

Annual Report

of the QSuper Board of Trustees 2012



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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 or calling QSuper on 1300 360 750.

Important information

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

This is the 2012 Annual Report to Parliament which provides general information about the performance, management and financial condition of the QSuper Fund.

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

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

QSuper profile

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

Purpose of this report

The QSuper Board is pleased to present the annual report for the twelve months ending 30 June 2012. This report has been prepared for Queensland Parliament, and for other individuals and organisations sharing an interest in the objectives, achievements and future direction of QSuper. This report also contains QSuper's Audited Financial Records and the Auditor's Report.

About QSuper

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.

Superannuation for current and former Queensland government employees and their spouses is managed by the QSuper Board, which is made up of an equal number of employer and employee union representatives.

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.

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's vision reflects this commitment, which will help our members achieve an adequate income in retirement.

...improving retirement outcomes for members.



Chairman's report

by **Bob Scheuber**

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

A new direction for the future



These continue to be challenging times for the superannuation industry. A fragile world economy and turmoil in Europe has meant global sharemarkets continue to be plagued by volatility, and the impact can be seen in members' superannuation balances. In these uncertain times it is even more essential that QSuper maintains a focus on the long term to ensure the QSuper Fund continues to support our core purpose – improving the retirement outcomes of members.

Factors leading change

One of the key ways in which QSuper has reaffirmed this focus on the long term is by implementing changes to the investment strategy of the QSuper Balanced (Default) investment option. This represents a significant departure from the way funds have traditionally structured investment strategies for these types of products, and more detail can be found in the Message from the CEO.

Stepping stones to success

QSuper's 2009 – 2012 Strategic Plan was focused on investing in organisational infrastructure and enhancing business efficiency.

Significant achievements delivered as part of the strategy include the launch of the non-Queensland Government employee offer, becoming an APRA regulated fund, building an internal investment capability, and the launch of enhanced education and advice services for members.

These initiatives have delivered real benefits, with cost savings in the order of \$30m delivered in the last year alone through the internal investment team.

In 2011, QSuper Limited¹ and Q Invest Limited (Q Invest)² integrated operations to improve efficiency and the provision of services to members. As a result, members can now easily access financial advice either in person or over the phone, depending on the type of advice needed. Integrated services will be extended in coming years.

QSuper has also invested heavily in systems to improve service delivery and support the provision of relevant information and services to members. The rollout of these systems will play a crucial role in supporting QSuper in the future.

A new strategy

With the past few years focused on building strong foundations for future change, the QSuper Board now believes it is time to take the next step. To that end, in September 2011 the QSuper Board approved the 2012 – 2015 Strategic Plan, which will deliver on the philosophy of 'member for life'.

We are moving away from the traditional one-size-fits-all to a much more personalised approach towards investments, education and access to advice, to help our members reach their retirement goals. The coming strategic cycle will see QSuper introduce a number of new products and services to achieve this goal.

Focusing on value for money

The QSuper Board has always believed strongly in offering excellent value for money to all members, and in ensuring we have some of the lowest fees in Australia.³ However, in order to continue providing members the products and services they need, the QSuper Board has approved a 0.03% increase in QSuper's administration fee for Accumulation and QSuper Pension account members from 0.19% to 0.22%, effective 1 January 2013.

The decision to increase fees was not taken lightly. However, the QSuper Board decided it was necessary to ensure the QSuper Fund can meet the costs of ongoing legislative and regulatory change, and to meet the increased expectations of members. Now more than ever, our members are demanding increased service, guidance and access to advice so they can make the most of their superannuation. We are confident that even with this increase, QSuper will continue to be one of the lowest cost superannuation funds in the country.

Past, present and future

2013 will see QSuper celebrate 100 years of public sector superannuation for Queenslanders. This is a significant milestone, and the QSuper Board will be taking the opportunity to reflect on how much the QSuper Fund has achieved during this time, and more importantly, what we can do in the future to help even more members attain financial dignity in retirement.

I would like to thank my fellow Trustees, and on behalf of the QSuper Board, express my appreciation to QSuper's Chief Executive Officer, Rosemary Vilgan, QSuper's Executive Management Team, and the QSuper Limited and Q Invest staff for their hard work in 2011. I would also like to thank the Queensland Audit Office, Towers Watson Australia, Ernst & Young and the State Actuary for their ongoing assistance.

I would particularly, on behalf of the QSuper Board, like to recognise the contribution of departing Trustees Norelle Deeth, John Carpendale and Natalie MacDonald and thank them for their service to the QSuper Board and the QSuper Fund.

Bob Scheuber

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

¹ QSuper Limited ACN 125 248 286

² Q Invest (ABN 35 063 511 580, AFSL 238274) is ultimately owned by the QSuper Board (as trustee for the QSuper Fund), and is a separate legal entity which takes full responsibility for the financial services and products it provides.

³ SuperRatings, Fundamentals Accumulation, issued 31 March 2012. SuperRatings does not issue, sell, guarantee or underwrite this product. Go to www.superratings.com.au for details of its ratings criteria.

CEO's report

by Rosemary Vilgan

Chief Executive Officer of the QSuper Board,
QSuper Limited and Q Invest Limited

QSuper Limited/Q Invest service integration initiative... enables QSuper and Q Invest to deliver the right information, education, advice and products to all members across multiple channels.

Changing with our members



Our focus this year was on helping our members navigate through very difficult economic conditions. In such times it is even more essential that QSuper offers members access to the right advice, information, products and services. We regularly speak to our members to ensure we understand their needs.

The continued volatility has had a significant impact on members' superannuation balances, so we need to ensure our members are confident we can help them reach their retirement goals.

A new direction

Our membership base continues to evolve and expand, and as the needs of our members change, QSuper needs to look beyond the traditional one-size-fits-all approach to superannuation. This philosophy is the focus of our new *2012 – 2015 Strategic Plan*, which is outlined in the Chairman's report.

We have begun making significant changes that we believe will help improve retirement outcomes for all members. These include the recent changes to the investment strategy of the QSuper Balanced (Default) option. These changes give the QSuper Board the ability to diversify even more and to realign the asset class weightings of this investment option away from the equity focus of the traditional balanced-style

option. The overall objective is to target a return, over a ten-year period rather than a five-year period. The changes will provide greater flexibility to manage the potential volatility of investment markets along the way.

In addition to planning further changes to the way we manage the investments of our default members, we have embarked on a full review of our investment options, product suite and service delivery model to ensure that QSuper delivers the products and services members need. These new products and services will begin to be introduced in 2013.

QSuper is also investing heavily in the way we deliver education and advice to members. On 1 July 2012, QSuper Limited purchased the QSuper Board's shareholding of Q Invest, making QSuper Limited the sole shareholder. This has enhanced the opportunity to integrate the business operations to deliver a seamless and efficient service to members.

The QSuper Board has also endorsed a new member education and advice model. In tandem with the QSuper Limited/Q Invest service integration initiative, this enables QSuper and Q Invest to deliver the right information, education, advice and products to all members across multiple channels. One of the product initiatives in the next financial year will see Q Invest begin assisting clients through mortgage broking.

Meeting members' needs

Information and member education has always been a focus for the QSuper Fund, and we are continually looking at how we can more effectively communicate with members to ensure they have the information they need. Every year superannuation funds are required by legislation to send members a benefit statement. In 2011, we used this opportunity to provide members with additional supporting information that is relevant to their circumstances and their life stage. This year, in addition to information about their benefits, most members received an estimate of their retirement benefits, so these members can see whether they are on track for the retirement they are seeking.

Additionally, the QSuper website has been upgraded so that members can use the *Retirement Income Calculator* to understand the income needed in retirement, how they are tracking towards that target, and what they can do to improve their retirement outcome. A future website upgrade will allow members to manage their superannuation transactions and administration online. This will build on the investments already made in enhancing workflow and document management capability. This, in addition to adding functionality for members, equips our Contact Centre staff to better service members.

A major focus for QSuper is to ensure we have the right people with the right skills to deliver the products and services that our members need. The hard work and commitment of our QSuper staff is a testament to this, and I want to thank each and every one of them for their efforts over the past year.

Member for life

At QSuper we want every member to feel we can support them throughout their working life and into retirement, and that wherever their career takes them, we can go with them. To support this 'member for life' philosophy, we have spent a significant amount of time this year improving the member and employer experience when a non-Queensland Government employer contributes to QSuper.

I am confident that these improvements will help the QSuper Fund grow and strengthen over the coming years and decades and, more importantly, help even more members reach and maintain their desired retirement lifestyle.

Rosemary Vilgan

Chief Executive Officer of the QSuper Board,
QSuper Limited and Q Invest Limited



QSuper Board

The role of the QSuper Board is to ensure that the QSuper Fund is administered in the best interests of members and in accordance with its governing rules and superannuation legislation.

The QSuper Board is established under the *Superannuation (State Public Sector) Act 1990*, and 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. The QSuper Board meets on a regular basis to discuss a broad range of topics such as the strategic direction of the QSuper Fund, investment strategy, product offerings, and service delivery to members.

There are twelve Trustees on the QSuper Board, with equal representation from both employer and employee (member entity) organisations.¹ Of the member entity trustees, five are nominated by the Queensland Council of Unions and one is nominated by the Australian Workers' Union Queensland. Trustees are appointed by the Treasurer for a period of no longer than three years and may be reappointed at the end of their term. QSuper Trustees are also Directors of QSuper Limited.

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

During 2011/2012, 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 performing their Trustee duties. The QSuper Board and QSuper Limited Officeholders are covered by indemnity insurance.

¹ Two Employer Trustee positions are vacant at the date of publication.

QSuper Board (cont'd)

Employer representatives

There are twelve Trustees on the QSuper Board, with equal representation from both employer¹ and employee (member entity) organisations.



Mr Bob Scheuber, AM
BE, B.Bus, FCPA, FAIM, MAICD
Chairman
Former Chief Executive Officer,
Queensland Rail

Mr Scheuber had an extensive career with Queensland Rail, culminating in six years as the Chief Executive Officer. He holds degrees in business and economics, as well as an honorary doctorate of business, and is a fellow of CPA Australia and the Australian Institute of Management.

In 2008, Mr Scheuber was honoured as a Member of the Order of Australia (AM) for his service to the rail sector in Queensland. He is currently Chairman and Director of Rail and Transport Health Fund Limited, as well as Chairman and Director of CRC Rail Limited.

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

Mr Peter Henneken, AM
B.Bus, BA, FIPAA, FAICD
Trustee
Former Director-General, Department
of Employment and Industrial Relations

Mr Henneken has over 40 years experience in the public service, predominantly with the Department of Employment and Industrial Relations, including eight and a half years as CEO. He brings a wealth of experience in industrial relations, labour market policy and administration.

In 2010, Mr Henneken was honoured as a Member of the Order of Australia (AM) for his service to the public sector in Queensland, particularly as a leader in policy development in the fields of industrial relations and vocational training. He is currently Chair of the Building and Construction Industry Portable Long Service Leave Board, the Safety, Rehabilitation and Compensation Commission (COMCARE), and the Fitness Sport & Recreation Industry Training Council.

Mr Henneken was appointed to the QSuper and QSuper Limited Boards in December 2007. He is a member of both the Investment and Human Resources Committees.



Mr Walter Ivessa
B.Ec
Trustee
Assistant Under Treasurer,
Queensland Treasury and Trade

Mr Ivessa joined Queensland Treasury in 1981 and was appointed as an Assistant Under Treasurer in February 1996. As Assistant Under Treasurer, Mr Ivessa's primary responsibilities include working with various Government Departments in relation to policy development, budget management, performance and risk assessment and major infrastructure development.

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

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

Ms Debbie Best
B.A., B.Ed. Stud., M. Ed. Admin., Dip. Ed., GAICD, Grad. Cert. Public. Admin.
Trustee
Director-General, Department of
Aboriginal and Torres Strait Islander
and Multicultural Affairs

Ms Best was recently appointed to the role of Director-General, Department of Aboriginal and Torres Strait Islander and Multicultural Affairs. She was previously Deputy Director-General in the Department of Environment and Resource Management (DERM), and was responsible for leading business groups dealing with water planning and management across the State. Prior to Ms Best's service at DERM, she established a long and distinguished career in state education, holding many senior positions.

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

Trustees
 departed during
 the financial year



Mr John Carpendale
Served as QSuper Trustee from
June 2006 to 31 May 2012



Ms Norelle Deeth
Served as QSuper Trustee from
June 2009 to 31 May 2012



Ms Natalie MacDonald
Served as QSuper Trustee
from December 2007 to
29 August 2011

QSuper Board (cont'd)

Member entity representatives



Mr Steve Ryan
Deputy Chairman
Immediate Past President,
Queensland Teachers' Union

Mrs Karen Peut, PSM
MAICD
Trustee
Executive Director,
Department of Transport and Main Roads

Mr Tom Jeffers
Trustee
Vice-President Australian Workers' Union,
Queensland

Mr Ryan recently retired as the President of the Queensland Teachers' Union (QTU), having been an Executive Member of the QTU since 1993 and a senior officer of the Union since 2000. He has many years experience in the Public Sector having taught at a number of Queensland schools since 1972.

Mr Ryan was previously an Executive Member of the Queensland Council of Unions, an Executive Member of the Australian Education Union and a Board member of the Queensland Studies Authority.

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

Mrs Peut is currently an Executive Director with the Department of Transport and Main Roads and has over 45 years service with the Department. She joined the Main Roads Staff Welfare Committee in 1974 and was President of the Committee from 1981 to 1986. Mrs Peut was also a former Director of Queensland Motorways Limited.

Mrs Peut was the first woman to be appointed to the State Service Superannuation Board, and her contribution to the public service was formally recognised when she was awarded the Public Service Medal (PSM) in 1993. She has also been awarded life membership of the Queensland Public Sector Union (now Together).

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

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

Mr Jeffers was a Director of the Workers' Compensation Regulatory Authority (QCOMP) Board until July 2012, and formerly a member of the Interim Board of Energy Skills Queensland.

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



Ms Gay Hawksworth, OAM

RN, Dip.Nursing

Trustee

**Former State Secretary,
Queensland Nurses' Union**

Ms Hawksworth has 30 years involvement with the Queensland Nurses' Union (QNU), and recently retired from the position of State Secretary after 16 years. She started at the QNU when it was founded in 1982, and prior to joining was a Registered Nurse and midwife.

Ms Hawksworth also served as a Vice-President of the Queensland Council of Unions during her time with the QNU and she is a life member of the Union. In 2010 she was awarded a Medal of the Order of Australia (OAM) for services to industrial relations, particularly through the Queensland Nurses' Union of Employees. Ms Hawksworth has extensive expertise and knowledge in employment and industrial relations.

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

Mr Mick Barnes

Trustee

**General Secretary,
Queensland Police Union of Employees**

Mr Barnes is General Secretary of the Queensland Police Union of Employees. He was formerly Branch Secretary and has been an Executive Member for 15 years. He has extensive expertise and knowledge in employment and industrial relations. Mr Barnes is a member of the BraveHearts National Management Board as well as a Director of the Queensland Police Legacy Scheme. He is an experienced law enforcement officer having served for over 25 years with the Queensland Police Service.

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

Ms Amanda Richards

Trustee

**Assistant General Secretary,
Queensland Council of Unions**

Ms Richards is the Assistant General Secretary of the Queensland Council of Unions, the peak union body in Queensland. She has held this role since 2008.

Ms Richards is a member of the Workplace Health and Safety Board, and a Director of Safe Work College. Ms Richards was a Director of the Workers' Compensation Regulatory Authority (QCOMP) Board until July 2012.

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

QSuper Board Committees

The QSuper Board has established a number of committees to deal with specialised issues. These committees generally make recommendations for action to the full QSuper Board, which retains collective responsibility for decision making.

The following Committees were utilised by the QSuper Board during 2011/2012:

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

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 Committee meetings. The QSuper Board has also appointed a number of specialist Committee members to its Investment and Audit & Risk Committees.

Audit & Risk Committee

Members

- Mr Walter Ivessa (Chairman)
- Ms Debbie Best
- Mr Stephen Maitland
- Ms Amanda Richards
- Vacant

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

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

- reviewing internal and external audit findings and monitoring the implementation of audit recommendations.

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

Human Resources Committee

Members

- Mr Steve Ryan (Chairman)
- Mr Mick Barnes
- Ms Gay Hawksworth
- Mr Peter Henneken
- Mr Bob Scheuber

The Committee provides advice to the QSuper Board on Board performance matters and, as QSuper Limited is wholly owned by the QSuper Board, the Committee also oversees human resource matters pertaining to QSuper Limited staff.

Investment Committee

Members

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

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

- recommending to the QSuper Board the investment objectives for the QSuper Fund and its various member investment choice (MIC) options

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

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

Product & Services Committee

Members

- Ms Gay Hawksworth (Chairman)
- Mr Mick Barnes
- Mr Tom Jeffers
- Mrs Karen Peut
- Vacant
- Vacant

The Committee's purpose includes overseeing:

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

Specialist Board Committee members



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

Mr Rice has extensive experience in the financial services industry, specialising in providing strategic advice to financial institutions, fund managers, government agencies, industry associations and large superannuation funds. He writes and speaks frequently on topical issues affecting the fund management, life insurance and superannuation industries. He has also undertaken pioneering research into Age Pension dependency and trends, and has a keen interest in the integration of social security and superannuation.

Mr Rice became an independent consulting actuary in December 1987, and has helped build Rice Warner into a highly regarded consulting business which offers a wide range of specialist research products and advisory services. He is also a Fellow of the Institute of Actuaries of Australia.

Mr Rice was appointed Chairman of the Investment Committee in January 2009.

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

Ms Berends joined Marvin & Palmer Associates, a U.S. based global equity manager, in May 2000 and is responsible for growing Marvin & Palmer's business throughout Asia. She has worked for over 30 years in the pension and investment industry and possesses extensive experience in both the investment management and superannuation fields.

Ms Berends served on the Board of the Association of Superannuation Funds of Australia (ASFA) for twelve years, including three years as Chair. She is Chair of the Investment Management Consultants Association Australia, having joined the Board in 2001. Ms Berends is a Fellow of the Institute of Actuaries of Australia, as well as a Fellow of ASFA.

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

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

Mr Macoun has broad investment, financial and business experience including approximately 20 years as Chief Executive Officer/Chief Investment Officer of a number of investment management firms. He held previous roles as the founding Chief Executive Officer of QIC, founding Managing Director of Perennial Investment Partners and the Managing Director/Chief Investment Officer of Westpac Investment Management.

Prior to joining the investment management industry, Mr Macoun spent more than ten years at Queensland Treasury, including substantial involvement with most major capital market participants (Australian and global) and public sector provision of infrastructure. Some of his current directorships include Plato Investment Management, Solaris Investment Management, Palisade Investment Partners, Hyperion Asset Management Limited, Resolution Capital Limited and Sigma Funds Management Pty Limited.

Mr Macoun was appointed a member of the Investment Committee in January 2009.

Mr Stephen Maitland OAM, RFD
B Ec, M Bus, LL M, FCPA, FAICD, FCIS,
F.Fin, FAIM
Audit & Risk Committee member
Principal, Delphin Associates

Mr Maitland is the Principal of Delphin Associates, a business consultancy specialising in strategic planning, risk management, corporate governance and business transition. He has over 35 years experience in the banking and finance industries and is a qualified accountant and company secretary. He was Chief Executive Officer of the Queensland Office of Financial Supervision between 1992 and 1999.

Mr Maitland is currently a non-executive Director of Australian Unity Limited, Buderim Ginger Limited, the Royal Automobile Club of Queensland (RACQ) Limited, RACQ Insurance, Centrepoint Alliance Limited and several private companies, and is Chairman of the Surf Life Saving Foundation Inc. He is a Councillor of the Queensland Division of CPA Australia, Chair of the Audit and Risk Committee of the Public Trustee of Queensland, and is an independent member of several audit and compliance committees.

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

QSuper Limited

The QSuper Board delegates the day-to-day administration of QSuper to the management 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.

Chaired by the Chief Executive Officer, the Executive Committee includes the Chief Investment Officer, Chief Financial Officer, Chief Strategy Officer, Chief Officer Member Administration, Chief Officer Human Resources and Internal Communications, Chief Officer Advice & Q Invest, and the Chief Information Technology Officer. The Executive Committee is responsible for addressing strategic corporate issues, and providing assistance and advice to the Chief Executive Officer and the QSuper Board.

The QSuper Board and QSuper Limited have established policies and procedures which ensure the QSuper Board, QSuper Limited 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. The QSuper Board also has procedures in place to ensure that the Executive Committee is appropriately qualified and experienced to discharge its responsibilities.

The chart below represents QSuper Limited's current organisational structure.



Investments

Financial markets 2011/2012

The road to economic recovery continued to be bumpy over 2011/2012. While the US economy recorded moderate growth, the European economy appears to be in recession with negative flow on effects weighing on economic activity in east Asia. As a result, global growth forecasts have been revised lower and significant risks remain as officials warn of further challenges ahead. And while debt issues have faded from the headlines, they haven't gone away. Debt levels continue to rise, banks continue to need further strengthening of their capital positions, and several countries are struggling to meet the necessary debt reduction targets.

As a result of the very high terms of trade and the accompanying strong exchange rate, the Australian economy continues to undergo significant structural change. This is evident in the relative strength of the mining sector compared to other parts of the economy, such as manufacturing, retail and tourism. The question is whether this adjustment will occur at a pace that keeps growth close to trend and inflation within the Reserve Bank's target range.

Affect on returns

The 2011/2012 financial year has seen moderate returns across QSuper's nine member investment choice options due to global market volatility. QSuper continues to monitor and modify portfolio positions as necessary to balance risks with the returns expected from our investment options.

Internal investment capability

QSuper's internal investment capability has now been finalised, with all required skills and infrastructure in place for investment decision-making to function as part of QSuper's normal governance and business practices. The coming financial year will see the Investment team cement and validate current processes and continue to assist the QSuper Board to deliver on its duties to members.

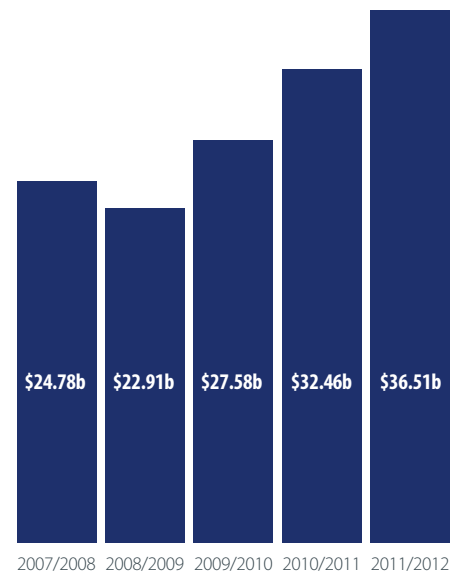
Market conditions – looking forward

The level of growth in China and the impact of the European debt crisis on Australia's trading partners continue to be the challenges for the Australian economy. Slower Chinese growth or continued deterioration in Europe would likely see consumer and business confidence decline. However, unlike many advanced economies Australia has scope to ease monetary policies in response to emerging weakness.

Our future

The 2012/2013 financial year will continue to see ongoing development and refinement of our investment strategies, and the search for further asset class diversification.

QSuper funds under management in billions¹



¹ These figures represent investment balances at 30 June, not net assets.

Investment returns²

QSuper Investment option ³	Accumulation account				QSuper Pension account			
	2011/2012 return	Compound 3-year return	Compound 5-year return	Compound 10-year return	2011/2012 return	Compound 3-year return	Compound 5-year return	Compound 10-year return
QSuper Balanced (Default)	6.77%	8.92%	1.86%	6.31%	7.75%	10.15%	2.39%	7.20%
QSuper Moderate	5.35%	6.77%	3.10%	5.40%	6.23%	7.41%	3.55%	6.18%
QSuper Socially Responsible	0.52%	5.39%	-0.75%	n/a	0.62%	6.03%	-0.87%	n/a
QSuper Indexed Mix	2.08%	8.41%	n/a	n/a	2.50%	8.80%	n/a	n/a
QSuper Aggressive	2.83%	8.22%	-1.36%	5.63%	3.13%	9.78%	-0.81%	6.77%
Cash	3.74%	3.90%	3.89%	4.25%	4.38%	4.54%	4.50%	4.99%
Diversified Bonds	7.83%	10.27%	7.96%	n/a	9.23%	10.09%	8.03%	n/a
International Shares	0.08%	9.06%	-3.65%	n/a	0.21%	12.25%	-2.94%	n/a
Australian Shares	-3.48%	6.60%	-2.74%	n/a	-3.76%	7.06%	-2.88%	n/a
	Defined Benefit account							
	Crediting rate 2011/2012	Compound 3-year return	Compound 5-year return	Compound 10-year return				
	6.77%	8.92%	1.86%	6.71%				

² Past performance is not a reliable indicator of future performance. ³ This information is reflective of QSuper's member investment choice options as at 30 June 2012.

Financial summary



Financial summary	30 June 2011	30 June 2012
QSuper Fund net assets available to pay benefits as at 1 July	\$27,904.2m	\$32,665.4m
Revenue		
Investment revenue	\$3,230.1m	\$1,867.6m
Employer contributions	\$3,231.7m	\$4,427.6m
Member contributions	\$882.7m	\$796.3m
Transfers from other funds	\$513.0m	\$568.7m
Other revenue	\$2.3m	\$1.8m
Total revenue	\$7,859.8m	\$7,662.0m
Expenses		
Benefits paid	\$2,199.4m	\$2,654.1m
Direct investment expenses	\$87.3m	\$93.7m
Administration expenses	\$75.8m	\$81.9m
Strategic and change initiative expenses	\$8.1m	\$18.6m
Financial planning expenses	\$14.7m	\$16.0m
Income tax expenses	\$703.0m	\$1,394.5m
Other expenses	\$10.3m	\$12.9m
Total expenses	\$3,098.6m	\$4,271.7m
QSuper Fund net assets available to pay benefits as at 30 June	\$32,665.4m	\$36,055.7m

For detailed information, refer to the financial statements on page 25.

QSuper Fund membership summary	30 June 2011	30 June 2012
Number of members	544,082	548,447
Accounts opened	82,211	87,898
Accounts closed	44,721	49,754
Number of accounts	755,004	794,990
Average account balance ¹	\$70,443	\$71,130

¹ This reflects the average account balance for QSuper Fund members and will not reconcile to the amount of QSuper Fund net assets available to pay benefits. We note defined benefit accounts form part of a split funding arrangement with Queensland Treasury Corporation, on behalf of the State Government, whereby once a benefit becomes payable the employer's share of the benefit will be met from funds held by Queensland Treasury Corporation on behalf of the State Government.



Products

QSuper's Accumulation account received a SuperRatings platinum rating for the sixth consecutive year. Only the top 15% of funds rated received this rating.¹

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 options to ensure our members are able to tailor their superannuation to suit their individual needs.

Product growth

The growth of funds in the QSuper Accumulation accounts in comparison to funds in QSuper Defined Benefit accounts has steadily continued. This is because the Accumulation account is the default account, while Defined Benefit, State and Police accounts are closed to new members. Further growth of Accumulation benefits is due to retiring and resigning members often choosing to remain with QSuper and converting 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 ceases 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 investment options that suit their attitude to risk and return. Our default investment option is the QSuper Balanced (Default) option, and members' funds are placed in 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 a non-Queensland Government employer pay super contributions on their behalf into a QSuper Accumulation account. As at 30 June 2012, over 31,000 members were utilising this option.

Accumulation account	30 June 2011	30 June 2012
Accounts (active)	256,046	283,798
Accounts (retained)	360,846	376,767
Income protection benefits paid	3,132	3,415
Rollovers to QSuper Fund	29,009	31,370
Members making voluntary contributions	76,280	76,764
Accumulation accounts opened via spouse deposits	945	944
Income		
<i>Contribution</i>	\$4,108.7m	\$4,981.4m
<i>Investment</i>	\$1,989.6m	\$1,470.8m
<i>Miscellaneous</i>	\$1.8m	\$1.6m
Total	\$6,100.1m	\$6,453.8m
Expenditure	\$2,865.1m	\$3,598.0m
Balance of accounts	\$22,996.3m	\$25,852.1m

¹ SuperRatings, Fundamentals Accumulation, issued 31 March 2012. SuperRatings does not issue, sell, guarantee or underwrite this product. Go to www.superratings.com.au for details of its ratings criteria.

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 option 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 held in a reserve, managed by the Queensland Treasury Corporation on behalf of the Queensland Government, which, when combined with employee contributions, fund the benefits of Defined Benefit account members as required.

Defined Benefit account	30 June 2011	30 June 2012
Accounts (active)	71,853	65,764
Accounts (retained)	44,518	44,151
Benefit payments		
Age retirement	3,376	6,264
Permanent disability	220	270
Resignation	2,733	2,558
Retrenchment	334	166
Income protection benefits paid	1,637	1,577
Income		
Contribution	\$1,461.1m	\$2,407.7m
Investment	\$790.9m	\$29.6m
Miscellaneous	\$0.3m	\$0.1m
Total	\$2,252.3m	\$2,437.4m
Expenditure	\$1,765.9m	\$2,858.6m
Balance of accounts ¹	\$4,237.2m	\$3,816.1m
Crediting rate	7.81%	6.77%

¹ This amount is managed by QSuper and comprises of member contributions, and investment returns on those contributions, which, when combined with the employer contributions, fund defined benefit liabilities as required.

QSuper Pension account

A QSuper Pension account is an account-based pension product that allows members to use their superannuation benefit to generate an income stream in retirement. The pension is paid until the member's QSuper Pension account balance is exhausted.

Transition to retirement

The transition to retirement option allows eligible members to open a QSuper Pension account and draw an income while still employed. The transition to retirement option was implemented by QSuper in July 2006 and as at 30 June 2012, there were 3,906 members utilising this option. These members and their balances are included in the information for QSuper Pension accounts.

QSuper Pension account	30 June 2011	30 June 2012
Accounts	20,419	23,330
New accounts opened	3,843	4,303
Income		
Contribution	\$1,208.0m	\$1,457.6m
Investment	\$449.6m	\$367.3m
Miscellaneous	\$0.2m	\$0.1m
Total	\$1,657.8m	\$1,825.0m
Expenditure	\$618.8m	\$869.3m
Balance of accounts	\$5,431.8m	\$6,387.5m

Products (cont'd)

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, membership numbers continue to diminish.

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

State and Police accounts	30 June 2011	30 June 2012
Accounts	1,322	1,180
Benefit payments		
<i>Age retirement</i>	59	101
<i>Ill-health retirement</i>	1	8
<i>Death</i>	2	0
<i>Resignation</i>	11	19
<i>Retrenchment</i>	3	1
Total	76	129
Income protection benefits paid	22	26
Income	Included in Defined Benefit account	
Expenditure	Included in Defined Benefit account	
Balance of accounts	Included in Defined Benefit account	
Crediting rate	Resignation – 7.41%	Resignation – 6.37%
	Preserved – 7.81%	Preserved – 6.77%



Risk management framework

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 2011/2012, the QSuper Board continued to ensure that robust and effective processes and systems were being applied and enhanced to support the implementation of the QSuper Board's Risk Management Framework so that QSuper'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 & 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 are facilitated by the QSuper 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 & 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 significant 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.

Risk management framework (cont'd)

Compliance Framework

The Compliance Framework, which is based on AS/NZS 3806 Australian Standard on Compliance Programs, 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 & Risk Committee and the QSuper Board (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 QSuper Board's obligations will be met. The system outlines the distribution of delegations and responsibilities among the QSuper Board, QSuper Limited management and staff 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 QSuper Fund is reinforced.

Resourcing

This component of the framework is about ensuring the QSuper Board has sufficient trained/qualified resources (HR, IT and financial) to meet its objectives. The QSuper Board manages its resources through 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 including:

- an annual budget-setting process, and regular monitoring and reporting on tracking against forecasts
- a requirement for all QSuper Board trustees, and other responsible officers and key staff to complete annual training and development programs
- 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 & 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.

External audit – Auditor-General of Queensland

The external auditor, the Auditor-General of Queensland, audits both the QSuper 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 as to issues warranting further attention. Any such recommendations are considered and acted upon, following assessment by management, the Audit & Risk Committee, and the QSuper Board.

Important information

QSuper Board 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 RTI Act gives individuals the right to apply for other non-personal information. The IP Act gives a person a right to apply for their own 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 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* and *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 available by contacting QSuper or accessing the QSuper website at qsuper.qld.gov.au.

Fraud and ethics

QSuper and QSuper Limited have in place a *Fraud and Corruption Control Policy*, which was developed based on the recommendations of the Australian Standard on *Fraud and Corruption Control AS8001*. The policy approaches the control of fraud and corruption through:

- implementing effective risk management 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, who are screened prior to commencing employment. 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 *Public Interest Disclosures Act 2010 (Qld)*.

Major service providers

Administrator

QSuper Limited
Central Plaza Three
70 Eagle Street
Brisbane Qld 4000

Investment Manager

QSuper Limited
Central Plaza Three
70 Eagle Street
Brisbane Qld 4000

Financial planning

Q Invest
Central Plaza Two
Level 8, 66 Eagle Street
Brisbane Qld 4000

Internal auditor

Ernst & Young¹
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 Ltd²
Level 4, 1 Collins Street
Melbourne VIC 3000

External insurer

TAL Life Limited³
Ground level, 80 Alfred Street
Milsons Point NSW 2061

Custodian⁴

National Australia Bank Asset Servicing⁵
Level 12, 500 Bourke Street
Melbourne Vic 3000

¹ Ernst & Young Australia (ABN 75 288 172 749).

² Towers Watson Australia Pty Ltd (ABN 45 002 415 349).

³ TAL Life Limited (ABN 70 050 109 450, AFSL 237848).

⁴ In 2012, QSuper signed a new custody agreement with State Street Australia Limited, who will replace National Australia Bank Ltd as the QSuper Fund's custodian.

⁵ National Australia Bank Limited (ABN 12 004 044 937).

State Public Sector Superannuation Scheme

Financial statements for the year ended **30 June 2012**



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Statement of net assets

as at 30 June 2012

	Notes	30/06/12 \$'000	30/06/11 \$'000
ASSETS			
Cash		44,783	73,430
Receivables			
Contributions receivable		7,743	-
GST receivable		748	2,307
Sundry receivables and prepayments		3,333	540
		11,824	2,847
Investments			
Cash and short term deposits	5	712,858	1,793,795
Equities	5	14,184,489	12,397,566
Preference shares	5	15,315	16,461
Listed trusts	5	969,487	693,435
Derivative assets	5	7,644,417	8,382,092
Other interest bearing securities	5	8,084,940	9,197,496
Unlisted unit trusts	5	11,891,852	8,328,193
Unlisted partnerships	5	526,537	39,780
Investments in service providers	6, 7	71,936	61,490
		44,101,831	40,910,308
Tax Assets			
Deferred tax assets	15	99,585	219,241
TOTAL ASSETS		44,258,023	41,205,826
LIABILITIES			
Benefits payable		10,440	14,267
Administration and investment management fees payable		24,850	15,738
Sundry payables		878	547
Derivative liabilities	5	7,509,237	8,306,958
Current tax liabilities	15	590,994	133,663
Provision for superannuation contributions surcharge		65,925	69,285
TOTAL LIABILITIES		8,202,324	8,540,458
NET ASSETS AVAILABLE TO PAY BENEFITS		36,055,699	32,665,368
Represented by:			
Reserves	10	377,502	611,750
Accumulated member funds	11	35,678,197	32,053,618
NET ASSETS AVAILABLE TO PAY BENEFITS		36,055,699	32,665,368

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

Statement of changes in net assets

for year ended 30 June 2012

	Notes	30/06/12 \$'000	30/06/11 \$'000
Investment revenue			
Distributions / dividends		1,029,692	1,647,361
Change in net market value of investments	12	835,695	1,580,378
Interest revenue		2,219	2,399
		1,867,606	3,230,138
Contribution revenue			
Employer contributions	13	4,427,579	3,231,658
Member contributions		796,272	882,694
Transfers from other funds		568,735	513,033
		5,792,586	4,627,385
Other revenue			
Insurance recoveries		292	436
Sundry revenue		1,512	1,847
		1,804	2,283
Total revenue		7,661,996	7,859,806
Less:			
Benefits paid		2,654,093	2,199,354
Direct investment expenses		93,728	87,308
General administration expenses			
Administration fee	16(d)	81,892	75,803
Strategic and change initiative fee	16(d)	18,572	8,104
Other fees		3,245	1,958
Financial planning fee	16(d)	16,002	14,667
Superannuation contributions surcharge		3,605	3,562
Insurance premiums	19	5,982	4,909
		129,298	109,003
Total expenses		2,877,119	2,395,665
Total change in net assets before income tax		4,784,877	5,464,141
Income tax expense	15	1,394,546	703,007
Total change in net assets after income tax		3,390,331	4,761,134
NET ASSETS AVAILABLE TO PAY BENEFITS			
at the beginning of the financial year		32,665,368	27,904,234
NET ASSETS AVAILABLE TO PAY BENEFITS			
at the end of the financial year		36,055,699	32,665,368

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

Notes to the Financial Statements

For year ended 30 June 2012

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 departments, 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. 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 14.

QSuper is administered by QSuper Limited – ABN 50 125 248 286 (refer Note 16).

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

Note 2 Basis of preparation

(a) General Statement of Compliance

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

Accounting policies

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

(b) Basis of measurement

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

Rounding and functional currency

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

(c) New accounting standards and interpretations

Australian Accounting Standards and Interpretations that have recently been issued or drafted but are not yet effective have not been adopted by QSuper for the annual reporting period ended 30 June 2012. These are outlined in the table below.

AASB Amendment / Standard	Title	Nature of change to accounting policy	Application date of standard	Application date for QSuper
AASB 9	<i>Financial instruments</i>	Addresses the classification and measurement of financial assets and is unlikely to affect the company's accounting for its financial assets. No change to accounting policy as it applies to QSuper.	1 January 2013	1 July 2013
AASB 10	<i>Consolidated Financial Statements</i>	Provides the approach for which investees should be consolidated. No change to accounting policy as it applied to QSuper.	1 January 2013	1 July 2013

Notes to the Financial Statements

For year ended 30 June 2012

Note 2 Basis of preparation (continued)

AASB Amendment / Standard	Title	Nature of change to accounting policy	Application date of standard	Application date for QSuper
AASB 11	<i>Joint Arrangements</i>	Approach for determining whether parties are a joint arrangement and should partially consolidate or whether they are a joint venture and use the equity method for accounting for their interest. No change to accounting policy as it applies to QSuper.	1 January 2013	1 July 2013
AASB 12	<i>Disclosure of Interests in Other Entities</i>	Disclosure requirements for entities that hold interests in subsidiaries, joint arrangements and associates. No change to accounting policy as it applies to QSuper.	1 January 2013	1 July 2013
AASB 13	<i>Fair Value Measurement</i>	Explains how to measure Fair Value. No change to accounting policy as it applies to QSuper.	1 January 2013	1 January 2013
AASB 119	<i>Employee Benefits</i>	Details accounting and disclosure requirements for Defined Benefit plans. No change to accounting policy. No change to accounting policy as it applies to QSuper.	1 January 2013	1 July 2013
AASB 1053	<i>Application of Tiers of Australian Accounting Standards</i>	Details some reduced disclosure requirements for entities that do not have public accountability. No change to accounting policy as it applies to QSuper.	1 July 2013	1 July 2013
AASB 1054	<i>Australian Additional Disclosures</i>	Contains Australian specific disclosures that are in addition to IFRSs. No change to accounting policy as it applies to QSuper.	1 July 2011	1 July 2011
AASB 2011-3	<i>Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments</i>	Amendments to AASB 1049 including clarification to the definition of ABS GFS. No change to accounting policy as it applies to QSuper.	1 July 2012	1 July 2012
AASB 2011-4	<i>Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements</i>	Provides clarification of Key Management Personnel disclosure requirements. No change to accounting policy as it applies to QSuper.	1 July 2013	1 July 2013
AASB 2011-9	<i>Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income</i>	Details amendments for entities to group items presented in other comprehensive income. No change to accounting policy as it applies to QSuper.	1 July 2012	1 July 2012
2010-8	<i>Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets</i>	Makes amendments to AASB 112 Income Taxes as a consequence of Deferred Tax: Recovery of Underlying Assets. No change to accounting policy as it applies to QSuper.	1 January 2012	1 July 2012

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

Notes to the Financial Statements

For year ended 30 June 2012

Note 2 Basis of preparation (continued)

ED 223 Superannuation Entities

The AASB approved its Exposure Draft (ED) on superannuation plans and released it for public comment in December 2011. ED 223 is the second exposure draft to be issued by the Australian Accounting Standards Board (AASB) in response to its comprehensive review of the general purpose financial reporting requirements applicable to superannuation entities. In May 2009 the AASB issued ED 179 and, upon receiving feedback from industry constituents, has released ED 223 back into the public domain for comment. It is proposed that the ED will replace AAS 25 and will bring disclosures by superannuation funds more in line with similar entities such as managed investment schemes. The AASB work program has targeted the issue of the Standard for the fourth Quarter of 2012. Application of the proposed new standard will be two years after the date of issue.

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

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

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

Note 3 Significant accounting policies

(a) Cash

Cash represents cash at bank.

(b) Receivables

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

(c) Goods and services tax (GST)

Revenues and expenses are recognised net of the amount of GST to the extent that the GST is recoverable from the taxation authority. Where GST is not 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.

(d) Taxation

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

Income tax on the change in net assets as a result of operations for the year comprises current and deferred tax. Income tax is recognised in the statement of changes in net assets.

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

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

Notes to the Financial Statements

For year ended 30 June 2012

Note 3 Significant accounting policies (continued)

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

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

(e) Investments and derivative liabilities

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

Portfolio investments

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

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

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

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

Purchases and sales of financial assets that require delivery of assets within the 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 2012, QSuper had a 100% interest in Q Invest Limited (refer note 6) and a 100% interest in QSuper Limited (refer note 7). These investments are measured as QSuper's share of net assets at reporting date based on holdings. This is achieved by adjusting the carrying amount of the investment to reflect the share of net assets of the investment for that period.

(f) Foreign currency

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

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

(g) Benefits payable

Benefits payable by QSuper are accounted for on an accrual basis. Benefits payable comprise the entitlements of members for whom a claim has been made and, at year end, are awaiting payment under the terms and conditions of the *Superannuation (State Public Sector) Deed 1990* and the *Superannuation (State Public Sector) Act 1990*. Benefits payable are normally settled within seven (7) days.

(h) Other payables

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

Notes to the Financial Statements

For year ended 30 June 2012

Note 3 Significant accounting policies (continued)

(i) Superannuation contributions surcharge

Superannuation contributions surcharge was levied on surchargeable contributions on the basis of individual members' adjusted taxable incomes. The liability for the superannuation contributions surcharge 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.

(j) Liability for accrued benefits

Defined Benefit account

The liability for accrued defined benefits is actuarially measured on at least a triennial basis. This liability represents QSuper's obligation to pay benefits in the future, and is determined on the basis of the present value of expected future payments which arise from membership of the scheme up to the measurement date. The figure is determined by reference to expected future salary levels and by application of a market-based, risk adjusted discount rate and relevant actuarial assumptions (refer note 8). In accordance with AAS 25, this liability is specifically excluded from being reported on the face of the financial statements as it is only measured on a triennial basis.

Accumulation account

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

(k) Reserves

General reserve

QSuper maintains a general reserve to ensure that it can meet both current and future liabilities, including those associated with administration, strategic initiatives and operational 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 QSuper's reserve policy.

Unallocated contributions reserve

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

Insurance reserve

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

(l) Revenue

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

Investment revenue

Dividend revenue

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

Distributions from unit trusts

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

Notes to the Financial Statements

For year ended 30 June 2012

Note 3 Significant accounting policies (continued)

Changes in net market value of investments

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

Interest revenue

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

Contributions revenue

Employer contributions

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

Member contributions

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

Transfers from other funds

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

Other revenue

Insurance recoveries

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

Sundry revenue

Sundry revenue is accounted for on an accrual basis.

(m) Principles of consolidation

The accounting standard AASB 127 *Consolidated and Separate Financial Statements*, deals with the issue of whether entities owned and/or controlled by another entity should be consolidated into the financial statements of the holding entity. The application of this standard is subject to materiality and control is presumed to exist when the holding entity owns more than half of the voting power of an entity unless it can be clearly demonstrated that such ownership does not constitute control.

QSuper reviews its investments on an ongoing basis to determine whether they meet the above criteria and are material to the overall financial statements.

QSuper has identified investments in entities which we hold more than half the shares/units and where control could be presumed to exist. Consolidated financial statements have not been presented as the effect of consolidating these entities would be immaterial.

Notes to the Financial Statements

For year ended 30 June 2012

Note 4 Significant accounting judgements, estimates and assumptions

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

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

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- note 17 – financial instruments sensitivity analysis

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

- note 3(d) – taxation
- note 3(e) – valuation of unlisted investments and level 3 investments
- note 15 – income tax
- note 8 – liability for accrued benefits

Note 5 Investments and derivative liabilities

QSuper has a direct contractual custody relationship with National Australia Bank Asset Servicing (NAB), with the majority of investments held directly by QSuper. In March 2012, QSuper signed a new custodian agreement with State Street Australia. The five year agreement will replace National Australia Bank Asset Servicing (NAB) as the Fund's custodian. The new custodial relationship will not take effect until the 2012/13 financial year.

Investments, including derivatives of QSuper are managed by selected investment managers and QSuper Limited's internal investment team on behalf of the Board (QSuper Limited's provision of investment services is in addition to its administrative 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 direct investment management agreements (hereafter referred to as mandates). QSuper's expectations of its external managers are documented in the mandates agreed between the parties. Specific reporting and valuation requirements are included within the contracts to ensure sufficient information and transparency is provided for ongoing monitoring.

Notes to the Financial Statements

For year ended 30 June 2012

Note 5 Investments and derivative liabilities (continued)

	30/06/12 \$'000	30/06/11 \$'000
Investment assets		
Cash and short term deposits		
Cash and short term deposits	712,858	1,793,795
	712,858	1,793,795
Equities		
Listed equity securities	14,051,292	12,259,091
Unlisted equity securities	133,197	138,475
	14,184,489	12,397,566
Preference shares		
Preference shares non redeemable	257	781
Preference shares redeemable	15,058	15,680
	15,315	16,461
Listed trusts		
Listed unit trusts	210,826	185,482
Property trusts	758,661	507,953
	969,487	693,435
Derivative assets		
Futures	12,992	34,218
Warrants	3	3
Swaps	837,082	878,294
Forward foreign exchange contracts	6,794,340	7,469,577
	7,644,417	8,382,092
Other interest bearing securities		
Fixed interest bonds	-	216,536
Floating rate notes	25,951	19,282
Discount securities	7,805,216	8,625,213
Asset-backed securities	253,773	336,465
	8,084,940	9,197,496
Unlisted unit trusts		
Unlisted unit trusts	11,891,852	8,328,193
	11,891,852	8,328,193
Unlisted partnerships		
Unlisted partnerships	526,537	39,780
	526,537	39,780
Derivative liabilities		
Swaps	789,525	890,292
Futures	40,931	24,131
Forward foreign exchange contracts	6,678,781	7,392,535
Total derivative liabilities	7,509,237	8,306,958

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

Notes to the Financial Statements

For year ended 30 June 2012

Note 5 Investments and derivative liabilities (continued)

(a) Fair value hierarchy classification

In accordance with AASB 7 *Financial Instruments: Disclosures*, QSuper classifies fair value measurements using a fair value hierarchy. The fair value hierarchy reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), 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 QSuper's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2012.

Notes to the Financial Statements

For year ended 30 June 2012

Note 5 Investments and derivative liabilities (continued)

30 June 2012	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Listed equity securities	14,049,717	1,487	88	14,051,292
Unlisted equity securities	-	133,191	6	133,197
Preference shares non redeemable	257	-	-	257
Preference shares redeemable	15,058	-	-	15,058
Listed unit trusts	210,826	-	-	210,826
Property trusts	758,661	-	-	758,661
Futures	(27,939)	-	-	(27,939)
Warrants	3	-	-	3
Swaps	-	47,557	-	47,557
Forward foreign exchange contracts	-	115,559	-	115,559
Fixed interest bonds	-	-	-	-
Floating rate notes	-	10,416	15,535	25,951
Discount securities	-	7,805,216	-	7,805,216
Asset-backed securities	-	239,643	14,130	253,773
Unlisted unit trusts	-	9,804,260	2,087,592	11,891,852
Unlisted partnerships	-	-	526,537	526,537
Total	15,006,583	18,157,329	2,643,887	35,807,800

Investments not included in the above table are cash and deposits (\$621,705,000) and outstanding settlements (\$91,153,000). Both these investments and the investments illustrated in the fair value hierarchy table equates to the total investments as at 30 June 2012 (\$36,520,658,000) reduced by derivative liabilities and excluding the investments in service providers.

Notes to the Financial Statements

For year ended 30 June 2012

Note 5 Investments and derivative liabilities (continued)

30 June 2011	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Listed equity securities	12,258,932	135	24	12,259,091
Unlisted equity securities	-	138,469	6	138,475
Preference shares non redeemable	781	-	-	781
Preference shares redeemable	15,680	-	-	15,680
Listed unit trusts	185,482	-	-	185,482
Property trusts	507,953	-	-	507,953
Futures	10,087	-	-	10,087
Warrants	3	-	-	3
Swaps	-	(11,998)	-	(11,998)
Forward foreign exchange contracts	-	77,042	-	77,042
Fixed interest bonds	-	216,536	-	216,536
Floating rate notes	-	4,064	15,218	19,282
Discount securities	-	8,625,213	-	8,625,213
Asset-backed securities	-	322,308	14,157	336,465
Unlisted unit trusts	-	7,693,689	634,504	8,328,193
Unlisted partnerships	-	-	39,780	39,780
Total	12,978,918	17,065,458	703,689	30,748,065

Investments not included in the above table are cash and deposits (\$999,875,000) and outstanding settlements (\$793,920,000). Both these investments and the investments illustrated in the fair value hierarchy table equates to the total investments as at 30 June 2011 (\$32,541,860,000) reduced by derivative liabilities and excluding the investments in service providers.

(b) Level 3 – Financial instruments transactions

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

	Listed securities \$'000	Unlisted securities \$'000	Floating rate notes \$'000	Asset backed securities \$'000	Unlisted unit trusts \$'000	Unlisted partnerships \$'000	Total \$'000
Opening balance	24	6	15,218	14,156	634,505	39,780	703,689
Total realised / unrealised gains and (losses)	(3)	-	317	(26)	195,991	(2,145)	194,134
Purchases / applications	16	-	-	-	1,698,529	488,902	2,187,447
Sales / redemptions	-	-	-	-	(441,434)	-	(441,434)
Transfers into level 3	51	-	-	-	-	-	51
Transfers out of level 3	-	-	-	-	-	-	-
Closing balance	88	6	15,535	14,130	2,087,591	526,537	2,643,887

Notes to the Financial Statements

For year ended 30 June 2012

Note 5 Investments and derivative liabilities (continued)

Gains or losses recognised in the Statement of changes in net assets for Level 3 transactions are presented in the movement in net market value of investments as follows:

	Listed equities \$'000	Unlisted equities \$'000	Floating rate notes \$'000	Asset backed securities \$'000	Unlisted unit trusts \$'000	Unlisted partnerships \$'000	Total \$'000
Total gains/(losses) recognised in the Statement of changes in net assets for the year	-	-	11	(26)	6,874	-	6,859
Total unrealised gains/(losses) recognised in the Statement of changes in net assets for assets held at the end of the reporting year	(3)	-	306	-	189,117	(2,145)	187,275
Total	(3)	-	317	(26)	195,991	(2,145)	194,134

(c) Transfers between hierarchy levels

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

An external review of the pricing methodologies applied by investment managers resulted in the transfer of investments in Listed Securities into Level 3 during the year.

Notes to the Financial Statements

For year ended 30 June 2012

Note 5 Investments and derivative liabilities (continued)

(d) External investment managers

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

Manager	Asset sector
Northwater Capital	Alternatives
Partners Group	Private Equity
State Street Global Advisors, Australia Ltd (SSgA)	Australian Shares International Shares Global Listed Real Estate Equities
Dimensional Fund Advisors Australia Ltd	Australian Shares International Shares Emerging Shares
Bridgewater Associates, LP	Alpha Alternatives
AMP Capital Investors	Responsible Investment Leaders Balanced Fund (Socially Responsible Investment Option)
QIC Ltd	Cash Fixed Interest Private Equity Real Estate Infrastructure
State Street Bank and Trust Company (SSBT)	Protection Overlay
Vanguard Investments Australia Limited	Australian Shares
Principal Global Investors	Alternatives
QSuper Limited	Capital Markets Fixed Interest Protection Overlay Emerging Markets Currency
QSuper Limited (as IM for QSuper Investment Holdings administered Trusts)	Alternatives Real Estate Infrastructure
Global Endowment Management LP	Alternatives
Makena Capital Management	Alternatives
AQR Capital Management	Alternatives
Alinda Capital Partner	Infrastructure
Global Infrastructure Partners	Infrastructure
Jamestown Properties Corporation	Real Estate
Invesco Advisers Inc	Real Estate
First State Media Works	Alternatives

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 year ended 30 June 2012

Note 6 Investment in Q Invest Limited

QSuper held a 100% interest in Q Invest Limited as at 30 June 2012. Q Invest Limited's principal activities consist of the provision of financial planning advice. The carrying amount of the investment as at 30 June 2012 was \$4,514,490 (2011: \$2,299,431) and approximates fair value. (Refer Note 21 regarding QSuper's transfer of ownership to QSuper Limited subsequent to 30 June 2012).

Note 7 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 carrying amount of the investment as at 30 June 2012 was \$67,421,087 (2011: \$59,190,568) and approximates fair value.

Note 8 Liability for accrued benefits

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

The difference existing between net assets available to pay benefits per the statement of net assets and the value of accrued benefits as at measurement date is explained by QSuper's funding arrangements. Further details are provided in note 14.

The next actuarial review of QSuper will be performed as at 30 June 2013.

Note 9 Vested benefits

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

	30/06/12 \$'000	30/06/11 \$'000
Vested benefits	60,379,759	56,448,660

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

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

Note 10 Reserves

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

	Balance at beginning of financial year \$'000	Transfers (to)/from accumulated funds \$'000	Balance at end of financial year \$'000
General reserve	421,969	(256,985) ²	164,984
Unallocated contributions reserve	18,880	444	19,324
Insurance reserve	170,901	22,293	193,194
Reserves¹	611,750	(234,248)	377,502

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

² The portion of any potential tax audit adjustment attributable to the Accumulation Plan would be funded from the General Reserve.

Notes to the Financial Statements

For year ended 30 June 2012

Note 11 Accumulated member funds

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

	30/06/12	30/06/11
	\$'000	\$'000
Balance at the beginning of financial year	32,053,618	27,366,300
Total change in net assets after income tax	3,390,331	4,761,134
Transfers (to)/from reserves	234,248	(73,816)
Accumulated funds at end of financial year	35,678,197	32,053,618

Notes to the Financial Statements

For year ended 30 June 2012

Note 12 Change in net market value of investments

	30/06/12 \$'000	30/06/11 \$'000
<i>(i) Investments unrealised at balance date</i>		
Cash and short term deposits	(1,163)	(5,919)
Listed equity securities	(1,210,135)	146,219
Unlisted equity securities	17,314	21,599
Preference shares non redeemable	(574)	(296)
Preference shares redeemable	(3,697)	2,265
Listed unit trusts	21,903	19,506
Property trusts	26,312	3,779
Futures	(28,049)	9,978
Warrants	(1)	(1)
Swaps	69,427	4,027
Forward foreign exchange contracts	115,558	77,042
Fixed interest bonds	-	(23,560)
Floating rate notes	296	(2,472)
Discount securities	33,758	52,902
Asset-backed securities	342	4,610
Unlisted unit trusts	1,056,612	95,573
Unlisted partnerships	(880)	(1,869)
Total	97,023	403,383
<i>(ii) Investments realised during the year</i>		
Cash and deposits	1,144	(61,478)
Listed equity securities	(93,829)	(94,700)
Unlisted equity securities	3,945	(596)
Preference shares redeemable	60	158
Listed unit trusts	2,532	1,378
Property trusts	(1,758)	12,441
Futures	281,100	472,660
Warrants	6	(6)
Swaps	11,265	(7,713)
Forward foreign exchange contracts	1,985	688,551
Fixed interest bonds	51,340	(22,813)
Floating rate notes	109	(587)
Discount securities	290,555	310,428
Perpetual securities	-	(1,077)
Asset-backed securities	3	(1,239)
Unlisted unit trusts	193,247	(118,412)
Unlisted partnerships	(3,032)	-
Total	738,672	1,176,995
Total changes in net market value	835,695	1,580,378

Notes to the Financial Statements

For year ended 30 June 2012

Note 13 Employer contributions

	Notes	30/06/12 \$'000	30/06/11 \$'000
<i>Accumulation account</i>			
Employer contributions		2,120,650	1,865,198
		2,120,650	1,865,198
<i>Defined Benefit account</i>			
Employer contributions – salary sacrifice		183,167	226,460
Employer contributions – Consolidated Fund	(i)	2,123,762	1,140,000
		2,306,929	1,366,460
Employer contributions		4,427,579	3,231,658

(i) Contributions received from Queensland Treasury transferred from the Consolidated Fund.

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 14 for further details in relation to employer contribution funding arrangements.

Note 14 Funding arrangements

Defined Benefit arrangement

Standard members' contributions are made to QSuper at a rate ranging from 2% to 11.5% (2011: 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 2011 to June 2012 and amounted to \$2,124 million for 2012 (2011: \$1,140 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. Employer contributions to QSuper for members who do not contribute to an accumulation arrangement are at a rate ranging from 3% to 9% (2011: 3% to 9%) of members' salaries.

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

Notes to the Financial Statements

For year ended 30 June 2012

Note 15 Income tax

(a) Income tax expense

Major components of income tax expense are:

	30/06/12 \$'000	30/06/11 \$'000
<i>Current income tax</i>		
Current income tax expense	765,661	565,214
Adjustments in respect of current income tax of previous years (refer note 15(d))	509,229	(3,134)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences in deferred tax asset	(81,543)	134,871
Relating to origination and reversal of temporary differences in deferred tax liability	16,084	6,056
Tax losses recognised as a deferred tax asset no longer recognised resulting from ATO Audit (refer note 15(d))	185,115	-
Income tax expense reported in Statement of changes in net assets	1,394,546	703,007

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:

	Notes	30/06/12 \$'000	30/06/11 \$'000
Increase in net assets before income tax		4,784,876	5,464,141
Prima facie income tax expense at the tax rate of 15%		717,731	819,621
Tax effect of non-deductible expenses and non-assessable income in calculating the taxable amount:			
Benefits paid		398,114	329,903
Superannuation contributions surcharge		541	534
Increase/(decrease) in income tax expense due to:			
Differences between tax and accounting net investment income ^{1,2}		13,568	58,704
Non-assessable member contributions and transfers in		(200,196)	(201,122)
Imputation and foreign tax credits		(147,184)	(191,624)
Group life proceeds, notional insurance and anti-detriment		(41,117)	(37,716)
Allocated exempt pension income		(46,847)	(72,253)
Provision for actual and estimated potential income tax arising from ATO audit (refer note 15(d))		699,876	-
Other		34	94
		676,789	706,141
(Over)/under provision for taxation – prior year		26	(3,134)
Income tax expense reported in the Statement of changes in net assets		1,394,546	703,007

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

² The differences between the current year to prior year can be attributed to the change in investment structure from holdings in unlisted unit trusts to direct investment.

Notes to the Financial Statements

For year ended 30 June 2012

Note 15 Income tax (continued)

(b) Deferred income tax

Deferred income tax relates to the following:

	30/06/12 \$'000	30/06/11 \$'000
<i>Movements in deferred tax asset</i>		
Opening balance	234,257	369,128
Change to Statement of changes in net assets	81,543	(134,871)
Tax losses recognised as a deferred tax asset no longer recognised resulting from ATO Audit (refer note 15(d))	(185,115)	-
	130,685	234,257
<i>Deferred tax asset comprises:</i>		
Quarantined capital losses	121,970	234,257
Other	8,715	-
Total deferred tax asset	130,685	234,257
<i>Movements in deferred tax liability</i>		
Opening balance	15,016	8,960
Change to Statement of changes in net assets	16,084	6,056
	31,100	15,016
<i>Deferred tax liability comprises:</i>		
Contributions receivable	973	-
Unrealised gains in investments	29,628	14,935
Other	499	81
Total deferred tax liability	31,100	15,016
Net deferred tax asset / (liability)	99,585	219,241

(c) Current tax liability

	30/06/12 \$'000	30/06/11 \$'000
Opening balance	133,663	94,472
Adjustments in respect of current income tax of previous years (refer note 15(d))	509,229	(3,134)
Tax payments	(817,559)	(522,889)
Current year income tax	765,661	565,214
Closing balance	590,994	133,663

(d) Significant item impacting tax expense – Potential tax audit adjustments

QSuper is currently subject to an income tax audit by the Australian Taxation Office (ATO) associated with its investments in the Queensland Investment Trust No. 1 (QIT1) and the Queensland Investment Trust No. 2 (QIT2) (collectively the QITs). The ATO is disputing the tax treatment adopted by QSuper in relation to distributions from the QITs for the 2007 and later income years, as well as the application of the capital gains tax provisions to QSuper's interests in the QITs for these years.

The taxation issues involved are highly complex and QSuper has consistently sought tax advice and applied that advice in relation to the tax treatment adopted for the investment in the QITs.

The income tax audit relates to legacy investment tax issues as QSuper has withdrawn its investment in QIT1 in 2010 and QIT2 in the current year.

Notes to the Financial Statements

For year ended 30 June 2012

Note 15 Income tax (continued)

QSuper disputes the positions advanced by the ATO and is working with its advisers to pursue available avenues of objection and appeal. An objection against the 2007 amended assessment has been lodged but as yet has not been determined. QSuper intends to vigorously defend the amended assessment for the 2007 year and any amended assessments issued in relation to subsequent years.

As a result of this tax dispute, the ATO has issued amended tax assessments for the 2007 income year in the amount of \$339.41m. In accordance with ATO established practice on disputed tax assessments, QSuper has paid 50% (\$169.70m) of the 2007 amended tax assessments. The balance of the 2007 amended tax assessments is not immediately payable and interest accrues on the balance of the tax debt at a substantially reduced interest rate.

The ATO has not yet completed its audit or issued amended tax assessments for the 2008 or later income years, although it has issued a Position Paper covering the 2008-2010 years. Based on the ATO Position Paper and on subsequent discussions and materials provided by the ATO, it is expected that the ATO will in due course issue amended assessments for the 2008-2010 years as well as consequential adjustments to later income years. Based on the ATO position, QSuper expects that the additional tax payable in respect of these years is \$184.8m.

Upon any successful challenge of the assessment, any sum paid to the ATO will be refundable with interest.

If the ATO view prevails approximately \$185.12m of QSuper's unused capital losses would also not be available to offset capital gains in the future. An adjustment to tax expense related to the write back of the Deferred Tax Asset previously recognised in relation to these capital losses has been recorded.

Any tax payable related to an adverse outcome from the audit attributable to the Defined Benefit scheme will be funded in accordance with existing arrangements with Queensland Treasury (refer Note 14). No receivable has been booked in the current year, rather future employer contributions will be required to meet liabilities guaranteed by the State. The portion of any tax payable attributable to the Accumulation Plan would be funded from the General Reserve (refer Note 10) that QSuper maintains to ensure it can meet both current and future liabilities, including those associated with the administration, strategic initiatives and operational risks of the fund (refer Note 3(k)).

Note 16 Related parties

(a) Trustees and key management personnel

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

Member representatives	Employer representatives
Mr Stephen Robert Ryan	Mr Robert Ernest Scheuber, AM
Ms Karen Shirley Peut, PSM	Mr Peter Henneken, AM
Mr Kilian Thomas Jeffers	Mr Walter Ivessa
Ms Lorraine Gay Hawksworth, OAM	Ms Debra-Lee Best (appointed 27/10/2011)
Ms Amanda Marion Richards	Ms Natalie Margaret MacDonald (departed 29/08/2011)
Mr Michael Ian Barnes	Ms Norelle Deeth (departed 31/05/2012)
	Mr John Joseph Carpendale (departed 31/05/2012)

There was one new appointment to, and three departures from, the QSuper Board of Trustees during the financial year resulting in two Employer representative Trustee positions being vacant at 30 June 2012. Appointments to these positions are expected to be made by the Queensland Treasurer in the near future.

Notes to the Financial Statements

For year ended 30 June 2012

Note 16 Related parties (continued)

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

Executive Committee

Mrs Rosemary Vilgan	Chief Executive Officer
Mr Michael Cottier	Chief Financial Officer
Mr Matthew Halpin	Chief Officer Member Administration
Mr Brad Holzberger	Chief Investment Officer
Mr Michael Pennisi	Chief Strategy Officer
Mr Baden Sharples (to 09/03/2012)	Chief Officer Systems & Change
Mrs Helen Davis (to 09/03/2012)	Chief Officer Member Outcomes
Mr Paul Landy	Chief Officer Human Resources and Internal Communications

(b) Key management personnel compensation

Remuneration of executives and employees

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

Most of QSuper Limited's staff are employed under a Collective Agreement. Key executives and other senior management are employed under employment contracts and are paid under salary package arrangements which are necessarily competitive with relevant markets from which employees are sourced.

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

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

Details of compensation

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

Trustees & other key management personnel	Notes	30/06/12 \$'000	30/06/11 \$'000
Short-term employee benefits	(i)	3,906	3,192
Post-employment benefits	(ii)	478	432
Other long-term employee benefits	(iii)	50	65
Termination benefits		357	-
Total compensation made		4,791	3,689

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

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

(iii) Long-term employee benefits include long service leave accrued.

The compensation paid to trustees is disclosed below:

Trustee compensation	30/06/12 No.	30/06/11 No.
\$0 to \$19,999	4	3
\$40,000 to \$59,999	8	8
\$80,000 to \$89,999	1	1
Total compensation made	13	12

Notes to the Financial Statements

For year ended 30 June 2012

Note 16 Related parties (continued)

The number of executives who received or were due to receive compensation, including termination payments:

Executive fixed compensation	Notes	30/06/12 No.	30/06/11 No.
\$40,000 to \$59,999	(i)	-	1
\$120,000 to \$139,999		-	1
\$200,000 to \$219,999		-	1
\$220,000 to \$239,999		-	1
\$260,000 to \$279,999		-	1
\$280,000 to \$299,999		2	1
\$420,000 to \$439,999		3	1
\$440,000 to \$459,999		1	-
\$520,000 to \$539,999		-	2
\$560,000 to \$579,999		1	-
\$620,000 to \$639,999		1	-
Total compensation made		8	9

(i) Senior management temporarily relieving executive positions.

(c) Employer sponsor

Employer funding arrangements for related employer sponsors are discussed in note 14.

(d) Related party transactions

Transactions with key management personnel

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

There are no other transactions between QSuper and key management personnel other than the compensation transactions disclosed in Note 16(b).

Transactions between QSuper and 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.

During the financial year, fees paid/payable to QSuper Limited aggregated \$117,202,000 (2011: \$94,285,000).

Transactions between QSuper and Q Invest Limited

QSuper holds a 100% interest in Q Invest Limited (refer note 21). 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 \$16,002,000 (2011: \$14,667,000).

Note 17 Financial instruments and risk management

(a) General

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

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

Notes to the Financial Statements

For year ended 30 June 2012

Note 17 Financial instruments and risk management (continued)

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

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

The Board recognises that sound and prudent risk management is an integral part of its good governance 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 QSuper's Investment Committee on the performance of the individual asset classes of QSuper's investments (and may also seek independent advice from other qualified persons) so as to form an opinion on the nature and extent of any risks, and the expected returns, associated with each investment prior to determining its suitability as an investment for QSuper.

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

(b) Market risk

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

Price risk

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

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

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

Sensitivity analysis

This analysis is based on historical data over the past 5 years, expected investment rate movements during the 2013 financial year and is performed in consultation with QSuper's Investments team having regard to what is considered reasonably possible at the end of the reporting period.

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

Notes to the Financial Statements

For year ended 30 June 2012

Note 17 Financial instruments and risk management (continued)

The increase / (decrease) in the market price against the investments of QSuper at 30 June would have increased / (decreased) the amount in net assets available to pay benefits by the amounts shown below. This analysis assumes that all other variables in particular, interest rates and foreign exchange rates remain constant. The analysis is performed on the same basis for 2011 whereby the assets which are applied are the non interest bearing instruments and are not guaranteed.

Sensitivity of price risk and changes on net assets

	%	Carrying Amount	(Decrease) \$'000s	Increase \$'000s
30 June 2012				
Listed equity securities	15	14,051,292	(2,107,694)	2,107,694
Preference shares	15	15,315	(2,297)	2,297
Listed trusts	15	969,487	(145,423)	145,423
Unlisted assets	15	12,551,585	(1,882,738)	1,882,738
Derivatives – net ¹	15	87,623	172,371	(172,376)
Total		27,675,302	3,965,781	3,965,776
30 June 2011				
Listed equity securities	15	12,259,091	(1,838,864)	1,838,864
Preference shares	15	16,461	(2,469)	2,469
Listed trusts	15	693,435	(104,015)	104,015
Unlisted assets	15	8,506,448	(1,275,967)	1,275,967
Derivatives – net ¹	15	84,109	(114,909)	114,909
Total		21,559,544	(3,336,224)	3,336,224

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

Foreign exchange risk

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

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

As part of QSuper's risk management strategy, QSuper uses derivative contracts such as forward foreign exchange contracts to convert some or all of QSuper's currency exposures back into Australian dollars in line with QSuper's Investment Policy Statement (IPS), to reduce foreign exchange risk. In certain instances, foreign currency exposures are obtained for member options which are based on established investment objectives. QSuper's overall exposure to foreign exchange risk is however, less significant, after taking into account forward currency contracts. The currency hedges in place to mitigate foreign exchange risk are independently monitored daily to ensure they are in line with QSuper's IPS.

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

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

Notes to the Financial Statements

For year ended 30 June 2012

Note 17 Financial instruments and risk management (continued)

Foreign currency exposure

Currency (AUD equivalent)	30/06/12 \$'000	30/06/11 \$'000
United States of America (USD)	687,450	923,108
European Community (EUR)	(11,981)	221,723
Japan (YEN)	295,100	324,375
Great Britain (GBP)	(142,271)	87,860
Canada (CAD)	180,660	213,410
Switzerland (CHF)	192,086	214,308
Hong Kong (HKD)	99,364	106,142
Sweden (SEK)	70,158	82,183
Singapore (SGD)	40,554	45,075
Other currencies	67,517	107,410
Net foreign currency exposure	1,478,637	2,325,594

Foreign exchange sensitivity analysis

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

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

The tables below summarises QSuper's assets and liabilities which are denominated in non-Australian currencies:

Sensitivity of foreign exchange and changes on net assets

Effect of increase in AUD relative to foreign currency exchange rates	%	30/06/12 \$'000	%	30/06/11 \$'000
United States of America (USD)	10%	(62,495)	10%	(83,919)
European Community (EUR)	10%	1,089	10%	(20,157)
Japan (YEN)	5%	(14,052)	5%	(15,446)
Great Britain (GBP)	5%	6,775	5%	(4,184)
Canada (CAD)	5%	(8,603)	5%	(10,162)
Switzerland (CHF)	5%	(9,147)	5%	(10,205)
Hong Kong (HKD)	10%	(9,033)	10%	(9,649)
Sweden (SEK)	10%	(6,378)	10%	(7,471)
Singapore (SGD)	10%	(3,687)	10%	(4,098)
Other currencies	5%	(3,215)	5%	(5,115)
Total		(108,746)		(170,406)

Notes to the Financial Statements

For year ended 30 June 2012

Note 17 Financial instruments and risk management (continued)

Sensitivity of foreign exchange and changes on net assets

Effect of decrease in AUD relative to foreign currency exchange rates	%	30/06/12 \$'000	%	30/06/11 \$'000
United States of America (USD)	10%	76,383	10%	102,568
European Community (EUR)	10%	(1,331)	10%	24,636
Japan (YEN)	5%	15,532	5%	17,072
Great Britain (GBP)	5%	(7,488)	5%	4,624
Canada (CAD)	5%	9,508	5%	11,232
Switzerland (CHF)	5%	10,110	5%	11,279
Hong Kong (HKD)	10%	11,040	10%	11,794
Sweden (SEK)	10%	7,795	10%	9,131
Singapore (SGD)	10%	4,506	10%	5,008
Other currencies	5%	3,554	5%	5,653
Total		129,609		202,997

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

Interest rate risk

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

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

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

30 June 2012	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	1,584,249	8,044,132	-	-	34,534,460	44,162,841
Financial liabilities	(791,018)	(124,399)	-	-	(6,726,766)	(7,642,183)
Total	793,231	7,919,733	-	-	27,807,694	36,520,658

30 June 2011	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	1,888,705	10,366,500	-	216,536	29,777,652	42,249,393
Financial liabilities	(892,307)	(1,399,059)	-	-	(7,416,167)	(9,707,533)
Total	996,398	8,967,441	-	216,536	22,361,485	32,541,860

Notes to the Financial Statements

For year ended 30 June 2012

Note 17 Financial instruments and risk management (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 variable ¹		Sensitivity of interest income and changes on net assets	
	30 June 2012	30 June 2011	30/06/12 \$'000	30/06/11 \$'000
Interest rate	+ 50 bps	+ 50 bps	(38,555)	(137,278)
Interest rate	- 50 bps	- 50 bps	38,559	137,333

¹ 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 QSuper, other than derivatives, QSuper's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the net market value of investments as disclosed in the statement of net assets. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

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

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

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

Credit quality per class of debt instruments

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

The tables below also show the credit quality by class of assets as at 30 June 2012 and differentiates between long-term and short-term credit ratings.

Long-term credit ratings

	AAA to AA- \$'000	BBB+ to B- \$'000	CCC+ to C- \$'000	Total \$'000
Floating rate notes	-	10,416	-	10,416
Asset backed securities	238,724	919	-	239,643
Total	238,724	11,335	-	250,059

Short-term credit rating

	A1+ to A1 \$'000	Total \$'000
Discount securities	7,805,216	7,805,216
Total	7,805,216	7,805,216

Notes to the Financial Statements

For year ended 30 June 2012

Note 17 Financial instruments and risk management (continued)

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 \$28,465,383,000. Examples of non-rated assets include listed equities and unlisted unit trusts.

The total value of investments held by QSuper is the sum of the non-rated assets and the investments detailed in the credit rating tables.

(d) Concentrations of risk

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

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

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

(e) Liquidity risk

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

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements for QSuper. Vested Benefits have not been included, due to the unlikely event that members would call upon the amount. Further information on the current exposure in vested benefits is explained in note 9 and the appendix to the financial statements.

The contractual maturity of QSuper's derivatives are based on undiscounted cashflows.

30 June 2012	Less than 1 month \$'000	1-3 months \$'000	3-12 months \$'000	12-60 months \$'000	60+ months \$'000	Net market value \$'000
<i>Financial liabilities:</i>						
Benefits payable	10,440	-	-	-	-	10,440
Trade and other payables	25,728	-	-	-	-	25,728
Total undiscounted financial liabilities (excluding derivatives)	36,168	-	-	-	-	36,168
<i>Derivatives</i>						
<i>Fixed interest futures</i>						
Gross cash inflow	191	2,193	10,608	-	-	12,992
Gross cash outflow	(587)	(32,414)	(7,929)	-	-	(40,930)
<i>Forward foreign exchange contracts</i>						
Gross cash inflow	2,857,445	3,001,395	935,500	-	-	6,794,340
Gross cash outflow	(2,830,561)	(2,923,098)	(925,123)	-	-	(6,678,782)
<i>Other</i>						
Gross cash inflow	3	-	-	1,619	835,252	837,298
Gross cash outflow	-	-	(747)	-	(788,778)	(789,525)
Total undiscounted derivatives inflow/ (outflow)	26,491	48,076	12,309	1,619	46,474	135,393

Notes to the Financial Statements

For year ended 30 June 2012

Note 17 Financial instruments and risk management (continued)

30 June 2011	Less than 1 month \$'000	1-3 months \$'000	3-12 months \$'000	12-60 months \$'000	60+ months \$'000	Net market value \$'000
<i>Financial liabilities</i>						
Benefits payable	14,267	-	-	-	-	14,267
Trade and other payables	16,285	-	-	-	-	16,285
Total undiscounted financial liabilities (excluding derivatives)	30,552	-	-	-	-	30,552
<i>Derivatives</i>						
<i>Fixed interest futures</i>						
Gross cash inflow	-	4,308	29,910	-	-	34,218
Gross cash outflow	-	(90)	(24,041)	-	-	(24,131)
<i>Forward foreign currency contracts</i>						
Gross cash inflow	2,764,343	1,344,553	3,360,681	-	-	7,469,577
Gross cash outflow	(2,746,298)	(1,325,642)	(3,320,595)	-	-	(7,392,535)
<i>Other</i>						
Gross cash inflow	-	-	-	3,290	875,007	878,297
Gross cash outflow	-	-	-	(1,409)	(888,883)	(890,292)
Total undiscounted derivatives inflow / (outflow)	18,045	23,129	45,955	1,881	(13,876)	75,134

(f) Fair value

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

Note 18 Capital Guarantee

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

The accumulated premiums levied to 30 June 2012 (net of reimbursements) is \$7,561,000 (2011: \$7,230,000).

Note 19 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 notes 10, 3(k)).

Note 20 Commitments and contingent liabilities

The Board has previously provided a guarantee to adequately fund Q Invest Limited to ensure that it can meet its obligations under Australian Securities and Investments Commission licensing requirements. This guarantee has been withdrawn effective from 1 July 2012 (refer note 21).

QSuper has no other known commitments or contingent liabilities as at 30 June 2012.

Notes to the Financial Statements

For year ended 30 June 2012

Note 21 Post balance date events

Subsequent to 30 June 2012, QSuper disposed 100% of the interest in Q Invest Limited to QSuper Limited for \$3.665 million. Under this acquisition, Q Invest Limited will become a subsidiary of QSuper Limited, of which QSuper holds a 100% interest. In August 2010, QSuper acquired the remaining 50% of Q Invest for \$3.2 million. At the time, an increased consideration was paid to QIC for the remaining 50% which included a premium for full controlling ownership. The full ownership allowed QSuper to realise additional benefits for members from the investment in Q Invest Limited. Additional benefits have been utilised by QSuper as part of the on-going Q Invest integration program. The vertical business structure would better support QSuper's education and advice model. The disposal price takes into account that the purchaser, QSuper Limited, is part of the QSuper Group and the vertical business structure have been reflected in the updated price.

Income Tax development post balance date (refer note 15(d)).

No other matters or circumstances have arisen since 30 June 2012 that has significantly affected or may significantly affect the operations in future financial years or the state of affairs of QSuper in subsequent financial years.

Note 22 Auditors' remuneration

	30/06/12 \$'000	30/06/11 \$'000
Audit and review services		
Auditors of QSuper		
<i>Auditor-General of Queensland</i>		
Audit and review of financial statements	290	214
Audit and review services	290	214

Statement of the Board of Trustees

of the State Public Sector Superannuation Scheme for the year ended 30 June 2012

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 2012 and the changes in net assets for the year ended on that date.
2. The accompanying financial statements have been prepared in accordance with the provisions of the *Superannuation (State Public Sector) Act 1990*, *Supervision Industry (Supervision) Act 1993* and Regulations, Requirements under Section 13 of the *Financial Sector (Collection of Data) Act 2001*, and with Australian Accounting Standards and other mandatory professional reporting requirements in Australia.
3. The accompanying financial statements are in agreement with the accounts and records of QSuper and the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects.
4. QSuper has been conducted in accordance with the *Superannuation (State Public Sector) Deed 1990* and the requirements of the *Superannuation (State Public Sector) Act 1990*.



R E Scheuber
Chairman

30 August 2012
Brisbane



R A Vilgan
Chief Executive Officer

Independent Auditor's report

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

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 2012 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.

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

Report on the financial report

I have audited the financial statements of QSuper for the year ended 30 June 2012 comprising the Statement of changes in net assets, the Statement of net assets, summary of significant accounting policies, and other explanatory notes.

Trustees' responsibility for the financial statements

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

Auditor's responsibility

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the 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 the trustees' internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustee(s), as well as evaluating the overall presentation of the financial statements.

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

Independence

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

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

Auditor's Opinion

In my opinion, the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards the operations of the Board of Trustees of the State Public Sector Superannuation Scheme for the year ended 30 June 2012.



V P Manera FCPA
Acting Auditor-General of Queensland

Queensland Audit Office
Brisbane

5 September 2012
Queensland Audit Office
Level 14, 53 Albert Street
Brisbane Qld 4000

Appendix

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

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

Financial condition

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

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

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

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

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

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

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

Table 1 – Recommended employer contribution rates by category

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

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

Value of assets

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

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

Appendix

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

Vested benefits

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

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

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

Accrued benefits

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

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

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

Key assumptions

Discount rate

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

Salary growth

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

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

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

Inflation

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

Other assumptions

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

Contacting QSuper

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