommendations are discussed in more detail in the Chief Executive Officer's report.

## Acknowledgements

On behalf of the QSuper Board, I would like to express my appreciation to my fellow Trustees, QSuper's Chief Executive Officer, Ms Rosemary Vilgan, QSuper Limited's Executive Management Team, and all QSuper Limited staff for their hard work during this period of growth and development. I would also like to thank the Auditor-General of Queensland, Q Invest,<sup>1</sup> QIC, and our other service providers for their ongoing assistance.

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

**Bob Scheuber**

Chairman of the Board

<sup>1</sup> Q Invest Limited (ABN 35 063 511 580 AFSL 238274). Q Invest is jointly owned by the QSuper Board of Trustees and QIC Limited (QIC). QSuper and QIC do not accept responsibility for the financial advice or services provided by Q Invest, which is a separate legal entity.



# QSuper Board of Trustees

The QSuper Board of Trustees is responsible for overseeing the operation of QSuper.

The Board of Trustees of the State Public Sector Superannuation Scheme (ABN 32 125 059 006) is known as the QSuper Board of Trustees (the QSuper Board).

The QSuper Board is responsible for overseeing the operation of QSuper. The QSuper Board meets on a regular basis to discuss important decisions regarding key areas of the Fund, including the creation and implementation of QSuper's strategic direction, the formulation of the investment strategy, and service delivery to members.

## 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

Number of Board meetings attended	Number of Board meetings the Trustee was eligible to attend	Trustee Name
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,  
Queensland  
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

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



# Year in review

by **Rosemary Vilgan**

Chief Executive Officer, QSuper and QSuper Limited

It's been a tumultuous couple of years for investment markets, but it is a relief to see there are now signs of market recovery. However, it is not just returns that are improving, QSuper as a fund continues to go from strength to strength.

## The future of the superannuation industry

In many ways our direction as a fund is echoing many of the recommendations that were presented to the Commonwealth Government this year in the seminal Cooper Review.

In particular, the recommendations delivered in the Cooper Review (which specifically examined the superannuation industry) focussed on issues of governance, operation, and efficiency within the super system, and reinforced the high level of standards that must be displayed by the trustees of all superannuation funds.

QSuper has been fully supportive of the Cooper Review. For instance, in our submissions we recommended a greater level of transparency and consistency across the superannuation industry when disclosing fees, performance, and other features to members. In many cases, QSuper leads the industry in regards to issues of transparency.

In addition to the Cooper Review, the last financial year has also seen the Government respond to the Henry Review into the taxation system and the completion of the Ripoll Inquiry into the financial services industry. These reviews have the potential to reshape the superannuation industry and provide a better retirement for all Australians.

This is an exciting time to be involved in the superannuation industry, and QSuper hopes that by actively supporting and driving such changes, better retirement outcomes will be achieved for all QSuper members.

## Improving our business capability

In 2009/2010, external factors, such as the aforementioned reviews and an improved investment environment, played important roles in generating better outcomes for members. However, QSuper also recognises the importance of effective internal processes. As a result, we have taken the initial steps of a corporate change program which is reviewing how we deliver the products and services we provide to our members.

Through our Corporate Change Program, we are seeking to generate efficiencies across QSuper's operating platform and improve business processes and systems to ensure they are effective and agile.

To date, this review has taken into account just about all aspects of our operations, including the administration and operational systems QSuper Limited staff use on a daily basis.

## Recognition of our hard work

QSuper has reached some impressive milestones over the last twelve months. In 2009, our Accumulation account was ranked by SuperRatings, an independent superannuation ratings agency, as one of Australia's top ten funds. This is the second year running we have received this accolade.

SuperRatings has also named the QSuper Pension account as one of the top five pension products in Australia for 2010. These are both excellent achievements, and place QSuper as a leader in the superannuation industry. They also pay tribute to the hard work of all QSuper Limited staff in going above and beyond in providing exceptional products and services to our members.

The hard work of our Contact Centre staff, who are often the first point of contact for many members, was also recognised during the past financial year. I'm delighted to report that in 2009 QSuper's Contact Centre was recognised as the best in Queensland for its size.<sup>1</sup>

The last financial year has been a foundation year for QSuper, with the work completed forming the basis of many business improvements planned for the next few years. I look to the future with great excitement and confidence in our vision. QSuper is on an exciting journey, and I sincerely hope that members continue to travel into the future with us.

**Rosemary Vilgan**

Chief Executive Officer,  
QSuper and QSuper Limited

<sup>1</sup> Annual call centre awards, Australian Teleservices Association, Queensland chapter.

# Investments

## Market recovery

Having rebounded from the lows of March 2009, markets posted gains throughout the year as measures taken by central banks aided the global recovery in taking hold. Although there was volatility in the markets, gains of more than 25% were seen for the financial year to the end of April for developed markets, including the Australian market.

However, the last quarter of the financial year saw increased volatility in markets due to investor concerns over sovereign debt issues in the Euro area and possible concerns that the global recovery may falter. This saw markets domestically and abroad give back some of the gains seen throughout the first three quarters of the financial year.

## Solid returns

Despite the recent shocks to global and domestic equity markets, the 2009/2010 financial year has seen solid returns across QSuper's nine investment options. However, QSuper continues to monitor economic and market conditions and modify portfolio positions as necessary.

## Changes to investment options

To better reflect the structure of our investment options, the QSuper Board has recently amended the names of some of the options. Although changes have not been made to the structure of the investment options, some of the objectives for the options have been redefined with more specific benchmarks.

In addition to this, the QSuper Board made the decision to widen asset allocation ranges for some options. This will broaden the investment strategies available in different economic environments. These new ranges provide QSuper Limited and its investment managers with a greater ability to react to market factors and take advantage of investment opportunities as they arise.

## Market conditions – looking forward

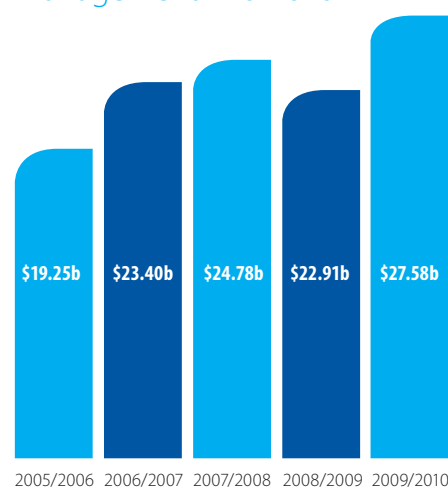
Recent market volatility suggests that the new financial year will continue to generate challenges for markets and economies. While global markets and economies have begun to recover post GFC, much of this recovery has been the result of stimulus and it will be interesting to see the strength of underlying economies as the effect of this stimulus reduces. If there is softness, governments

and central banks have fewer resources available to combat these issues than they did in the past.

## Our future

The 2010/2011 financial year will be one of ongoing development and refinement of our investment strategies, and the search for further asset diversification will continue. We will, as usual, be keeping our members updated through our website and newsletters.

## QSuper funds under management in billions<sup>1</sup>



<sup>1</sup> These figures represent investment balances at 30 June, not net assets.

## Investment returns

QSuper investment option <sup>2</sup>	Accumulation account				QSuper Pension account			
	Crediting rate 2009/2010	Compound 3-year return	Compound 5-year return	Compound 10-year return	Crediting rate 2009/2010	Compound 3-year return	Compound 5-year return	Compound 10-year return
Balanced	12.26%	-1.60%	4.19%	4.90%	13.75%	-1.42%	4.93%	5.57%
Cash Plus	9.14%	1.47%	4.49%	4.80%	9.09%	1.58%	5.06%	5.43%
Socially Responsible	9.97%	-3.28%	3.87%	n/a	10.79%	-3.81%	4.16%	n/a
Basic Growth	14.29%	n/a	n/a	n/a	13.71%	n/a	n/a	n/a
High Growth	12.07%	-6.18%	2.55%	2.20%	14.98%	-5.86%	3.68%	2.84%
Cash	3.93%	3.89%	4.35%	4.32%	4.49%	4.45%	5.07%	5.11%
Fixed Interest	18.06%	8.89%	6.64%	n/a	14.82%	8.19%	6.50%	n/a
Australian Shares	17.20%	-5.57%	5.22%	n/a	17.75%	-6.05%	5.39%	n/a
International Shares	10.61%	-10.87%	-0.82%	n/a	17.84%	-10.47%	0.31%	n/a

Defined Benefit account			
Crediting rate 2009/2010	Compound 3-year return	Compound 5-year return	Compound 10-year return
12.26%	-1.60%	4.57%	5.75%

<sup>2</sup> This information is reflective of our investment options as at 30 June 2010. The names of some of our investment options have changed effective 19 August 2010.

# Financial summary

QSuper's financial position has remained strong through difficult economic times.

<b>Financial summary</b>	
<b>QSuper net assets available to pay benefits as at 1 July 2009</b>	<b>\$23,403.5m</b>
<b>Revenue</b>	
Investment revenue	\$2,627.4m
Employer contributions	\$2,926.0m
Member contributions	\$870.8m
Transfers from other funds	\$432.6m
Other revenue	\$0.7m
<b>Total revenue</b>	<b>\$6,857.5m</b>
<b>Expenses</b>	
Benefits paid	\$1,791.8m
Administration expenses	\$71.4m
Strategic and change initiative expenses	\$11.8m
Financial planning expenses	\$14.4m
Income tax expenses	\$269.2m
Other expenses	\$10.7m
<b>Total expenses</b>	<b>\$2,169.3m</b>
<b>QSuper net assets available to pay benefits as at 30 June 2010</b>	<b>\$28,091.7m</b>

For detailed information, refer to the financial statements on page 20.

<b>Membership summary</b>		
Number of members at 30 June 2010		538,181
Accounts opened		69,684
Accounts closed		29,442
Number of accounts at 30 June 2010		715,965
	<b>30 June 2009</b>	<b>30 June 2010</b>
Average account balance	\$62,405	\$66,727



# Products

## Delivering quality products that cater to the diverse and changing needs of QSuper members.

We understand our members' superannuation needs and expectations often change throughout their working life and into retirement. We also recognise everyone's situation is different and there's no one-size-fits-all approach when it comes to superannuation.

QSuper offers a range of accounts to ensure our members are able to tailor their superannuation to suit their individual needs.

QSuper's award-winning Accumulation account just keeps getting better, receiving a SuperRatings platinum rating for the fourth consecutive year. Only the top 15% of funds rated received this rating.

## Product growth

The growth of funds in QSuper Accumulation accounts in comparison to funds in QSuper Defined Benefit accounts has steadily continued. This is because the Accumulation account was the default account before the Defined Benefit account closed completely to new members, and because retiring members often convert their Defined Benefit, State, or Police account to an Accumulation account.

## Accumulation account

A QSuper 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.

An Accumulation account lets members actively participate in the growth of their superannuation by selecting investments that suit their attitude to risk and return. Our default investment option is the QSuper Balanced (Default) option, and members' funds are directed to this option when we do not receive any specific investment direction from a member.

As of 1 July 2009, QSuper members and their spouses have had the option to have their non-Queensland Government employer pay super contributions on their behalf into a QSuper Accumulation account. As at 1 July 2010, over 10,000 members had registered for this option.

Accumulation account	30 June 2009	30 June 2010
Accounts (active)	225,345	247,202
Accounts (retained)	307,082	328,913
Income protection benefits paid	1,999	2,485
Rollovers to QSuper	24,792	24,897
Members making voluntary contributions	78,624	77,552
Accumulation accounts opened via spouse deposits	931	1,217
Income		
<i>Contribution</i>	\$3,357.1m	\$3,819.6m
<i>Investment</i>	\$(2,005.1)m	\$2,002.0m
<i>Miscellaneous</i>	\$0.2m	\$0.5m
Total	\$1,352.2m	\$5,822.1m
Expenditure	\$1,580.5m	\$2,342.5m
Balance of accounts <sup>1</sup>	\$17,149.0m	\$20,584.0m

<sup>1</sup> This amount includes some reserves held by the Queensland Government for superannuation.

## 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. On 12 November 2008, the Defined Benefit account was closed to new members. Members who had an existing Defined Benefit account at 12 November 2008 could continue to have membership. Employer contributions are not paid directly into QSuper – instead they are paid into a reserve held by the Queensland Government which is used to fund the benefits of Defined Benefit account members as required.

Defined Benefit account	30 June 2009	30 June 2010
Accounts (active)	79,779	76,106
Accounts (retained)	45,438	44,880
<b>Benefit payments</b>		
Age retirement	2,942	2,289
Permanent disability	303	257
Resignation	2,304	1,496
Retrenchment	145	185
Income protection benefits paid	1,615	1,555
Income		
<i>Contribution</i>	\$1,186.3m	\$1,332.7m
<i>Investment</i>	\$(1,100.4)m	\$715.3m
<i>Miscellaneous</i>	\$0.2m	\$0.3m
Total	\$86.1m	\$2,048.3m
Expenditure	\$1,355.1m	\$1,326.4m
Balance of accounts	\$5,378.1m	\$6,144.7m
Crediting rate	-11.96%	12.26%

# Products

## QSuper Pension account

A QSuper Pension account allows members to invest their QSuper benefit in an accumulation style account, where they can earn a return linked to their selected investment option while drawing a regular pension. The pension is paid until the member's account balance is exhausted.

### Transition to retirement

The transition to retirement option allows certain members to open a QSuper Pension account and draw an income while still employed. The transition to retirement option was implemented by QSuper in July 2006 and as at 30 June 2010 there were 2,933 members utilising this option. These members and their balances are included in the information for QSuper Pension accounts.

QSuper Pension account	30 June 2009	30 June 2010
Accounts	15,331	17,452
New accounts opened	2,910	2,835
Income		
<i>Contribution</i>	\$876.2m	\$906.5m
<i>Investment</i>	\$(422.0)m	\$520.7m
Total	\$454.2m	\$1,427.2m
Expenditure	\$501.0m	\$519.4m
Balance of accounts	\$3,485.0m	\$4,392.8m

## 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 entrants into these accounts, account numbers continue to diminish.

In a State or Police account, employer contributions are not paid directly into QSuper – instead they are paid into a reserve held by the Queensland Government which is used to fund the benefits of State and Police account members as required.

State and Police accounts	30 June 2009	30 June 2010
Accounts	1,511	1,412
<b>Benefit payments</b>		
<i>Age retirement</i>	82	79
<i>Ill-health retirement</i>	1	2
<i>Death</i>	2	2
<i>Resignation</i>	8	9
<i>Retrenchment</i>	6	1
Total	99	93
Income protection benefits paid	29	27
Income	Included in Defined Benefit account	
Expenditure	Included in Defined Benefit account	
Balance of accounts	Included in Defined Benefit account	
Crediting rate	Resignation – 12.36%	Resignation – 11.86%
	Preserved – 11.96%	Preserved – 12.26%

# Appendix

## 2009/2010 Annual report of the QSuper Board of Trustees

The QSuper Board is committed to high standards of corporate governance. The governance of QSuper is driven by the QSuper Board's desire to act in good faith, with foresight, and in the best interests of members and their dependants.

### Governance

The *Superannuation (State Public Sector) Act 1990* entrusts the Board to administer QSuper. In carrying out this function the 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 QSuper, as well as the accountability and suitability of all parties involved in the supervision and administration of the Fund.

### Composition and appointment of the Board

A Trustee's appointment to the QSuper Board is prescribed under the *Superannuation (State Public Sector) Act 1990*. The QSuper Board is comprised of six employer Trustees, appointed by the Treasurer, and six member entity Trustees. Of the six member entity Trustees, one is nominated by the Australian Workers' Union, Queensland, and the remainder are nominated by the Queensland Council of Unions.

The Treasurer, as Minister, appoints a Trustee as Chairman following consultation with the QSuper Board. Trustees serve on the QSuper Board for a term of three years, after which they may be nominated for re-appointment. QSuper Trustees are also Directors of QSuper Limited.

### Remuneration of the QSuper Board

During 2009/2010, the QSuper Board was remunerated in accordance with rates approved by the Treasurer in consultation with the QSuper Board. This remuneration represents an all inclusive fee encompassing all QSuper Board related activities (including Committee memberships and QSuper Limited Directorship). QSuper Board members, who are also employees of the Queensland Government, are not remunerated for their Trustee duties.

# Appendix

## Queensland Government Trustees

### **Mr Bob Scheuber, AM**

*BE, B.Bus, FCPA, FAIM, MAICD*

Trustee on the QSuper Board (appointed December 2007), Director of QSuper Limited (appointed December 2007), and appointed Chairman of the QSuper and QSuper Limited Boards (June 2009).

Mr Scheuber has had extensive involvement with Queensland Rail, culminating in six years as the Chief Executive Officer.

He is currently Chairman and Director of Rail and Transport Health Fund Limited, Deputy Chairman and Director of CRC Rail Limited, and Managing Director, Bob Scheuber Resources.

Mr Scheuber is Deputy Chairman of the Investment Committee and a member of the Audit and Risk Committee.

### **Mr John Carpendale**

**Former superannuation industry executive**

*BA, F.Fin, FASFA, GAICD, AIF, JP (Qual)*

Trustee on the QSuper Board (appointed June 2006), Director of QSuper Limited (appointed May 2007).

Mr Carpendale has over 40 years' experience in the superannuation industry, including senior executive roles with the Government Superannuation Office and the Queensland Local Government Superannuation Board (LG Super). He was former Chairman and Director of both Summerland Credit Union Limited and Summerland Financial Planning.

Mr Carpendale is Chairman of the Product Committee, a member of the Investment Committee, and was Chairman of the former Marketing and Communications Committee.

### **Ms Natalie MacDonald**

**Associate Director-General  
Queensland Department of Public Works**

*BA, MBA, M.Comm*

Trustee on the QSuper Board (appointed December 2007), Director of QSuper Limited (appointed December 2007).

Ms MacDonald has over 20 years' experience in the Commonwealth and state public sectors, and has held positions with the former Department of Housing, former Commonwealth Department of Employment, Education and Training, the Australian Trade Commission (AUSTRADE), and the Queensland Ambulance Service.

Ms MacDonald is a member of the Audit and Risk Committee, was previously a member of the Investment Committee, and was a member of the former Marketing and Communications Committee.

### **Mr Peter Henneken, AM**

**Former Director-General  
Department of Employment  
and Industrial Relations**

*B.Bus, BA, FIPAA, MAICD*

Trustee on the QSuper Board (appointed December 2007), Director of QSuper Limited (appointed December 2007), Chairman of the Safety, Rehabilitation and Compensation Commission, Chairman of the Portable Long Service Leave Authority (QLeave) Board.

Mr Henneken has over 40 years' experience in the public service, including eight and a half years as a CEO.

Mr Henneken is a member of the Investment Committee, was previously a member of the Audit and Risk Committee, and was a member of the former Insurance Claims Management Committee.

### **Mr Walter Ivessa**

**Assistant Under Treasurer  
Queensland Treasury**

*B.Ec*

Trustee on the QSuper Board (appointed June 2009), Director of QSuper Limited (appointed June 2009), Member of the Public Trust Investment Board, Director, Queensland Treasury Holdings Pty Ltd.

Mr Ivessa joined Queensland Treasury in 1981 and was appointed as an Assistant Under Treasurer in February 1996. Prior to this, Mr Ivessa worked for several Commonwealth Government departments in the Australian Capital Territory.

Mr Ivessa served as an external member of the Audit and Risk Committee between 2004 and 2009. He is presently Chairman of that Committee.

### **Ms Norelle Deeth**

**Former Director-General  
Department of Child Safety**

*BA, B.Com, Dip Ed*

Trustee on the QSuper Board (appointed June 2009), Director of QSuper Limited (appointed June 2009).

Ms Deeth joined the Queensland Department of Child Safety in July 2004, where she served as both Deputy Director-General and Director-General. Prior to this, Ms Deeth was Deputy Director-General, Queensland Health and an Assistant Under Treasurer with Queensland Treasury.

In 2001, Ms Deeth was awarded the Queensland Telstra Business Woman of the Year award in recognition of her lead role in the implementation of accrual output budgeting across the Queensland public sector.

Ms Deeth has also held a number of senior Board and Council positions, including Director of the Queensland Rural Adjustment Authority and Councillor on the University of the Sunshine Coast Council.

Ms Deeth is a member of the Audit and Risk Committee.

## Member entity Trustees

### **Mr Steve Ryan**

**President  
Queensland Teachers' Union**

Trustee on the QSuper Board (appointed June 1994), Director of QSuper Limited (appointed May 2007), Deputy Chairman of the QSuper and QSuper Limited Boards (appointed December 2009), President, Queensland Teachers' Union.

Mr Ryan has been an Executive Member of the Queensland Teachers' Union since 1993 and a senior officer of the Union since 2000. He is also a Director of Q Invest Limited.

Mr Ryan is a member of the Investment Committee and was a member of the former Marketing and Communications Committee.

### **Mrs Karen Peut, PSM**

**Executive Director  
Department of Transport and  
Main Roads**

*MAICD*

Trustee on the QSuper Board (appointed May 1985), Director of QSuper Limited (appointed May 2007), Executive Director, Department of Transport and Main Roads.

Mrs Peut is a former Director of Queensland Motorways Limited and has over 40 years' experience with the former Department of Main Roads (now Department of Transport and Main Roads). She is also a life member of the Queensland Public Sector Union.

Mrs Peut is a member of the Product Committee and was Chairman of the former Insurance Claims Management Committee.

### **Mr Tom Jeffers**

**Vice-President  
Australian Workers' Union, Queensland**

Trustee on the QSuper Board (appointed August 2007), Director of QSuper Limited (appointed August 2007), Vice-President, Australian Workers' Union, Queensland and Southern District Secretary.

Mr Jeffers has been involved with the Australian Workers' Union since 1990 and has extensive expertise and knowledge of employment and industrial relations. He is a Director of the Workers' Compensation Regulatory Authority (QCOMP) Board, and a member of the Workplace Health and Safety Board, Chairman of the Health Industry Sector Standing Committee, and board member of Energy Skills Queensland.

Mr Jeffers is a member of the Audit and Risk and Product Committees, and was a member of the former Insurance Claims Management Committee.

### **Ms Gay Hawksworth, OAM**

**State Secretary  
Queensland Nurses' Union**

*RN, Dip.Nursing*

Trustee on the QSuper Board (appointed December 2007), Director of QSuper Limited (appointed December 2007), State Secretary, Queensland Nurses' Union.

Ms Hawksworth has been involved with the Queensland Nurses' Union since 1982 and is currently the State Secretary. She is also the Senior Vice-President of the Queensland Council of Unions, Executive Member of the Australian Nursing Federation, and a former Executive Member of the Australian Council of Trade Unions. Ms Hawksworth has extensive expertise and knowledge in employment and industrial relations.

Ms Hawksworth is a member of the Product Committee and was a member of the former Marketing and Communications Committee.

### **Ms Amanda Richards**

**Assistant General Secretary  
Queensland Council of Unions**

Trustee on the QSuper Board (appointed September 2008), Director of QSuper Limited (appointed September 2008), Assistant General Secretary, Queensland Council of Unions.

Ms Richards is a Director of the Workers' Compensation Regulatory Authority (QCOMP) Board, and member of the Workplace Health and Safety Board. She also has extensive expertise and knowledge of employment and industrial relations.

Ms Richards was a member of the former Insurance Claims Management Committee.

### **Mr Michael Barnes**

**General Secretary  
Queensland Police Union of Employees**

Trustee on the QSuper Board (appointed June 2009), Director of QSuper Limited (appointed June 2009), General Secretary, Queensland Police Union of Employees, Executive Member, Queensland Council of Unions, Board Member, BraveHearts National Management Board, Director, Queensland Police Legacy Scheme.

Mr Barnes has over 25 years' service with the Queensland Police Service. He was Branch Secretary and Executive Member of the Queensland Police Union for 15 years. Mr Barnes has extensive expertise and knowledge in employment and industrial relations.

Mr Barnes is a member of the Product Committee and was a member of the former Insurance Claims Management and Marketing and Communications Committees.



# Appendix

## Board and management responsibilities

The QSuper Board generally meets on a monthly basis. Throughout the course of the 2009/2010 financial year, ten meetings were held. The QSuper Board delegates the day-to-day administration of QSuper to the management team of QSuper Limited, including the Chief Executive Officer and Executive Committee.

However, the QSuper Board retains responsibility for the operation of QSuper and receives regular reports from QSuper Limited management. The QSuper Board also has procedures in place to ensure that the Executive Committee is appropriately qualified and experienced to discharge its responsibilities.

The QSuper Board and QSuper Limited have established policies and procedures which ensure the QSuper Board, management, and staff meet high standards of professionalism and integrity, while adhering to industry standards and regulatory requirements. These include a commitment to providing continuing professional educational opportunities, documenting processes and procedures, and formulating, progressing, and promoting a comprehensive strategic plan.

## Board Committees

The QSuper Board may establish Committees as it considers necessary or appropriate to assist it in carrying out its responsibilities. Each Committee has a charter setting out the matters relevant to its composition, responsibilities, and administration. While Committees have specific membership, all Trustees are able to attend.

During 2009/2010, the following Committees were constituted by the QSuper Board:

- Investment Committee
- Audit and Risk Committee (joint QSL Committee)
- Product Committee
- Insurance Claims Management Committee
- Marketing and Communications Committee
- Licensing Committee (joint QSL Committee).

## Investment Committee

Members:

- Mr Michael Rice (Chairman)
- Mr Bob Scheuber (Deputy Chairman)
- Mr Peter Henneken
- Mr John Carpendale
- Mr Steve Ryan
- Mr Ian Macoun
- Ms Lorraine Berends.

This Committee provides assistance to the QSuper Board in discharging its investment oversight in relation to the Fund.

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

### Mr Michael Rice

Mr Rice has extensive experience in the financial services industry, including:

- Fellow of the Institute of Actuaries of Australia
- Founder and Managing Director of Rice Warner Actuaries.

### Mr Ian Macoun

*B.Com, M.Fin Mgmt, FCPA, FAICD*

- Chairman/Managing Director of Pinnacle Investment Management
- Chairman of Plato Investment Management, Solaris Investment Management, and Palisade Investment Partners
- Former Chief Executive Officer of QIC.

### Ms Lorraine Berends

*FIAA, B.Sc, FASFA, MAICD*

Ms Berends has over 30 years' experience in the financial services industry and possesses extensive experience in both the investment management and superannuation fields, including:

- Former member of the Association of Superannuation Funds Australia (ASFA) Board for twelve years, including three years as Chairman
- Principal, Client Service and Marketing, Marvin & Palmer Associates Inc
- Chairman of the Investment Management Consultants Association.

## Audit and Risk Committee

Members:

- Mr Walter Ivessa (Chairman)
- Mr Bob Scheuber
- Ms Natalie MacDonald
- Mr Tom Jeffers
- Ms Norelle Deeth.

This is a joint QSuper Board and QSuper Limited Committee. It assists the Boards in discharging their governance and administrative responsibilities.

The Committee's role includes:

- reviewing the management of risk, including overseeing the QSuper and QSuper Limited risk registers, and ensuring appropriate internal controls are in place to address those risks
- monitoring each entity's compliance with legislative requirements
- reviewing internal and external audit findings and monitoring the implementation of audit recommendations
- approval of actions taken to resolve and/or report non-compliance and resolve significant audit findings
- reviewing investment administration reports and compliance
- considering issues associated with the various licences held by QSuper and making recommendations to the Board.

## Product Committee

Members:

- Mr John Carpendale (Chairman)
- Ms Gay Hawksworth
- Mrs Karen Peut
- Mr Tom Jeffers
- Mr Michael Barnes.

The Product Committee was established on 1 January 2010 and was formed through the amalgamation of the former Insurance Claims Management and Marketing and Communications Committees.

As such, the Product Committee took on the oversight tasks previously undertaken by these Committees, including monitoring the development and implementation of a comprehensive marketing strategy for QSuper, reviewing material marketing publications, and overseeing product lifecycle and an effective claims management function.

## Insurance Claims Management Committee

The Insurance Claims Management Committee was dissolved on 31 December 2009 and the Committee's responsibilities have been re-assigned to the Product Committee.

This Committee oversaw the insurance products of QSuper and considered new initiatives and the strategic direction of claims management. It was a forum for discussion of claims management practices, initiatives, and reporting.

## Marketing and Communications Committee

The Marketing and Communications Committee was dissolved on 31 December 2009 and the Committee's responsibilities have been re-assigned to the Product Committee.

This Committee reviewed marketing strategies and timeframes for their implementation, as well as QSuper's member communications and publications.

## Licensing Committee

The Licensing Committee was dissolved on 31 December 2009 and the Committee's responsibilities have been re-assigned to the Audit and Risk Committee.

This joint QSuper Board and QSuper Limited Committee provided assistance to the QSuper Board in its application to become an RSE licensee (to obtain regulated fund status) and QSuper Limited in its application for an Australian Financial Services Licence.

### Meeting attendance record

Trustee	Board meetings		Investment Committee		Audit and Risk Committee		Product Committee		Insurance Claims Management Committee		Marketing and Communications Committee		Licensing Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Bob Scheuber	10	10	11	10	4	4								
John Carpendale	10	10	11	11			2	2			2	2	-	-
Natalie MacDonald <sup>1</sup>	10	9	6	6	2	2					2	2		
Peter Henneken <sup>2</sup>	10	10	5	5	2	1			1	1				
Walter Ivessa	10	8			4	3								
Norelle Deeth	10	9			4	3								
Steve Ryan	10	10	11	11							2	2	-	-
Karen Peut	10	10					2	2	1	1			-	-
Tom Jeffers	10	8			4	3	2	1	1	1				
Gay Hawksworth	10	8					2	1			2	1		
Amanda Richards	10	9							1	1				
Michael Barnes	10	7					2	2	1	1	2	2		
Independent committee members														
Michael Rice			11	11										
Ian Macoun			11	10										
Lorraine Berends <sup>3</sup>			4	4										
Michael Drew <sup>4</sup>			6	5										

#### Notes

- 1 Member of the Investment Committee until 31 December 2009. Appointed to the Audit and Risk Committee from 1 January 2010.
- 2 Member of the Audit and Risk Committee until 31 December 2009. Appointed to the Investment Committee from 1 January 2010.
- 3 Appointed to the Investment Committee from 1 March 2010.
- 4 Resigned from the Investment Committee from 31 December 2009.

# Appendix

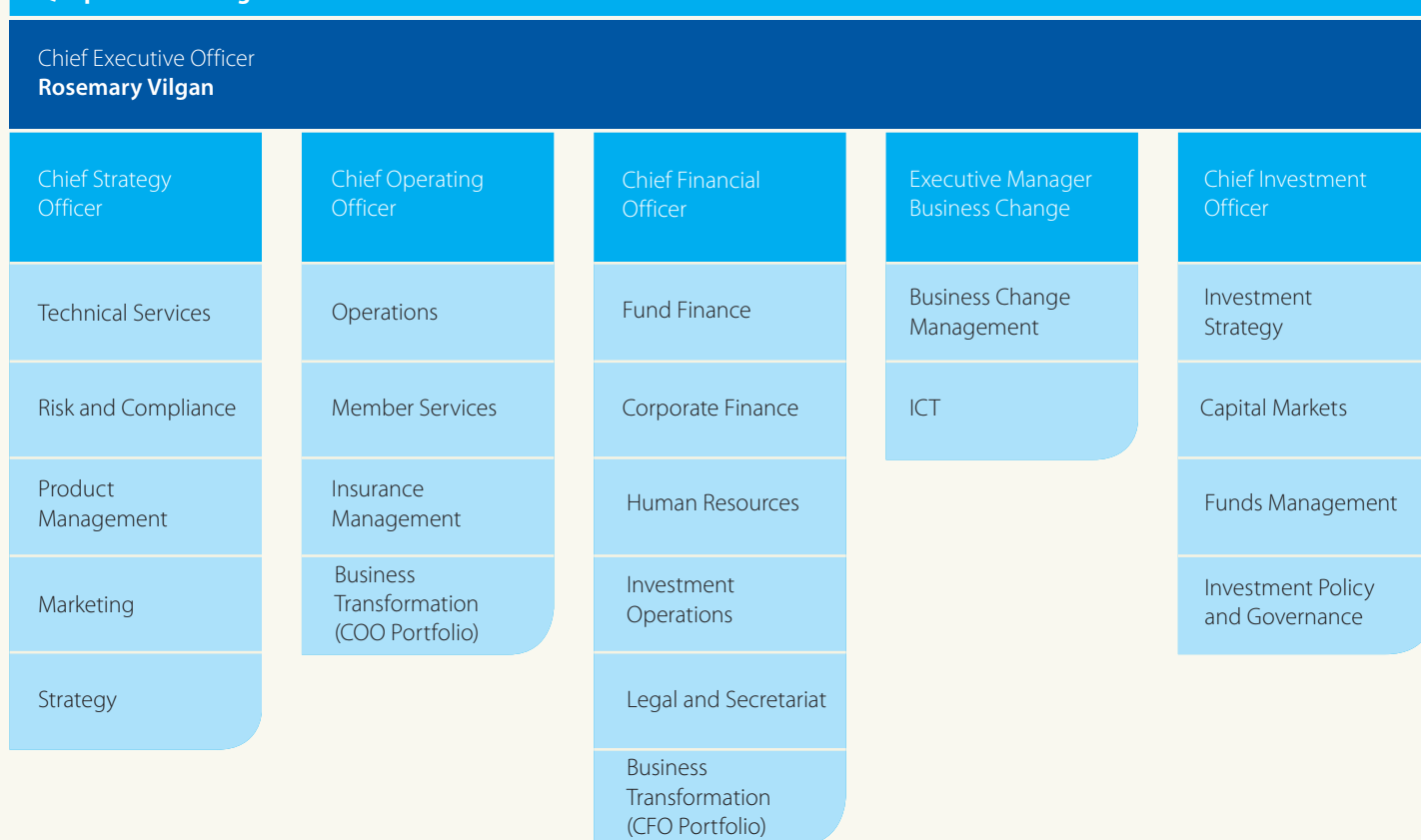
## QSuper Limited Executive Committee

Chaired by the Chief Executive Officer, the Executive Committee includes the Chief Financial Officer, Chief Operating Officer, Chief Strategy Officer, Chief Investment Officer, and Executive Manager – Business Change. The Committee is responsible for addressing strategic corporate issues, and providing assistance and advice to the Chief Executive Officer and the QSuper Board.

## QSuper Limited organisational chart

The chart below represents QSuper Limited's organisational structure as at 30 June 2010. Effective 1 July 2010, QSuper Limited will see a refreshed organisational structure. This heralds a new step forward for the organisation in terms of ensuring we are better established to be responsive to QSuper members and our employees. Go to the QSuper website for more details.

### QSuper Limited organisational chart as at 30 June 2010



## Risk management framework

As trustee of a complex superannuation fund with significant funds under management, it is imperative that the QSuper Board has a comprehensive and rigorous risk management framework in place. The QSuper Board takes its risk management responsibilities seriously and has devoted considerable effort to continually enhancing and improving this framework.

During 2009/2010, the QSuper Board continued to ensure that robust and effective processes and systems were being applied and enhanced to support the implementation of the Fund's Risk Management Framework so that the Fund's risk management practices are consistent with legislation and best practice.

The Risk Management Framework supports the QSuper Board in operating prudently, making informed decisions, and protecting the interests of members.

The major risks identified by the QSuper Board are incorporated into a combined Risk Management Strategy and Risk Management Plan (RMS/RMP). This is a formal document underpinning the QSuper Board's Risk Management Framework. The QSuper Board oversees compliance with the RMS/RMP, with primary carriage by its Audit and Risk Committee.

The RMS/RMP was a key component in obtaining a licence from the Australian Prudential Regulation Authority (APRA). Compliance with the RMS/RMP is required to be audited each year and this document is a key focus of APRA's prudential reviews.

The RMS/RMP is consistent with the ISO 31000 International Standard on Risk Management and is based on the principles of:

- identifying, analysing, evaluating, and mitigating risks
- aligning risk management with the corporate governance structure and business strategy
- implementing and operating a risk monitoring system that results in better-informed decisions.

The Risk Management Framework consists of the following four complementary elements:

- integrated and responsive risk management program
- comprehensive and effective compliance management program
- effective governance framework covering key roles, delegations, and trustee processes
- resourcing models and supporting processes.

These mechanisms are further supported and strengthened through internal and external audit programs.

### Risk management processes

The QSuper Board holds an annual risk workshop during which existing and emerging risks are considered and rated in terms of strategic objectives, materiality, and in line with the changing external environment. At this time, the QSuper Board may stipulate certain mitigations be implemented to maintain or reduce the final rating of the risk. The risk workshop and the development of the QSuper Board's risk register have been facilitated by the Fund's internal auditors.

Senior managers certify on a regular basis that they have initiated appropriate controls to mitigate the identified risks and that the controls have operated effectively. They also monitor the risks and determine whether a change in risk profile is recommended.

Consistent with good governance and accountability, reports on these certifications and risk profiling recommendations are then presented to the Audit and Risk Committee, which assesses whether the existing control structure is adequate or whether additional action needs to be undertaken and whether a change in risk profile is required. The Committee also monitors resolution of any incidents/breaches that may arise, as well as issues identified by internal and external auditors.

Any amendment of the RMS/RMP must be reported to APRA within 14 days, and any breach of the RMS/RMP must be reported within 10 days.

## Compliance Framework

The Compliance Framework, which is based on AS/NZS 3806, supports the early detection, reporting, and management of issues in line with regulatory and legislative requirements, and key policies and contracts.

The Compliance Framework also assists in developing a compliance culture through awareness, training, and the implementation of performance systems which include assessment of compliance behaviours and meeting compliance obligations.

Similar to the Risk Management Framework, the Compliance Framework is monitored by the Audit and Risk Committee and the Trustee (including reporting of exceptions), in line with the various practices governing operation of the risk and compliance frameworks.

### Governance

The governance system is a key feature of the Risk Management Framework in that it ensures effective structures are in place to support the way in which the Trustee's obligations will be met. The system outlines the distribution of delegations and responsibilities among the QSuper Board, managers, shareholders, and other stakeholders, and spells out the rules and procedures for making decisions on corporate matters. Through the effective application of this system, accountability by all officers to act in the best interests of the Fund is reinforced.

During 2009/2010, a number of Trustee policies and programs were reviewed in line with regulatory requirements. Examples include a review of the document due diligence program, anti-money laundering and counter-terrorism financing program, and policies including a review of the Risk Management Framework and Fraud and Corruption Control Policy. The latter policy now includes a Whistleblower policy.

# Appendix

## Resourcing

This component of the framework is about ensuring the Trustee has sufficient trained/qualified resources (HR, ICT, and financial) to meet its objectives. The Trustee manages its resources through its wholly owned subsidiary, QSuper Limited. QSuper Limited manages the day-to-day operations of QSuper. A number of activities are undertaken during the year to ensure adequacy of resources include:

- an annual budget-setting process, and regular monitoring and reporting on tracking against forecasts
- the implementation of an annual training and development program for Trustees and other responsible officers and key staff
- a requirement for all staff to complete mandatory risk and compliance related training.

## Internal audit program

Following the risk workshop and consultation with key stakeholders, the internal auditors prepare an internal audit plan for review and approval by QSuper's Audit and Risk Committee. In determining which areas to audit, consideration is given to the work undertaken by the QSuper Board's external auditors and the internal risk and compliance program. During 2009/2010, some of the audits completed were:

- core business testing
- regulations
- preserved member offer
- anti-money laundering/counter-terrorism financial policy compliance
- program management
- investments program.

The recommendations of the internal auditors have been, or are in the process of being implemented.

## External audit – Auditor-General of Queensland

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

The Auditor-General also relies upon various aspects of the work performed by the internal auditor, in addition to reviewing the QSuper Board's internal risk and compliance programs. The Auditor-General makes recommendations in relation to issues warranting further attention. Any such recommendations are considered and acted upon, following assessment by management, the Audit and Risk Committee, and the QSuper Board.

## Trustee policies

### Right to Information Act and Privacy

The *Right to Information Act 2009* (the RTI Act) and the *Information Privacy Act 2009* (the IP Act) give members of the community access to information held by QSuper. The process for making a Right to information or Information privacy application replaces the previous Freedom of information process.

The IP Act gives a person a right to apply for their own personal information. The RTI Act gives individuals the right to apply for other non-personal information.

If a request for information is made under either the RTI Act or the IP Act, the person will be given access to the information unless it is regarded as an exempt matter or it is against the public interest to release such information (e.g. information subject to legal professional privilege or commercially sensitive information).

Requests for information can be made in two ways:

- administrative release of information
- release of information under the RTI Act or the IP Act.

Most requests for personal information can be handled under the administrative release process. Otherwise, a person can submit a Right to information or Information privacy application directly to Queensland Treasury using the *Right to Information and Information Privacy Access Application* form, which is available on the Queensland Treasury website. The application form should be sent to:

Manager, Administrative Review  
Queensland Treasury  
GPO Box 611  
Brisbane Qld 4001  
Fax: +61 7 3224 2981

Alternatively, a person may apply using the Queensland Government's online application form.

Requests for non-personal information attract a fee of \$38, which must be paid before the application can be processed. A charge may apply for processing the application and photocopying documents. Generally, requests are completed within 25 business days.

A person may make a request to amend their personal information if they think it is inaccurate, incomplete, out of date, or misleading. Generally, requests are completed within 25 days.

If a person is not satisfied with any decision in relation to a Right to information or Information privacy access application, they can have the decision reviewed either internally or externally. More information about the internal review process is available on the Queensland Treasury website, while more information about the external review process can be found on the Office of the Information Commissioner website.

### QSuper's privacy policy

QSuper's privacy policy is set out in the *Your Privacy* fact sheet which is available by contacting QSuper or on the QSuper website at [qsuper.qld.gov.au](http://qsuper.qld.gov.au).



## Fraud and ethics

QSuper and QSuper Limited have a Fraud and Corruption Control Policy in place, which was developed based on the recommendations of the Australian Standard on Fraud and Corruption Control AS8001. This policy was reviewed during 2009/2010 to incorporate KPMG's best practice approach to the management of fraud and corruption risks. The policy approaches the control of fraud and corruption through:

- implementing effective risk management which is aimed at the prevention, detection, ongoing monitoring, and timely and effective response to potential incidents of fraud
- implementing and monitoring controls which assist with the prevention of fraud
- establishing clear reporting policies and procedures.

QSuper and QSuper Limited's culture promotes responsible and ethical behaviour from all staff. Periodic training maintains staff awareness of fraud and corruption, and the importance of ethics. A program of ongoing monitoring aims to ensure any risks are identified and remedied quickly. Employees who have concerns with ethical issues or potential fraud are encouraged to report these to senior Risk and Compliance staff, their manager, or by using the Whistleblower hotline.

## Whistleblower protection

QSuper has established a Whistleblower Protection Program which encourages, protects (to the extent permitted by law), and supports the responsible reporting of fraud and corruption. These protections are located in the *Whistleblowers Protection Act 1994* (Qld).

## Service providers

### Administrator

QSuper Limited<sup>1</sup>  
Central Plaza Three  
70 Eagle Street  
Brisbane Qld 4000

### Investment services manager

QSuper Limited<sup>1</sup>  
Central Plaza Three  
70 Eagle Street  
Brisbane Qld 4000

### Financial planning

Q Invest<sup>2</sup>  
Central Plaza Two  
66 Eagle Street  
Brisbane Qld 4000

### Internal auditor

Ernst & Young<sup>3</sup>  
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<sup>4</sup>  
Level 4, 1 Collins Street  
Melbourne Vic 3000

### External insurer

TOWER Australia Limited<sup>5</sup>  
80 Alfred Street  
Milsons Point NSW 2061

### Custodian

National Australia Bank Asset Servicing<sup>6</sup>  
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.

# State Public Sector Superannuation Scheme

Annual financial statements  
for the year ended 30 June 2010

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Summary report on the actuarial investigation

# Statement of net assets

as at 30 June 2010

	Notes	2010 \$'000	2009 \$'000
<b>ASSETS</b>			
<b>Cash</b>	2(d)	<b>50,674</b>	<b>53,869</b>
<b>Receivables</b>			
Employer contributions receivable	2(e), 2(n)	26,650	22,270
Member contributions receivable	2(e), 2(n)	3,703	3,367
GST receivable	2(e), 2(f)	2,680	2,341
Interest receivable	2(e)	202	145
Sundry receivables and prepayments	2(e)	2,026	3,199
		<b>35,261</b>	<b>31,322</b>
<b>Investments</b>			
Investments	2(h), 4	27,613,343	22,900,827
Investment in Q Invest Limited	2(h), 5	573	21
Investment in QSuper Limited	2(h), 6	43,083	37,730
		<b>27,656,999</b>	<b>22,938,578</b>
<b>Tax assets</b>			
Current tax assets	2(g)	–	35,225
Deferred tax assets	2(g), 14	552,535	462,932
<b>Total assets</b>		<b>28,295,469</b>	<b>23,521,926</b>
<b>LIABILITIES</b>			
<b>Payables</b>			
Benefits payable	2(j)	11,491	8,155
Administration and investment management fees payable	2(k), 15	19,788	31,046
Sundry payables	2(k)	741	628
		<b>32,020</b>	<b>39,829</b>
<b>Tax liabilities</b>			
Current tax liabilities	2(g)	94,472	–
Deferred tax liabilities	2(g), 14	4,904	3,728
Provision for superannuation contributions surcharge	2(l)	72,375	74,831
		<b>171,751</b>	<b>78,559</b>
<b>Total liabilities</b>		<b>203,771</b>	<b>118,388</b>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS</b>		<b>28,091,698</b>	<b>23,403,538</b>
<b>Represented by:</b>			
Reserves	9	537,934	330,553
Accumulated funds	10	27,553,764	23,072,985
<b>NET ASSETS AVAILABLE TO PAY BENEFITS</b>		<b>28,091,698</b>	<b>23,403,538</b>

The Statement of net assets should be read in conjunction with the accompanying notes.

# Statement of changes in net assets

as at 30 June 2010

	Notes	2010 \$'000	2009 \$'000
<b>NET ASSETS AVAILABLE TO PAY BENEFITS at the beginning of the financial year</b>		<b>23,403,538</b>	<b>24,614,733</b>
<b>Investment revenue</b>			
Distributions/Dividends	2(n), 4	4,288,683	340,798
Change in net market value of investments	2(n), 11	(1,595,944)	(3,398,825)
Investment management fees	15(e)	(67,529)	(78,242)
Interest revenue	2(n)	2,171	1,898
		<b>2,627,381</b>	<b>(3,134,371)</b>
<b>Contribution revenue</b>			
Employer contributions	2(n), 12	2,926,049	2,653,400
Member contributions	2(n), 13	870,804	729,932
Transfers from other funds	2(n)	432,562	346,190
		<b>4,229,415</b>	<b>3,729,522</b>
<b>Other revenue</b>			
Insurance recoveries	2(n)	256	–
Sundry revenue	2(n)	462	436
		<b>718</b>	<b>436</b>
<b>Total revenue</b>		<b>6,857,514</b>	<b>595,587</b>
<b>Less:</b>			
<b>Benefits paid</b>		<b>1,791,833</b>	<b>1,745,774</b>
<b>General administration expenses</b>			
Administration fee	15(c)	71,392	63,733
Strategic and change initiative fee	2(o), 15(c)	11,800	5,343
Other fees	2(p)	2,478	162
Financial planning fee	15(d)	14,405	13,744
Superannuation contributions surcharge	2(l)	4,166	5,044
Insurance premiums	18	4,042	3,977
		<b>108,283</b>	<b>92,003</b>
<b>Total expenses</b>		<b>1,900,116</b>	<b>1,837,777</b>
<b>Total change in net assets before income tax</b>		<b>4,957,398</b>	<b>(1,242,190)</b>
Income tax expense	14	269,238	(30,995)
<b>Total change in net assets after income tax</b>		<b>4,688,160</b>	<b>(1,211,195)</b>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS at the end of the financial year</b>		<b>28,091,698</b>	<b>23,403,538</b>

The Statement of changes in net assets should be read in conjunction with the accompanying notes.



# Notes to the financial statements

for the year ended 30 June 2010

## Note 1 Operation of QSuper

The State Public Sector Superannuation Scheme (QSuper) 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 statutory bodies and government owned enterprises. QSuper 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 QSuper employers and have a break in service of less than one month will be permitted to continue contributing to their Defined Benefit account.

QSuper receives all member superannuation contributions. QSuper also receives employer contributions through a mixture of regular employer contributions and payments from the Consolidated Fund (refer note 13). Contribution rates in relation to QSuper's defined benefit funding are determined by the Treasurer on the advice of the State Actuary. The funding arrangements are explained in note 13.

QSuper is administered by QSuper Limited – ABN 50 125 248 286 (refer note 15).

QSuper obtained its RSE licence from APRA on 09 July 2009 and its registration number is R1073034.

## Note 2 Significant accounting policies

### (a) Basis of preparation

#### *General*

These financial statements are a general purpose financial report, which has been prepared in accordance 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 authoritative pronouncements of the Australian Accounting Standards Board, and the provisions of the *Superannuation (State Public Sector) Deed 1990*.

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.

#### *Accounting policies*

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

#### *Rounding*

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

### (b) Statement of compliance

The financial statements comply with AAS 25 as it is the principal standard governing superannuation plans. Other standards, including Australian Accounting standards, issued by the AASB are also applied where necessary except to the extent that they differ from AAS 25.

# Notes to the financial statements

for the year ended 30 June 2010

## Note 2 Significant accounting policies (continued)

### (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 the Fund for the annual reporting period ended 30 June 2010. These are outlined in the table below.

AASB Amendment/ Standard	Title	Nature of change to accounting policy	Application date of standard	Application date for the Fund
2009-5	<i>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project</i>	No change to accounting policy	1 January 2010	1 July 2010
AASB 9	<i>Financial Instruments</i>	Potential change to accounting policy following implementation of ED 179	1 January 2013	1 July 2013
2009-11	<i>Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023, and 1038, and Interpretations 10 and 12]</i>	No change to accounting policy	1 January 2011	1 July 2011
2009-14	<i>Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement</i>	No change to accounting policy	1 January 2011	1 July 2011
2010-4	<i>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, and AASB 134, and Interpretation 13]</i>	No change to accounting policy	1 January 2011	1 July 2011

In addition to the above, QSuper has noted that a significant change in accounting policy may potentially arise from ED 179 *Superannuation Plans and Approved Deposit Funds*. The impacts of ED 179 has been analysed below.

#### **ED 179 Superannuation Plans and Approved Deposit Funds**

The Australian Accounting Standards Board (AASB) approved its Exposure Draft (ED) on superannuation plans and released it for public comment on 20 May 2009. 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. Although the ED is silent on application dates, it is anticipated that it will be applicable as a new standard for annual reporting periods beginning on or after 1 July 2011 and will, therefore, apply to comparative information from 1 July 2010.

# Notes to the financial statements

for the year ended 30 June 2010

## Note 2 Significant accounting policies (continued)

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 cash flow statement
- accounting for insurance contracts as if they were life insurance contracts; QSuper is currently not obliged to report self insurance contracts separately
- consolidating controlled entities; QSuper's controlled entities are currently not consolidated as they are not considered material
- 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.

### (d) Cash

Cash represents cash at bank.

### (e) Receivables

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

### (f) 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 recoverable 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.

### (g) Taxation

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

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.

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.

# Notes to the financial statements

for the year ended 30 June 2010

## Note 2 Significant accounting policies (continued)

### (h) Investments

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 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. 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 funds' managers.
- Interests in pooled investment vehicles at the redemption price as quoted by the investment manager.
- Interests in unlisted trusts, property, infrastructure, and collective investment schemes at the most recent valuation obtained from the managers adjusted for subsequent calls and redemptions and any 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.

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 time frame 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.

#### *Investments in service providers*

At 30 June 2010, QSuper had a 50% interest in Q Invest Limited (refer note 5) and a 100% interest in QSuper Limited (refer note 6). These investments are measured at QSuper's share of net assets at reporting date based on holdings (refer note 20 regarding QSuper's acquisition of the remaining 50% interest in Q Invest Limited subsequent to 30 June 2010). This is achieved by adjusting the carrying amount of the investment to reflect the share of net assets of the investment for that period. This approximates net market value.

### (i) Foreign currency

Both the functional and presentation currency of the Fund is Australian Dollars (\$).

Foreign currency translations 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.

### (j) 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 (7) days.

### (k) Payables

Payables represent liabilities for goods and services provided to QSuper prior to year end which are unpaid as at 30 June 2010. Payables are normally settled within 30 days of recognition.

# Notes to the financial statements

for the year ended 30 June 2010

## Note 2 Significant accounting policies (continued)

### (l) 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 is recognised when the assessment is received from the Australian Taxation Office as the QSuper Board of Trustees (the Board) considers this is when it can 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 of superannuation contributions and certain termination payments made or received on or after 1 July 2005. Assessments for surcharge in respect of contributions and payments for the year ended 30 June 2005 and prior years will continue to be issued and remain payable.

### (m) 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 7). In accordance with AAS 25, this liability has not been shown on the face of the financial statements.

#### *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 has not been shown on the face of the financial statements.

### (n) 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:

- Distribution income is accounted for on an accrual basis. Distribution income is recognised when QSuper becomes presently entitled to the trust income.
- Domestic dividend income is accounted for on an accrual basis. Foreign dividend income is recognised on the date of entitlement.
- Changes in net market value of investments are recognised in the periods in which they occur. The changes in net market value include both realised and unrealised movements and are net of costs expected to be incurred for realising the investments.
- Employer and member contributions are brought to account, gross of any tax, as received. At year end an accrual is recognised for any material contributions which relate to whole pay periods ending prior to 30 June but which are received after year end.
- Transfers from other funds are brought to account when received.
- Interest income and sundry revenue is accounted for on an accrual basis.

# Notes to the financial statements

for the year ended 30 June 2010

## **Note 2 Significant accounting policies (continued)**

### **(o) Strategic and change initiative fee**

The strategic and change initiative fee includes payments to QSuper Limited for the Corporate Change Program, Investment Capability Program and other strategic and change initiatives. These initiatives are focused on addressing emerging cost and capability issues faced by QSuper Limited to ensure that it can meet QSuper's ongoing business requirements and strategic objectives within a competitive and regulated environment. These programs are designed to provide long-term benefits to members. These initiatives are funded via the reserves.

### **(p) Other fees**

Other fees include payments to the Queensland Audit Office (QAO), State Actuary, the Custodian, and APRA.

## **Note 3 Significant accounting judgements, estimates, and assumptions**

The preparation of the financial statements requires the making of estimates and assumptions that affect the recognised amounts of assets, liabilities, revenues, and expenses and the disclosure of contingent liabilities where applicable. The estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable in the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities where they are not available from independent sources. The key estimates and assumptions that have a significant risk of causing a material adjustment to the values of liabilities are discussed in note 7, Liability for accrued benefits.

## **Note 4 Investments**

As at 22 April 2010, QSuper transitioned from an implemented custody model with QIC to a direct contractual custody relationship with National Australia Bank Asset Servicing (NAB). At the same time, QSuper moved from a legal structure where units are owned in investment trusts managed by QIC, to one where the majority of assets are held directly by QSuper. The results shown in the table on the following page, for the financial year ended 30 June 2010, reflect this change in investment approach.

The *Superannuation (State Public Sector) Act 1990* was amended during the financial year to allow the Fund to appoint one or more investment managers for the Fund or parts of the Fund. Investments, including derivatives of the Fund, 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 are in addition to their current administrative duties). 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 new direct investment management agreements (hereafter referred to as mandates). The Fund's expectations of its external managers are documented in the mandates agreed between the parties. Specific reporting requirements are included within the contracts to ensure sufficient information and transparency is provided for ongoing monitoring.

# Notes to the financial statements

for the year ended 30 June 2010

## Note 4 Investments (continued)

	2010 \$'000	2009 \$'000
<i>Investment assets:</i>		
Listed equities	8,564,061	–
Listed unit trusts	128,368	–
Listed property trusts	577,361	–
Unlisted unit trusts	9,572,030	22,900,827
Unlisted equities	128,090	–
Unlisted partnership	97,879	–
Preference shares redeemable	6,421	–
Perpetual securities	26,741	–
Indexed bonds	317,221	–
Floating rate notes	1,164,827	–
Mortgage backed securities	385,042	–
Asset backed securities	500	–
Loans	12,131	–
Discount securities	3,836,556	–
Swaps	760,009	–
Futures	14,760	–
Cash and deposits	4,240,810	–
Outstanding settlements	725,326	–
FFX contracts	11,874,471	–
<b>Total assets</b>	<b>42,432,604</b>	<b>22,900,827</b>
<i>Investment liabilities comprise:</i>		
Swaps	765,087	–
Futures	90,092	–
Cash and deposits	2,041,088	–
FFX contracts	11,922,994	–
<b>Total liabilities</b>	<b>14,819,261</b>	<b>–</b>
<b>Net total investments</b>	<b>27,613,343</b>	<b>22,900,827</b>

Refer note 2(h) for the methods and assumptions adopted in determining the fair values of investments.



# Notes to the financial statements

for the year ended 30 June 2010

## Note 4 Investments (continued)

### (a) Fair value hierarchy classification

In accordance with AASB 7 *Financial Instruments: Disclosures*, the Fund 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), and
- **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 the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2010.

#### 30 June 2010

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Asset backed securities	–	500	–	500
Discount securities	–	3,836,556	–	3,836,556
FFX contracts	–	(48,522)	–	(48,522)
Floating rate notes	–	1,164,827	–	1,164,827
Futures	(75,332)	–	–	(75,332)
Indexed bonds	–	317,221	–	317,221
Listed equities	8,562,365	1,502	194	8,564,061
Listed property trusts	577,096	265	–	577,361
Listed unit trusts	128,368	–	–	128,368
Loans	–	12,131	–	12,131
Mortgage backed securities	–	384,922	120	385,042
Perpetual securities	–	26,741	–	26,741
Preference shares redeemable	6,421	–	–	6,421
Swaps	–	(5,077)	–	(5,077)
Unlisted equities	2,332	115,436	10,322	128,090
Unlisted unit trusts	–	9,572,030	–	9,572,030
Unlisted partnership	–	97,879	–	97,879
<b>Total</b>	<b>9,201,250</b>	<b>15,476,411</b>	<b>10,636</b>	<b>24,688,297</b>

Investments not included in the above table are cash and deposits (\$2,199,722,000) and outstanding settlements (\$725,324,000). Both these investments and the investments illustrated in the fair value hierarchy table equates to the net total investments as at 30 June 2010 (\$27,613,343,000).

# Notes to the financial statements

for the year ended 30 June 2010

## Note 4 Investments (continued)

### (b) Level 3 – Financial instruments transactions

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

	Listed equities \$'000	Unlisted equities \$'000	Mortgage backed securities \$'000	Total \$'000
<b>Opening balance<sup>1</sup></b>	–	–	–	–
Total realised/unrealised gains and losses	11	1,021	6	1,038
Purchases/applications	183	12,463	114	12,760
Sales/redemptions	–	(3,162)	–	(3,162)
Issues	–	–	–	–
Settlements	–	–	–	–
Transfers into Level 3	–	–	–	–
Transfers out of Level 3	–	–	–	–
<b>Closing balance</b>	<b>194</b>	<b>10,322</b>	<b>120</b>	<b>10,636</b>

<sup>1</sup> As at 22 April 2010, the Fund's investments transitioned to NAB – the newly appointed master custodian of the Fund. Balances pre-transition date have not been recorded, as assets were invested by QSuper in QIC's unit trusts and represented Level 2 instruments.

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:

	Listed equities \$'000	Unlisted equities \$'000	Mortgage backed securities \$'000	Total \$'000
Total gains/(losses) recognised in the Statement of changes in net assets for the period	–	203	–	203
Total unrealised gains/(losses) recognised in the Statement of changes in net assets for assets held at end of reporting period	11	818	6	835

# Notes to the financial statements

for the year ended 30 June 2010

## Note 4 Investments (continued)

### (c) Transfers between hierarchy levels

During the financial year ended 30 June 2010, QSuper transitioned from an implemented custody model with QIC and NAB to a direct contractual relationship with NAB. At the same time, QSuper moved from a legal structure where units are owned in investment trusts managed by QIC to one where the majority of assets are held directly by QSuper. The comparative for the financial year ended 30 June 2010 reflects this change in investment approach.

This restructure has resulted in movements between Level 1 and Level 2 of the fair value hierarchy during the year, due to investment redemptions and acquisitions throughout the year.

### (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, as at reporting date, are listed below.

Manager	Asset class
State Street Global Advisors Australia Ltd	Australian Equities
	International Equities
	Global Listed Real Estate Equities
Dimensional Fund Advisors Australia Ltd	Australian Equities
	International Equities
	Emerging Market Equities
Bridgewater Associates	Hedge Fund
AMP Capital Investors	Responsible Investment Leaders Balanced Fund (Socially Responsible Investment option)
QIC Ltd	Cash
	Defined Benefit Mandate
	Global Fixed Interest
	Capital Markets
	Global Real Estate
	Global Infrastructure
	Global Private Equity
	Hedge Fund

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

# Notes to the financial statements

for the year ended 30 June 2010

## Note 5 Investment in Q Invest Limited

At 30 June 2010, QSuper holds a 50% interest in Q Invest Limited (refer note 20 regarding QSuper's acquisition of the remaining 50% interest in Q Invest Limited subsequent to 30 June 2010). Q Invest Limited's principal activities consist of the provision of financial planning advice. Q Invest Limited is no longer the responsible entity for the Q Invest Investment Access Funds.

Q Invest Limited is not included as part of the consolidated financial statements, as the investment is deemed immaterial under AASB 1031 *Materiality*. In addition, QSuper does not exert control over Q Invest Limited at reporting date (refer note 20 regarding QSuper's acquisition of the remaining 50% interest in Q Invest Limited subsequent to 30 June 2010). AASB 127 *Consolidated and Separate Financial Statements* has therefore not been applied to Q Invest Limited.

## Note 6 Investment in QSuper Limited

QSuper holds a 100% interest in QSuper Limited. QSuper Limited's principal activities consist of providing key administration and investment services to QSuper, as well as ancillary services to Queensland Treasury. The net market value of the investment as at 30 June 2010 approximates fair value.

QSuper Limited is not included as part of the consolidated financial statements, as the investment is deemed immaterial under AASB 1031 *Materiality*. AASB 127 *Consolidated and Separate Financial Statements* has therefore not been applied to QSuper Limited.

## Note 7 Liability for accrued benefits

The last actuarial review of QSuper was conducted as at 30 June 2007 by the State Actuary, Mr W H Cannon BSc (Hons) FIAA FFin. The value of accrued benefits as at that date was \$39,557,330,000. 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, this liability has not been shown on the face of the financial statements.

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 13.

The next actuarial review of QSuper will be performed as at 30 June 2010. The results of this review will be reported in the 30 June 2011 financial statements.

## Note 8 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.

	2010 \$'000	2009 \$'000
<b>Vested benefits</b>	<b>51,200,865</b>	<b>45,008,354</b>

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 13). In accordance with AAS 25, vested benefits have not been shown on the face of the financial statements.

# Notes to the financial statements

for the year ended 30 June 2010

## Note 9 Reserves

	Balance at beginning of financial year \$'000	Transfers (to)/from accumulated funds \$'000	Balance at end of financial year \$'000
General reserve	157,145	192,872	350,017
Unallocated contributions reserve	8,799	(454)	8,345
Insurance reserve	164,609	14,963	179,572
<b>Reserves</b>	<b>330,553</b>	<b>207,381</b>	<b>537,934</b>

**General reserve:** QSuper maintains a general reserve to ensure that the Fund can meet both current and future liabilities associated with administration, strategic initiatives, tax, and operational risk. 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 the Fund's Reserve Policy. The increase in the general reserve for the year is predominately a result of tax provisioning on improved investment earnings.

**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' vested benefits is represented by the balance of the reserve. This reserve holds insurance premiums collected from members to meet these QSuper insurance expenses. The premium rates are reviewed by the State Actuary and set by the Board.

## Note 10 Accumulated funds

	Notes	2010 \$'000	2009 \$'000
Balance at the beginning of financial year		23,072,985	24,039,162
Total change in net assets after income tax		4,688,160	(1,211,195)
Transfers (to)/from reserves		(207,381)	245,018
<b>Balance at end of financial year</b>		<b>27,553,764</b>	<b>23,072,985</b>
Represented by:			
Accumulated member funds		26,389,485	22,173,430
Accumulated employer funds	(i)	1,164,279	899,555
<b>Accumulated funds</b>		<b>27,553,764</b>	<b>23,072,985</b>

(i) Balance of employer contributions received from the Treasurer transferred from the Consolidated Fund.

# Notes to the financial statements

for the year ended 30 June 2010

## Note 11 Change in net market value of investments

	2010 \$'000	2009 \$'000
<i>(i) Investments unrealised at balance date</i>		
Listed equities	(992,901)	–
Listed unit trusts	(18,819)	–
Listed property trusts	(23,886)	–
Unlisted equities	16,427	–
Unlisted partnership	5,167	–
Unlisted unit trusts	561,019	(660,269)
Preference shares redeemable	(448)	–
Perpetual securities	(1,141)	–
Indexed bonds	40,845	–
Floating rate notes	1,375	–
Mortgage backed securities	692	–
Asset backed securities	43	–
Discount securities	16,067	–
Swaps	19,433	–
Futures	(75,412)	–
Cash and deposits	921	–
Outstanding settlements	160	–
FFX contracts	(48,522)	–
Total	(498,980)	(660,269)
<i>(ii) Investments realised during the year</i>		
Listed equities	(3,157)	–
Listed unit trusts	(4,063)	–
Listed property trusts	(3)	–
Unlisted equities	4,456	–
Unlisted unit trusts	(1,019,448)	(2,738,556)
Floating rate notes	(851)	–
Mortgage backed securities	(2)	–
Discount securities	16,270	–
Swaps	3,544	–
Futures	(93,710)	–
Total	(1,096,964)	(2,738,556)
<b>Total changes in net market value</b>	<b>(1,595,944)</b>	<b>(3,398,825)</b>

Prior to the investment restructure in April 2010, QSuper's investments were predominately invested in QIC trusts. Distributions arising from these trusts reflect both the realised and unrealised gains and also any income derived from underlying assets of the trusts. Therefore, whilst characterised as a distribution, these returns predominately reflect the changes in net market value of the Fund's investments.

# Notes to the financial statements

for the year ended 30 June 2010

## Note 11 Change in net market value of investments (continued)

The amount noted as the change in net market value is therefore largely represented by the negative movement of the investments held for the period following QSuper's transition to direct investment (i.e. since 22 April 2010). It should however be noted that the overall position of QSuper's investments is positive when taking into account the distributions from unit trusts for the full financial year.

## Note 12 Employer contributions

	Notes	2010 \$'000	2009 \$'000
<i>Accumulation account</i>			
Employer contributions		1,682,544	1,560,070
<i>Defined Benefit account</i>			
Employer contributions – salary sacrifice		203,505	193,330
Employer contributions – Consolidated Fund	(i)	1,040,000	900,000
		1,243,505	1,093,330
<b>Employer contributions</b>		<b>2,926,049</b>	<b>2,653,400</b>

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 note 13 for further details in relation to employer contribution funding arrangements.

(i) Contributions received from the Treasurer transferred from the Consolidated Fund.

## Note 13 Funding arrangements

### *Defined Benefit arrangement*

Standard members' contributions are made to QSuper at a rate ranging from 2% to 11.5% (2009: 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 in the Consolidated Fund, which is maintained to finance the State's future liability for the employer component of all defined benefits. The Treasurer, on advice from the State Actuary, determines the rate of employer contribution into the Consolidated Fund.

As defined benefits become payable, the full cost is met by QSuper, with the Consolidated 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 Consolidated 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 Consolidated Fund to QSuper in circumstances and at times other than funding the immediate payment of benefits. Transfers occurred monthly from July 2009 to June 2010 and amounted to \$1,040 million for 2010 (2009: \$900 million). These transfers are considered to approximate last minute funding.

### *Accumulation arrangement*

Where members have chosen an accumulation-style benefit, all member and employer contributions are paid to QSuper, other than where a member transfers from the Defined Benefit account. In this instance, the benefit arising in relation to the defined benefit membership remains under the abovementioned last minute funding arrangement. Employer contributions to QSuper for members who do not contribute are at a rate ranging from 3% to 9% (2009: 3% to 9%) of members' salaries.



# Notes to the financial statements

for the year ended 30 June 2010

## Note 13 Funding arrangements (continued)

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.

## Note 14 Income tax expense

Major components of income tax expense are:

	2010 \$'000	2009 \$'000
<i>Current income tax</i>		
Current income tax expense	357,003	307,304
Adjustments in respect of current income tax of previous years	662	(3,902)
<i>Deferred income tax</i>		
Movement in deferred tax asset	(89,603)	(289,258)
Movement in deferred tax liability	1,176	(45,139)
<b>Income tax expense reported in the Statement of changes in net assets</b>	<b>269,238</b>	<b>(30,995)</b>

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:

	2010 \$'000	2009 \$'000
(Decrease)/Increase in net assets before income tax	4,957,398	(1,242,190)
Prima facie income tax expense at the tax rate of 15%	743,610	(186,329)
Increase in income tax expense due to:		
Benefits paid	268,775	261,866
Superannuation contributions surcharge	625	757
Decrease in income tax expense due to:		
Differences between tax and accounting net investment income <sup>1</sup>	(413,980)	162,163
Non-assessable member contributions and transfers in	(191,796)	(155,558)
Imputation and foreign tax credits	(86,977)	(66,922)
Group life proceeds, notional insurance and anti-detriment	(37,129)	(36,580)
Exempt pension income	(14,538)	(6,451)
Other	(14)	(39)
	268,576	(27,093)
(Over)/under provision for taxation – prior year	662	(3,902)
<b>Income tax expense reported in the Statement of changes in net assets</b>	<b>269,238</b>	<b>(30,995)</b>

<sup>1</sup> These differences may arise due to factors such as the receipt of tax deferred income and the offset of capital losses against capital gains.

# Notes to the financial statements

for the year ended 30 June 2010

## Note 14 Income tax expense (continued)

Deferred income tax relates to the following:

	2010 \$'000	2009 \$'000
<i>Movements in deferred tax asset</i>		
Opening balance	462,932	173,674
Change to the Statement of changes in net assets	89,603	289,258
	<b>552,535</b>	<b>462,932</b>
<i>Deferred tax asset comprises:</i>		
Quarantined capital losses	551,503	441,147
Quarantined foreign tax credits	–	1,604
Investments	1,032	20,151
Other	–	30
<b>Total deferred tax asset</b>	<b>552,535</b>	<b>462,932</b>
<i>Movements in deferred tax liability</i>		
Opening balance	3,728	48,867
Change to the Statement of changes in net assets	1,176	(45,139)
	<b>4,904</b>	<b>3,728</b>
<i>Deferred tax liability comprises:</i>		
Contributions receivable	3,998	3,341
Interest income receivable	30	22
Unrealised gains in investment subject to capital gains tax	573	365
Other	303	–
<b>Total deferred tax liability</b>	<b>4,904</b>	<b>3,728</b>

Legislation is in place which will change the tax treatment of certain financial arrangements applicable to the Fund for the year beginning 1 July 2010. The Fund is currently assessing the potential impact of these changes on the Fund's tax position. The Fund has not elected early adoption of the legislation.

## Note 15 Related parties

### (a) Trustees

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

Member representatives	Employer representatives
Ms Karen Shirley Peut, PSM	Mr Robert Ernest Scheuber, AM
Mr Stephen Robert Ryan	Mr John Joseph Carpendale
Mr Kilian Thomas Jeffers	Mr Peter Henneken, AM
Ms Lorraine Gay Hawkworth, OAM	Ms Natalie Margaret MacDonald
Ms Amanda Marion Richards	Mr Walter Ivessa
Mr Michael Ian Barnes	Ms Norelle Deeth

There were no new appointments to, or resignations from, the QSuper Board of Trustees during the financial year. Any Trustee who is a member of QSuper contributes to QSuper on the same terms and conditions as other members.

# Notes to the financial statements

for the year ended 30 June 2010

## Note 15 Related parties (continued)

Trustee remuneration is paid to QSuper Board members by QSuper Limited. Trustees who are also Queensland Government employees are not eligible to receive remuneration for their participation on the QSuper Board. Remuneration for other Trustees may be paid to Board members personally, or to their employing organisations.

### (b) Employer sponsor

Employer funding arrangements are discussed in note 13.

### (c) QSuper Limited

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 fee covers all administration costs including superannuation administration, cost of running self-insurance, and medical costs. QSuper Limited is also paid a strategic and change initiative fee, which includes payments for the Corporate Change Program, Investment Capability Program and other strategic and change initiatives (refer note 2(o)).

During the financial year, fees paid/payable to QSuper Limited aggregated \$83,192,000 (2009: \$69,076,000).

### (d) Q Invest Limited

QSuper has a 50% ownership interest in Q Invest Limited (refer note 20 regarding QSuper's acquisition of the remaining 50% interest in Q Invest Limited subsequent to 30 June 2010). Q Invest Limited provides financial planning advice to QSuper members. During the financial year, financial planning fees paid/payable to Q Invest Limited for services provided aggregated \$14,405,000 (2009: \$13,744,000).

### (e) QIC

QIC is one of QSuper's investment managers. It is a body corporate established under the *Queensland Investment Corporation Act 1991*. As at 30 June 2010, QIC held the remaining 50% interest in Q Invest Limited (refer note 20).

Of the \$67,529,000 (2009: \$78,242,000) represented on the financial statements, \$66,934,375 related to investment management fees paid/payable to QIC for services provided. The reduction in QIC fees paid/payable for services provided during the 2010 financial year is predominately related to the change in QSuper's investment structure and the use of QSuper Limited's internal investment team.

### (f) Related party QSuper members

Any employee of a related party who is also a QSuper member contributes to QSuper on the same terms and conditions as other members.

## Note 16 Financial instruments

### (a) General

The investments of QSuper are managed on behalf of the Trustee by appointed managers. Each investment manager is required to invest the assets managed by it in accordance with the terms of a mandate. The Trustee has determined that the appointment of these managers is appropriate for the Fund and is in accordance with the Fund's Investment Strategy (refer note 4).

The majority of investments of QSuper are held in custody on behalf of the Trustee by NAB 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.

# Notes to the financial statements

for the year ended 30 June 2010

## **Note 16 Financial instruments (continued)**

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 practice. 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 Fund's Investment Committee on the performance of the individual asset classes of the Fund'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 the Fund.

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, NAB. The sensitivity analyses 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.

#### ***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. The Fund is exposed to price risk through listed and unlisted investment, including equity and property investments. As the Fund'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.

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

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

# Notes to the financial statements

for the year ended 30 June 2010

## Note 16 Financial instruments (continued)

### Sensitivity analysis

The analysis below indicates the effect on the Statement of changes in net assets due to a reasonably possible change in market factors, as represented by the equity indices, with all other variables held constant.

2010

	Changes in net assets (%) Increase/(Decrease)	Net market value of non-interest bearing assets \$'000	Sensitivity of price risk and changes on net assets \$'000
<b>Total impact</b>	10%/(10%)	19,667,456	2,101,280/(2,101,280)

2009

	Changes in net assets (%) Increase/(Decrease)	Net market value of assets \$'000	Sensitivity of price risk and changes on net assets \$'000
<b>Total impact<sup>1</sup></b>	17%/(18%)	22,900,827	3,787,163/(4,026,354)

<sup>1</sup> Previously, QSuper's price risk exposure was calculated off the full investment component (i.e. net assets). This approach differs to the current financial year, where investment components are split between interest and non-interest bearing instruments and reflects the changes arising from the investment restructure.

### 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.

The Fund holds assets denominated in currencies other than the Australian dollar, the functional currency. The Fund 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 the Fund's risk management strategy, the Fund in the first instance hedges all exposures resulting from changes in foreign currencies via forward currency contracts. In certain instances, foreign currency exposures are obtained for member options which are based on established investment objectives. The Fund's overall exposure to foreign exchange risk is however, less significant, after taking into account forward currency contracts.

The foreign exchange risk disclosures have been prepared on the basis of the Fund's direct investment and not on a look-through basis for the investments held indirectly through units trusts. Consequently the disclosure of foreign exchange risk in the note may not represent the true foreign exchange risk profile of the Fund where the Fund has significant investments in feeder trusts which also have exposure to the foreign markets.

Currency (AUD equivalent)	2010 \$'000
United States of America (USD)	270,910
European community (EUR)	130,933
Japan (YEN)	239,960
Great Britain (GBP)	(44,626)
Canada (CAD)	125,789
Switzerland (CHF)	128,431
Hong Kong (HKD)	84,854
Sweden (SEK)	49,828
Singapore (SGD)	34,713
Other currencies	82,663
<b>Net currency exposure</b>	<b>1,103,455</b>

# Notes to the financial statements

for the year ended 30 June 2010

## Note 16 Financial instruments (continued)

### Foreign exchange sensitivity analysis

In accordance with the Fund's policies, the investment team monitors the Fund's currency position on a regular basis. This information and the compliance with the Fund's policies are reported to the relevant parties on a regular basis as deemed appropriate such as the Compliance Manager, other key management personnel, compliance committees, and ultimately the Board.

When the Board formulates a view on the future direction of foreign exchange rates and the potential impact on the Fund, the Board factors that into its portfolio allocation decisions. While the Fund 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 the Fund 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 the Fund's net assets attributable to unit holders of future movements in foreign exchange rates.

The table below summarises the Fund's assets and liabilities which are denominated in non-Australian currencies.

	Percentage change in the exchange rate relative to base currency (AUD) Increase/(Decrease)	Sensitivity of foreign exchange and changes on net assets \$'000
United States of America (USD)	10%/(10%)	(24,628)/30,101
European community (EUR)	10%/(10%)	(11,903)/14,548
Japan (YEN)	20%/(20%)	(39,993)/59,990
Great Britain (GBP)	5%/(5%)	2,125/(2,349)
Canada (CAD)	5%/(5%)	(5,990)/6,620
Switzerland (CHF)	5%/(5%)	(6,116)/6,760
Hong Kong (HKD)	5%/(5%)	(4,041)/4,466
Sweden (SEK)	5%/(5%)	(2,373)/2,623
Singapore (SGD)	5%/(5%)	(1,653)/1,827
Other currencies	5%/(5%)	(3,936)/4,351
<b>Total</b>		<b>(98,508)/128,937</b>

### Interest rate risk

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

The Fund 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. The Fund 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:

	Floating interest rate \$'000	1 year or less \$'000	1 to 5 years \$'000	More than 5 years \$'000	Non-interest bearing \$'000	Total \$'000
Financial assets	4,109,404	6,622,452	–	26,741	31,674,007	42,432,604
Financial liabilities	(771,654)	(2,041,056)	–	–	(12,006,551)	(14,819,261)
<b>Total</b>	<b>3,337,750</b>	<b>4,581,396</b>	<b>–</b>	<b>26,741</b>	<b>19,667,456</b>	<b>27,613,343</b>

# Notes to the financial statements

for the year ended 30 June 2010

## Note 16 Financial instruments (continued)

### 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 basis points <sup>1</sup> Increase/(Decrease) \$'000	Net market value of interest bearing securities \$'000	Sensitivity of interest income and changes on net assets Increase/(Decrease) \$'000
<b>Net assets</b>	+75/(25)	<b>5,745,665</b>	<b>(40,124)/13,392</b>

<sup>1</sup> Basis points – one basis point is equivalent to a 0.01% change.

### (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 the Fund, other than derivatives, the Fund'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. The Fund uses a number of mitigation tools, including, Credit Support Annexure (CSA), and International Swaps and Derivatives Association (ISDA) agreements to mitigate counterparty risk for over-the-counter derivative instruments and imposes counterparty credit limits. These are reviewed by the Board on a regular basis as deemed appropriate.

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 to the right analyse the credit quality of debt instruments by using Standard & Poor's rating categories, in accordance with the investment mandate of the Fund, 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 to the right also show the credit quality by class of assets and differentiates between long-term and short-term credit ratings.



# Notes to the financial statements

for the year ended 30 June 2010

## Note 16 Financial instruments (continued)

### Long-term credit ratings

	AAA to AA- \$'000	A+ to A- \$'000	BBB+ to B- \$'000	CCC+ to C- \$'000	Total \$'000
Perpetual securities	–	26,741	–	–	26,741
Indexed bonds	317,221	–	–	–	317,221
Floating rate notes	725,863	257,212	122,023	–	1,105,098
Mortgage backed securities	384,921	–	–	120	385,041
Asset backed securities	–	–	–	500	500
<b>Total</b>	<b>1,428,005</b>	<b>283,953</b>	<b>122,023</b>	<b>620</b>	<b>1,834,601</b>

### Short-term credit rating

	A1+ to A1 \$'000	Total \$'000
Discount securities	3,836,556	3,836,556
<b>Total</b>	<b>3,836,556</b>	<b>3,836,556</b>

Investments not included in the above table are net assets which do not have a credit rating assigned under Standard & Poor rating categories. Investments that are non-rated amount to \$21,942,186. Examples of non-rated assets include listed equities and unlisted unit trusts.

The total value of investments held by the Fund 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, or activities in the same geographical region. These similarities would cause the counterparties' liabilities to meet the contractual obligations to be similarly affected by certain changes in the risk variables.

The concentrations of risk are monitored by the Board to ensure they are within acceptable limits by reducing the exposures or by other means as deemed appropriate.

Concentrations of risk are managed by industry and geographical exposure.

# Notes to the financial statements

for the year ended 30 June 2010

## Note 16 Financial instruments (continued)

### *Risk concentrations of the maximum exposure to geographical risk*

The carrying amounts of net financial assets best represent the maximum geographical risk exposure at the reporting date. Portfolio assets are invested or held in the following geographical regions:

Geographical regions	2010 \$'000
Africa	31,548
Asia	270,545
Australia	26,509,887
Europe	312,793
Middle East	16,824
North America	396,699
Oceania	(145,286)
South America	31,156
South East Asia	189,177
<b>Total<sup>1</sup></b>	<b>27,613,343</b>

1 Geographical regions are assessed on the country of issue and reflect the exposure of the underlying investment manager's domicile.

### (e) Liquidity risk

#### *Liquidity risk arising from investment operations*

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 the Fund's investment in financial instruments, which under normal market conditions are readily convertible into cash. In addition, the Fund maintains sufficient cash and cash equivalents to meet normal operating requirements.

The following table summaries the contractual maturity of QSuper's derivatives based on undiscounted cash flows.

	Less than 1 month \$'000	1-3 months \$'000	3-12 months \$'000	12-60 months \$'000	60+ months \$'000	No stated maturity \$'000	Net market value \$'000
<b>Inflows</b>							
Swaps	–	–	–	4,780	755,229	–	760,009
Futures	–	–	14,760	–	–	–	14,760
FFX contracts	4,999,185	6,875,286	–	–	–	–	11,874,471
<b>Outflows</b>							
Swaps	–	–	–	–	(765,086)	–	(765,086)
Futures	–	(11,070)	(79,022)	–	–	–	(90,092)
FFX contracts	(5,044,966)	(6,878,027)	–	–	–	–	(11,922,993)
<b>Total</b>	<b>(45,781)</b>	<b>(13,811)</b>	<b>(64,262)</b>	<b>4,780</b>	<b>(9,857)</b>	<b>–</b>	<b>(128,931)</b>

# Notes to the financial statements

for the year ended 30 June 2010

## **Note 16 Financial instruments (continued)**

### *Liquidity risk arising from daily operational activities*

QSuper is also exposed to liquidity risk through its normal course of business. QSuper's significant financial liabilities are benefits payable to members. Other financial liabilities of QSuper comprise administration and investment management fees payable, tax liabilities and sundry payables. The current exposure is explained in notes 7 and 8 in relation to accrued and vested benefits respectively.

Benefit claims are considered on demand. The Fund manages its obligation to pay the defined contribution component on an expected maturity basis based on management's estimates of when such funds will be drawn down by members under current QSuper legislation. It is not possible that all defined contribution members will request to roll over their superannuation fund account at the same time. The funding arrangements in place for member benefits are explained in note 13.

### **(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 2(h).

## **Note 17 Capital guarantee**

The QSuper Defined Benefit account was underwritten to provide the members of the closed Voluntary Preservation Plan (VPP), a capital guarantee that the earnings 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 2010 (net of reimbursements) are \$6,898,000 (2009: \$6,573,000).

## **Note 18 Insurance**

Eligible employees of a small number of 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 9.

## **Note 19 Commitments and contingent liabilities**

The Board, together with QIC, has provided a guarantee to adequately fund Q Invest Limited to ensure that it can meet its obligations under Australian Securities and Investment Commission licensing requirements.

QSuper has no other known commitments or contingent liabilities as at 30 June 2010.

## **Note 20 Post balance date events**

Subsequent to 30 June 2010, QSuper acquired the remaining 50% of QInvest Limited for \$3.2 million. The increased consideration paid to QIC for the remaining 50% includes a premium for full ownership that is obtained subsequent to year end. This full ownership is expected to allow QSuper to realise additional benefits for members from the investment in Q Invest Limited. As the investment is deemed immaterial under AASB 1031 *Materiality*, disclosures relating to AASB 3 *Business Combinations* have not been included in the notes to the financial statements.

No other matter or circumstance has arisen since 30 June 2010 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.

# Statement of the QSuper Board of Trustees

of the State Public Sector Superannuation Scheme for the year ended 30 June 2010

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 2010 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*, APRA Guidelines on Derivative Risk Statements for Superannuation Entities Investing in Derivatives, 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

Brisbane  
9 September 2010



**R A Vilgan**  
Chief Executive Officer

# Independent Auditor's report

## to the Board of Trustees of the State Public Sector Superannuation Scheme

To the Trustees and members of the State Public Sector Superannuation Scheme (ABN 60 905 115 063)

### **Matters relating to the electronic presentation of the audited financial report**

The Auditor's report relates to the financial report of the State Public Sector Superannuation Scheme (QSuper) for the financial year ended 30 June 2010 included on the QSuper website. The Trustees are responsible for the integrity of the QSuper website. I have not been engaged to report on the integrity of the QSuper website. The Auditor's report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report, available from QSuper, to confirm the information included in the audited financial report presented on this website.

These matters also relate to the presentation of the audited financial report in other electronic media, including CD ROM.

### **Report on the financial report**

I have audited the financial statements of the State Public Sector Superannuation Scheme for the year ended 30 June 2010 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 report*

The Superannuation Entity's Trustees are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The Trustees' responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, and making accounting estimates that are reasonable in the circumstance.

#### *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 State Public Sector Superannuation Scheme.

My audit has been conducted in accordance with Australian Auditing Standards. These Auditing 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 from 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 Trustees' 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 Trustees' internal controls. An audit also includes evaluation 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 opinion.

#### *Auditor's opinion*

In my opinion, the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), the net assets of the State Public Sector Superannuation Scheme as at 30 June 2010 and the changes in net assets for the year ended 30 June 2010.



**G G Poole** FCPA  
Auditor-General of Queensland  
9 September 2010

Queensland Audit Office  
Brisbane

# Appendix

## Summary report on the actuarial investigation of the State Public Sector Superannuation Scheme as at 30 June 2007

The latest actuarial investigation of the State Public Sector Superannuation Scheme (QSuper) was conducted as at 30 June 2007 by the State Actuary Mr W H Cannon BSc (Hons) FIAA FFin. While the full details can be found in the corresponding report dated 30 June 2008 (the Extended Report), a summary of the main findings of the investigation is given below.

### Financial condition

This investigation revealed that the Fund was in a healthy position with a surplus of assets over accrued liabilities of \$5 billion as at 30 June 2007, an increase of over \$3 billion from the surplus at the 2004 investigation. The main factors causing that increase have been the higher than assumed investment returns between 2004 and 2007 and interest on the previous surplus.

It is important to note however that investment returns since the valuation have been substantially lower than the assumed long-term level, reducing the observed surplus by over \$2 billion. The remaining surplus should be carried forward as a buffer, for the following reasons:

- The main source of this surplus is the relatively high investment returns achieved by the Fund over the last several years. To the extent that investment returns in future are less favourable than in the recent past, the retention of this buffer will protect the funding position of the scheme.
- In assessing the magnitude of the surplus position of the scheme, it is informative to consider the value of the liabilities, ignoring the risk premiums included in future investment returns. As shown in Section 6 of the Extended Report, this more prudent view of scheme solvency does not indicate the availability of any excess funds at this time.

In the light of the available surplus the Actuary has considered the funding implications of maintaining the current employer contribution rates (i.e. those listed in Table 1 below). This investigation has revealed that these contribution rates will not jeopardise the solvency position of the Fund 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 expected liabilities of the scheme should be adequately provided for by the assets of QSuper and the relevant reserve within the Consolidated Fund, together with the Fund's investment earnings and member and employer contributions at the recommended level. Taking into account 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 Fund's assets as at 30 June 2007 was \$22,779 million and the market value of the relevant assets held in the Consolidated Fund was \$21,869 million, resulting in a total market value of \$44,648 million. These asset values were used to determine the recommended contribution rates and proportion of benefits to be paid from the Employer Fund.

### Vested benefits

Vested benefits are the benefits to which members would be entitled if they voluntarily left 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 Fund 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 important indicator of its short-term financial condition. This relationship is usually expressed as an index defined as the ratio of assets to vested benefits (VBI).

# Appendix

## Summary report on the actuarial investigation of the State Public Sector Superannuation Scheme as at 30 June 2007 (continued)

As at 30 June 2007, the value of the vested benefits was \$41,803 million<sup>1</sup> implying a total scheme VBI of 106.8%. This includes vested benefits in respect of active members (including accumulation members), retained benefits in respect of former members, and the value of pensions payable to former members and beneficiaries, and allows for the estimated level of vested contributions tax. In respect of active defined benefit members only, the VBI was 121.5%. Consequently, the assets were more than sufficient to provide for the vested benefits of the scheme.

### Accrued benefits

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

The accrued benefits of QSuper comprise the following items:

- accrued benefits for active members in respect of their membership up to the reporting date
- preserved benefits held in respect of former members
- pensions payable to former members and beneficiaries, and
- account balances of Accumulation Category members.

The aggregate value of accrued benefits was determined by the Actuary as at the date of the actuarial investigation on the following basis:

- Accrued benefits for active members were assumed to increase in line with general levels of salary inflation and promotional salary growth.
- Accrued benefits were assumed to be payable (or for pensioners, cease to be payable) on the leaving of service, death, or disablement of members in a manner consistent with the assumptions made in the most recent actuarial investigation of QSuper.
- The present value of accrued benefits was assessed by applying a long-term discount rate equivalent to an investment return that is 3.0% p.a. in excess of assumed salary inflation, which in turn was assumed to be 4.5% p.a. This assumed investment return allows for all forms of investment income, dividends, rents, and capital gains and is assumed to be net of investment management expenses, charges, fees, and taxes.
- Accrued benefits were apportioned between past and future service using the Actual Accrual Approach. This is equivalent to allowing only for the period of service up to 30 June 2007 when calculating the expected benefits payable in future years.

The total value of accrued benefits as at 30 June 2007 was \$39,557 million, including an allowance for the estimated level of accrued contributions tax.

The ratio of the value of relevant fund assets to the total discounted value of accrued benefits in respect of active members was 136.8%. 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 the Fund's 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. This assumption is also relevant for the purposes of valuing pensions that are increased in line with increases in salary (Parliamentary category).

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 CPI. Pensions in payment have been assumed to increase at the rate of 3.0% p.a.

#### *Other assumptions*

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

<sup>1</sup> The value of vested benefits in respect of accumulation accounts, retained benefits in respect of former members and the value of pensions payable to former members and beneficiaries was \$22,415 million.





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